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New Mountain's Steven Klinsky Is Ready for New Challenges

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The founder of New York-based private equity firm New Mountain Capital discusses his firm's response to the COVID crisis, the investment outlook for the firm's new $10.2 billion fund, the importance of ESG, and New Mountain's approach to sector deep dives.

Steven Klinsky
Managing Director,
Founder, CEO
New Mountain Capital

Don Lipari
National Industry Leader,
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Don Lipari, RSM: Hey Steve, how have you been? Last time we spoke was April of 2018. A little bit has happened since then.

Steven Klinsky, New Mountain Capital: I was wearing a suit back then, Don.

Lipari: And yet, New Mountain has continued to thrive. You recently closed Fund VI on $9.6 billion—a record for your organization. Before we talk about the new fund and the focus of that fund, let's talk about what it was like managing those portfolio companies through this whole virtual life that we're living and through, this pandemic.

Klinsky: The pandemic, I think, was by far the worst human and economic crisis that I've lived through in my career. That being said, New Mountain actually managed through it much better than even I might have predicted. We have a team of 175 people now, so we have a great deal of capabilities. We made sure all those capabilities were put at the beck and call of our companies. We're in a good position, in general. We pick what we call "defensive-growth spaces." We're not in cyclicals. A lot of our focus is in life sciences—making the healthcare system more efficient. So, we actually had a strong year, despite the terrible problems of the world.

Lipari: What about technology and mobilizing those workforces?

Klinsky: One of the things we've built up as a specialty in the last four or five years before COVID hit is the capability to make digital transformations of companies. So, we're able to manage through this in a good order.

Lipari: I want to talk about New Mountain's ability to get a fair amount of deals done in 2020.

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Klinsky: We did have a very strong year in both directions. We deployed $2.6 billion of equity from our funds. And we returned $5.4 billion of cash, including companies that are in contract to be sold. One thing about us is that we pick industries years in advance of buying the company. And we have a lot of relationships with these companies and experts in the industries. So, it isn't like we're learning from scratch. It may be companies that we've gotten to know over the years they finally became available.

We're now a team of 175 people. We have 16 proven transactional leaders, most of whom have grown up their whole careers at the organization. We have teams of operating partners. We employ about 60,000 people at our portfolio companies in the field who are all resources to help us understand the next investment. So, it's the strength of the overall team that sets the pace at which we operate. It's not a forced pace—it's a natural pace, given the way the team keeps growing and strengthening.

Lipari: Talk about how you were able to get comfortable with management teams through the pandemic. It oftentimes is important to meet somebody, to look them in the eyes, to shake some hands—these are important components of getting comfortable with management teams.

Klinsky: Our teams went out and visited people despite COVID. I have to say, for a regular meeting, you can get a lot of good effects from a Zoom meeting. It's much more effective than a phone call. Let's say you're going to see your management team in Indiana. Instead of five people flying from New York to Indiana or five people from Indiana to New York to have a regular update meeting, I think Zoom could be very effective for those types of meetings.

Lipari: Fund VI, congratulations.

Klinsky: We actually closed it in December. It was a 2020 fundraise. We also raised over $600 million for our strategic equity fund. Altogether, we had more than a $10.2-billion fundraise for private equity activities in 2020, despite COVID. So, we had a very active fundraising year.

Lipari: Through the heart of the pandemic. That gets Steve a new accomplishment on his CV.

Klinsky: I don't want any more accomplishments. I don't want bigger and bigger plagues. I'm happy to manage through, but I'm not like, let's have a bigger plague.

We had a very, very good fundraise. We stopped at our hard cap. We could have raised more than we did. We have had very good success in our private equity effort. We've never had a bankruptcy or missed an interest payment. We've had recent transactions, like Avantor, that started at $290 million of value. Today, it is worth over $22 billion. We've had a series of major high-return transactions.

What Washington Gets Wrong

Klinsky, the current Chairman of the Board of the American Investment Council, thinks private equity needs to be more proactive about countering negative industry stereotypes

Klinsky: The industry for decades has done a terrible job speaking for itself. In the '80s, the idea was, "Hey, we're small, we're private—just keep your head in the foxhole." When Mitt Romney ran for president, the feeling was, if you talk about the issue, you're making it worse. I think just the opposite. We need, as a group, to make sure the good stories of private equity are being told and people have the big picture.

You're going to have some bad stories. There are 5,000 private equity firms today, owning 30,000 companies with about $5 trillion of investment—five percent of the U.S. GNP—and eight million employees. It's very important to get the good stories out and to let the bigger picture get known.

So, that's a lot of what we're doing at the American Investment Council: making sure members of Congress know that the factory that just opened in their district, that added all the jobs, was owned by a private equity firm.

There's also a lag. Leveraging up to the hilt and pillaging companies was more of an '80s concept. Private equity firms have evolved to best-in-class operators of businesses, with teams of finance and operational people and deep sector knowledge.

It's a hard stereotype to fight, because it's been around for decades and decades. It takes constant explanation to get that message clear.

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So, we had good support from our existing LPs. Very close to 100 percent of our existing LPs came back to us for Fund VI. Then, we added about 100 LPs. So, there's about 300 LPs altogether in the main and the flagship fund, and about 100 of those are new because of the strength of our record and the consistency of our approach. And, frankly, you can set a very effective due diligence through Zoom. In some ways, it's better for them. You could have a full-day meeting where they can see many people at the firm over many hours, instead of a small team flying to Asia. It actually worked quite well.

Lipari: Was anything unique during this fundraise that you hadn't experienced before?

Klinsky: I don't think so because, again, we've been so consistent. New Mountain has been so consistent about defensive growth in business-building from day one. We're keeping the same-sized companies as we go into the new fund. We want to keep buying, on average, $500 million-sized companies, $300-million checks. The team keeps getting bigger and stronger. We keep adding new sectors.

So, there were no special questions. Obviously, they looked at how we are managing through COVID.

Lipari: I know ESG has been a focus of New Mountain's for a long time. Did you find the topic of ESG more prevalent during the fundraise? Was that something the LPs were pressing on?

Klinsky: It's very important to the LPs and it's fair to say it's increasingly important to the LPs. We've had a very consistent story and focus on it for years. So, it didn't feel like a "gotcha" question to us. It was just reporting. We think private equity can be a very socially positive way to live your life. We're building businesses that are already doing very socially positive services and products like fighting infection, or just making people happy with good consumer products.

What we started to do back in 2008—after Lehman Brothers went down and there was so much anger about the crash, Wall Street and private equity—was to start a social dashboard that we publish every year on our website and we updated every year. It includes business-building metrics. We've now added or created over 46,000 jobs, net of any job losses. We pay about 70 percent more than the national median wage. We have over $5 billion of R&D, software and cap ex. We've never had a bankruptcy, never missed an interest payment. We have added $37 billion of enterprise value gains for pension funds and firemen and teachers and all sorts of good people. So, I think we have a very good position, but it's not because of the fad. It's because it's the right way to live your life and the right way to build businesses.

Disrupting Education

Klinsky: Education has been a huge driver in my own life. I'm a public school kid from the Detroit area. My oldest brother was named Gary and when I would come home from kindergarten and he was a seventh grader, he would give me school after school. It was a huge influence on me. Unfortunately, he died of a genetic illness when he was age 29. When I made partner at Forstmann Little, and started to get some resources, I created after-school centers in his memory that still operate called the Gary Klinsky Childrens' Center.

One of the biggest problems America has today is college, which has gotten so expensive that, even with loans, people are being priced out. Even if you can borrow the money, it's too expensive to pay back the money. So, there's $1.6 trillion of student debt. The cost of college has risen faster than healthcare.

So, we invented Modern States, which is something that can save a lot of money to go to college. We hired 32 of the best professors in the country—math professors from Johns Hopkins, information science from Purdue, professors from Columbia—to teach state-of-the-art courses. We've put these online with online textbooks, and we give these away for free to anyone in the world who wants them. So, if you go to ModernStates.org, you can get an entire library of college—basically all the great freshman courses—for free with textbooks.

Now, there have been free college courses before, but they never led to credit. We needed to come up with a way to earn real credit at real schools. The way we solved that is that all the courses we chose match up to a test that's been around for 50 years from the College Board called the CLEP. Anyone can take that, and we pay the test fee. So, you can place out of a full year or more of college.

We just teamed up with Purdue University. They've made it a formal part of their program. They're encouraging everybody in Indiana to do it. They call it Purdue Fast Start and you can save $21,000 at Purdue and finish in three years instead of four.

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Lipari: Let's talk about the strategy of Fund VI.

Klinsky: The strategy for Fund VI is the same exact strategy as Fund V, IV, III, II, and a little bigger than the deals in Fund I, but the strategy is the same. New Mountain has been exceptionally consistent. Two big ideas: defensive growth and business-building defensive growth. We pick the niches and the economy that can grow for the next 10 years, whether the macro economy is good or bad.

So, sectors like life-science supplies, making healthcare more efficient. Upgrading the water systems, the power grids. Running alternative energy and solar power networks. Some niche consumer products, some financial services. There are different sub areas that we've chosen: data and analytics, compliance. We have a formal process where we've developed a bunch of sectors.

We're always looking every year to see what we should add or take away from that sector expertise, from the deeply staffed teams that are larger and stronger every year. And you can repeat the same sectors. So, if you start in good, safe growth sectors, you don't use much debt and you're operational. If something goes wrong, you can avoid bankruptcies and missed interest payments.

So, we've never had a bankruptcy or missed an interest payment because we're in safe industries. The second idea is business building that you take that nice, safe, defensive base and build and build it into a bigger and better mountain and its own industry—basically $100 million to $1 billion is our sweet spot of enterprise value.

The average is a $500 million-sized company, $300 million of equity. Seven $300-million checks invest $2.1 billion a year. We actually did $2.6 billion last year. So, the $2.1 billion would invest Fund VI in a very normal course, $2.1 billion plus fund expenses as the target. And we're ahead of that target already. So, we're not changing anything. We just have a bigger, stronger team and keep adding to that team.

Lipari: It's been a great run, honestly. What you've done at New Mountain has created something phenomenal.

Klinsky: Well, thank you. It's been a great industry to be a part of. I feel like I came to Silicon Valley the day transistors were invented. It's gone from 20 firms when I started to 5,000, but it's been a good run. ■