Exchanges at Goldman Sachs

Investor Stephen Pagliuca on private equity, Bain Capital and the Boston Celtics

Stephen Pagliuca, Senior Advisor, Bain Capital

Alison Mass, Chairman, Investment Banking, Goldman Sachs

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Alison Mass: Welcome back to another special edition of Exchanges at Goldman Sachs Great Investors. I'm Alison Mass, chairman of Investment Banking at Goldman Sachs and your host for today's episode.

I'm so thrilled to be joined by my friend and client Steve Pagliuca, who’s currently a senior advisor and former co-chair of Bain Capital. Steve started his career at the consulting firm Bain and Company in 1982. He later joined Bain Capital in 1989 and was named its co-chair in 2016.

Since 2002, he's also been the co-owner of the Boston Celtics and acquired a majority stake in the Italian soccer club Atalanta in 2022. We'll be discussing Steve's career in private equity, his views on the economy and investment landscape, and his experience in managing sports teams.

Steve, welcome to the program.

Steve Pagliuca: It's great to be here.

Alison Mass: So I wanted to start with your background growing up. You were born in Brooklyn, raised in both Massachusetts and New Jersey. Your grandfather was a shoemaker. Your mother was a teacher. And you worked summers moving furniture to pay for college. So how did your early experiences shape your work ethic and more broadly your approach to investing?

Steve Pagliuca: Well, it's very interesting. My grandfather and grandmother came from Italy, and he was a shoemaker in New York. I think he was getting paid $8 a week, made very fancy shoes, and I always noticed that about my grandparents; they always had great shoes.

My father went to World War II. He was first generation. And they impressed upon me, they always thought that the next Depression was going to happy at any time, so that definitely shaped my world view. And they said, “If you go to college, you need to be an accountant, because accountants were always employed during the Depression.” Not that I had a love for accounting, but that was the pitch.

Alison Mass: Now, you and I have known each other for many years, and one of my favorite stories that you tell is how you showed up at Duke University in a 45-foot moving van. So tell us about that experience.

Steve Pagliuca: My best friend's father owned a moving truck, and they needed an extra person so they taught me how to move furniture and stack it up. And hard work, by the way. I wanted to save money also after making money in the summer to go down to college. Being a furniture mover was a good high-paying job in the summer, so I was very fortunate. So I offered to help fill up a truck that was going to Florida and said, “Can you drop me off?” And my total possessions at that point in time was one duffle bag. And we loaded up the whole truck with the family's furniture, put my duffle bag in the very back, and we drove down to North Carolina.

And so all these people were pulling up in Mercedes and cars, and we pulled up in a 45-foot moving truck. And I opened up the back to get my bag. And I took it out. I saw all these people looking at me, and I said, “I'll get the rest of the stuff later.”

Alison Mass: I love that story. Great story. And you went to Duke planning to play football but ended up playing basketball. How did that happen?

Steve Pagliuca: I got to Duke in August to try to get in shape to play football. And in getting in shape, I started playing basketball with the basketball players on the team. And the coach came to me and said, “We need an extra player. We'd love you to try out for the team. We think you'd make the team.”

Then I went to the football team and looked at them, and they were all twice as big as I was. I said probably a better percentage chance to stay alive. I'll play basketball. And I played a couple years on the freshman team. That's the good news. The bad news, I was the worst player on the worst Duke team ever, which is a record I think I'll hold in perpetuity.

Alison Mass: Who was the coach at the time?

Steve Pagliuca: That's why they weren't great teams. They had three coaches in three different years, so it was a transitional phase, to say the least. The program turned around the year after I graduated, so it was a quick turnaround after I was gone.

Alison Mass: So it was pre Coach K?

Steve Pagliuca: Pre Coach K, right before Coach K. I had two sons that had the opportunity to play for Coach K, so I lived vicariously through them. They're actually good players.

Alison Mass: But they had their genetics from somebody. So later, you went to Harvard Business School, planning to get a PhD in Economics but you ended up working as an accountant, which I guess ties back to what you said your parents taught you. Is that what changed your mind? Or was there something in business school that changed your mind?

Steve Pagliuca: Actually, the way it happened was, when I graduated from college, I found out I thought you just had to pass a test to get the CPA certificate to become a certified public accountant. So I then found out, to my chagrin, you had to have three years' work experience. So I applied to seven accounting firms, and I didn't tell them why but I went back to them each and said, “I'll take a job if you'll send me overseas right out of school.”

The reason I did that was I knew I didn't want to do accounting. I didn't like accounting. But I wanted to learn about the world. At that time, nobody's going to send a 22-year-old kid overseas, but one firm stepped up. They wanted me to come back to the US, so they said that they would start me out in Holland. So I jumped on a plane, and I of course had never been to Holland. I landed there, green, raining. And then I actually basically didn't come back to the US. I spent three years in Holland as an accountant. I really enjoyed it there, enjoyed the culture, became a soccer fan. Still have lots of friends there today.

Alison Mass: Wow. That's actually a story I never knew about you after knowing you 20 years.

Steve Pagliuca: I even had to learn Dutch. They sent me up to a nunnery where they taught immersion Dutch, so I lived in an attic and I spoke to nuns for about four weeks until I learned enough Dutch. And I lived in a place near the Hague, on the beach. It's called [DUTCH NAME]. And most people can't say [DUTCH NAME] throughout the whorl, but, because I took that immersion course, I can semi speak Dutch.

Alison Mass: Well, that was impressive. So let's talk a little bit about your career. You joined the consulting company Bain and Company in 1982 and Bain Capital in 1989. What was the environment like for private equity investing at that time, especially for a business that was formed from a consulting firm?

Steve Pagliuca: I went to business school. As you said, I was going to get the doctorate, but I couldn't afford it. So I looked down the list, what was the highest paying job in

Boston? That was a summer job with Bain and Company. It was a kind of an upstart consulting firm at that time. And Bill Bain's theory was to compete with McKinsey and BCG and do it by working for one client per industry and driving results for that client.

And honestly, I didn't know what consulting was when I got the job, so it was really eye opening to me. And I had a great summer and worked on, with Dun & Bradstreet, on figuring out credit strategy and they grew that business very rapidly. So at the end of the summer, Bill Bain came to me and said, “We'd love you to come back, and we'll pay for your doctorate. You can get it later. And you can make enough money to put yourself through school.” And I said, “That's great.”

And he mentioned, as a recruiting pitch, which I just thought was a recruiting pitch at that time, it was the summer of 1981, he said, “Someday I think we're going to figure out how to take these consulting skills and then use those skills to build and grow great business, either in venture capital, and do that investing equity instead of doing consulting fees by the hour.” And I thought that sounded really exciting to me. And I'll never forget that conversation.

And I thought, “Eh, that's probably just a recruiting pitch.” But about three or four years later, they formed Bain Capital. And I was able to apply and come over to Bain Capital from Bain and Company. And it was really true to Bill Bain's vision. The theory there was we take these consulting skills, we'd invest in companies, we'd start companies.

One of the first deals that came in was an opportunity to invest in a company that had the idea to put everything you needed for an office -- stationery, desks, equipment -- in one giant warehouse sized building. And in those days, to start an office, you had to go to a small stationery store and buy stationery. You had to go to a furniture store to buy furniture. You had to go to someplace else to buy equipment. So this guy came in, Tom Stemberg, with the idea, and that turned out to be Staples.

Alison Mass: Wow.

Steve Pagliuca: And Bain Capital put 2 million into Staples to help found it. The first store went up by our office. And I remember sitting in the office at Bain and Company at the time, and we said, “Gee, if it doesn't work, we can always sell the paper back and get half our money back.” And that became a billion dollar business.

So it turns out that theory of taking consulting skills, figuring out market share, figuring out how to help companies do acquisitions really worked well. So from that small group of people in 1984, which by the way at that time it took two years to just raise $35 million because we had no financial skills and we were going out saying, “We'd like to invest your money.” They said, “Well, how much money have you invested?” We said, “Nothing.” “And how much finance experience do you have?” “Nothing. But we think these consulting skills and a commitment to do it the Bain way and build and grow these businesses would work.” And it turns out it do, thank god.

Alison Mass: So let's talk a little bit about the private equity industry. It's an industry you've been in for over 30 years and have 30 years of investing experience. What was the private equity landscape like then when you started? And what have been the biggest changes that you've seen over the three decades you've been in the industry?

Steve Pagliuca: When I started, it was really a cottage industry. Most often, we'd show up and look at investments, and there might be one or two other firms involved. So very small. At that time, we were probably 12 or 15 people in Boston, mainly focused on looking at US growth businesses and looking at businesses in general.

And at that time, there was a lot of leverage. That was the junk bond days. So I think one of the first deals that Bain Capital did, they bought Accuride, and that was a truck tire company and wheels. And basically, I think 5 million equity and 95 million debt.

Alison Mass: Wow.

Steve Pagliuca: So those were different days then. And the average cost of debt was between 9 and 14% with equity.

Alison Mass: Kind of like it is now.

Steve Pagliuca: Yeah, back to the future. So that was the beginnings of the private equity industry. And again, we started out with a model on how do we help these companies to grow and improve? We'd give them a strategic planning staff using our own resources, which was very different than the firms we competed with. Most the firms we competed with came from investment banking and from Wall Street and big finance experiences.

So what changed? First of all, the industry attracted more participants. Bain Capital did very well. The companies did very well. The next phase of it was it got global. So it had worked in the United States, and now we became a global company by opening up in London and then Asia. And now that footprint is all over the world.

The next thing that happened was we had started out with this strategic consulting focus, and then many people copied us. They'd hire Bain or they'd hire McKinsey or have their own staffs. So to stay ahead, we decided about 15 years ago we really had to go deep vertical industry knowledge, and so we formed industry groups which we still have today, covering just about all the industries -- medical, technology, industrial, consumer retail. And so we have these strong groups that are globally integrated. So now we have expertise.

And then us and the industry, we've added more expertise in terms of now functional experiences like digital marketing, procurement. And so private equity went from a cottage industry to now a high value-added global integrated business that can take these business concepts and then make them work throughout the world.

Alison Mass: So I want to talk a little bit about the macro environment that we're in now. 2022 was a challenging year, to say the least. We've had record inflation, rising interest rates, a significant slowdown in M&A activity. So how have these headwinds affected the private equity industry and affected Bain specifically?

Steve Pagliuca: The first 30 years, growth was driven by globalization. Thirty years ago, very little global trade. It went into the trillions of dollars of global trade over that time period. And that lifted up people all over the world. Created 2 billion jobs, good-paying jobs throughout the world.

Now, we're seeing this decoupling. And the decoupling is, I think, a result of these policies where most of the Western countries, people felt left behind, and now we have political tensions. And so you're seeing high interest rates, a tougher environment.

What we try to do at Bain Capital is we'll have periods where we say let's lean forward or let's be neutral or let's lean back. This is definitely a lean back period where we're having a very high screen. Our macro team two years ago predicted high inflation and higher interest rates, so we really tried to get permanent debt in the portfolio, low cost, which we were highly successful in doing. And then we focused on businesses that would be more recession-proof because we saw that comes, inflation-proof. And so we have a very diversified portfolio and high screen. We're in pretty good shape.

And things have changed in the industry. Right now, the average deal is leveraged between 50 and 60%, not 95%. So the industry is a lot more conservative in terms of kind of equity cushion and financial structure than it was in the past.

And oddly enough, people talk about all this risk because the loans now are low covenant or no covenant. That actually is a benefit because, in the old days, in the '80s, if you technically violated covenant but the business was doing great, a bank would take it over. And so for example, I was involved with one company where it was doing great. It violated a small covenant. The bank took over, and then they sent a letter out to the customers -- it was a medical equipment company -- saying, "We want cash on delivery for all these next sales." And of course, hospitals saw that and they stopped buying everything, and the business went way down.

Now, during the crisis, for example, we managed our own companies out of the crisis. And we paid back almost all the debt and actually had a two times return on that portfolio that was bought in 2007, 2008, 2006. So private equity has really I think become more safe, more conservative, more thoughtful. And I think the record has shown that they've done a great job in paying back debt and building jobs and creating opportunities.

Alison Mass: Yeah, and I know that Bain has a great history of focusing on operations and operating your businesses. So how are you now helping your portfolio companies position for a potential recession, especially as the cost of debt financing has increased?

Steve Pagliuca: I think the first thing we did is we made sure we had conservative and locked in debt rates for most of the companies, and so they're in very good shape in terms of the kind of the ratios that you need to go through a downturn. Secondly, we said to prepare for a downturn, and so the companies have a lot of cash on the balance sheets. And third, we tried to invest in companies that are going to be less hit by that. So we're hoping for a softer landing, but I think we're prepared for a recession or even a [UNINTEL] recession, and we should be able to get through to the other side.

Fundamentally, this economic situation has been caused by that decoupling and by the huge quantitative easing we've had over the last seven years because of COVID and going all the way back to the crash. Unwinding that is going to be a 10-year process. And I think we see interest rates staying higher.

Most of our lifetimes, by the way, people don't realize, most of our lifetimes, interest rates, T-bills have been at 4-5% for the vast majority of time over the last 60 years. It's only been in the last ten years where we had basically interest rates going to almost nothing. And that buildup of that money now has to go out of the system. We're going to see the effects of that probably for the next 5-10 years.

Alison Mass: And how are the heightened geopolitical tensions, from China to the Russia-Ukraine War, affecting capital flows into private equity?

Steve Pagliuca: I don't think they're directly affecting capital flows into private equity. I would say there's two things that are affecting the investing environment. One is that political tension, the decoupling, and the war in Ukraine. And the second thing is this big energy transition that we're going through, which is also causing inflation as we try to get off the old carbon energy to new energy. And I don't think that's been thought through. That's going to be, in the next decade, a big issue on how we do that in a cost-effective way so we don't increase the inflation rate.

Alison Mass: Many of our listeners would be interested in hearing your perspective on CEO sentiment this year in 2023. So what is your outlook for business activity and economic growth? And what are you hearing from the CEOs of the Bain portfolio companies?

Steve Pagliuca: I was actually at a meeting this morning with about 50 CEOs, and actually they took a survey on this. And the outlook was they think there's going to be a recession, a mild recession or some kind of recession coming in the next 9-12 months. Oddly, most of their performance is still pretty good. There's still a lot of cash out there that's been given out to people. They're still spending. So the business results have been good now. The market's anticipating recession, and they are anticipating recession. So many of them have slowed hiring a bit or preparing for a case where things will slow down a bit.

Alison Mass: So one of the big uncertainties that we're all facing as investors is what the declines in public markets mean for the private markets. How is the drop in public market valuations affecting the opportunities for you in the private markets?

Steve Pagliuca: The good news about private equity and what I really like about it personally is we're able to take a long-term approach. So because the companies aren't public, we don't have to fret every day and every quarter about what the earnings are. And so we try to buy a company and transform it so it will grow, and we're looking at what's going to happen in five years, not what's going to happen in three months, which I think is a fantastic aspect of private equity.

How this market downturn will affect private equity today? Back in the old days, things weren't marked to market. We basically listed them at cost. Now they're marked to market. And so you'll see some portfolios take a down drip because the comps have gone down. But that doesn't really matter because we're talking about a 5- to 7-year investment horizon. And if we make the plan in seven years, we think multiples will normalize, and we'll get through this next blip.

I'd be really nervous if I was a public investor, waking up every day with those marks changing for one reason or another on a global macro basis. They don't change as quickly in private equity. They will be marked down, marked to market. But the real test is what happens five years from now when you end up taking those companies public or selling them. And if they performed on the plan, we'll do very well with them.

Alison Mass: So speaking of taking your companies public, with the slowdown in IPO activity, how are your portfolio companies' exit strategies changing?

Steve Pagliuca: It just means the duration of the portfolio will be longer. And that's okay as long as we're growing the value of that 15-20% per year. But it just means that they'll be a little slower paced on distribution. So you won't see the fast liquidity you saw with the hot public markets where you could have a company for 2-3 years and then take it public and get a lot of liquidity. We tell our investors that they should take a long-term approach, and we take a long-term approach and have the liquidity to fund those companies over a 4- to 5-year period.

Alison Mass: Let's talk about innovation over the next couple of years. What are the things you're most excited about?

Steve Pagliuca: I think two things. One would be continued advancement of the life sciences. Biotech I think is the next big thing to the industry, both integrating artificial intelligence, more data on healthcare conditions. Biotechnology can be the next thing for probably the next 20 or 30 years. And so I've done a lot of personal investing in that area. Bain Capital has. Big funds in those areas. They're fantastic people. So that's going to be a huge amount of innovation.

The mapping of the human genome, which happened 10-15 years ago, now has advanced the science, and we have better analytic tools. We can bring out lots of drugs and therapeutics, and so I'm very excited about that.

And I think a second area is going to be the continued technology boom on AI. AI is changing the way that cars are driven, the way we make business decisions, and our daily lives. So I think those are two areas that are going to grow for the next 20 years. If I look back on my career when I came to Bain and Company, I stepped back and I said, "I think since I'm not the smartest guy in the world, I want to work in growth areas because they hide a lot of mistakes." And so I asked Bain, I only want to work on healthcare, which I thought would grow for a long time in 1982, and technology. So I basically in my 30 years, I've been focused on healthcare and technology. And both those areas have grown, and I think they're still going to grow because they're taking an increasing amount of [UNINTEL] productivity to the economy.

Alison Mass: I have to pivot to talk about the Celtics. And you became the co-owner of the Boston Celtics franchise 20 years ago. And the value of the team has increased nearly ten-fold since then. So what does that say about the way you've managed the team and the way the league has gone?

Steve Pagliuca: I give a lot of credit to the league -- Adam Silver, David Stern, Mark Tatum, the deputy commissioner -- they've done a fantastic job managing the NBA. You know, we invested in the Celtics because I was a huge basketball fan, it was my passion. I don't think we had any expectation that the value would go up ten times at that point in time. Most of the NBA clubs were losing money, including the Celtics, at that period of time. And we actually came in and wanted to make some changes and lost even more money. I wouldn't say that we looked at that as a classic investment. It was a labor of love.

Turns out that the league has done a fantastic job lifting the game up. They formed a partnership with the players where the revenues are split 50/50, and the game has become exciting. It's a global sport and really taken off.

I think that there is certainly Boston, the management team, and our ownership group, we focused on three things. One, try to bring a championship to Boston.

Boston is a place where they expect championships. We are not playing just to get into the playoffs. We need to play for a championship every year. Otherwise, we'll lose fan support, so it's a great market from that respect. So the first goal was to win a championship.

The second goal was, which we knew we could do, was make it a better fan experience. When we bought the team, they basically didn't even have a customer list or emails or anything. And they also had $89 in a charity account, and we thought, “Boy, we could make the fan experience a lot better.” We didn't have dancers. The whole NBA had cheerleaders. We had no cheerleaders. And so we came in with a program to really make it a better fan experience. We had an origin, and we didn't have music. There was silence at the quarters except for [UNINTEL] sometimes. So we brought in a whole host of fan experiences, digital marketing, connectivity, more time with the players, and that's fantastic.

And the third objective we had was to really use the power of the Boston Celtics franchise to improve the community. So we started the Boston Celtics Shamrock Foundation 20 years ago, which has been very successful in terms of helping children in the community and underprivileged groups. And getting our players involved. Our players log in I think more hours than anybody in the NBA in terms of helping people and being involved in charity.

And then an offshoot of that is Boston Celtics United for Social Justice. And every single member of the organization and all the players are on board with that. And we just raised commitments from our investors for $25 million over the next 10 years to really attack social justice issues and try to change them. Things like prison reform, equity and health, voting, equity empowerment, business education. So we have about six areas that we're focusing on. All the investors are on committees, and all the Celtics and the players and the staff are out there in the community. And that's going to be a real focus over the next 10 years because we've got to change that situation. We've got to make a difference.

Alison Mass: I want to stay on this theme of philanthropy for a minute because, in addition to your business experiences and love of sports, I know you've been a lifelong philanthropist. So tell us a little bit about the Life Lab and also about the Bain Children's Charity.

Steve Pagliuca: The Bain Children's Charity has been fantastic. I think we started that about 15 or 20 years ago, maybe even further than that. We all got together and said, “We need to do something for the community.” And so every year, we have a golf tournament, and we contribute directly until we match everything that we raise. So I think we've given out over $35 or $40 million now to hundreds of causes in the Boston area and nationally as well, so we're very proud of that.

And all of our people get to work on these projects. So to give to a project, we have to have people volunteer to do it, so we have lots and lots of volunteers. And then we help them with donations and marketing and direct help, so that's been a fantastic experience.

The Life Lab really came out of -- I do a lot of healthcare investing. And in talking to the folks at Harvard Business School, there was a big shortage of lab space. And the Boston area had lost from the 1980s, they lost the technology sector to California, but they're doing great in terms of biotech. And I wrote an editorial and it said, “We don't want to lose the biotech to other places like we lost the lead in tech. So let's really get together with the government, with universities, with business and fund that.” So Life Lab came out of an idea to say let's put up a state-of-the-art wet lab on the Harvard campus, near the Harvard Business School, where anybody from Harvard, including the business school, engineering school, and anybody who's at Harvard can submit an idea that they want to turn into a biotech company. And that'll be reviewed by a board, and then they'll be able to get lab space to develop that company.

And [UNINTEL] and the leadership of Harvard's been fantastic. We got the site up in about a year and a half after the idea. And already, over 60 companies have been formed in there. They can stay there for 12 months to two years. And then once they graduate, they get venture capital. And I think they've raised over $300 million in venture capital, and 60 companies have been formed in that vehicle. That's going to help build businesses, create jobs, and then help us keep the lead in biotech in Boston.

Alison Mass: That's fantastic. I want to go back to the Celtics for a minute because one of the things you also brought to the Celtics was data analytics. And I want to understand a little bit about how that has helped the way you manage the team and also talk a little bit about how you see the Celtics innovating in the future over the next couple of years.

Steve Pagliuca: When we first purchased the team, we asked what were the data analytics and there was a great total of zero. And they had started that in baseball a few years before. You remember the book *Moneyball*. And we said, well, let's bring resources. Wyc Goresbeck and myself had been venture capitalists, and so we brought a squad of folks in and we hired people from MIT. Said, let's try to apply the *Moneyball* analytics to basketball.

And I think a couple other NBA clubs were doing it, but we did it in a big way. And now we have something called the Basketball Intelligence Agency. It's the BIA. It has a little symbol on the door. And we have eight or ten people. One's a PhD from Duke. And we analyze basketball from the shot quality to efficiency from where the shots are, where you make the different shots, and have built regression models. And now we're on Model 20. We're on 20.0 regression model on how statistics predict performance for the draft and picking players, which is really important.

It's a little bit like business. The computer model doesn't pick the players, but it's a tool where, if we're down to three or four players, we can look at that model and the model will predict various levels of success. And so far, it's been very effective. We have a fantastic staff, and it gets better every year because we're on the 20th version now.

And in the NBA, the athletes are so great and the teams are so competitive, that anything you can do to get a 1% edge, that can mean the difference between coming in tenth and getting a championship. And so we're very proud of what the stat group has done. But more importantly, we have hired coaches and general managers that buy into it because it doesn't make any sense if you have a stats group and they're trying to run the team in an old-school way. And we've been fortunate that we've taken the private equity venture perspective where you get a great management team and you back that management team.

So in the entire 20 years, we've only had three coaches, and all of them have basically retired. And we've had two general managers in the 20 years. And that's very unusual. You think many clubs in 20 years will have 10 coaches or 15 coaches and six general managers. We've had a great team there going forward to try to get a championship team. And it's working. We've had one championship, and we're playing pretty well this year. So we're enjoying this year so far.

Alison Mass: I'm going to have to come up for a game. So earlier this year, you also acquired a majority stake in the Italian soccer club Atalanta. So why'd you buy that team?

Steve Pagliuca: It's interesting. I've always been a soccer fan going back to those days in Holland. Holland won the World Cup when I lived there. And so it was very different. And so I couldn't get connectivity to American sports, so the big thing was soccer. So we'd watch a lot of soccer. Turns out that Holland made it to the finals of the

World Cup that year. They're fanatic about it. Oranje. Orange. They're the orange. And they're actually in the final eight this year. So I became a soccer fan.

So you fast forward. We did the basketball thing. Soccer has a lot of similarities to basketball. It's a non-contact sport. It's about teamwork. It's a global sport. They're the two most global sports. And so when the opportunity became available, we got contacted by a family in Italy through a partner of mine who wanted to get a savvy sports investor to invest into the club.

And I got off the plane in Milan to go to Atalanta, which is right outside of Milan. Beautiful town of Bergamo. When I got off the plane, I just had a great feeling about it. Also, everybody looked like me. I'm have Italian descent, so I said, “I'm really at home here,” immediately.

So I met the Percassi family. I love the Percassi family. Atalanta is as close to the Celtics as you can get as a soccer team because they also have family traditions. The whole town is behind the club. It's sold out every night. It's got a beautiful 25,000-seat stadium in an idyllic place.

And they've done a great job managing it.

They still own about half the business themselves, and we've had a great partnership. And we started out very well. And we're fifth now and climbing. It's been a great labor of love, and hopefully we'll get the same kind of results that we got at the Celtics.

Alison Mass: That's exciting. So the last question I want to ask you before we go into a lightning round is I want to talk about your leadership and the differences between leading the private equity business at Bain and all of the business leadership you've had and the leadership of the sports team. So I'd love to hear your views of the similarities, the differences, and how you view that.

Steve Pagliuca: Well, there's quite a few similarities because, at Bain, we're dealing with some of the most talented investors and people in the world. And the key to is make sure they have all the resources they need to make sure that they're supported, to make sure we're doing everything we can so they can do their jobs. And we have to act as coaches. At the end of the day, I think the best leaders are evaluated by who they leave behind when they're done. And so the best organizations have a deep team, and that's what we try to do at Bain Capital.

We have a system where we're all invested together in the deals. So we put the highest percentage of our own money in deals with our limited partners when we buy a company. That ties us together. And we have kind of a flat system where everyone can be a CEO, run their division, run their companies, and work together as a team. And our compensation systems are team oriented.

You're dealing with very high-powered folks, and you've got to give them the room to run and the resources to run and the guidance and coaching to run. So that's been our model.

And finally consistency. And consistency in values and the approach. High integrity. Teamwork. Working hard. And then doing everything you possibly can. Driving it from the clients out to you. We never say we're here to make money. We honestly think we're trying to build great businesses and actually get returns for our limited partner investors.

And if that happens, then good things will happen to us.

The Celtics is very similar. You're dealing with, again, world-class athletes. You've got to give them everything you can to succeed. We give them the statistics. We try to make their lives as easy as possible, treat them with respect and transparency. What I didn't realize when I got involved in basketball is, when you see how hard they work and they play 82 games, they're playing almost every other night and it's a very tough game to play because you're going full out, when the fans come, they think it's the first game they've ever played and they've been resting all week ready for this one game. But they've been in a game the night before and they have a sprained ankle and the rest of it. So I really learned to respect kind of discipline and how hard these guys play after doing it night after night. And so it's been great.

And especially this year, we have two young superstars. And I was just talking to them after the Phoenix game. They had an amazing game against Phoenix. I said the best thing about that game wasn't that we won by 40 points against a great team. It was the fact that the two superstars at least six or seven times passed up shots of their own and threw to the other guy. That's what wins you championships.

Alison Mass: That's fantastic. All right. So I'm going to close with our lightning round. So what was your very first investment?

Steve Pagliuca: My first investment was actually when I was a consultant at Bain. I looked across the street and a thing opened up called Steve's Ice Cream. It was a --

Alison Mass: And it wasn't yours, but you decided to buy it.

Steve Pagliuca: It wasn't me. It wasn't mine, but I went and found the owner of it because there were so many lines around it. It was fresh ice cream that they made right at the site with about 20% butter fat content. It makes Häagen-Dazs look like it's a diet ice cream. An Italian guy had bought it. And I said, "Gee, I think we should put one of these down at Duke." And so while I was working at Bain, I got my credit card out, and I bought the franchise rights for the state of North Carolina from him.

Alison Mass: Love that.

Steve Pagliuca: And he didn't even know where North Carolina was, so he just gave it to me pretty cheap. And I put three units while I was at Bain. So that was my first investment experience, which helped me actually when I came over to Bain because it had the same aspects, just on a small scale. People management. Leverage. Sales and the rest of it.

My memory of my first investment at Bain was helping the management team of the Gardener Group buy the Gardener Group in 1991. And we bought that company. We thought it was a great company. It was owned by an advertising agency called Saatchi and Saatchi. And it was non-core to them, and they were having problems in the advertising agency. So they sold the business, and the management team selected us. And we bought it. Back in the day, it was 60 million equity and 64 million debt. And it wasn't making money. I tried to raise bank debt for it, and no bank would give us the debt. So the seller lent us most of the money to buy the business.

And Dun & Bradstreet, who was a partner in the fund I was running, gave us some debt as well. So we had outside debt. And fast forward the story, that was 1991. It's 2022 now. I'm still on the board. Value of the company is around 20 billion from that 6 million equity. That 6 million equity's been 20 billion. I wish we would have kept it.

That's one thing private equity has to do better. When you get a winning business, I think we got to get away from the 10-year fund structure. And they are now with continuation funds, another trend, but that's been a fantastic experience.

Alison Mass: That's amazing. So what is the biggest lesson you've learned from an investment? Either one that went well or sometimes we learn our best lessons from ones that don't go well.

Steve Pagliuca: The biggest lesson you learn is you've got to back A-plus management teams and A-plus people.

It's amazing when I think back on the same business with Manager X versus Manager Y, the top management teams just find a way to win. And some things are unsavable, but most things are savable. And flexible, smart, high-integrity management teams are really key.

And we don't manage the businesses. We try to be a tool for them. It's a little bit like the Celtics analytics. We don't play the games, but we try to give them all the tools and support they can, looking at acquisitions, looking at new products, looking at structures. But the biggest lesson is back great management teams.

Alison Mass: So which investor, living or dead, do you admire the most?

Steve Pagliuca: I have to go with my home town, Peter Lynch. Peter is legendary in Boston. And what he taught me is really understand the customer. And he would say his success was based on just detailed analysis of the product and the customer. So when he liked it and he understood it inside-out and he knew the customer liked it, he'd invest. And so he did that in several companies that did fantastic over a long period of time.

Alison Mass: He certainly is a legend. So who was your biggest mentor?

Steve Pagliuca: I had two mentors. A guy named Harry Stracken, who's still alive today, and Mike Demato. So I was very blessed when I came to Bain and Company because I was really off the turnip truck. I'd been an accountant, so I knew the language of business. And I'd been a furniture mover. Both of which were not strategic consulting. So they took me under their wing. They mentored me. And I still talk to them, I probably talk to them, believe it or not now that's 40 years ago, I still talk to both of them regularly with any issues or problems. And they've been very successful in their own lives.

The Celtics have a concept called the Boom Tube, which means you are only who you are because other people that came before you. And these guys did that for me.

Alison Mass: So what's the best piece of investment advice you can give to our listeners that you wish someone had told you when you were younger?

Steve Pagliuca: I would say take a long-term approach to investing. Outwork other people. Try to analyze every issue. Understand the customer better. At Bain and Company and Bain Capital, we're huge believers in primary research. When I first got in the business, I talked to many other firms and they would call consultants or they would call banks and they would call references. We would actually go out and count the number of cars that were coming into the parking lot of a factory. We would go and do 1,000 customer interviews to see how the customer liked the product, what did they like about it, what did they not like about it, would they recommend it. Used things like net promoter score. So primary research, really understanding at a very detailed level the customer, the trajectory, and why someone would want to buy that product, that's key. Just do your homework.

And that'll certainly stop you doing really bad investments, but it'll help you get pattern recognition to make good investments.

Alison Mass: Okay, and finally, what are you reading currently?

Steve Pagliuca: I'm reading *Just Mercy* by Bryan Stevenson. It's a really interesting book. When we formed Boston Celtics United for Social Justice, one of the areas is prison reform. That's an incredible tale about what he's done to reform our justice system. We need to do more on that, and that guy's an incredible hero. So I'd recommend that book.

Alison Mass: I 100% agree with you. Steve, thank you so much for joining me on the podcast. It's always such a pleasure to speak with you. And thank you, all, so much for listening to this special episode of Exchanges at Goldman Sachs Great Investors.

This podcast was originally recorded Friday, December 9th, 2022. In 2023, Steve stepped down from full-time responsibilities at Bain Capital and will continue to be an investor in the firm, work with portfolio companies and become a senior adviser to the partnership. He will continue to build his Pags Group family office which has a large portfolio of early-stage growth biotech and technology startup companies. He will also continue to build Pags Group Sports and Entertainment, which includes the Boston Celtics and Atalanta sports clubs.

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