PE Hub

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PE DEALS

Sellers' expectations were 'out of touch with reality' in 2022

Bridge Growth Partners invested incrementally in existing portfolio companies instead of new platforms, said founder and CEO Alok Singh.

PE Hub's ongoing Q&A series with private equity leaders reflecting on highlights from 2022 and sharing their outlooks for 2023 continues now with Alok Singh, founder and CEO of Bridge Growth Partners. The New York firm backs technology companies, a sector in which valuations have been volatile. Following on the firm's sale of school website specialist Finalsite to Veritas Capital in a deal announced in December 2021, Bridge Growth spent 2022 focused on organic growth for its existing portfolio companies.

Alok Singh, Bridge Growth Partners

What were the highlights of your dealmaking in 2022?

We felt it was wiser for us to focus on investing incrementally in our existing portfolio companies instead of new platforms in 2022. We saw more opportunities to organically grow enterprise value by investing additional capital into our existing companies. In our view this was better and a more secure ROI versus buying into new platforms at prices that were still too inflated. This held true even in the second half of 2022 by when it was obvious that growth and margins would come under increasing pressure.

What was the biggest challenge to completing deals in 2022?

Seller price expectations, in our view, remained out of touch with reality. By mid-2022, investors generally knew that the next several years were going to be more challenged in terms of growth and operating margins, and that the cost of financing was going to be meaningfully higher. Sellers however stayed in the mode that the best strategy was to hold out for the valuation multiples of 2021. As a result, this led to many sale processes being put on hold after the price discovery phase occurred until 2023 or beyond. Probably a fair bit of wasted effort expended by both sellers and their management teams.

How do you expect the first six months of PE dealmaking in 2023 will compare with the last six months of dealmaking in 2022?

We don't expect an uptick in deals – particularly in the upper middle or larger markets, given there is likely not going to be significant access to syndicated debt. We do not expect syndicated lenders to come back strong as they are still being impacted by their recent losses and they need to clear out their inventory associated with financings from 2022. Specialty private lenders are however able to fill the market need for debt financing in the lower and lower middle market. We expect significantly more investment opportunities and activity to take place in these areas as a result. Larger funds will thus be generally challenged to put money to work. Over-equitizing is a possible path that some might take but that has its own implications, especially for returns. In addition, strategics can now play a more active role on the larger side – today's environment presents good opportunity for them versus 2020-21, when they were frequently outbid by financial buyers who aggressively used cheap debt.

What will be the most important trends affecting your dealmaking in 2023?

Our investment approach continues to be predicated on building strategically relevant companies. We continue to look for opportunities where we can help transition and transform technology businesses by deploying our integrated team of experienced operating and investment executives. This business building approach positions us well across market cycles.

What's keeping you up at night?

In the next year, we expect the US economy to be flat and Europe will be more adversely impacted. This is going to result in corporate growth becoming more stymied and customers will increasingly look to buy in smaller bites. Longer sales cycles and smaller bit sizes results in higher cost of selling and less efficient sales motions. Today, B2B companies need to be laser-focused on facing the reality that these challenges will likely persist well into the future. As a result, from a PE point of view, having strong focus is a critical advantage versus having to manage an overly large portfolio of companies where one's team might be spread too thin to deal effectively with all the challenges ahead.

What are you looking forward to most in 2023?

We look forward to finding businesses which we can help build and transform strategically, especially in today's fast changing technology environment. We are particularly excited about all the digital transformation opportunities that lie ahead for us. Major forces of change are at play.

For more in our Q&A series, see our interview with Béla Szigethy and Stewart Kohl, the co-CEOs of The Riverside Company.