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Q&A: 3i's Andrew Olinick and Mark Bakker

With technology becoming a transversal value driver in most industry segments, Greg Gille catches up with Andrew Olinick, partner and co-head of 3i's North America business, and Netherlands-based director Mark Bakker to see how the firm navigates the issue

Greg Gille
Editor

Greg Gille: A big theme in the market over recent months has been the increasing convergence between services and software companies, to the point that the line between the two is blurring. Is that something that you see, too, and what are the drivers behind that?
Andrew Olinick: We see a major convergence between software and services. If you think of some of the big tech companies of today, for example Uber or Booking, these are effectively companies that sell a service by using technology. This convergence is driven largely by the availability of technology to everyone, resulting in a "democratisation" of technology, whereby people are increasingly used to it playing a part in everyday life and expect a high-quality user experience for all types of services.

Even if you look at the more traditional industries, the change is palpable. We have invested in a number of testing services businesses, and that industry is also undergoing significant technology enablement. While previously the service providers might have sent clients PDF reports, with no potential for customisation, nowadays clients expect the data to feed into their systems in real time.

It's a two-way convergence, too. Software companies are now selectively adding a service component to better configure their software for an optimal user experience, thereby increasing customer loyalty.

Andrew Olinick, 3i

GG: Looking at origination, does the growing importance of the tech angle play a part in driving up valuations, perhaps for businesses where it might not necessarily be warranted?
AO: To a degree, yes. What is really driving valuations upwards at the moment is the growth component, and that can certainly be driven by technology. A couple of years ago, we felt that mildly tech-enabled companies were even more over-valued than pure tech players – people were looking to avoid tech disruption so much that they really favoured the more defensive angle. But today, the tech angle has to be very legitimate to have a meaningful impact on the value.

Mark Bakker, 3i

GG: What does this mean for your existing portfolio companies? How do you help them navigate this changing landscape if it wasn't part of their model from the start?
Mark Bakker: A good example here is our investment in Basic-Fit, a value-focused fitness chain in the Netherlands. When we invested in 2013, no-one really thought of fitness as having a lot to do with technology, it was more about having the best equipment and becoming more efficient. However, the growing popularity of 24/7 fitness meant that investing in tech-driven security and automation was crucial to increase service and at the same time keep prices low. So you have a seemingly traditional industry, where technology can completely change the value proposition to customers.

AO: The travel sector is another area where we have worked with portfolio companies to unlock value through technology. For example, we turbocharged the tech enablement at I.C.E., a provider of travel-based loyalty solutions that started as a pure people business where travel products were sold over the phone, through the acquisition of SOR, a pure software company. This brought a large boost in digital travel subscription technology that we can now sell to the existing I.C.E. customers.

GG: More generally, do you see this convergence as an opportunity for private equity, rather than a challenge?
AO: We view it as both. The opportunity is to find great companies without the typical tech valuations but with the same scalability, cash-generation margins and growth. The main challenge is that the pace of change can seemingly accelerate over time. Making sure that companies that are not technology-native have the capacity to keep up with the competition really has to be front of mind.

MB: On the opportunity side, being a mid-market firm with an international presence is really paying dividends for us, as it enables us to take a global view from the start. Having a team in the US is crucial, seeing as this is still where much of the technology innovation starts. ■