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Lead Left Interview – William G. Winterer

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This week we chat with William G. Winterer, partner, Parthenon Capital Partners. Bill is head of capital markets and a member of Parthenon's investment committee. Parthenon is a private equity investment firm that has managed funds with over $3.5 billion in total capital commitment with offices in Boston and San Francisco and approximately 20 investment professionals.

The Lead Left: Bill, first of all, congratulations on your final close of Fund V.

Bill Winterer: Thanks, Randy. We hit our $1 billion cap. It went very well. That gives us lots of dollars to invest. So now we're going to quickly go from a pat on the back to finding and investing those funds in good deals.

TLL: So give us your view of the deal landscape right now. What do you see out there?

BW: It continues to be an unusual environment. The economy seems to be ok, bumping along at two percent growth, plus or minus. Not huge excesses anywhere. We haven't done any energy, so we're oblivious to that. The US economy is chugging along without any glaring imbalances, outside the political world. We should be ok as we put our investments to work over time.

TLL: There's a lot of capital out there.

BW: It obviously is a seller's market and there is hyper-competition in auctions, especially from strategics for clean assets. Everyone seems to be chasing the same deals. We're investing in growth sectors and take a long-term approach to those sectors. We've also stayed proactive with multi-year research projects around niches within are targeted industries – financial services, healthcare and business services. It's worked for us. It helps us be smarter, faster and more creative.

TLL: Are there things that have surprised you about the research you do?

BW: It's the same old stuff, actually. Personality and style with these companies and the management teams is always important. Buyers and sellers need to be in line with one another. There are opportunities in our targeted sectors. We see dynamic companies and markets that involve increasing levels of complexity. The levels of complexity can be mind-numbing at times.

TLL: Let's discuss your views of opportunities in the financial service sector.

BW: I would identity three trends we think are important. Regulation and consolidation are two obvious ones. Technology plays an increasingly important role in the dynamic players that have emerged. There's been significant disruption since the credit crisis. Regulatory and market-driven changes continue to create attractive areas for investing.

TLL: Any other areas?

BW: One of our core theses has been around big banks, as their cost of capital goes up. This creates opportunity for new and focused players. Fintech is such an overused word – we're trying to stay away from the broad concept, but the pressure on banks of all sizes is real and not going away.

TLL: What do you screen for when you look through companies in your research?

BW: The number one thing is earnings growth. Or perhaps book value, revenues or ebitda growth. We ask what are the opportunities, threats and execution risk – it's the typical Porter analysis. We have followed regulated industries and businesses affected by regulations over long periods of time. We work hard and use our knowledge and experience to develop frameworks to better assess and manage risks and priorities. But it is not easy and there is a great deal of art to it.

TLL: Turning to healthcare, what sub-sectors do you focus on?

BW: Healthcare IT, revenue cycle management, cost containment and other BPO niches are generally the most attractive, while we also like specialized distribution business models. We are conservative with any facility based businesses with direct reimbursement risk. Key themes include the evolution of payment models – the industry is trending away from volume-based towards value-based payments. We talk to providers, payors, regulators, operators and consultants. Value-based payment systems are much more complicated and we're at the very early stages of trying to figure out that out. There is some trial and error and there will be winners and losers.

TLL: Can you give us some examples?

BW: Re-admittance of patients is the easiest to measure. Patient "satisfaction" is another. However, there can be unintended consequences. Evidence indicates that when patient satisfaction is a variable, doctors are more likely to prescribe pain medications. As has been reported in the press, this quality-related measurement is believed to be contributing to the current opioid epidemic.

To be continued the week of June 13

Contact:
William G. Winterer
williamw@parthenoncapital.com