THE LEAD
https://theleadleft.com/lead-left-interview-paul-peterson/

Lead Left Interview – Paul Peterson

THE LEAD | August 1, 2016

This week we chat with Paul Peterson, a managing director at Wind Point Partners. Wind Point Partners is a private equity investment firm that with a strategic focus on facilitating leadership transitions by partnering with top caliber executives to acquire middle market businesses with a clear path to value creation. Since its founding in 1984, the firm has raised over $3 billion in commitments and acquired more than 90 platform companies and 160 add-on acquisitions.

The Lead Left: Paul, give us an overview of how Wind Point thinks about investing?

Paul Peterson: We have been executing and evolving our core strategy for over 15 years. That strategy is based on the fundamental premise of solving leadership succession challenges. Those can arise from family or entrepreneur owned and managed businesses, corporate divestitures, a CEO who simply would like to retire, or even situations where there is a strong team but a new addition to the team can drive additional organic and acquisition growth.

We spend a significant amount of our time building relationships with top executives within our core sector focus areas. Ultimately our objective is to partner with an executive to buy a business together.

TLL: Could you give us some examples?

PP: Absolutely. We bought Gehl Foods last year which is a manufacturer of shelf-stable, dairy-based products based in Wisconsin. Gehl was founded over 100 years ago and the CEO, Katherine Gehl, was a third generation family member. Katherine Gehl was ready to leave the business and the ability to solve for that succession issue became a critical variable in the transaction. We partnered with Eric Beringause, an executive with strong corporate and private equity experience including Alcoa Consumer Products and Sturm Foods, among others., Eric took over the CEO role at closing which enabled the family to achieve their liquidity objective and for Katherine to transition out of management.

We exited the Argotec transaction last year to a strategic buyer. In that deal we partnered with Guy Broadbent who has an extensive background in plastics, specialty materials and technical businesses. Perhaps most notably he ran the laboratory products division of Thermo-Fisher Scientific which was a $1.8 billion responsibility. Argotec is a manufacture of niche TPU film which is used in variety of applications including impact resistant glass, automotive paint protection film, medical bandages, among many others. The company was the best in the world at producing this niche material but overall the company lacked a market development strategy and also was not in a position to make a very logical acquisition. The incumbent ownership and management was ready to retire so Guy became CEO at closing. Over the course of 2 years we implemented a variety of initiatives including a global market / application development strategy, a company-wide lean program and we completed the key acquisition. These changes resulted in a preemptive bid from a strategic buyer for over 12x EBITDA.

TLL: Do you always need to replace the CEO?

PP: We always augment the leadership team but often that doesn't mean that someone needs to leave. We focus on buying fundamentally solid companies with a market leadership position but look to accelerate the growth through more aggressive strategies which is where an enhanced management structure comes into play.

Our investment in Citadel Plastics would be an example. We developed a consolidation strategy within plastics compounding and our first acquisition was a company called the Matrixx Group. We hired a CEO, CFO and ultimately COO to execute a broader acquisition strategy but we left the team in place at the operating company level.

TLL: How do you know when existing management isn't working out?

PP: Ultimately the best fit for us would be a company that has a succession issue, therefore, we are fundamentally solving a problem for the owners and the incumbent leader. So its not that the existing team isn't working out, the issue is a new leader is needed and often owners would rather have the next buyer solve that dilemma.

Ultimately most businesses need to evolve and be taken to the next level, existing members of a team are just as important to that process as any new team member we might add.

TLL: Tell us about how you create value and what lessons you've learned?

PP: Well, I've been here 16 years. The first bucket firms use to create value, the financial engineering piece of private equity, today is irrelevant. The market clearing price and leverage is what it is. In some respects the operational component, the Blocking and tackling, is pretty standard as well, most firms have a hands on element to their investments but obviously the impact of that influence can vary significantly.

The now classic "operating partner" approach is widely used. Generally our view is that its fairly difficult for an operating partner to really drive change in the business. So our model is to put our partner directly in charge of the business as CEO. The third bucket, which probably doesn't get talked about a lot, is the fundamental creativity of and inspiration of the private equity firm and its lead investors. Ultimately every investment needs a champion who sees value where others don't or has a creative approach to a deal that the rest of the market doesn't have.

TLL: Talk to us more about that third bucket?

PP: Creativity creates change the market *doesn't* anticipate. For example, we are in pursuit of an opportunity right now where we are paying a market clearing price for a platform within a niche industry. On its own there are nice opportunities and we are partnered with a strong executive to take over the CEO role. But we are also in discussion with the #2 player in the same niche and have pretty unique insight into the synergies due to our executives knowledge of the business. Internally we call this connecting the dots, the more angles or value levers you can line up the more dots are connected and the more compelling a deal becomes. Its pretty easy to have an operating partner sitting next to you and pay top dollar in an auction, but the third bucket is more challenging.I tend to think about it as finding value. There are the no-brainer deals that everyone wants to own and there are the no-brainer deals that nobody wants to own. The deals in between are where you need to connect the dots and find an angle.

Contact: PaulPeterson
ppeterson@wppartners.com