parthenoncapital: a company history

by Lauren Keller Johnson

When visitors walk into the lobby of Parthenon Capital, they first notice an imposing work of art on the wall of the reception area: an oil painting of a towering clipper ship sailing into Boston Harbor. The last commissioned oil work by noted British Maritime artist Roy Cross, the painting depicts 18th-century life along the bustling waterfront. Across the lobby hangs another striking piece: a chart of the world as sailors saw it in the 1700s.

These works powerfully express the values of Ernest Jacquet and John Rutherford, the founders and managing partners of Parthenon Capital. Both avid sailors who have sailed remote parts of the Pacific together, Jacquet and Rutherford see strong parallels between winning a race on the high seas and building successful companies through venture-capital funding. Each effort, they contend, requires risk-taking and finely honed teamwork. For them the image of the clipper ship evokes the historical roots of the venture-capital industry in the United States: the shipping syndicates in old Boston through which investors pooled their resources toward a shared vision of success.

"Value-Added Investing": Parthenon's New Partnership Model

When Jacquet and Rutherford founded Parthenon Capital in 1998, they brought unusual experience and perspective to the new fund. Both men have strong engineering backgrounds as well as extensive combined experience in investing, business operations and strategy consulting. They saw themselves as builders of companies and knew firsthand the challenges involved in running a business. And because both had lived internationally, they understood global investment dynamics. Finally, each had built an impressive track record of high returns in earlier investment efforts.

To the business, Rutherford brought an additional, surprising outlook—one he had acquired during his management consulting days. In return for their consulting services, he and his colleagues had suggested that they receive equity in—not cash from—a client company. This arrangement demonstrated theconsultants' firm belief in the client company and their own abilities to help the firm reach its goals.

The equity-for-services arrangement, along with Jacquet's and Rutherford's unusual backgrounds, prompted the two Parthenon founders to develop an innovative model of venture-capital investing. Their model, which they call "value-added investing," emphasizes true partnership between Parthenon and its portfolio companies. Parthenon brings capital and strategic resources to the table, while company owners bring their own management experience and inside knowledge of their firm and industry. Together, the two parties work to create extraordinary shareholder value and major business success stories.

Parthenon's founders focus their efforts on a sharply defined market: privately held, promising U.S. companies with sales of $50-$250 million and the potential to expand globally. This focus on relatively small companies lets the Parthenon investment team put their operating backgrounds to work in ways that yield the most value. Parthenon team members have a stronger and more valuable impact on these companies than they could on much larger firms.

Moreover, Parthenon limits its investments to companies that fall into a specific set of industries—primarily information and publishing, consumer products, business services, technology, healthcare and niche manufacturing. With its large team of principals—most of whom have strong backgrounds in business operations—Parthenon can provide its portfolio companies with specialized industry knowledge and strategic wisdom.

Parthenon offers its portfolio companies a unique resource: its independent though close relationship with The Parthenon Group (TPG). This 170-person strategic consulting firm has offices in Boston, San Francisco and London, and provides international resources and industry expertise. Over the years, TPG clients' stock prices have substantially outperformed those of the S&P 500. Through its relationship with TPG, Parthenon Capital can provide its portfolio firms with the kind of support usually available only to Fortune 500 companies.

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Success Stories

Parthenon's innovative approach and strengths have laid the groundwork for major success. In 1998, when the founders raised their first fund, they set their sights on a total of $250-$350 million. Why limit the fund size? A lot more investment dollars, they decided, would make them feel pressured to engage in large-scale deals. They realized that, implemented in large-cap, multibillion-dollar companies, their investment model would have less impact.

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But their approach—as well as Jacquet's and Rutherford's successful investment track records—had attracted the attention of institutional investors eager to contribute to high-potential collaborations. Corporate and public pension funds, banks and investment companies, endowments and other investors clamored to be included in the initial round of fund-raising. Parthenon's founders had to cap the fund at $350 million to prevent it from being oversubscribed.

The second fund, raised in 2000, attracted similar attention. Set at $600 million, it was finally capped at $750 million—again, to ensure that Parthenon's partnering model could work its magic for portfolio companies.

What does successful partnering with Parthenon do for portfolio companies? The experience of Flow Control management partnered with Parthenon specifically to identify growth opportunities, maximize earnings and expand its customer base. The collaboration paid off. Two years later, product lines had expanded globally and profits had trebled.

Looking to the Future

Parthenon Capital's founders and extensive investment team believe that this private-equity firm, its investors, and its portfolio companies all face a bright future. The company is expanding rapidly, and on joining the firm, each team member receives a personally engraved gold cup to jointly celebrate the successes of the team. The partners enjoy working together, and they share the two founders' passion for building successful companies. As Parthenon's portfolio firms thrive and extend their influence internationally, Jacquet and Rutherford look forward to knowing that they have created an institution that will endure long after they retire.

A recent accomplishment of Jacquet testifies to his enduring belief in the power of smart risk-taking and teamwork: The Parthenon co-founder bought the America's Cup racing boat Freedom; restored it; and, in addition to sailing her in an annual charity race featuring 12-metre America's Cup boats, took Freedom to the 150th anniversary of the America's Cup Cowes on the Isle of Wight. Freedom returned home with the First Place trophy in the International 12-Metre Modern Class World Championships.

Besides a passion for building companies and sailing, the founders are strong believers in giving back to the community. A significant portion of Parthenon Capital's profits are plowed back into local charities. For example, every summer Parthenon Capital sponsors an annual 12-metre charity race from Newport to Martha's Vineyard. As Jacquet and Rutherford put it, they see competitive sailing and community service as integral to building successful companies and establishing esprit de corp in their firm.