Buyouts

By: Kirk Falconer
PUBLISHED: 1 June, 2024

FIRMS & FUNDS

TPG grows by making the right bets

TPG ascends to the third slot on the Buyouts 100, in no small part because of its astute early picks of new growth areas.

TPG, founded in 1992 by ex-Bass Family Office investors David Bonderman and Jim Coulter, owes much of its growth to a robust private equity business.

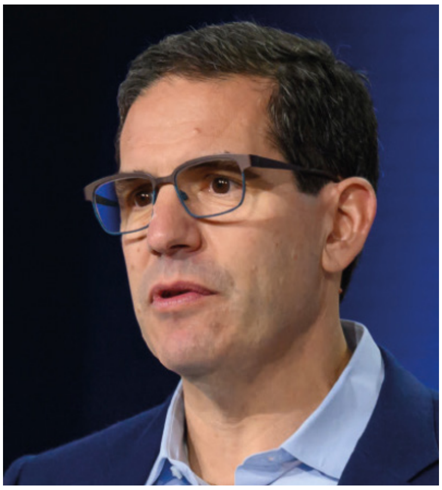
Since the firm's earliest days, private equity is where the firm has implemented the most strategy diversification. Today, the asset class makes up well over half of $224 billion of AUM, even after last year's major acquisition of credit and real estate specialist Angelo Gordon.

TPG's success with private equity is partly due to its placing early bets on new growth areas – sometimes helping to break ground for the industry as whole. There is no better example than climate investing.

Despite tough conditions for raising capital, the firm closed several funds over 2022-23. Along with a ninth flagship buyout fund and a second healthcare vehicle, which together secured $15.6 billion, they included a debut Rise Climate Fund, closed at $7.3 billion, ahead of a $5 billion target.

For this and other reasons, TPG moved into the number 3 spot in this year's Buyouts 100.

In an interview, president Todd Sisitsky discusses TPG's long love affair with private equity, key factors contributing to the strategy's evolution, and his take on the current deal environment.



Todd Sisitsky, TPG

Private equity has long been TPG's core strategy. Why?

We are bullish on private equity. We have spent a lot of time over decades developing a strategy in an industry that has become highly competitive. We try to pick our spots, be students of the sectors we invest in, and drive for differential insights and ecosystems in each of the areas and themes we pursue.

We feel with each chapter in private equity's evolution, the need to have more differential insights and tools that can improve performance has increased. We're bullish because we feel good about our positioning. It has led us into new areas and products within private equity in an organic way that is authentic with what we think of as our strengths.

TPG began as a contrarian, high-risk investor. How has it changed?

Our strategy has evolved, though there are aspects that have been consistent over time. As opposed to contrarian, I think of us as independent-minded in how we source investments. You saw that in airlines and other early investments. You saw it in pharma and pharma services during the 2000s and early 2010s, when most folks were running away and we were investing in Axcan, Eurand, Par, IMS and Quintiles.

We're fundamentally a growth-oriented investor. We're looking for sectors, particularly in moments of economic uncertainty, in which we understand the spaces and themes that are going to grow. And then we focus on what's interesting, where we think opportunities might arise, and not on what's for sale or being offered by one of the major banks.

You made some big bets early on. Did they pay off?

Absolutely. We're not particularly good at figuring out plain-vanilla businesses in a chaperone dinner in a three-week sprint. We're quite good when we're students of our sectors, in the field meeting CEOs.

We celebrate the inputs to compelling opportunities – the dialogues we have with strategics around potential opportunities to work together, even when those don't result in a transaction. You have to have a reward system internally aligned with that approach.

That's led us to some interesting places. We were investors in Airbnb and Uber and in other tech areas before that became more popular among our peers. Because of this, we've been able to anticipate key emerging tech trends and build products around them.

For example, we started seeing a trend of companies staying private for longer. We had been investing in technology through our buyout and growth equity strategies, but noticed a gap in support for those companies that were not necessarily pursuing a traditional IPO path. We launched Tech Adjacencies to capture this opportunity, leveraging the same team and themes across our broader franchise.

We've done the same thing in healthcare and climate. In each area, we think of commitments as long-term. If we're successful in developing something we believe in, it can result in numerous opportunities. The investments put into these various spaces pay off in pretty substantial ways if your timeframe is sufficiently patient.

What inspired the jump into climate investing?

We became convinced early that the secular tailwinds driving impact investing, and climate investing in particular, were very strong.

We felt the amount of capital available for the most impactful climate opportunities was insufficient. There was capital being raised for venture, there were opportunities – usually things like battery technologies – in the public market, but the larger capital base was not sufficient to address the broad and growing range of needs and opportunities we saw and continue to see.

We also convinced ourselves there was a co-linear relationship between impact and financial returns. There was at the time more of an assumption that if you were going to invest in a way that was supportive of impact-related objectives, you would sacrifice financial returns in the process. After a lot of study, we felt not only was that not the case, but that they were actually self-reinforcing.

We also gained conviction in our ability to develop a metric-based approach to measuring impact that didn't rely on just qualitative assessments. We created Y Analytics, a TPG business that measures impact in our Rise platform.

When we report on financial returns to our investors, we report similarly on impact metrics. And when we're underwriting investments, we're underwriting them with as much rigor as we can on an impact multiple of money as well. Those were relatively new thoughts at the time.

What is TPG's outlook on the private equity deal market?

It's certainly a challenging environment. It drove us to be more focused on executing our strategy, and the result of that has actually been a healthy deployment pace. In the second half of 2023, our deployment pace across TPG more than doubled relative to the first half. In the private equity business, it was closer to tripling.

I view the market as having different parts in terms of deal creation. The flow side of the market is more correlated to multiples being high, interest rates being reasonable, debt being plentiful. This leads to more auction processes, more sell-side activity and more deployment. On the flip side, there's a part of the market that's a bit more customized.

We participate very heavily on the customized side of the market, investing time and energy in opportunities that may or may not result in something actionable but which we think would create an interesting company.

In many cases, those can be carve-outs. In other cases – and we've had significant experience with this recently – they look more like structured partnerships with corporates, where you sometimes don't have a clear seller or buyer. You have two parties who are trying to create a win-win opportunity together.

That customized part of the deal market has represented an increasing percentage not only of the portfolio but also of the pipeline.

Which are some of those customized deals?

A few years ago, we partnered with Intel on two carveouts. One was McAfee, in which Intel maintained a 49 percent stake. They had a strong return just by virtue of participating with us throughout the cycle on an idea that we brought to them. We later carved out Wind River, another Intel company.

And in 2023, we invested alongside AmerisourceBergen, now called Cencora, to acquire OneOncology. It's a structured relationship that's likely to result in Cencora owning the business, but in a context in which we can add value along the way.

How have you fared in a period of weak exit markets?

We approach the return of capital and liquidity with a lot of scrutiny because it's important to our LPs and our performance. Operationally, that's translated into a level of centralized focus similar to how we deploy capital.

For example, from mid-2021 to mid-2022 – a period of high valuations and a tremendous amount of capital deployed over the landscape – we were returning $1.50 for every dollar that we invested across our private equity business.

And it has continued. For example, we recently had the Viking IPO, which is the largest so far this year in the US. We sold our stake in CAA last fall, which marked the end of a 13-year partnership that had included a $1.5 billion continuation vehicle. And in the first half of 2023, there were two IPOs out of our Rise Climate portfolio, Nextracker and Tata Technologies.

Will TPG continue to give priority

to strategy diversification?
Diversification and organic growth both have meaning for us. In both cases – within private equity and the continued evolution and growth of the set of products we offer, but also in other asset classes outside of classical private equity – we're playing to the same strengths.

We're the least siloed organization I've ever encountered. We take great pride in when IP or the ecosystem we create around a particular theme – for example, private equity – results in opportunities in credit or real estate. That framework, and that cultural overlay, leads us to express our themes, our areas of differentiation, in more asset classes than just private equity.