

Five Questions with Ajay Shah, Founding Managing Director, Silver Lake Sumeru

By Ari Nathanson
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(Buyouts)

Didier Bench earlier this month was hired as an adviser to Silver Lake's \$1.1 billion mid-market fund Silver Lake Sumeru. What was the strategic motivation behind the move?

Didier used to be CEO of Cartesis and iMediation, and was involved in developing and selling both those companies. He ran the European operations for Netscape, and spent a few years as senior partner with CDP [Technology Ventures] running their European operations. We've been focused on Europe before now, but Didier gives us a stronger presence.

What do you see today as the most promising area in technology investing for LBO purposes?

Just surveying the landscape; many, many companies—particularly semiconductor and components companies—are seeing revenue down 30 to 40 percent on a year-over-year basis. That has a significant impact from a scale standpoint. So I think there's a really interesting opportunity right now in driving scale through consolidation.

Given the stalled credit markets, what are you doing to stay viable in the hunt for new deals?

Stalled credit markets are obviously relevant to our business, but not all of our deals include leverage. We're looking at some situations where it's essentially a restructuring and turnaround play. Even if bank debt was available, we would use very little of it, or we wouldn't use it at all because you can't always be certain how a turnaround will map out. Also, values are better today. Where it used to be that the average EBITDA multiple in 2007 was close to 10X or 11X, and much of 2008 was in the same neighborhood, today multiples have gone down by 3X or 4X for those same businesses.

What areas in your portfolio are feeling the impact of the economic downturn the most?

Consumer-facing businesses dependent on discretionary spending are seeing the most impact without question. For example, I think the average consumer electronics company is seeing revenue decline year-over-year at greater than 30 percent. From an inventory standpoint, that's sort of pushing back all the way through the semiconductor industry, which, as I was saying, is seeing revenue slowdowns of 30 to 40 percent. And if you look behind that, there's the semiconductor capital equipment space, and that's really feeling the impact.

You personally have been involved in tech investing for decades. If you weren't a managing director at Silver Lake, what would you be doing today?

At various times, at various parts of many days, I do find myself thinking, "My god, there must be something more fun to be doing right now." But, I seriously don't have a good answer for you. Silver Lake is a fascinating place where we can extract macro views of what's going on in the market, and participate in it. That doesn't mean you necessarily like what you see. But we're able to extract ourselves a little bit from the day-to-day pain that many are going through right now, and draw some bigger pictures.