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Lead Left Interview – Rob Morris

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This week we chat with Rob Morris, founder and managing partner of Olympus Partners. Prior to founding Olympus in 1988, Rob held a variety of management positions in various manufacturing and financial services businesses at General Electric Corporation, the last of which was Senior Vice President of GE Investment Corporation, where he managed GE Pension Trust's $1.6 billion private equity portfolio. Olympus manages over $8.5 billion on behalf of corporate pension plans, public retirement systems, university endowment funds, and the executives of Olympus' portfolio companies.

The Lead Left: *Rob, thanks for the time today. First of all, congratulations on your just-completed fundraising. The last time we spoke you didn't think you'd have to leave the building to meet your goal.*

Rob Morris: Thanks, Randy. Well, I did have to leave the building once. But it went well, thanks to our track record and experience. It's not just about having a good IRR. It's about how we handle risk. We have an extremely low loss ratio, less than 3%, in buyouts for the life of our firm.

So first of all, we're good at managing to lower risk. It helps us and our investors sleep well at night. When there's bad news, we communicate with our investors instantly. We don't hide things. Finally, we reward investors who stick with us. We'll try to give them as much as they want in the next fund. We have many investors who are happy and they bring their buddies. We did a chart of our 30 years that showed how each investor connects to the others. It looked like a spider. We never use a placement agent.

The wind is at our back. It's still a no-yield environment. Private equity is a big category and middle market is well-positioned.

TLL: *Do you see a shaking out of the industry over the next five years?*

RM: That's hard to do. There are zombie funds that wither and aren't renewed. There are always people who will stick around. But name recognition doesn't always equate with investor skills. I've been doing this for 35 years. Certainly some firms will shake out over time.

TLL: *Olympus has been around now for thirty years. That's quite an impressive achievement.*

RM: It all starts with being careful about people you bring in. Be sure that they're not legends in their own minds. Everyone helps with the Xeroxing or getting on a plane if you have to. Within reason everyone here takes a common sense approach to working together.

TLL: *What's been the biggest change in your model since you founded Olympus?*

RM: In 1999 we were about 50% new buyouts and 50% late stage growth deals. Then the internet came along in the early 2000's. That brought valuations on multiples of eyeballs or clicks. That game is a casino, in my view. So we began to back away from that type of growth company investment. We whittled that share down to below 5% of the overall portfolio. That was a huge shift for us, due to market circumstances.

TLL: *What about industries you like? I know they include business services, logistics and healthcare.*

RM: Healthcare is interesting given demographic trends. Are we headed to a single-payer system? Not today but that could change over the next three years. Business services will become more important. As things change in China, you could see an increase in US manufacturing.

TLL: *Within healthcare what sectors do you like?*

RM: We have experience with staffing companies – there's no reimbursement risk. Contract manufacturing as well – you have some influence over OEM customers. Orthopedic, respiratory, and ophthalmology therapeutics are growing. The vaccine space will be interesting over time. Cures for diseases such as ebola and H1N1 might be addressed via vaccines.

In antibiotics, as resistance to tetracycline, penicillin, etc. has risen the use of agents available to combat MRSA [methicillin-resistant Staphylococcus aureus] infections has declined. There will be new ways to address these issues, with new antibiotics. We won't focus on R&D, but on production and delivery. Biologics as well.

Contact: Rob Morris
MorrisRS@OlympusPartners.com