PE Hub

Raine's Sherri Williams: From rock concerts to fitness classes, small discretionary purchases reign

'People will go to an NFL game if they can't go on vacation or buy a second car.'
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Sherri Williams, The Raine Group

Despite today's economic challenges, consumers are still making small discretionary purchases, especially for experiences like live events, Sherri Williams, partner and head of investor relations at The Raine Group, told PE Hub.

The New York merchant bank advises and invests in high-growth sectors of the technology, media and telecom (TMT) sector. Investments over the years include London-based global entertainment company Moonbug Entertainment, Berlin-headquartered online music streaming service Soundcloud and Boston-based daily fantasy sports contest and sports betting company DraftKings.

In July, The Raine Group closed on Raine Partners IV, a $760 million fund focused on growth-stage companies in sports, media, entertainment and gaming. Raine Partners' previous fund closed at $850 million in 2019.

The first investment from Fund IV was Tripledot Studios, a London-based mobile game developer with 50 million monthly active users, according to the company.

Williams spoke with PE Hub about what trends in PE deals she's seeing.

What's driving activity in the sectors Raine invests in?
What we see in our sectors is largely consumers making small discretionary spend. Whether it's playing a game or listening to your music. Whether it's through Spotify or our portfolio company, SoundCloud, we continue to see strength from that consumer angle.

We still believe strong products for enterprises are being sold because companies need to have technology to enhance efficient growth.

What opportunities do you see for dealmaking?
One area, and this is across our sectors, that we're seeing is there are a lot of really good companies with very strong products or services that they're offering to the market, but they have their capital structure or the balance sheet a little upside down.

Companies maybe raise too much debt, maybe aren't profitable and don't have a strong base of equity support, and those are great opportunities for us. We're always fundamentally looking for a sound investment. We focus on revenue, growth and profitability, and we've really been disciplined. That is due to our fund size, where we're only investing in 10 to 12 companies per fund.

What challenges do you see in H2?
There's been a lot of capital raised. There's a lot of large scale growth equity funds who've been raised underneath the hood of the buyout funds, and they're all groups we respect. They have to put out a lot of capital. When you're raising $5 billion to $6 billion for a growth equity fund, that is a lot of businesses to invest in. We're still concerned about valuation and structure and if the gap has fully closed.

We're sticking to our knitting and not getting wrapped up into auctions or competitive processes. We're just working really hard and looking for those opportunities.

The second challenge is there's a lot of structured equity groups that have come out. We respect those asset classes, and those are valuable investors for the right types of companies, but they're also out there putting capital out into growth companies. For the right companies, they can be the right partner, but that's another layer into the growth market. With our fund size, we're finding a lot of opportunities, because we've kept our fund size the same. We invest $50 million to $100 million for investments. That has relieved us from having to be in a more competitive environment.

To what extent are the companies Raine invests in recession-resistant?
I would go back to my point about small discretionary spend. We did an analysis before covid, so probably [around] 2018 or 2019. Even then, there was some concern about the height of the market. We went back and looked at average ticket prices and attendance across NFL games and Disney Land. You can't go back and look at technology subscriptions because they haven't been in existence as long.

Whether it's spend on makeup or an NFL ticket, small discretionary spend has been very resilient. That's why we've continued to have conviction around our sectors and what we're seeing in our cohorts across our portfolio companies is resilience if it's a good product and it's small discretionary spend.

People will go to an NFL game if they can't go on vacation or buy a second car, people want that enjoyment and we're continuing to see those trends.

The trends that concern us is companies – and I think the party is over – at the corporate level having uncontrolled spend and uncontrolled burn. The belief that you can always raise another round of capital. We know that everyone has a finite amount of capital they can raise and then they need to be profitable.

How has PE dealmaking changed over the years?
First, I would take it from a slightly different angle, from a Raine perspective. Raine has been consistent. Our fund demonstrates that. Our sectors of focus have been consistent and how we invest – with founder CEOs, in highly active proprietary investments, where we add strategic value. It's reflected in our strong LP base.

Second, there's been a great evolution with many of the buyout funds understanding and embracing how technology can be beneficial to the investments they are making. You have the marquee technology buyout firms, the Silver Lakes, the Vistas, Thoma Bravos.

Our sectors are fueled by the impact of technology. If you go back to Raine Partners' 2014 sale of C3, a live events production company, to Live Nation, people ask us, "How did you make growth equity returns in a live events business? That's not tech related."

It is because people want experiences to share with their friends on Instagram, or they want experiences that aren't related to the online environment. That was part of our thesis around the festival business.

We think that technology innovation is good for the market, because technology is permeating not only TMT and in our sectors but, broadly speaking, every sector in the economy. Getting more of that DNA in the overall market is great for us in terms of company growth, market growth and exit options.