TechCrunch

Extra Crunch

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Want to crush competitors? Forget SoftBank, Blackstone suggests; it can write $500 million checks, too

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Back in January, Blackstone — the investment firm whose assets under management surpassed a jaw-dropping half a trillion dollars earlier this year — quietly began piecing together a new, growth equity platform called Blackstone Growth, or BXG. Step one was hiring away Jon Korngold from General Atlantic, where he'd spent the previous 18 years, including as a managing director and a member of its management committee.

Step two has been for Korngold, who is responsible for running the new program, to build a team, which he has been doing throughout the year, bringing in "people who speak the language of Blackstone," he says, including from TCV, Andreessen Horowitz, Carlyle, Vista Private Equity, NEA, and SoftBank.

Apparently, the group is now ready for business. It has already closed on two deals from existing pools of capital within Blackstone, including acquiring outright the mobile ad company Vungle. According to Korngold, two more term sheets "are being signed imminently."

We talked with him last week for more information about what the group is shopping for, what size checks it is willing to write, and which firms it views as its biggest rivals for deals (and more). Our chat has been edited for length and clarity.

TC: You've been hiring throughout the year people who have large-scale growth equity backgrounds. Are many of them women?

JK: Blackstone is one of the most diverse organizations [in terms of] gender or ethnicity. In general, it's a huge priority for the firm and within our group of 20 people, 40 percent are female, a number we hope to get to 50 percent. Hiring is still in process, but it's a really healthy culture.

TC: How many people does Blackstone employ altogether?

JK: There are 2,600 altogether across 24 offices.

TC: Is your group investing a discreet pool of capital?

JK: At some point, we'll have a dedicated pool of capital, but as a firm, we've been investing in growth equity for some time [so have relied on other funds within Blackstone to date].

TC: There's no shortage of growth equity in the world right now. What is Blackstone building that's so different?

JK: The sheer scale of the operation is different. We have nearly 100 operating professionals — employees of Blackstone — who were hired because they are functional experts — from pricing experts to process engineering experts to human capital and procurement and digital marketing experts — and who can advise our companies.

Also, Blackstone can holistically assist a company through [our] growth equity and real estate and procurement and debt [groups] and other related infrastructure support, enabling companies to fight way above their weight class. We have 600,000 people across our portfolio, and that provides an interesting opportunity for our companies to cross pollinate [and to cross-sell to] one another.

Unlike most growth equity firms, we also have a significant number of data scientists who do three things: identify proprietary signals across asset classes to help instruct where we should be hunting; help our companies monetize their data; and help us in our diligence. They'll access raw data feeds and almost see the matrix, if you will.

TC: How many data scientists are we talking about?

JK: A couple dozen [across Blackstone].

TC: Blackstone must be competing against fast-growing tech companies for data scientists. How do you convince them that work for an investing giant is the better gig?

JK: If you're an intellectually curious individual, there are so many signals [coming through Blackstone] that it's almost a proxy for the world. It's like manna from heaven. It's not like they're doing a single-threaded approach. The nature of the challenges across our companies is so vast and so varying that whether you're looking at a fast-growing retailer or a cell phone tower in another country, the nature of the tasks is always changing.

TC: SoftBank seems to have shaken things up a bit when it came on to the scene, given the size of checks it is writing. Your boss, Steven Schwarzman, who recently talked with us about this bigger new push into growth equity, made sure to note that there are few organizations that can write $500 million checks.

JK: [Laughs.] Everyone in Silicon Valley wants to talk about SoftBank. We celebrate a lot of what SoftBank has done. They've validated the thesis that there's an opportunity for growth equity on a scale that hasn't traditionally been available.

It's similar to the way we're set up. SoftBank was never meant to compete with the venture community; they're competing with the capital markets, and as private companies look to stay private longer market, SoftBank wants to support their development.

TC: And . . .

JK: I think the reality is that a lot of businesses have unproven business models and unit economics, and they're garnering massive amounts of capital from different constituents. It's less about who is staying private longer but are they sustainable over the long run, whether public or private. I think a lot of companies right now that have unproven business models have been flooded by cash at too small a scale where they aren't ready to handle it, and it masks weaknesses.

TC: Where is that most acute, in your view?

JK: I see that at the smaller growth equity phase — the $25 million to $150 million [per firm per check] range — where most growth equity resides because you have every VC firm there now. Many of the growth funds that have moved downstream. You also have crossover funds like DST and Coatue and Tiger, along with corporate venture capital. That huge flood of capital has created these massive valuations and it has compressed the due diligence involved.

If you look at Lyft and Uber — and Snap was in this category — the market is starting to speak. Public market shareholders are willing to give you the benefit of the doubt for a while but not indefinitely. You can't feed the machine for growth's sake.

TC: So what type of deals are you searching out?

JK: We won't step into a situation where unit economics aren't proven from day one. You won't see us in a company that's selling $1 for 80 cents and hoping someday that works. We're inherently more binary in profile. We're capital-preservation minded while looking for asymmetric upside, and that's where we have a disproportionate advantage. You'll see us do deals where we can put our thumb on the scale, because of our real estate holdings or buyout assets or because [search across our] portfolio for help with procurement costs or insurance or R&D or a company's go-to-market strategy.

TC: What have you done that proves all these bells and whistles make a difference?

JK: We have a couple of signed deals, including [the mobile ad company] Vungle [for a reported $750 million-ish], though we're more often looking for growth-equity minority ownership positions. [Think] companies that are looking for a partner and not an owner. We'll do growth buyouts but the vast majority will be significant minority positions.

We have a couple of other deals that will be signed imminently that we can't discuss just yet.

TC: Are you hoping to take these companies public? Flip them to another private equity firm? Relatedly, do you have any thoughts about the public market and whether more companies should be going out?

JK: We'll only look to an IPO if there's a reason for it. Oftentimes, companies shouldn't be public; sometimes, they should be, including if they need an acquisition currency or [to better establish their] branding. But the idea of, let's rush to the door [is not our style].

TC: Who are your most direct competitors? Not Vista Private Equity, since it seems to prefer buying companies whole.

JK: Vista is going exclusively for control buyouts, massive turnarounds. It descends upon a company and says, 'This is the playbook you will follow.' It also uses a lot of leverage, where the vast majority or our [deals] are un-levered. We don't use much debt. Vista and Silver Lake are much more competitors with each other.

TC: KKR then? Carlyle?

JK: They're also multi-asset managers, but as it relates to growth equity, we've really found ourselves in slightly more rarefied air. Blackstone has demonstrated that it can use its scale to create an operational advantage, and virtually no other company — or few — can contemplate checks like we can.

TC: What do you want for these checks, other than a minority position? How involved are you and what size stake, exactly, are you aiming to buy?

JK: We want to have a relevant voice, so we want to be in the boardroom, but there is no target range. It can be 10 or 20 or 30 percent. It can be 80 percent. Ideally you want to be the main outside pool of capital along with management team.