Lead Left Interview – Rob Morris (Part 2)

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This week we continue our conversation 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. *Second of two parts – View part one.*

TLL: *Where's the trade right now on financial service companies?*

Rob Morris: They've been 15-20% of our portfolio investments historically. We've taken advantage of macro events (e.g. 9/11 or Katrina) with micro approaches. Our investment in Churchill, for example, back in 2008 when we infused new capital to support your firm. Or our investment in Neptune Finance when we raised their CLO capacity with equity and took advantage of crushed senior debt prices.

Sometimes you confront market fear and loathing, buying debt in good credits, then watch as the valuations went from deep discounts to par. Our investment in Eldorado when we bought that $1 billion of California bank's assets and sold later to Zion's. Or a series of bank roll-ups in Oklahoma.

We take advantage of regulations where we can. Banks were "too big to fail," but have only gotten bigger. There may be forced divestitures down the road. Given all the news on Bitcoin and Ripple, there will be companies that can better secure your financial information. Same as in the 1990's with businesses like Entrust that created PKI [public key infrastructure] security for healthcare and banks.

TLL: *Rob, what's your view on cyclicals? Where are we in the business cycle?*

RM: (laughs). We're closer to the end than we were yesterday. Psychology can certainly drive prices down and create credit issues. A roofing company we're looking at is strong in one urban area. But does it translate outside its geography? A key focus is making sure financing is available to support customers during the next downturn. Remember, housing was doing OK in 2008 until the banks went down. When home equity lines went away, home values fell. You have to build into your downside case a proxy for 2008-09. Roofing revenues may not drop that much, but you have to look at the margins as well.

TLL: *Rob, you started Olympus back in 1988, but I'm curious how you got into all this?*

RM: I was a GE finance guy. I went from business to business, kind of a watchdog type. I was in motors, synthetic diamonds, and plastics. I was also in GECC's in-house real estate business.

One day in the early '80's I got a call from the head of GE's $30 billion pension fund. They owned a building that housed the Hartford Courant. He wanted help on some tax issues. I was called into his office. He had a giant half-moon shaped desk. No chairs. I gave him the answer, then added, "…or you could make more money." I then told him about available rehab tax credits I had uncovered.

Five months later he called and asked me to start a private placements business. It was a two-level jump so I said fine. I was the head of private placements. Still didn't know what it meant. I started talking around to figure out who the best guys in the business were. One of them was Teddy Forstmann.

We started to do mezzanine and private equity, about 90% direct and the rest were partnerships. Then we started in the EU and UK, investing with firms such as Electra and Candover. Travelers and Prudential were also a part of that effort.

In the late '80's the direction corporate finance was headed made we wonder whether I wanted to hang out at GE and try for Jack Welch's job. I was told the only other guy at my age (32) and level was Immelt. But I didn't want to rotate geographies again. I was approached by Odyssey Partners, a NYC hedge fund, who said they would back me. They put in capital to help raise LP money. I was able to combine both Odyssey's track record and mine.

But we had bad luck on timing. We started fundraising three weeks before the RJR deal. The market fell away for anything called private equity. So I renamed it a "private placement" fund using "equity-linked securities." We generally swapped return for coupon. Then after Drexel's meltdown there was a psychological switch in the markets. We changed to all equity all the time. That's the story.

TLL: *You've also managed to put in place what looks like a seamless succession plan at Olympus.*

RM: We try to give talented people a path to do well. Even the non-partners. When there's a major exit, like our $500 million gain on the Rite Dose sale, we gave all the non-partners a check. We couldn't have done it without them. Everyone benefits with pieces of equity. The worst thing you can do is horde stuff.

TLL: *And you've elevated Jim [Conroy] and Lou [Mischianti] to the managing partner level.*

RM: When I was 54, the board and I realized there would be a time when I was less immortal. If Rob gets hit by the proverbial bus or truck, investors care that the firm is run by people who know our style and have recognized skill sets. We also encourage our junior folks to sit in on investor meetings. I want them to see the kind of interaction we have with our investors, the kind of questions we have to address.

TLL: *Where do you see Olympus in ten years?*

RM: [laughs]. We'll all have gray beards. It'll be the same style, both opportunistic and ethical. There will be very interesting trends to watch. Water, for example, is geographically mismatched where you need it vs. where it is. We need to know how to handle our resources better.

Also there will be opportunities in insurance. For example, with driverless autos – who's liable? Is the manufacturer responsible? Do you sue the highway department? The company that makes the striping?

TLL: *Last question, Rob. What's been your biggest surprise?*

RM: The continued belief that regulations solve all evils on behalf of all parties.

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