-- [00:00:00] Speaker A: You're listening to fund Shack. I'm Ross Butler, and today I'm speaking with Alejandro Alcal de Rash, Senior Director in Advent International's Portfolio Support Group. Alejandro joined Advent in 2010 and his job is to help improve the performance of portfolio companies. His previous roles include chief transformation officer and head of supply chain at Grua when it was a private equity backed company, and before that he was a partner at McKinsey. Today we're going to get under the bonnet of private equity value creation. Alejandro, welcome Fund Shack. Can you just explain to us what the portfolio support group is? So what does portfolio support group mean?

[00:00:37] Speaker B: Well, thank you very much for having me, Ross. And yeah, what's portfolio support group? What's our mission? Our mission is to support management in everything around the value creation programs that we want to get implemented in our portfolio companies. So we're coming with a slightly different background than our colleagues from the deal team side. So typically we have a combination of consulting experience in the first place. So kind of learning the toolbox, what are the different tools in the toolbox that you have? And then ideally we'd like to see colleagues who have also been able to implement, to use those tools in practical life. So my background is kind of representative. So first at McKinsey, learning a lot about operations excellence and strategy consulting tools, but then also within grow, I was responsible for actually getting those tools into action. And so we like to see people who have this dual experience, and then our mission is to sit together with the management teams and to align on the value creation plan, set up the right governance to execute those value creation plans, and then support as we go along with the implementation of all the different programs.

[00:01:57] Speaker A: All right, so would it be fair to say that typically people in the portfolio support group would have more industry experience like in companies, than people in the deal investment sIde?

[00:02:08] Speaker B: I would say so, although we have a lot of people that also have a background which is outside the finance, the pure investment banking world. But on the portfolio support group side, yes, we love to see people who have also gotten their hands dirty and who have practical management experience, because then it's also easier to interact with the management teams. They probably recognize that there are commonalities between yourself and them, and it's also for you, it's probably easier if you have sat in the same chairs, if you have also been responsible for getting value creation plans implemented, because then you know what's difficult, what's not so difficult, and you know the challenges and you have probably a better understanding of the situation, the management teams will be in?

[00:02:59] Speaker A: Oh yes, particularly not just working in a company, but working in a private equity backed company.

[00:03:03] Speaker B: That certainly helps. It's always good when I can introduce myself and say that, well, I've sat on the same side of the table as they are sitting right now.

[00:03:14] Speaker A: So what might be helpful is maybe to go through the chronology of a deal from your perspective, because I think most of our listeners will be very familiar with the investments, of course, perspective. So I guess the simplistic way to think about your role is the deal guys come up with, they find a company they like, they do their due diligence, they buy it and they pass it over to you to improve it before exit. How does it actually work?

[00:03:38] Speaker B: No, the reality looks slightly different. So first of all, it's always good if we have the chance to get involved already before the deal is executed or done. So in the ideal world, I would be joining our colleagues during the due diligence phase. I would be also attending management presentations, expert meetings. It's always good if you get to know management early on and they also have a chance to see you as part of the larger private equity company team.

So very important early on that you're part of the definition of the value creation pLan, at least how we see it.

-- ons that the deal situation may provide to already work on. What are the next steps?

How are the first 3456 months going to look like? What are the things that we would like to achieve and if there is a chance already to pre align these with the management team?

[00:04:53] Speaker A: I'm just slightly intrigued around the dynamic between the investment professionals and the portfolio support group professionals, particularly at this point, because let's say I'm an investment guy and I really want to do this deal, how do I view the portfolio support group person? How do I most effectively use them at that stage?

[00:05:12] Speaker B: That's a good question, because actually kind of tricky. We are probably the ones in the team who have, because of our background and our say, own management experience, consulting experience, we probably have a good sense for what is actually doable in a certain given time span. At the same time, our deal professionals at Advent, they are working within sectors, so they are also very knowledgeable about the sectors, probably have deeper sector experience than most of us because we tend to be generalists. We work across the entire portfolio and in many cases we are also working with them for the first time in a sector, potentially.

And then our role is to kind of look at the deal hypothesis from the point of view. How can management actually get this implemented? Are these the right levers? How is the sequencing of the levers looking like? What could be potential third parties to support with the implementation of things?

Are we having any perceived GPs in the management team that could become an obstacle for implementing things? What resources would we like to bring to play? And then together we're working on the investment thesis. But obviously at the end of the day there is an investment committee that has to look at the deal from the different angles and together we'll come up with a decision on what to do with the company. But we are really a supporting group. It is the deal captains who make the calls together with the investment committee.

[00:06:53] Speaker A: I can imagine that must be hugely beneficial just from a kind of a grounding perspective to know what's realistic. I've got that smart acronym in my mind, specific, measurable, but I think it's attainable or something like that. If you get enthused about a deal, you can maybe run away with yourself. And to have someone to say, hang on, this is going to take a lot longer than you think could be quite helpful. Does that happen or am I not giving enough kudos to the investment guys?

[00:07:22] Speaker B: I think you're not giving enough kudos to the investment professionals because we have a quite experienced team who have done similar deals before and who have a very good assessment of what's actually doable. And in many cases we would have already worked with these individuals before on a past deal. So we tend to be quite well aligned between ourselves. And then very rarely we have these situations where we would completely disagree on things. And then it's ultimately also, it's a kind of managerial decision to go for it or not go for it. And I can't even recall a single deal where there would have been complete differing views on what's actually doable. I think we have a lot of experience in working together.

For example, I'm spending a lot of time in the chemical sector and since 2011 2012 I've been working with one senior partner constantly on different chemical deals. And we know each other quite well. So we have a shared, shared experience. And I think over time we have learned on, okay, if someone says something, you learn what the specifics are that you should be listening to and where to focus on. I think experience matters a lot. I think in this.

[00:08:54] Speaker A: Yeah, if you can develop some rapport with your investment professional partner. That's got to be helpful.

[00:08:59] Speaker B: And the same applies not just for the very senior guys. Because of this strong sector dedication, we have also people on the more junior levels that have repeatedly

-- s got to be one of the largest teams, I would imagine.

[00:09:29] Speaker B: Well, we have built it up over the last 13 years. So basically on average one, one person per year. And I think it is very difficult to actually grow these teams faster than. Much faster than this. We have had a few years when we certainly had some step changes, but say on average one person per year. And that has worked well for us. We tend to have a team with high tenure. We had only one person leave our team in the last 13 years.

[00:10:04] Speaker A: So how do you hire? So obviously you need the geographic component, but do you also look for not just specific, are you looking for specific skills, specific sector expertise, or is it more general business acumen?

[00:10:16] Speaker B: We follow a model whereby the people in our group are generalists. So we're not following a functional model. There is basically two archetypes of how you can do this. One is where people would follow a functional perspective. So you have one expert who does commercial excellence, one expert who does lean, one that is focused on procurement and so forth. But you could also follow a more generalist approach where you say that one person tries to cover the entire value creation plan. And we're in this second camp, with few exceptions. So over the last three, four or five years, we have started to build up more functional expertise, particularly on the HR and digital side of things, where we have people who are working on multiple portfolio companies in parallel, and who are working alongside the generalists on a specific company. But our basic philosophy is that one portfolio support person should be able to handle two in some situation, three portfolio companies in parallel, but then cover the entire value creation plan. And then on an as needed basis we can pull in specialized resources. We call them operations advisors. They are not employees of Advent, but they work on an exclusive basis with us and support the management team on very specific programs. So it could be someone who has very deep it ERP experience, someone who has been a CPO in the past, who has very deep procurement expertise. And we bring these people in if there is a specific need in a portfolio company.

[00:12:09] Speaker A: Can I just ask you about those operational advisors, they are not employees.

[00:12:15] Speaker B: So we have a contractual framework agreement with them and we are on a case by case basis bringing them in. They are not running consulting projects within a company, so they are more mentoring, challenging, supporting the functional owners within the portfolio company.

[00:12:37] Speaker A: So Advent has had this portfolio support group function for quite a while now. But you were one of the early movers. And people in recent years, say, people, your peers, private equity firms have been speaking a lot about this. They've been building out their own teams. You're an early mover, you've come up with this model. To what extent have you been involved in kind of shaping it? I assume when you set up something new, it's very difficult to get it right off the bat. Have you come up with the model that you've just described, or has it evolved?

[00:13:07] Speaker B: When we started this in 2009, that was when we were in this recruiting process, when I was also considering that role, we had a senior partner at Advent who had done a lot of kind of due diligence, due diligencing what other private equity funds have been doing. And he had an initial idea of what portfolio support could be doing. And well, then I was the first hire in Europe.

And basically I just got a very simple framework which was, don't screw up anything in the companies and be helpful, just be helpful. Start with little steps. First, support the management teams on smaller tasks. And then over time, probably in the first one, two years, we developed concept of chief transformation officer, how to define AVCP and how to break it down into initiatives, how to track all of this, finding the right ecosystem to support the management team. So preferred third parties with whom we would be working with. And then gradually over time, it

-- think it has worked nicely for us. But that's the way how advent is doing this with this generalist pool and then a number of functional experts in working across the entire portfolio, in the different sectors that we have for other private equity funds, they may follow a different model that can equally be successful.

[00:15:04] Speaker A: So it's been evolutionary.

Yeah, that's interesting, because advent is known for getting this right, for doing it well, I would say, generally speaking in the market, because there is certainly a theoretical tension between an outfit that historically has just been all about doing deals. I'm not talking about advent, but private equity in general about doing deals and then bringing in this extra component. And so the way you describe it, that you've kind of grown organically, that's probably a good way of doing it.

[00:15:36] Speaker B: Yeah, I think at least I would think that it only goes this way. It has to be an evolution, not a revolution. I don't think it makes. If you have something that is already working nicely and if you have strong sector, dedicated deal teams, then you're looking at, okay, what is a complementary capability that would support the management teams and also the advent colleagues in trying to make this deal even more successful. And that is this transformation value creation capability that we can bring to play. I think what's also important is to have a general attitude that the management is at the center of the value creation and that we are only there to support the management team in being successful in what they are doing. And once you have this basic understanding, then you look at, okay, what can help management be successful? And you think about, okay, it's about the governance, it's how you set up these plans, how you check whether we are on the right track. That's one element. The second element is of course a content element. So commercial excellence, for example, it may be the first or second time that a portfolio company is going through this. But for us at Advent, it may have been the fifth, 10th, 15th case where we're doing this. So it's also bringing past experience into play. And then it could be that there is someone, for example, on a functional level that needs support, needs a mentor, he or she is probably doing the first carve out. There is a lot of experience needed in how you carve out an IT system, how you set up your own ERP and so forth. And then if you have a network of people that you can bring in who have done this before, but who don't want to do it themselves, but rather support someone in being successful doing it. I think then you have the different elements that are required to make this deal hopefully successful besides all the other macro things that need to work out.

[00:17:43] Speaker A: I would imagine then that soft skills are going to be quite important because if the management are leading the charge on this, it's kind of easy for private equity to go in and we're in charge and we're changing management if it doesn't work out. But if you've got to partner with people, they've got to trust you and to some degree like you, I guess.

[00:17:59] Speaker B: Yeah, well this is, I think the whole trick, because on paper, everything sounds relatively straightforward. You think, okay, we're bringing the best of two worlds and bring them to play and we share our. But the reality is much more complicated, actually, and every deal is different.

I'm working a lot in chemicals, so chemicals has been during my consulting time, has been my deep spike, and it's now also at Advent. We have a tremendous flow of chemical deals in the last years, and so I'm repetitively working in that space. But if I look back to the different deals we have done there and that we're still involved with, all these companies are different, even if they are working in the same subsector. You notice that the management teams have totally different approaches and they need a totally different way of handling and interacting. So we have very independent management teams that do not like and rely on external advice so much because they have a doing mentality where they rely a lot on their own teams. And then we have other teams who have maybe a different background, different heritage. They come from parent companies that were used to using a lot of external advice and also rely on them. And so the value creation plans tend to be completely differen --

-- t, not necessarily in terms of the levers, but in the way how they are implemented. And so is also the approach that you need to have visa vis the management teams. I think the most important thing is that you need to establish a trust based relationship, no matter how the setup is in the company.

And you also need to spend a lot of time with the management teams, ideally on site, not just with the C suite, but also with N minus one, N minus two, N minus three, to really understand what the opportunities are within the company. So I tend to work a lot on the governance level, but then also do a lot of deeper dives when I would be working with the individual project teams to understand what's going on.

[00:20:20] Speaker A: When I was thinking of questions to ask you, I kept thinking, well, the only answer to that is it depends because it's all so context specific. So I thought, well, we need to raise it up. And I did think that one of the uniting factors would be that people have just got to trust you and get on with you.

What's the spectrum of engagement that you would have with a portfolio company? So from this company is doing really well, very light touch through to actually things are going a little bit wrong. We need to get involved. Can you give us a.

[00:20:51] Speaker B: As you said, it depends.

I think there is one thing which has to do with how long we are now working together with a portfolio company. So in the beginning, certainly after the closing phase, it's probably the most intense time because everything is new. Very often we have carved out situations. There is a lot of stuff that just needs to be done in the first month.

If it's not a carve out, it's probably the first time that the management team is exposed to private equity owners. So they may not have the experience in working with us. And so there is a lot of time that you spend on talking through, okay, how should we set up the VCP? What are the right levers to address? How should we sequence them? Do we have the right resources in play? So in the beginning, say the first year, actually it's quite intense. It can be two, three days a week. And then over time, when things get more mature, when everything is a little bit more settled, your interactions will be a little bit more punctual. So maybe it's a day a week, then there is a second one, which has to do with, okay, in which situation is the company?

Certainly if there is a bigger acquisition, then there are more hands on deck required in order to integrate that company. So there could be another spike later. As you mentioned, if the company is going through more turbulent times, I don't know, there is a need maybe to look into the cost base. Then you would also probably go deeper and spend more time. It really depends. In an ideal situation, you have everything kind of going smoothly and then you just focus on a few interactions per week. But yeah, it all varies very much. There are times like the current situation, particularly in the chemical space, where a lot of hands are required on deck. So it's certainly intense times. If you have seen this before, you know how to handle this and you know, what's the best way of supporting the management teams.

[00:23:06] Speaker A: If I may just jump back to a couple of specific value levers, as they're called. You mentioned that. So you're mainly generalist, but you are starting to hire a couple of more specialist people. And you said digital and HR. I can kind of imagine why you'd need specific digital people. It's technical and specific and so on. But HR as well. That strikes me as slightly more of a generalist competency.

[00:23:25] Speaker B: I think it's all about people in the end. Yeah, we say the management team is at the center of the Value creation plans, and the management team is a broader definition. It's not just the CEO CFO CIO, but there's also a management development agenda. Underneath. You want to have people in the right people in the right positions underneath, you want to understand whether the organization itself is developing more muscle in terms of people development, bonus systems, retainment ESG agenda is also quite an important element

-- ional muscle on the recruitment side, but also in the management development side.

I think two years ago we started in Europe, what we call the Advent Leadership Academy, where we have a little mini MBA type of program where we bring in talent from the different portfolio companies together, go with them through academic classes, but also give them a better understanding of what private equity is all about, and where we want to identify talented professionals early on and give them exposure to colleagues from other portfolio companies. So that's another example for a program that has been initiated by our HR leadership team.

[00:25:15] Speaker A: So from speaking with various people in the industry, I've kind of noticed a general trend away from if there's a problem, we'll just change. We're just bringing different people towards kind of nurturing or trying to improve or support and mentor existing managers.

[00:25:35] Speaker B: I think every change in the management team is always a disruption. So if the basic hypothesis is in an ideal case, we have already a successful management team, or we support the management team in kind of developing additional muscle, exchanging people is probably the last resort, at least from my point of view, that you should consider. So I'm always proud if we have a management team that doesn't change over time and that together with us is successful in implementing the value creation plans. Actually there is sometimes a tendency to personalize issues that are probably not personal issues in reality. So you have a problem, a challenge in the commercial space and then because of lack of other, say, other reasons that you identified for this not being successful, you think, well, that has to do with the chief sales officer, and then I exchange the chief sales officer and everything will be good again. I think sometimes too easy to go into that solution.

So I think there may be situations where it's unavoidable that you need to, need to make a change, but that should be the last resort.

[00:26:59] Speaker A: I think it's a very blunt instrument, isn't it?

It indicates that you have an action diagram maybe needed.

[00:27:06] Speaker B: There may be situations where a company has fundamentally changed because it's a business that started with a size X and then three years later it's three X because of acquisitions, mergers, and then people may not have the experience of managing a larger organization, or there is a fundamental change in the industry. It's consolidating. It's moving away from, I don't know, a top line driven game to a more cost focused game. And then you may require a different set of leaders. This can happen, sure, but it should be from my point of view, I don't feel good if we have to.

[00:27:47] Speaker A: Change someone, what about bringing in third parties? So presumably there are situations where you diagnose this specific need. What's your criteria for bringing them in and what do you look for?

[00:27:59] Speaker B: I think it's important to first sit down with management and step back into, before we talk about third parties, is to look into, okay, what is the challenge? What do we want to accomplish? What is required in order to accomplish this? And then the first question is, do we have the right resources on board already today in order to deliver this? Then you sit down with management and try to identify who would be the right third parties to support us for this specific challenge. And then we bring in some third party resources that we know from our past that have been successful, but also management may have had already very good experience with somebody else. And then we typically start a beauty contest, whatever you call it, RFP process, and then try to identify who are the right partners for this specific situation. So it's not that we come in and say, no, you have to do this project with consultancy XYZ because we always do it like this. I think that's not a recipe for success because you want to have management accountable and in the driver's seat. So they should be ultimately the ones who make the decision in the end.

-- individuals.

These organizations have become so big.

[00:29:39] Speaker A: Yes.

[00:29:39] Speaker B: And I think also there is the, or should I say the standard deviation, has become bigger of what you actually get. And so ideally, you work with someone who is already trusted by management, whom you trust, too, and you like to see people that you have seen in the past already and who have delivered impact.

[00:30:02] Speaker A: I guess from a private equity firm's perspective, that flexibility allows you to see more people in action. You'll get a greater breadth of understanding.

[00:30:10] Speaker B: Absolutely. I mean, I come from one consultancy, and I always thought that what we were doing was the best thing that could ever happen in a specific space.

But then when you see what all the others have to offer, then you realize that you only knew so little in the past. Yes, and that the space out there is just huge. But it's also tricky to navigate in that space. You need to find the right ones for this specific situation. And one firm that may have worked nicely in one situation may not be the right one in another situation. Just because the context is different, the management team is different, the style of management may be different. So you need to be quite flexible and adaptable to it.

[00:30:53] Speaker A: So the value creation plan, it sounds like the key document is kind of like your North Star. As you travel through this process, you kind of write it, I suppose, at the start of the investment. How often in practical terms, do you actually, or you, the management team, refer to it and refine it and adapt it as it goes along? Or are you just up and running by that point?

[00:31:14] Speaker B: Well, it starts basically with the deal thesis, which is obviously driven by the deal team. The deal team is looking into different investment opportunities. And for every investment opportunity, there's always the question, what do you want to achieve with this company? What are the value creation levers and so forth? And then when you get done involved during due diligence phase, you bring in your own input, your own experience from your past portfolio company situations. And then this evolves to a point where this becomes part of the final investment thesis memorandum, right? But then latest after signing, you also want to look at, okay, what is management's view? So you take your investment thesis, you combine it with the management plan. Already during the due diligence, the management will have presented a five year plan to you with some value creation ideas. And then you try to blend the two.

In many cases, you will find that the things are complementary, that you had an idea in one particular function and management had something else in another function, then they are additive. Sometimes you find that their level of aspiration was maybe lower than what you thought could be doable. And then you need to align it with management. You sit down, basically you go through, okay, this is what we learned during due diligence.

Let's now talk about what we learned in the due diligence, what your plans are. And then we try to combine the two things. And then we have kind of a starting value creation plan. It's kind of the things that we would be doing in the first two years or so. Obviously there are sometimes longer term things that we need to initiate. Like if it's a roll up in a certain sector, you need to already think very early on, okay, what are the different acquisition opportunities? And they may or may not work out, but say on the more homemade things that you can do internally, it's difficult to think more than two years on.

And after two years, it makes sense to just sit back and rethink what is kind of VCP 2.0 and kind of what are the things that we should add. It's very rare that an initial deal hypothesis is still valid

-- ferent cycle, cycle phases of a cycle. So in chemicals, for example, a longer period of challenging times, let's put it this way, right than it used to be a few years back.

[00:34:33] Speaker A: What's causing that, out of interest? I don't know about the chemicals energy.

[00:34:36] Speaker B: It's disruptions in the supply chain.

It's plants that are being taken out by suppliers, by competitors. So there is a quite radical change. I think you see similar things in the pharmaceutical industry. We had a terrible 2022, very challenging because of supply chain disruptions. Products that are coming from China, from India, precursors into pharmaceutical products that have gone through turbulent times. And then 23 is a totally different year. You see that all these things that didn't work so well in 22 all of a sudden are coming into place again, and that you go back from seizing up smaller growth rate into a much higher growth rate just the following year. So you need to be adaptable with your value creation plans.

[00:35:31] Speaker A: Now that we've seen those risks being borne out, are you more alert to them on the way into a company? You're like, this company is too dependent on elongated supply chains. Or have things just opened up more? And that was a one off.

[00:35:45] Speaker B: People have become more critical of what risks you are willing to undertake with a portfolio. You have learned from your past experience. It's like every child, once you put your hand on the hot stove. On the hot stove, yeah. You will probably be more careful next time. And the same thing is here. So if you realize that there could be supply chain disruptions. Just because you are dependent on single source suppliers, you will focus more on, okay, what is dual sourcing, what is the lead time for a certain product? I think this kind of collective experience is important that you have that, and that's also why it's so important to have a team that has experience in what they do. Like I'm now 13 years in my role.

Many of my colleagues are 5678 years, ten years in the same role. So they have already gone through a number of challenging economical situations. So you learn from these things. If you're in a world where everything has gone just into one direction, and all of a sudden you have to look into more challenging time, it's the first time for you, and then you do not have that experience.

And having this experience doesn't only show you, okay, what should I be doing in a specific situation? But it also tells you that, hey, I've gone through this already in the past, it's going to be better a few months from now, potentially, and you just feel a little bit more relaxed about these things. You know, things can go sour, but you also see that things can actually also turn around pretty quickly.

[00:37:27] Speaker A: So in practical terms, that means you're not as likely to overreact to downturns.

[00:37:32] Speaker B: Because it's always difficult, particularly in supply chain. So the tendency that you overreact, you have too little stock, then you overbuy, then once you're not able to supply your customers and six months later, you have an oversupply of raw materials and work in progress materials, and then your inventories will go up big time, and then you have another challenge.

These experiences, I think, matter a lot, and I think that's why it's also important to keep an experienced team and not to have too many changes.

You need to have stability in your portfolio support groups.

[00:38:16] Speaker A: So there's an inverse relationship between the general trading environment and your learning rate.

-- o build up in order to be able to integrate those businesses quickly, because very often your buy and build will be also based on synergies that you can capture from these companies. And then it's important that you can actually realize those synergies and that requires that you integrate them.

There are certainly areas in the tech space that work differently. I can only speak of, say, the industrial part. So it's very important that you develop this capability as a company to be able to take a company, take your own processes and put those processes into that company that you acquired, the whole GNA space, sales and operations planning, production planning and so forth. That is something where I think where we can play an important role to be able to integrate those companies quicker.

[00:40:08] Speaker A: Are those skills diffused across a company, generally speaking, or would you try and create a unit for integration and transformation within the portfolio company, or a bit of both?

[00:40:18] Speaker B: We have some companies that have a more constant flow of stream of acquisitions, that have developed an M A team that has these strong deal capabilities, but who also have developed the capability to integrate those companies. So yes, wherever meaningful, you should have that as a dedicated team within the organization.

But it depends very much on the portfolio company and the value creation plan.

How important are Bolton acquisitions in order to deliver the entire VCP?

[00:40:59] Speaker A: So it depends.

[00:41:01] Speaker B: Yeah, it depends. Again, there is no silver bullet, unfortunately. So I've always tried to. Okay, what are the things that I have learned in this one company, and can I apply them one to one in the next one? It very rarely works.

[00:41:14] Speaker A: Well, at least that means your job can't be taken over by AI.

[00:41:18] Speaker B: I don't think so.

But AI is indeed, it's one of the big disruptors, I think, that we're currently seeing. So how can we optimize GNA processes using AI, which processes, sorry, GNA so general, and admin processes, so back office processes. It is a little bit of a mantra that has been constantly preached, but there is something, it is disruptive, I think I've also had to learn it over the last few months that you can completely change processes by applying AI in an intelligent way. It's interactions with your suppliers, where you have an AI engine that is looking at data and even writing memos that you would send to your suppliers in an automatic fashion that you couldn't just handle in the past. So it's a lot of examples like this. So it's something we need to seriously look into and we are looking into it.

[00:42:21] Speaker A: And presumably there's quite a lot of scope for knowledge sharing as well for something that's so emergent and generally applicable.

[00:42:27] Speaker B: Yeah, that's also why we have built up this digital muscle in the last 24 months, because that is something that is not sector specific. It's a capability that you can easily transfer from one portfolio company to the next one, and where you also need to have enough knowledge, a lot of knowledge to be able to navigate in this ecosystem that is developing of different development firms, software companies and so forth. And that is nothing where I would feel very comfortable with navigating in. Yeah, so you need someone who really knows this stuff.

[00:43:02] Speaker A: So as we move through the lifecycle of a deal and we get towards exit, generally speaking, would the portfolio support group have less and less to do with the deal because you've almost finished your

-- e the company for exit, just spending more time on them, working on an additional new wave of VCP activities. It's the exception, but it happens that we are also involved until we exit the company. But it's few situations. I think the heavy lifting is the first one, two, three years.

[00:44:27] Speaker A: But how do you feel when you say goodbye to a portfolio company, having worked with a bunch of people so.

[00:44:31] Speaker B: Closely for you hope all the best for them, for the future that they continue to be successful. Hopefully we have made a great exit for ourselves, but hopefully, I always hope that it's also a great investment for the next owner. Obviously I want to see that the management team continues, continues to develop and it's not like you sell it and then you forget about it, you're still interested. And also there are some sectors where you meet again, not necessarily because it becomes another deal like a second acquisition. But it could be that you may work with this company as a supplier or as a customer.

[00:45:17] Speaker A: Right.

[00:45:17] Speaker B: So if you're in an industrial space, in chemicals, for example, it can happen that your pass portfolio company may become a supplier of a critical raw material three, four years down the road. So the better your relationship to them, the easier it may become to work with them again. Or it could be that individuals, you meet them again in a different role in a different company. So it's not like fire and forget, it's quite the opposite.

[00:45:47] Speaker A: Yeah. So private equity is essentially, it's an iterative game. And I think that's what people who do not understand or are not involved in private equity. The general public perception of private equity can be very critical. We get it sometimes in our comments section. Yeah, some private equity people are nice, but mainly they just buy, leverage and sell. But what that misses is the integrated nature of business and also the fact that you're not just doing one deal and then you're done. Your reputation spreads across time and across deals and across sectors.

[00:46:20] Speaker B: First of all, very practical things. You can only make a successful exit if that company has a brilliant future ahead, because otherwise, who would be buying that company?

I'm coming from Germany. So we had what we call the locusts debate a few years back, before 25 ish, where even the government was stating at some point that, yeah, private equity will come in and, like, locusts, will fall over the companies and they would leave nothing left behind. It's a complete misperception of what we're trying to do. We're trying to create industry leaders and long term industry leaders and companies that are successful also for the next shareholder. Otherwise no one would be paying the premiums that we hope to get for those businesses. And then your reputation matters a lot in Germany. If you're perceived as someone who treats the management teams and the employees badly, you will have a very hard time in getting your next deal.

So I think it's quite important that you're supporting, you're creating great enterprises and you treat the companies fairly in that process, that you help them become stronger and that also the public perception is as such. But you're always only as good as your last deal, actually.

[00:47:55] Speaker A: Right? Like Hollywood.

[00:47:56] Speaker B: Yeah, it is like that. So the memory is also sometimes a bit short.

[00:48:03] Speaker A: So you've done more than a dozen deals. Do you look back generally and think, this is a very worthwhile enterprise, created value and, yes, absolutely. Good for the world?

[00:48:12] Speaker B: Absolutely. No, definitely. I mean, otherwise I wouldn't feel happy with

-- e introspective as well? And he made the valid point. He says, yes, but portfolio companies don't do it to themselves. It's actually quite difficult to make yourself better. It's easier to make someone else better. Now you slightly separated from the main part of Advent's investment side, and you're always looking at how to improve companies. So just from your perspective, in terms of how private equity firms are run in general, perhaps, do you ever think that could be done better?

[00:49:27] Speaker B: I'm sure we see this every week. There are things where we could think, okay, why are we doing it this way? Why aren't we automating the way we are gathering information from the companies?

There is a lot of things, but I think we have a long history already. I think we were founded 1984 and since then the Advent has gone through tremendous growth, but also I think a lot of institutional learning. So I think we are very conscious about our own internal processes, how we develop people and so forth. And there is always things that you can do better. But I think the general direction has been very clear from at least since I am there. And I think yes, we can improve things, but we should not be trying to make an internal portfolio support group program just on ourselves. We have a number of things on the ESG side. We have done quite a lot. I think we have invested a lot of time and effort into becoming more diverse as an organization. I think we have done a lot of progress. We have made a lot of progress in the last years. So there's always things where you can get better. So complacency is probably the biggest enemy of ourselves. And as long as we are critical with ourselves, as long as we try to improve things, I think it will go well.

[00:50:56] Speaker A: Alejandros, thanks so much for sparing your time for fun Shack. It's been a pleasure speaking with you.

[00:51:00] Speaker B: Well, thank you very much for inviting me.

[00:51:02] Speaker A: You've been listening to the Funshack podcast, which has had more than 100,000 listens, but only about five reviews, and I think I left one of them. I know it's a bit fiddly, but it's easier from your phone, and it's very easy to leave a rating on Apple, for example, make sure you're subscribed, then go to your library, click on fund Shack, scroll almost to the bottom beneath the episodes, and you'll see ratings and reviews. Give us a five. Leave a comment. It's all the payment I ask. Thank you kindly. --