PE Hub

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PE DEALS

Tech valuations overly inflated, not sustainable, says Bridge Growth Partners' Alok Singh

Longer hold periods can have "negative implications on employee morale, recruitment, and retention at these young companies," Singh said.

PE Hub's Q&A series with high-profile private equity professionals continues here with insights from Alok Singh, founder and CEO of Bridge Growth Partners, a New York PE firm that invests in tech companies. Bridge Growth sold Finalsite, a provider of school website and digital communications tools, to Veritas Capital in December. Singh shared thoughts on the deal and on trends in tech investing.

You were the chairman of Finalsite's board before selling it to Veritas Capital in December. Tell us about how Finalsite grew under Bridge's ownership – and how demand for education technology grew over the last two years.

During our partnership with Finalsite, the company meaningfully expanded its client base and developed one of the most comprehensive digital marketing and communications offerings for both private and public K-12 schools globally. We prioritized driving organic growth initiatives by focusing on expanding Finalsite's addressable market beyond its traditional independent school space into the US public school market, by creating new products for our existing independent school clients, and by introducing new partnerships across the platform. Additionally, given the strength of Finalsite's software platform, we recognized that there was a significant and timely opportunity to scale the business by executing both strategic and complementary acquisitions, successfully acquiring and integrating two acquisitions in the last twelve months of our ownership.

Why was Finalsite ripe for the Veritas sale?

Our objective as a firm is to build strategically relevant and valuable businesses, and during our ownership of Finalsite we were able to successfully accomplish just that. The sale of Finalsite to Veritas allows the company to enter its next chapter of growth. With Veritas' focus, resources, and significant expertise in education technology, we see great things happening for Finalsite in the years to come.

What further growth opportunities lie ahead for Finalsite, in particular, and education technology providers in general?

Finalsite is an innovative company with a strong management team and is an excellent platform for organic and acquisition growth going forward within the K-12 education technology sector. We are excited to watch the company's growth over the coming years.

Furthermore, Bridge Growth will continue to be highly focused on the education sector as a core area to invest. On the heels of Finalsite, we look forward to continuing to support companies focused on education technology and are dedicating significant time and resources to find additional investments in this space. We are excited to watch the company's growth over the coming years. The last 24 months have had a profound impact on the education landscape in the US. The importance and relevance of technology and digital tools within the classroom and for driving student outcomes is now well appreciated.

What other areas of technology will Bridge Growth invest in during 2022?

We are a private equity firm exclusively focused on the technology sector and know that technology adoption and integration is a core requirement to remaining competitive, relevant, and successful in today's fast moving and global economic environment. Significant investments in infrastructure technology will be required to support the digital transformation that is actually accelerating, particularly in data movement, quality, analytics, and protection, in infrastructure scalability, and in cybersecurity. Our existing portfolio is comprised of leaders in several of these spaces.

As a firm we focus on these specific horizontal infrastructure themes as well as specific verticals where technology has a more meaningful or disproportionately positive impact, like in education, communications, and regulated and government sectors. Our deep domain expertise, investment experience, and highly integrated team of investment professionals and senior corporate executives, who have both extensive experience managing major technology enterprises and broad networks of relationships, position us well to invest behind these themes while leading the transformation of the companies we control.

More broadly, what are the exit opportunities in tech these days?
We believe the market is populated with middle market companies that are innovative, agile and can introduce new products and services to the market quicker than larger competitors. This fragmentation in the middle market creates significant opportunities for firms like us to organically and inorganically build highly strategic assets that are attractive for future buyers. As such, after we acquire a company, we seek to optimize the strategic value of our investments by building relationships and partnerships with logical strategic acquirers of our businesses well in advance of an exit.

We are confident that in the world of technology this is a winning strategy that helps to maximize returns to our limited partners and helps to ensure that our portfolio companies and their employees find the right home where everyone can flourish after our ownership period. Since it is our underlying desire to build strategically relevant and valuable businesses, we find ourselves regularly considering capital market exit alternatives that may exist in order deliver value to our investors, portfolio companies and their employees.

What kinds of returns, and valuations can you expect in tech these days?
We have been carefully watching the valuations that have been attributed to technology companies in the last two years, and in our opinion, these have been overly inflated and are not sustainable, particularly for younger, newly established businesses. We believe that many growth equity firms are not sufficiently considering the potential negative effects of financing down rounds or even flat rounds, which can include structural subordination for existing investors and employees, or a delayed exit, which can extend an investment holding period. While this can have obvious negative equity return implications to these investors, this can also have additional negative implications on employee morale, recruitment, and retention at these young companies. At Bridge Growth, we have a seasoned team of investors and operators that have invested in and ran businesses across multiple cycles in their careers, and as a result we remain highly focused on staying disciplined and true to our investment process, approach and style.

What general trends are you seeing in tech investing?
We see different firms taking different approaches to investing within the technology landscape. For us, we think private equity plays a very important and constructive role to help build businesses. At Bridge Growth, we challenge ourselves to focus on specifically defined segments within technology that are consistent with the market opportunities we see, well-aligned with our past experiences, and represent categories where Bridge Growth's extended network of seasoned executives are capable of supporting the development of strategically valuable and relevant businesses.