

Advent International Surveys a Booming Tech Scene



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The COVID-19 pandemic has upended nearly every industry. But software has seemingly come through the crisis the strongest, with its mission-critical status and purely digital engagement. Occupying a front-row seat to technology deal flow in the midst of these interesting times is Lauren Young, a partner at Advent International. Young describes rising valuations, even as much of the non-tech M&A market struggles, the impact that software has had on the healthcare industry, and what it's like to pursue deals in a stay-at-home environment. Young also details her career path to become one of a growing number of female partners in the competitive private equity industry. Interviewed by Kerensa Butler of RSM.

Kerensa Butler, RSM: I am so excited to talk to you today! Tell us about your role at Advent and what attracted you to the tech market.

Lauren Young, Advent International: Tech and software companies in particular have beautiful recurring revenue models. They are very cash generative and throw off a lot of free cash flow. What I also like is that those business models are across a bunch of different end markets. I have the opportunity to look at different companies and see how software permeates and penetrates them. I enjoy being around growing companies that are changing the way people work and play.

Butler: Lately, the public markets have been surging, driven by tech. What implications does that have for you on the private investment side?

Young: When COVID impacted, obviously, the public markets took a meaningful hit and a lot of deal activity slowed. But, starting in late May, early June, we saw the IPO market open back up and overall valuations meaningfully come up. It's a testament to the resilience and durability of the end markets. And, for the business models that we were just talking about, there's been a flight to quality. The companies that were particularly rewarded were ones that had a rare combination of growth at scale, as well as profitability. And, from a private-market perspective, that's where you're definitely seeing the spillover in that deal activity has significantly picked up.

I would never have guessed this in March or April, but private valuations are up considerably as well. And we've been incredibly busy the last couple months. This means we have to stick to our basics around quality of the company, quality of the business model and the management team.

Butler: How else has COVID changed Advent's approach to doing deals?

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Building & Giving at Advent

Young: The art of doing a deal during COVID definitely has a different feel to it. We're all very accustomed to Zoom now and we live and breathe it every day. One silver lining is that CEOs and management teams are a bit more accessible than they were before. The management dinner used to be a staple of many processes and relationship-development efforts. That has transitioned to just Zoom calls. So, the productivity gains are there, but we're all eager to get back to in-person meetings, given how important relationship-building is.

Butler: We've all been struggling with being remote. Zoom works, but there are some times we want to be together.

Young: You have to be much more purposeful with your communications.

Butler: Beyond that, what in the tech world is particularly challenging to investors?

Young: As we were just discussing, the public markets being so high is challenging. They were high prior to COVID. And, now, you have data points in the public markets that suggest to sellers that they should be getting even higher multiples. It means that we need to have even better angles and even better relationships with the management team we're going to partner with. It ups the ante for us.

Butler: What kind of a valuation differential are we talking about?

Young: We look at revenue multiples as well as EBITDA multiples. If you just look at EBITDA multiples, some of the better businesses over the last couple of years would get 15 to 20 times EBITDA. So, anything in that zip code became fairly common to see. I remember a couple of years ago, the first time we saw a 20 times EBITDA multiple, it was an eye-popping moment. Now, you're seeing that continuing to creep up over time. Some of the better assets in the market are trading at a meaningful premium to that. And, depending on what software comps you're looking at, it can be anywhere from 30 to 50 times free cash flow. If they're profitable and growing nicely, then you really do get rewarded in the public markets right now.

Butler: What are some opportunities in the healthcare market brought by technology?

Young: One thing that I'm very curious to see develop is telemedicine. That feels so logical to me. Healthcare has always been a laggard in terms of the adoption of tech. But now, what we've seen in public companies and private companies are very active telemedicine businesses—they're very much getting a COVID bump. That's one massive change that's happened over the last few months.

Young: I've been here for about nine years. I originally started my career in investment banking at a mid-market boutique firm and had a great couple of years' experience there. Then, I started at The Carlyle Group. That's where I first started doing software and tech investing.

Then, I went off to business school, HBS up in Boston, which was a lot of fun for two years. I was looking to get back into private equity. A lot of stars aligned and I was able to join Advent doing tech investing, which is exactly what I wanted to do. That was back in 2011 and I have been here ever since.

Butler: As women in private equity, we notice each other in the room or on the Zoom, because there's not that many of us. I know we're both passionate about getting more representation. So, talk about bringing women, or other underrepresented populations, into private equity.

Young: It is something I'm personally really passionate about. From when I was an associate at Carlyle to today, there's been awesome progress. But, there still is a lot further to go. A lot of the progress we're seeing at Advent rolls up into an organization that we call WIN (Women's Inclusion Network). It is a big part of recruiting, mentorship and retention. Our overall mission is basically to promote and increase the representation of women. It's a lot of fun to be part of. There's a great energy around it.

We're focused on looking at our portfolio companies, too. We touch so many different people through our portfolio companies, so we're really taking a look at our boards and hiring practices at our portfolio to make sure we are recruiting and retaining more diverse workforces, more diverse boards. All the research shows that it all leads to better decision-making.

Butler: Yes, look at where we were 10 years ago versus where we are today. I used to count the number of women in a room. I'd go to events, would look around and say, "OK, there's seven of us here." Now, I look around and there's 27 of us. Awesome!

Young: It's been a lot of fun to see progress and over the years.

Butler: I would love for you to talk a bit about Advent's philanthropy.

Young: When COVID started, we all fully internalized the impact it was having on all of us, on the cities we lived in. The senior partnership of Advent started a fund that has now turned into about \$30 million that we've raised globally

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Another big trend in healthcare is the automation of a lot of processes. There are so many software systems in healthcare: clinical systems, financial systems. Data sits in all of those systems, but they don't talk to each other. There are a lot of manual work-arounds. The manual work-arounds are getting automated and the systems are starting to talk to each other. And I think that will lead to improved efficiency within healthcare, and hopefully ultimately lead to better patient outcomes as well.

Butler: What changes are you seeing in the lending market?

Young: We are seeing a change in the lending market, but given the profitability of the business models, the financing markets have generally remained solid over the last couple of months. Debt multiples have come down. The quantum of debt we're able to get for companies has come down some. So, with some of the larger software deals, parties are selling minority positions instead of majority possessions. One reason for that is you don't have to go through a new financing. If you have a capital structure that was put in place prior to COVID, it is a safe assumption that it is a fantastic capital structure.

Butler: As you look at your portfolio companies, are there changes that you think would be good to make as a result of these unprecedented times?

Young: Within our tech portfolio, we've been really lucky to have very high-quality companies that have benefited by having strong liquid possessions, and continuing to grow nicely. So, because of the financial positions we're in with many of our companies, we can be on the offensive around doing M&A. What we call that internally is the "win room." How can we create that offensive mindset at our companies to be more aggressive around taking share from competitors or hiring talent? That's very much the mindset we've had. ■

amongst all Advent employees, our portfolio companies and our broader community. It's an incredible amount of money. A big tenet of this relief fund was to deploy it quite quickly. We deployed it through our offices around the world. The logic of doing that was so we could help the local organizations and local initiatives to fight COVID—the funds went largely to frontline workers, like giving PPE to hospitals or food to the frontline workers or supporting homeless shelters.

Butler: Talk a bit about how much you like the entrepreneurship of the tech practice at Advent.

Young: When I'm giving advice to others in the industry, one thing I always say that has surprised me as I've gotten more senior is just how entrepreneurial this job is. It's a lot of work, but it's fun to build something. A big part of our job is finding great companies, great CEOs, great executives we can invest behind. We get a lot of say in terms of where we spend our time. It's very self-driven and self-motivated. It is such a privilege to go talk to all these interesting people. And you always need to be investing in talent.



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