A Culture of Teamwork

An Interview with Anthony de Nicola,
Co-President, Welsh, Carson, Anderson & Stowe (WCAS)

Anthony de Nicola

EDITORS' NOTE *Anthony de Nicola joined WCAS in 1994. Prior to joining WCAS, he worked for four years in the private equity group at William Blair & Company. Previously, de Nicola worked at Goldman Sachs & Co. in the Mergers and Acquisitions Department. He serves on the board of the Partnership for New York City. After graduating from DePauw University in 1986, de Nicola received an M.B.A. from Harvard Business School in 1990.*

FIRM BRIEF *Welsh, Carson, Anderson & Stowe (www.welshcarson.com) focuses its investment activity on two target industries: information/business services and health care. Since its founding in 1979, the firm has organized 15 limited partnerships with a total capital of $20 billion. WCAS's strategy is to partner with outstanding management teams and build value for the firm's investors through a combination of operational improvements, internal growth initiatives, and strategic acquisitions. The firm is currently investing an equity fund, Welsh, Carson, Anderson & Stowe XI, L.P.*

How has this firm evolved and what is its key differentiator today?

A key differentiator for our firm is our focus on our two industry sectors – information/business services and health care – that lend themselves to successful private equity investing.

Historically, our culture has been unique on Wall Street since we focus on identifying, attracting, retaining, and developing outstanding talent within our firm. Our people share in the culture of teamwork, collegiality, collaboration, intellectual honesty, and rigorous debate that we have built.

Our focus on operational improvements to add value to our portfolio companies is yet another differentiator. We have invested significant talent and time over the past five years to build up our resource capabilities to assist our companies with improving their operations and driving successful revenue growth, margin improvement, and improvements in operating efficiencies across the portfolio. Today, we have approximately 25 people who are involved in our internal resources group efforts to add value to our portfolio companies.

Is this time of volatility one of opportunity or a time to reflect?

In the private equity investment world today, there is a tremendous amount of uncertainty from a global perspective and many of our companies' demand drivers are international in scope.

When we look at new investment opportunities, we have to look through the lens of the uncertainty and challenges on the horizon. We try to price in that uncertainty in terms of the valuations and return thresholds we look for when we make new investments.

Our challenge today is that while all that uncertainty is acknowledged by market participants, the valuation environment and capital markets environment have been fairly robust and seem to be heavily discounting the uncertainties around economic and political realities.

Therefore, we have been cautious with how we have deployed capital over the past 18 months. We would rather miss opportunities that we are uncertain about rather than make big bets for companies where there are tremendous risks.

The corollary of not being aggressive on the buy side is that we have been very aggressive on the sell side. Over the past two-plus years, we have sold 12 businesses with total enterprise value of $26 billion and we have returned approximately $4 billion of capital back to our investors, representing a 2.5 times return on investment and about a 20 percent internal rate of return on those investments in our two industry sectors.

Although the environment is always changing, our job as fiduciaries for our investors continues to be identifying what the opportunity set is in the current environment and taking advantage of that.

So rather than be aggressive on the buy side in a high valuation environment where it is more of a seller's market than a buyer's market, we have taken advantage of exit opportunities and become a seller for the benefit of our investors.

Which key characteristics make an investment opportunity exciting?

The most important characteristic is the size of the market opportunity. So we look for businesses that are participating in industry sectors where the growth characteristics and demand drivers are the beneficiary of secular trends – organic opportunities and changes in the environment that are favorable to future growth. We like to participate in those industries, where there are real tailwinds, as opposed to industries where there are constraints on growth and headwinds to companies that are participants in those industries.

We also look for companies within those industry sectors that have the product set, the technical capability, the management capability, and the customer base to be leaders in those industries and ultimately take market share over time from other participants in the industries, and in some cases, to become the eventual consolidators of that industry subsector through acquisitions and buy-and-build strategies.

We have a well-known reputation as good partners with management teams. So we look for management teams that we can provide capital to and partner with at a board level to help them grow their businesses over time. These management teams will be participants and beneficiaries of that increase in value as we collectively own the business and generate returns for the owners of the company.

Are you ever surprised by how close-knit the business community is in New York City with organizations like the Partnership for New York City?

It is a unique asset. The people in New York are exceptionally committed to seeing the city succeed and prosper for all the citizens here.

While the leaders in the city are on both sides of the aisle, they put all of their differences aside to do what is best for the city.

With all the regulation today, is it tougher for entrepreneurs to build businesses and are we still encouraging entrepreneurship?

The regulatory climate is often determined by those who are elected in Washington, D.C., and over the past three or four years, the regulatory burden on businesses has been extraordinary. It is more difficult to be comfortable and confident in investing in growth and in companies because there is a very real regulatory burden that seems to get more onerous every year.

How critical is it for the Mayor of New York to be focused on the needs of business leaders?

The public/private partnership and the relationship between government and business leaders is a critical ingredient to the success of New York City.

It is about creating policy that is attractive for businesses to base themselves and expand here.

We want to be attractive to a variety of industries that could be thinking about relocating to New York City because we want to continue to expand our employer base and provide a diversification in terms of the tax revenues to the city, but also in terms of opportunities for the people in New York City to work. The Partnership for New York City is trying to be a catalyst and advocate in this regard. ●