

REPORTING FROM PE LAND



Bob Morse

Investment is hot. Data centres are hot. The whole economy surrounding data centres is boiling hot. And it is in the surroundings of the data centre where a lot of capital intensive PE funding rounds are being made to scale up businesses ahead of huge market demand. João Marques Lima finds out more.

With IT M&A activity achieving a new peak of \$22.6bn in 2017, the data centre world is seeing a new surge of investments around the businesses that help run facilities and support customers' migrations from one cloud to another, be it private or public.

"There is a lot of data centre capacity coming on line... what's going to fill it up?", asks Bob Morse, Managing Partner and Co-Founder of Austin-based private equity firm Strattam Capital.

"What I can report from my perspective within Private equity is that there is an enormous amount interest in helping companies outsource more of their compute for data-intensive applications or complex data problems, or industries with compliance and security hurdles like logistics, retail or education.

"There is a host of businesses that are helping to migrate that data into the public and private clouds. This wave of technology enablers are really cultivating that ecosystem of the SaaS companies.

"This is a trend that will grow everywhere."

Morse continues to 'report' that the growth in the SaaS market and that customer base will continue to be very strong in the years to come.

"A strong sub-trend which is hosting applications. We are just at the beginning of that trend, and that is something to look at and see whether that becomes more mainstream over

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the next few years, because I think it's still early," says Morse whose investment focus has shifted more to "providers that add value via managing the applications that are running in data centres" over the last few years.

BUILDING LEADERS IN MARKET NICHES

Building on those trends, Strattam, which Bob Morse co-founded in 2013 with Partner Adrian Polak, has been helping companies in the application space scale their businesses.

The company has, according to media reports, raised \$101m in September 2017, after securing \$157m the year before.

"Strattam is wholly focused on the business IT market, with our current investment themes centered around tech-enabled services, digital infrastructure and SaaS businesses with compelling data stories," Morse explains.

"We are typically investing \$25m to \$50m per company and these are either established businesses, around 100 to 200 people and have grown organically since inception. All our transactions have been with founders, so that's really been our speciality.

"We look for companies with really good products and loyal customers, but are facing challenges to achieving the next level of growth: developing a broad sales and marketing program, establishing a modern marketing message and program, M&A, or attracting the right talent. We have a group of operating people that work with us that are very hands on at certain points, that help recruit team members, and have a voice in the companies' growth plans..

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Strattam's typical investment period averages three to five years.

Its current portfolio consists of some of the software firms, including Blacksmith Applications, SSB Data, and Trax Technologies, as well as application hosting provider Contegix.

Morse says, "For us, establishing a dialogue between smaller, promising companies and the very large cap companies is important early on; they frequently haven't had that connectivity and may not have wanted to reach out for fear that they may be looking like they're for sale."