Interview with David Klein - One Peak

Mattia Lamonaca

February 4, 2022

Profile
David Klein is a Co-founder and Managing Partner of One Peak, and focuses on investments in the technology sector in Europe. Prior to One Peak, David was a senior investment professional at growth equity fund Summit Partners in London. Before joining Summit Partners, he led growth investments at Morgan Stanley Principal Investments in Europe and Israel. He started his career in the Technology, Media & Telecommunications Group at Morgan Stanley after graduating from the University of St.Gallen.

Mattia Lamonaca: First of all, I'd like to start by asking you to briefly introduce yourself. In particular, what attracted you to tech investing and growth equity?

David Klein: I grew up in the Cologne Area in Germany and moved to the United States when I was 16 years old. I then studied in St. Gallen from 1998 to 2002 and started working at Morgan Stanley in London. I spent three years in investment banking (TMT division) in the London office and then moved to Brazil where I spent another year and a half. When I came back, I spent the remaining four years in what is called Morgan Stanley Principal Investments, the on-balance sheet Private Equity division at Morgan Stanley where we invested the bank's own money. I ran technology there. However, I then realized that an American investment bank was not the right place where to build a long-term private equity career and joined Summit Partners, where I ran enterprise software and fintech. I stayed there for a few years and then founded One Peak in 2014 with my partner Humbert, with whom I worked for 5 years at Morgan Stanley Principal Investments back in the days.
Both of us saw the same market opportunity; there were lots of sizable funds that were writing 75M+ equity checks and also lots of venture funds writing smaller equity checks. However, companies needed to grow significantly more than 100% for venture funds to be interested. We do not need that. There are lots of interesting companies out there growing 60-70% where you could be a minority investor and invest anywhere between 15-75M. With a little bit of capital and help, we believe you can accelerate their growth and help them unlock their full potential. This market in Europe was almost entirely untapped, so we started One Peak and we are about to launch our third fund in Q2.
What I really love about technology and growth equity is that you are always at the forefront of innovation. You invest in nascent markets and help founders accelerate the growth of their companies internationally. Another thing that I really like is that the founders we back... *really want to change the world at the end of the day*, and you can be a small part of that by helping them to scale their company. It is rewarding and also a lot of fun.

Mattia Lamonaca: Thank you very much for this introduction. Now let me ask you, which one of the acquisitions are you most intimately proud of?

David Klein: We get this question quite often from our own investors and our answer is always "we love our children equally". There is some truth to that. We make three to five investments per year, we spend a lot of time understanding these companies and the market they operate in, building a relationship with the founders, and helping them build a sizable business. We invest a lot of time and effort in each of these companies so... it's a bit like comparing your children, I would not want to pick one.

Mattia Lamonaca: I understand. On another note, what is instead your biggest regret? Does this regret come from an investment you should not have made in the first place or one from which you perhaps exited too soon?

David Klein: The good thing is that all our portfolio companies are performing really well. When it comes to regrets, I guess I have to say the investments we have not made. For instance, there is a company called Monday.com, which is now publicly listed. We looked at it when it was a 3.5M annual recurring revenue business, although we typically start at 5M. We liked the team, liked the market opportunity, and thought it was a phenomenal company. We just took the view it was too early for us, so we passed. Then, someone else did it and it went on to become a very sizable public company. It would have been an absolutely phenomenal return. Another one is Celonis. We pitched the term sheet back in the days when it was a €6M revenue business... so it was a small business at the time. The founders wanted a €100M valuation, we could not get there, someone else did it shortly after and it went on to become a really big business [valued at around $11bn in June 2021, ed.].

Mattia Lamonaca: Impressive. Let's take a leap forward and return to the present. The pandemic has triggered seismic economic and societal changes. Has it also affected the way you do Private Equity?

David Klein: The pandemic had a massive impact on a number of different levels. Firstly, when it comes to interaction with founders. The world became much more of a level playing field, distances have shortened, and you did not have an advantage of location anymore. That is coming back – or has come back – since now people are starting to travel again…

Mattia Lamonaca: So do you think the private equity landscape has become more competitive because of the pandemic?

David Klein: I think segments of it, and those segments are the ones where the check sizes are above $75-100M because all bulge bracket private equity funds have raised growth funds. That happened over the last two or three years. So, the larger check sizes have become more competitive and also American venture firms have realised that Europe is great. If you think about it, as early as five years ago, American VCs would look at Europe as an emerging market, to a certain extent. That has changed massively.

Mattia Lamonaca: I see a growing tendency for large alternative asset managers to converge into providing all services on the range of private equity. I think of Tiger Global entering the VC market or traditional buyout firms such as Blackstone expanding into growth equity. Do you agree?

David Klein: Yes, 100%. At the end of the day, large private equity is an AuM game, and larger firms tend to get into as many segments as possible. Usually, you only do that once a market is sizable enough to make a difference to the returns the firm generates in the bigger picture of things.

Mattia Lamonaca: Now, there are companies in the tech and healthcare ecosystems that are doubling in size every one or two years. When it comes to the transformation process of these companies, what do you think One Peak brings to the table that others do not?

David Klein: There are quite a few things. Number one, we founded our business ourselves, we know what it takes to start a business, the hard work, the passion that you need to be successful. This allows us to bond with founders very well.
Second, in addition to our investment team, we have a value creation team, which we think is extremely important. This value creation team is composed of world-class operators. For instance, if you want to expand sales in the U.S. you have someone like Martin Moran – he led Salesforce in Europe for eleven years and grew the business from zero to half a billion dollars in annual recurring revenue – who is available whenever you want to talk to him. And this is extremely valuable. I could go through each of our value creation team members… but you get the idea.
Thirdly, we make three to five investments per year which means that we can spend time with our portfolio companies. We make the effort to work closely with the founders and I think this approach of portfolio management is a real differentiator.
Lastly, and I think this is always underappreciated, we are very data-driven but at the same time, we are very founder-friendly. This means that we will challenge the founders, give our input, and show them the underlying data why we think something should be done, but if founders then want to make a different decision and have good reasons for it, we are never going to block them. We are an extremely supportive investor.

Mattia Lamonaca: When it comes to investment criteria, why is investing in a company which is specifically founder-led particularly important for One Peak?

David Klein: At the stage where we invest, founders tend to be the ones leading the business. We feel a great founder will grow with the business. Founders who think of their business not as a job, but as something they have built, like a child, have a different mindset than someone who comes from the outside and just does the work. That is perfectly fine if you have a business that is mature and the market is clear, but the companies we invest in are often in nascent markets where you have to make challenging decisions, and we believe founders are the best individuals to do that.

Mattia Lamonaca: Certainly, they have a different passion. Based on your experience do you think there is at least one common denominator you see in all the successful companies you invested in?

David Klein: There are a few factors. In order of priority, the most important factor is quality of the leadership team. That in turn affects the quality of the people you hire; A-Players hire A-Players and B-Players hire B-Players. So, to me, that is always the number one factor.
Second, you need to have a great market opportunity. Not only does the size of the market matter, but also what the market structure is from a competition perspective, all of this matters a lot.
Thirdly, you need to show solid long-term unit economics. That means how much do you pay to acquire a customer and retain them over the following few years, in comparison to what is called your customer lifetime value, namely your gross profit on that customer from Year 1 to Year X, until that customer churns. Those unit economics need to be significantly positive, otherwise, it is very difficult to build a very sizable business.
Finally, you need to be comfortable with being wrong. You will not always be right, but if you do not test and trial, you will never know if something works or not. This mindset goes beyond the leadership team. The company must have this shared mindset and embrace the possibility of being wrong.

Mattia Lamonaca: We are reaching the end. Let me ask you one last question, given our audience, do you think your studies at the HSG have somehow made a difference in your career?

David Klein: The answer is absolutely yes. What the HSG does very well is put you in front of businesses pretty quickly, you get a business mindset pretty quickly. You get a very good generalist education that allows you to do a lot of different things early in your career. Don't get me wrong, in the beginning some specialized skills are going to be important, but as you grow, what makes the difference is how good a generalist you can be, and I think the HSG prepares you for that phenomenally.