Interview with Roy Baumann - Partners Group

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Profile

Roy Baumann is Co-Head of Private Equity Integrated Investments Europe at Partners Group. He serves as a member/observer of the Board of Directors of two of the firm's portfolio companies, Amann Girrbach and STADA Arzneimittel, and has been with Partners Group since 2004. With 18 years of industry experience, Roy has also held positions in M&A at Morgan Stanley, economic research at UBS Warburg, audit at KPMG and finance at Procter Gamble. He holds a Master's degree in economics and finance and a CEMS Master's in international management from the University of St. Gallen (HSG). He is a Swiss Study Foundation alumnus.

Mattia Lamonaca: First of all, I'd like to start by asking you to briefly introduce yourself. In particular, what attracted you to private equity 18 years ago when you started?

Roy Baumann: I graduated from St. Gallen in 2004 and joined Partners Group straight out of university. Almost 18 years later, I am still here as Co-Head of the European Private Equity Integrated Team.

Before joining Partners Group, I completed internships in banking and finance, one of which was in M&A at Morgan Stanley. There, I got the chance to learn what a private equity firm does, and very quickly I decided for myself that I would rather want to be on the buy-side.

In M&A you are very focused on executing the transaction, you get the fee, and you don't worry much about what happens next. Of course, I'm exaggerating to a certain extent, but there is some truth to that. On the buy-side, by contrast, you focus on investing in companies and owning them for 5-10 years. It's a very different approach. You have to think further ahead. You have to be more intellectually honest to yourself, because if you get an investment wrong, you are going to be stuck with it. And that I think is more interesting and attractive. Therefore, when I got contacted by Partners Group through the HSG career fair at the time, I took the opportunity to start directly in private equity.

To shed light on my Business Unit, in particular, Partners Group has an indirect arm dedicated to investing in companies through funds, both on a primary and a secondary side. In the latter, we purchase existing commitments from limited partners seeking to exit primary private equity funds because of liquidity needs. Plus, we also invest directly in companies, but in a consortium with our investment partners.

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?

Roy Baumann: A company of which we were extremely proud is Action. This was an acquisition we did in partnership with 3i in late 2011 and we made over 30 times the money we invested (30x MOIC). This is one of the most successful buy-out investments ever done in European private equity and was also at the time one of the largest capital gains Partners Group had ever achieved.

Apart from the financial part and its success, it is also great to see how that company started from a more or less Dutch-only company with a few stores in Belgium to becoming a Pan-European chain which is very active in France, Italy and Poland. I think that is also a good example of what a private equity firm should do. We bought this company from the founding brothers and owned it for almost a decade until 2020, and it has been a phenomenal growth story.

Mattia Lamonaca: Very interesting. 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?

Roy Baumann: It's a good question and it is also relevant to explain how you think about investing in private equity. The biggest regrets come from firms that haven't worked out or, more often, from companies that we looked at and didn't buy, which then ended up doing very well.

One investment that comes to mind is Petsmart, where we had the opportunity to acquire a stake in 2015. We did not invest due to concerns around the expected shift from brick-and-mortar retail to online distribution. This concern was spot on, as the traditional retail estate soon after was facing significant headwinds from online competition. However, Petsmart in 2017 acquired Chewy, an online retailer of pet food and other pet-related products, which turned out a phenomenal success. So never underestimate the capacity of private equity and good management teams to transform companies and reposition them for success.

On the other hand, emotionally, the toughest ones are investments that fail. You should never forget that companies are composed of people at the end of the day. If you lose money in an investment, this implies the company suffered, had lay-offs or went even bankrupt in the worst case. Missing out on a good opportunity is painful but losing money comes with a much higher emotional cost and that is what we try to avoid.

Mattia Lamonaca: I understand. To jump back to the present, to what extent do you think the recent Covid-19 outbreak has affected the way you do private equity?

Roy Baumann: Interesting question. In a way not as much as expected. Of course, it has completely changed the practical aspects of our job because we all used to travel 2 or 3 days a week and now for the last two years we have been locked in our home office. I believe that we have become more efficient. With Zoom calls, you can save a lot of time and get more things done. In fact, I believe it is no coincidence that 2021 was an absolute record year for private equity globally; you can fit a lot more into a twelve-hour day if you don't travel.

By contrast, in terms of what we invest in and the attributes we look for, not much has changed. It is quite interesting because, even before the pandemic, we would have looked for recession resilient companies, which mostly withstood Covid-19 well. The industries that were hit the hardest were restaurants and tourism, but they have been doing quite poorly for a few years before due to cyclicality.

For an established player like us, things haven't changed dramatically. It is nevertheless true that the pandemic complicated the life of new players. Conducting business virtually with somebody you already know is very smooth and very easy. However, starting a new relationship, building a new franchise, establishing new contracts with management teams is much harder if it is only done virtually. Having dinner and drinking a bottle of wine together cannot be replaced by a Zoom call. All in all, I believe that building new things has been harder whereas executing with people you have already known worked out really well.

Mattia Lamonaca: According to Bain's Global Private Equity Report 2021, in the wake of the Covid-19 pandemic, consumers are embracing sustainability more than ever. While ESG value creation seems obvious in socially responsible sectors like clean energy or electric vehicles, do you think there's an opportunity for private equity to find and fix companies in more environmentally questionable sectors?

Roy Baumann: Yes, today there is ESG in every investment you make, and the impact is even bigger if you invest in a company that has a bad record in ESG. You can have a real impact on improvement. For every company we invest in, we expect to have an ESG roadmap that we develop together with management teams. This list could range from reducing waste or reducing carbon dioxide emissions or focusing more on diversity and inclusion, the latter being a big topic at Partners Group. It's a different story in case the business is fundamentally questionable without the possibility to turn it around, in such a case we wouldn't touch it. There are some sectors into which private equity firms do not invest, like weapon manufacturing. Certain sectors are off-limits these days.

Mattia Lamonaca: Interesting. On another note, how do you think the Swiss private equity landscape differs from the rest of Europe and where do you think the most interesting private equity opportunities lie?

Roy Baumann: It's a peculiar market in the sense that it's very small. In a way, I don't think there is a private equity landscape in Switzerland. Because of language barriers, most German private equity funds will look at firms in the German-speaking part of Switzerland and some of the French funds will look at the opportunities in the French-speaking part. Most successful Swiss private equity firms very quickly outgrow the local market and then start looking at France, Italy, and the DACH area. They will look for high-quality companies, the so-called "Mittelstand" which you often find in southern Germany, Switzerland, and Northern Italy. The big challenge, however, is that many of these firms are not for sale. There is a multitude of family-owned businesses controlled by owners that are very reluctant to sell.

Mattia Lamonaca: The difference, I suppose, is that when a company is in a private equity portfolio it is always for sale at the right price.

Roy Baumann: Absolutely, and sometimes private equity funds will also be under pressure to sell it. When it comes to family-owned businesses the story is different. There are very interesting investment opportunities, but they are much harder to find and that's part of the art of what a successful private equity investor does. You cultivate contacts, develop a solid relationship perhaps even for years without ever signing an agreement. That's part of the game.

Mattia Lamonaca: Finally, given our audience, do you have any advice for students dreaming of a career in private equity? What skills does a student need to develop to become the best version of an investor they can possibly be?

Roy Baumann: I believe investment banking to be a great school. Personally, I took a shortcut, but I still did some banking, which I would recommend. You will learn the technical skillset of understanding the financials of a company, how public markets, derivatives, or currencies work, and so on. It is a great skill to acquire at the beginning of your career. At Partners Group when we hire at the analyst level, we prefer a person that has done an internship in investment banking for a couple of months at least.
On the other hand, I also believe an experience in consulting to be very useful, because you learn how to evaluate a company from a commercial perspective, which is equally important. Does this company sit in the right place of the value chain? Is there growth in the industry? Is the business plan realistic? Consultants know well how to tackle these questions.

All in all, I think a solid mix of technical skills and strategic thinking is a must-have for a private equity investor. Additionally, real-world experience matters a lot. That is also why we sometimes send mid-level employees to work with the portfolio companies in the project management offices. Thus, they can actually see what it means to implement some of these projects on the field.