When deals dry up: Warburg Pincus executive James Neary ‘92 talks to Kellogg students about the challenges in the private equity industry

By Matt Golosinski

12/7/2009 - Fewer and tougher deals. That’s how a leading private equity expert described the road ahead for his industry during a Dec. 2 lecture at the Kellogg School.

Negotiating transactions will be much more complicated — “like pulling teeth,” said James Neary ‘92 — with firms more often resigned to being minority investors in deals for 20 or 30 percent of a company. And even getting that done could take two or three years, he added.

“We’re not going to repeat 2006, 2007 anytime soon,” said Neary, a managing director at Warburg Pincus, referring to the record spike in transaction values that resulted in deals totaling more than $1.3 trillion for that period. “Over the next several years, ours is not going to be a growing industry. Most likely we will contract. Firms that used to hire 12 people will now hire four.”

But Neary, a media, technology and telecommunications specialist who joined Warburg in 2000, said there are still opportunities for those who want to launch a career in alternative investments. They just have to be prepared to look beyond the top 10 elite firms. With more than 2,000 private equity companies worldwide and more than 1,000 in the United States, Neary said candidates have reason for optimism — if they can position themselves as formidable experts with deep industry knowledge and a passion for investing.

Of course they also must deliver results.

The bottom line is still the bottom line, Neary said: “Private equity is a meritocracy. Performance is all that really matters.”

During his talk, which was sponsored by the Heizer Center for Private Equity and Venture Capital, Neary traced his professional career, telling students that he intended to leave banking after the 1987 stock market crash. “It was a really miserable time to be a banker,” he said. In fact, he enrolled at Kellogg, planning to switch to brand management. He soon discovered that he was not cut out for marketing and “ran back into the arms of finance.” Prior to joining Warburg, he worked as managing director at Chase Securities and was part of the leveraged finance group at Credit Suisse First Boston.

In his remarks, Neary also outlined the investment strategy of his firm, which was founded in 1966 by Lionel Pincus and Eric Warburg. A pioneer in private equity, Warburg has $36 billion invested in about 600 companies worldwide, said Neary, citing signature deals that include BEA Systems Inc., Zentiva, Bharti and Arch Capital.

“You don’t read a lot about us because we don’t want to be read about,” Neary told the Kellogg audience, adding that Lionel Pincus always believed that “a day in The Wall Street Journal is a bad day.”

Nevertheless, the Kellogg alum said that his firm is the leading private equity investor in India today, and one of the biggest in China. By employing a “very active” approach to working with the management of the companies it invests in, Warburg looks to create businesses that are relatively balanced along three dimensions — technology, services...
Neary predicted that Eastern Europe would likely continue to emerge as a strong investment landscape, although doing so “in fits and starts,” while Russia remains a very difficult environment to negotiate.

For those Kellogg students looking to succeed as private equity leaders, Neary advised them to acquire broad knowledge across disciplines. In addition to finance, insights from marketing, accounting, strategy and organizational theory all play an important part in his daily life as a senior executive, said Neary.

“Everything that you guys are doing [in all your classes] matters,” he said.