Q&A: Why Brookfield Private Equity

The private equity industry rebounded quickly from pandemic-related market disruption amid record levels of dry powder, historically low interest rates and valuation disparities between public and private markets.

Here, Anuj Ranjan, head of Europe and Asia Pacific private equity, discusses what distinguishes Brookfield's approach to private equity investing and where the team is finding opportunities.

Q: What sets Brookfield's private equity business apart?

A: Our private equity business benefits from Brookfield's global presence, owner-operator heritage, and local knowledge and expertise. Our approximately 1,000 investment professionals and 150,000 operating professionals across the globe enable us to closely follow local markets and access proprietary deal flow.

Our investment strategy centers on acquiring high-quality businesses for value, which we can enhance through operational improvements. We often approach the market in a contrarian way, acquiring businesses that could be considered complicated or multifaceted. We then employ our global operating capabilities to enhance the cash flows of those businesses. As a result of our approach, Brookfield's Private Equity group has a 20-year track record of consistently generating strong investment performance.

Q: How has the private equity business held up during the pandemic?

A: We held up quite well. We quickly responded to the lockdowns, taking a hands-on approach to support management teams through the downturn. For the most part, our businesses provide essential products and services, a key tenet of our strategy. As a result, they showed great resilience. We also leveraged our nimble investment approach to act quickly and decisively on certain public market opportunities. When markets declined dramatically in the second quarter of 2020, we invested a significant amount of capital in businesses we had been watching for some time, as a precursor to potential public-to-private transactions in the future.

Established Investment Strategy

Focus on High-Quality Businesses + **Invest on a Value Basis** + **Employ An Operations-Oriented Approach**

While the markets recovered too quickly to pursue those transactions, we generated significant proceeds through our public exposure. This was only possible because our deep knowledge of these businesses allowed us to act quickly and with conviction.

We also put quite a bit of capital to work in private transactions. The pandemic and related lockdowns have affected businesses differently across regions, so we moved our resources and capital to where we identified the best opportunities. Today, we are back to doing what we do best: surfacing value opportunities in an otherwise frothy environment. Using their local contacts, our teams around the world continue to identify opportunities in corporate carve-outs, sponsor exits, partnerships and, in some sectors, public-to-private transactions.

Q: What are the long-term opportunities you are thinking about?

A: We see potential for distress opportunities stemming from the uneven recovery. Government intervention is at an all-time high, with corporate debt at record levels. Earnings are being affected disproportionately across sectors. When looking at opportunities, business quality always matters, regardless of the economic environment. We look for market leadership, durable and defensive business models, mission criticality (i.e., the good or service is important or essential for the end user) and operational leverage. Our long-term investment horizon and access to the Brookfield Ecosystem—our information network derived from our many partnerships around the world—give us the ability to take contrarian views and find the most attractive opportunities.

Q: How are you able to find value when valuations are stretched and dry powder is at record levels?

A: Public market valuations are at an all-time high and record amounts of dry powder are flowing to alternative asset managers, resulting in an expensive market. This means we need to maintain our discipline and capitalize on our competitive advantages, including our global presence, scale and size, and operating capability across sectors.

These advantages provide opportunities for us to transact with very limited competition, if any, and we have the necessary operating expertise to add value post-acquisition.

Q: What sectors and themes define the group's long-term investment focus?

A: We are focused on high-quality businesses—particularly in the industrials, infrastructure services and business services sectors, and we are expanding our reach into healthcare and technology services. Among industrials, we have seen the pace of investment in technology accelerate in order to improve operations and meet customer demand. We are focused on identifying businesses that are resilient post-Covid and are well positioned to withstand inflation and generate a predictable earnings stream. Some large-scale industrial and manufacturing companies are seeking to shed high-quality, non-core assets and reshape themselves into technology companies, creating investment opportunities for us.

Meanwhile, healthcare companies are using technology to measure and improve outcomes and streamline services, and the sector faces strong secular growth drivers. Finally, technology companies are providing tools that help businesses advance. With global information technology spending pegged at $5 trillion-plus and growing, the sector has generated strong organic growth and outsize returns.

Successful execution on these themes requires finding high-quality assets that provide essential services, are resilient with durable cash flows, can be acquired for value, and enable us to take an operations-oriented approach to drive improved profitability. It also means avoiding assets with low barriers to entry, limited pricing power, a research-and-development focus, and regulatory risk. Our consistent, disciplined investing approach is one we employ regardless of geography, sector or economic cycle.

Q: How do you enhance value using operational expertise?

A: Our operations-oriented approach to investing involves asserting influence or control to execute improvements in underlying portfolio companies. We seek to ensure that each portfolio company has a clear, concise business strategy built on its competitive advantages. We develop simple business plans focused on profitability and ensure that portfolio companies operate with sustainable operating and product margins and cash flows. While the opportunity underpinning a particular investment thesis will depend on the circumstances, it generally involves some combination of strategic repositioning, focus on operational excellence and enhanced commercial execution.

Case Study: Our Approach in Action

We acquired a firm in Asia that provides customer management services for large global healthcare and technology clients, representing our first technology services investment.

Customer management services is a $60 billion market, with healthcare and technology segments growing at two times the rate of the overall market.[i] The company has been consistently profitable and it has substantial wallet share, and the management team is capable and experienced. In addition, it’s a high-quality business with attractive commercial terms, including long three- to five-year contracts, no foreign exchange risk, and long-term relationships with 95% retention rates.

We identified an opportunity to help the business grow and drive meaningful operational improvements to increase margins. Since we acquired the company, we have already seen our approach generate value. We redomiciled the business to the U.S., attracted talented professionals to join the team, and landed some additional high-profile clients. We plan to further grow the company through organic growth and market consolidation.

Endnotes

i. As of June 2021. Source: Brookfield Private Equity.

Disclosures