THE VISTRIA GROUP: A NEW APPROACH TO DOING WELL BY DOING GOOD

The Largest Network of Diverse- Owned Private Equity Firms and Hedge Funds

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CELEBRATING FIFTY YEARS OF ADVOCACY & PERFORMANCE

"Doing well by doing good" is an old adage that management at The Vistria Group takes so seriously, they built their investment thesis around it. A Chicago-based private equity firm investing in U.S.-based middle-market companies in healthcare, education, and financial services, Vistria seeks to generate superior returns while empowering businesses that help build a stronger society.

Vistria was founded in 2013 by Co-CEOs Martin Nesbitt and Kip Kirkpatrick and now has more than $3 billion in AUM and 21 companies in its portfolio. The firm invests at the intersection of the public and private sectors, where it can leverage private capital to contribute solutions to public sector challenges.

The firm's investment thesis is that businesses serving all stakeholders – customers, employees, communities, investors and society as a whole – experience less volatility and are inherently worth more. "We don't think the marketplace is recognizing this value proposition appropriately, and that's our thesis," explains Nesbitt. "We looked at the landscape and figured out what industries have the greatest opportunities, and we came up with healthcare, education and financial services – healthy, wealthy, and wise. Those are the cornerstones of any strong society." Vistria's diverse team of investors, operators, entrepreneurs and policy experts allow the team to create meaningful value for all stakeholders, driving returns and a broader impact.

Though the firm's investment strategy may align with impact investing – which often carries a stigma of lagging returns – Nesbitt emphatically ensures that the firm's emphasis is on performance. "We think of ourselves as investing at the intersection of the public and private sectors in those three industries," he explains. "Now, if other people interpret it through a social investing lens, that's fine with us, but we don't market it that way."

AN OLD-SCHOOL BOUT

An entrepreneur at heart, Nesbitt built a career in institutional investing in real estate and had a few stints in the policy world. Along with billionaire Penny Pritzker, Nesbitt conceptualized and co-founded TPS Parking (also known as The Parking Spot), an owner and operator of off-airport parking facilities, also serving as President and CEO from 1998 to 2012. It was shortly after this time when Nesbitt was looking at transitioning into private equity that he would meet his future business partner.

Nesbitt was introduced to now Co-CEO Kip Kirkpatrick, back in the early 2000s when Kirkpatrick, a former Northwestern basketball player, was considering a career in politics. "We were introduced by Craig Robinson, Michelle Obama's brother, who was a coach at Northwestern," Nesbitt recalls. "He introduced us because he thought we could collaborate and help each other out." That introduction led to a dialog around private equity and finally the decision to launch a firm together.

As many founders can attest, building a firm while raising capital for Fund I rarely goes exactly according to plan, and for the then-fledgling Vistria, it was no exception. "The challenges of raising capital, putting together a cohesive team, building a differentiated strategy and platform are all challenges that we thought would be hard, but it was harder than I expected," Nesbitt recalls. "It's like you're in one of those early 1900s heavyweight fights that have no end until somebody gets knocked out. You just keep plugging it out. That's what it's like to build a business."

EDUCATIONAL EXIT

As the firm has matured, Vistria has been able to prove its thesis with a few successful exits. Penn Foster, an online high school completion program, was one such case. Penn Foster was founded in the late 1800s as a correspondence school by mail, operating mainly under the name International Correspondence Schools (ICS). This was a business that tied directly into Vistria's thesis. "Giving the under-educated ways to advance their livelihood is a huge contribution to society," Nesbitt points out. Vistria acquired a majority interest in the company in 2014 and immediately began working to add value to the investment. The first step was bringing the company's technological capabilities up to date.

Though Penn Foster was technically an online educator prior to Vistria's investment, it was mainly done by way of static, non-engaging PDF files. The Vistria team invested significantly in the company to create a more immersive, highly-interactive learning experience that fully leveraged cutting-edge technology and teaching methods. Vistria also helped source new clients, restructured the organization to provide more focus and accountability, hired and successfully onboarded top talent, recruited an experienced board, and expanded Penn Foster's offerings to include certifications for such specialties as veterinary care, among others.

The result was a 60% rise in Penn Foster's EBITDA and its transformation into a provider of innovative digital and blended learning programs. When Vistria decided to pursue an exit nearly four years later, an investor group led by Bain Capital came to the table. "We knew they had an interest because the CEO of Penn Foster had a prior relationship with Bain," Nesbitt recalls. "But it was kind of a mutual thing. We were going to market and they expressed interest in the business simultaneously." Vistria tripled its money with the sale of Penn Foster.

Successes such as the Penn Foster deal helped propel Vistria to more than $3 billion in AUM. In fact, Vistria raised its first billion-dollar fund when Fund III closed early this year at an oversubscribed $1.11 billion – substantially surpassing its target of $800 million. And as a focus on responsible, meaningful investment grows in today's environment, Vistria's strategy is resonating with LPs.

Consumers too are increasingly taking up social agendas, becoming more aware and adjusting spending habits accordingly. Businesses that are seen as 'doing the right thing' are more attractive as a result. "As social value becomes more important to consumers, they will buy the products and services of companies that create that social value," says Nesbitt. "We don't think there's a conflict between having an impact and creating alpha returns. We think they are complementary."