GPI CAPITAL: LEVERAGING DEEP DOMAIN EXPERTISE AND INVESTMENT STRUCTURING TO DRIVE ALPHA

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As Managing Partner of GPI Capital, a New York-based alternative investment firm, Khai Ha understands the importance of due diligence and research. But for Ha, whose fascination with the financial markets dates back to his childhood, the road to entrepreneurship came with its share of twists and turns.

GPI focuses on providing strategic, non-control capital to growth companies, specifically technology, consumer and industrial businesses. The firm takes a risk-adjusted return approach and tailors every investment to the specific needs of founders and management teams. GPI takes an active role in and outside of the boardroom to drive value creation in its portfolio companies. To do so, GPI leverages deep knowledge of its target sectors, including competitive dynamics and industry best practices, and a robust support network that includes other strategic partners, advisors and vendors who can all be harnessed to support the growth plans of its portfolio companies. To date, Ha and his team have deployed nearly $1 billion from GPI's 2017 inaugural fund, including co-investment, across ten marquee companies.

Among the firm's high-profile investments was the last round of financing for food delivery services company, Postmates, in the Fall of 2019. GPI assisted the company in its sales and marketing strategy after making its investment and helped position the company for either a sale or IPO. Ultimately, an exit was realized when Uber acquired the company in December 2020 for $2.65 billion, just 15 months after GPI made its investment. "We take a pretty technology-centric approach and a product-centric approach to how we understand a business," Ha explains. "So we love investing in businesses with great potential, but we try to value what's actually realizable and the role we can play in achieving that."

Another investment, Couchbase Inc. (Nasdaq: BASE), is a cloud database software provider that GPI helped take public after leading the company's last financing round in the Spring of 2020. GPI's business development efforts and advanced industry work in the database market allowed the firm to close on the investment during the COVID-19 market correction. "That was a tough market environment, but we had the conviction to back Couchbase. We take a proactive sourcing approach and assess the leading players across many markets. We have a deep benchmarking of what is great performance, what is good performance and what is not great," Ha explains. "It allows us to exercise discipline with our investment decisions, and then it allows us to map the go forwards."

ENTREPRENEURIAL GRIT & NATURALLY DIVERSE

Ha started working with his other two founding partners, William Royan and Alex Migon, at Ontario Teachers' Pension Plan where they invested and managed a direct growth equity portfolio. Ha and Migon have been friends since college and shared a common bond. "Our families escaped the communist regimes of Vietnam and Poland to arrive in Canada, and we ended up in the same finance program, and have been working together since," Ha recounts. "Knowing where we came from, we make the most of every situation through our strong work ethic and tenacity to succeed." The team successfully led the scaling of their Ontario Teachers' portfolio from approximately $2 billion to more than $10 billion, including investments and returns, which eventually led to them departing to found GPI.

Those early years of starting a business always come with a fair share of challenges – and GPI was no exception. “We knew we had a repeatable and differentiated growth equity strategy. But the crux of the challenge is in telling the story, understanding the unique attributes of each LP and building the marketing muscle – something we didn’t need to do at our prior firm,” Ha recalls. To surmount this challenge, the team recruited Philip Lo to scale GPI’s capital-raising efforts. Lo, who currently serves on NAIC’s Board of Directors, was previously a founding team member of Siris Capital, where he transitioned from the investment team to leading the firm’s fundraising efforts. And true to GPI’s roots in embracing entrepreneurial grit and diversity, Lo was born and raised in Ghana and arrived in the States for the first time to pursue higher education. He is also a first-generation college graduate in his family.

PARTNERING WITH FOUNDERS

GPI is rigorously disciplined about partnering with founders who are much more focused on the longer-term prospects of their companies as opposed to simply raising large financing rounds at lofty valuations. A large majority of GPI’s portfolio investments are founder-led management teams who are deliberate about inviting the right value-add investors onto their cap tables and boards. These companies are typically category-leaders with proven business models and robust financial performance giving them the privilege of choosing their investors and setting valuations.

GPI has been able to prove time and again its value-add to these founders, positioning the firm to lead financing rounds after conducting thorough buyout-like diligence and driving favorable entry valuations with carefully customized investment structures. A testament to the close and rewarding partnership between GPI and its portfolio company executives is the fact that several founders have joined GPI as advisory partners after the investments involving their companies were realized.

Hopper, another GPI portfolio company that bills itself as the world’s fastest-growing mobile-first travel marketplace, illustrates GPI’s founder-focused approach. GPI invested in the Canada-based app when the travel industry was reeling during the COVID-19 pandemic. “When we mapped and analyzed the tech-enabled travel market in 2020 and into the first half of 2021, we found one business that grew over 100%. How do you do that when bookings are down 75% across the industry?” Ha recalled. Ha proceeded to develop a relationship with Hopper’s founder and GPI subsequently led the company’s financing round in the Fall of 2021. Hopper’s revolutionary consumer FinTech products had allowed the company to scale rapidly in a largely commoditized travel marketplace industry during an extremely challenging macro environment. GPI helped catalyze the company’s growth during the challenging period.

DELIVERING DPI

With nine of ten portfolio companies in its current fund having had partial or full realizations, GPI has delivered a healthy dose of DPI back to its LPs in a relatively short five-year period. Approximately 55% of the firm’s portfolio is invested in profitable growth–scaled businesses that have achieved operational leverage and generate positive cash flows.

Another example of a profitable growth company that GPI backed is SoFi, an online personal finance and fintech infrastructure company that has its name on the LA Rams and LA Chargers’ stadium. “SoFi started off with student loans and currently has credit cards, wealth management and a full-on digital bank that got approved earlier this year,” Ha explains. “The company is already profitable with seven consecutive quarters of positive EBITDA, having tripled revenues since Q1 2020, and has a top-tier executive team.”

DOWNSIDE PROTECTION WHILE DELIVERING ON GROWTH EQUITY

While inflation and other economic conditions may be a cause for concern, GPI takes a disciplined, all-weather approach to its strategy, looking to drive consistency of returns and outcomes through all parts of the cycle. “We’ve always been conscious of valuation multiples and try to structure and ensure our downside is protected while generating incremental sources of return that are less tied to the macro environment,” Ha explains. “We can dial up or down our level of structuring in the context of an investment opportunity and market cycle to deliver alpha and consistency across market cycles.”

In the meantime, the GPI leadership team is eyeing growth. “We have done this before – growing our investment strategy to $10 billion-plus for our former firm,” says Ha. “We still have significant growth ahead in our business and will scale in a disciplined manner. We are always getting better, and we are going to keep our heads down and focus on execution. This challenging market environment in 2022 and likely 2023 is an opportune time for us to exercise our structuring expertise and access really attractive investment opportunities.”