

PE Hub

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FEATURE

Hg's Alan Cline: 'The AI revolution is real'

'We see opportunities for our companies to harness the power of AI for both customer-facing applications and internal productivity opportunities.'

At a time when dealflow is down, there are other things that keep dealmakers busy. Hg focused this year on high-level hirings to strengthen its North American team, and to prime the pump for an anticipated deal heavy-year ahead. Those hires included Alan Cline, the head of North America, partner Farouk Hussein and operating partner Paul Zuber, all of whom joined Hg in 2023. With roots in London, Hg opened its first US office in New York in 2019 and opened its second one in San Francisco in 2022.

As part of PE Hub's ongoing series of Q&As with private equity thought leaders, we turned to Cline for insights on investing in technology, including AI.

Q How would you describe the year 2023 from a dealmaking standpoint?

2023 was a slow year for the North American software market, and, of course, a challenging year for the world more generally. However, the slow market was a real gift as it allowed me, as a new senior leader joining a high performing firm, to take the time to get up to speed culturally and integrated into the existing Hg team. More broadly, given that we take a long-term view towards investing – backing enduring trends in software adoption – we examined the overall environment and decided the best way we could make a difference was by supporting our portfolio, listening to the needs of our clients and being patient with new deployment.



Alan Cline, Hg

This meant helping companies with operational initiatives and bolt-on M&A opportunities, while also providing a strong return of capital to our investors from exits and other liquidity events. We're particularly pleased to have returned around \$2 billion to our clients since the start of 2023, and to average one realization per month over the last two years. This track record, during a challenging market environment, speaks volumes about the resilience and strength of our portfolio.

On a personal note, it was a pretty busy year for me. I dusted off the cobwebs of "semi-retirement" after taking a breather from my previous firm [Vista Equity Partners], where I'd spent 20 years in

the thick of software investing. I'm very grateful to have joined such an incredible firm with growing momentum. We find ourselves in a unique position in the US software market going into 2024.

Q You have been adding senior executive staff for the North America team. What is your plan with these hires?

Our vision for North America is clear: to create a franchise that complements our unique strength in Europe. We have a great team in place today and are seeking to add a few talented leaders next year to achieve this goal.

Over the past three decades, Hg has completed roughly three times the deal activity in software of our closest competitors in Europe. And over two-thirds of Hg's portfolio companies operate across both sides of the Atlantic. This history gives us a big advantage, as scaling software businesses in Europe can be even more challenging than the US given the multitude of languages and cultures across the region.

These transatlantic capabilities are significant – while our competitors might boast a satellite office in London or elsewhere, it pales in comparison to what our over 300 European colleagues can deliver for the benefit of our portfolio companies.

With this leadership position, cultural diversity and expertise, we are uniquely positioned to help our companies in North America grow their European presence,

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while helping European-based businesses grow in the US. So, if any business has ambitions to serve customers on both continents, then we hope to be their go-to investment partner.

Q What is your view of generative AI?

For 20 years, Hg's investment strategy has focused on a global, enduring trend – companies' increasing use of technology to automate their business processes and workflows.

Think about time-consuming and detailed tasks like tax administration, payroll management, staffing allocation, legal agreement management or sharing health data among care providers – technology boosts productivity and helps to manage information and risk more accurately.

AI takes this impact to a whole new level. We see opportunities for our companies to harness the power of AI for both customer-facing applications and internal productivity opportunities – especially in coding, customer support and marketing.

Hg is well positioned to take advantage of these developments. Over the past decade or so, we've assembled a team of in-house experts who are skilled at using data science and AI to boost value creation initiatives in our portfolio, and also within Hg. They have been deploying this lever with tremendous success, which has led us to developing our own proprietary suite of AI tools that we call Retina to make this even more accessible to our portfolio.

These AI-powered SaaS tools essentially distill all our accumulated IP from a decade's worth of data and AI work within our portfolio. They span providing rich, automated business intelligence to our CEOs and boards, boosting lead generation and driving deal sourcing. We believe the AI revolution is real and will have broad-ranging impact in the decades ahead.

Q Which sectors offer the best opportunities for Hg?

That's an easy one, as our strategy for the last two decades has been very focused on B2B vertical application software. We believe this sector has another long run of opportunity ahead of it. Within this focus, in North America we certainly see opportunities across a number of areas, including financial services, healthcare, payroll, vertical ERP, legal and regulatory and compliance areas, and of course, our stalwart segment of tax and accounting. These are the areas where we have had a long and productive history of partnering with dozens of enduring businesses, and we continue to see strong opportunities for Hg across all three of the funds.

Q How do you see the North American market compared with Europe, where Hg is headquartered?

The North American market tends to lead Europe on a variety of fronts, and there is great advantage for our European teams to leverage what we are seeing here. On the deal front, Europe tends to be more

relational, and that cultural DNA typically plays well here in North America. It means we are willing to invest time getting to know founders and CEOs well in advance of a transaction – something beneficial to everyone!

Q What are you most looking forward to in 2024? How is your team preparing for the year ahead?

We're feeling optimistic and are ready for a strong '24. We anticipate more investment opportunities emerging compared to 2023 and are seeing that uptick in activity here in the fourth quarter. To that end, we are focusing our efforts on proactive engagement with the best businesses in our target market segments, in the hopes of demonstrating why we are an ideal partner for them.

We are continuing to make investments in all areas of the business – investment teams, internal operations, our executive chair program and our portfolio teams. Our ultimate goal is to have a strong transatlantic presence, double down on our industry expertise, enhance our leadership centric engagement model (where the CEO, their team and our executive chairs sit at the heart of what we do) and support our companies with a top-tier value creation team.

We are close to where we want to be on this front and believe we will be able to deliver on these objectives during the coming year. We are excited to close out 2023, refresh over the winter holidays and proactively make 2024 a really strong year for the Hg family.