



Episode 109: Equipping PE Partners With Services for Success, With Tim Schulte

Episode Summary

“Our role isn’t to dictate strategy from a distance,” says [Tim Schulte](#), head of the Value Creation team at Council Capital. “We provide the tools and support — but the company is the one driving the vision.” In this conversation with McGuireWoods partner and host [Geoff Cockrell](#), Tim shares how the healthcare-focused private equity firm helps its portfolio companies grow through a robust support system.

This includes in-house experts in talent, finance and technology, as well as the firm’s CEO Council — a network of public- and private-sector leaders offering deep market insight and strategic advice.

Transcript

Voice Over ([00:00](#)):

This is The Corner Series, a McGuireWoods series exploring business and legal issues prevalent in today's private equity industry. Tune in with McGuireWoods partner Geoff Cockrell as he and specialists share real-world insight to help enhance your knowledge.

Geoff Cockrell ([00:19](#)):

Thank you for joining another episode of The Corner Series. I'm your host, Geoff Cockrell, a partner at McGuireWoods. Here at The Corner Series, we try to bring together dealmakers and thought leaders at the intersection of healthcare and private equity. Today, I'm joined by Tim Schulte, a partner at Council Capital. Council Capital is one of the OG healthcare private equity funds in Nashville, Tennessee, and we're going to talk about ways that private equity funds can bring a suite of services around platform and really create value in them. Tim, if you could, introduce yourself and Council Capital a little bit before we jump into discussion.

Tim Schulte ([00:53](#)):

Thanks, Geoff. Great to be here today. Council Capital, as you said, is a healthcare-focused private equity firm based in Nashville. We invest in high-growth businesses that deliver great services and technology. So our investment mandate is fairly broad, but exclusively focused within the healthcare

arena. My role is leading what we call our Value Creation Team. So I like to joke that all private equity firms talk about providing strategic and operational support to portfolio companies, but that most confuse pressure in a board meeting and help as the same thing. We take a lot of pride in both having real substance that we bring to our companies, but bringing it in a more collaborative and thoughtful manner, and so I spend most of my time and attention there.

Geoff Cockrell (01:36):

As we get into a discussion of these value creation ideas, what are some of the functional areas that you bring support around?

Tim Schulte (01:44):

Yeah. So I'd say we at Council are big believers that nothing matters more than people. So we have a chief talent officer as part of our team who leads that work, but we are very committed to making sure that our portfolio companies at the executive talent level and throughout the broader organization have the training, the development, the hiring capabilities, all of that work to put the right team in place and enable that team to be successful. That is, I'd say, priority number one. We also have a head of portfolio finance and some expertise in technology, and go-to-market, and other functions that we balance that functional expertise with market expertise from our CEO Council, which I'm sure we'll talk more about, and then a team of more, I'll say, generalist consultants helping with the execution of that work.

Geoff Cockrell (02:35):

So finance, HR, capabilities, compliance. Are there any other areas that might be good areas to help prop up a company?

Tim Schulte (02:47):

Yeah. Those are the foundation. At the end of the day, what we are really focused on is growth and scale, and scaling the mission of these businesses and the entrepreneurs who started them scaling the impact and the number of patients or customers that we can serve. So there's a lot around growth in go-to-market, and sales, and marketing as well, which I'm happy to dive into.

Geoff Cockrell (03:09):

When councils make an investment in a platform, you're usually buying it from founders. What sort of deficiencies do you find in those platforms when you're first arriving?

Tim Schulte (03:20):

I'd say our focus is on finding businesses that have a great product or great clinical service offering, are in a strong market, and it described it less as deficiencies and more as opportunities, but it's helping to move to the next chapter around scalable infrastructure. So if that's moving from QuickBooks to a more sophisticated ERP, if that's introducing more sophisticated data analytics, if

that's going from, "I've got a bunch of relationships that have had success in sales," to a thoughtful, data-oriented, structured, and scalable approach to, "We have a CRM. We have a lead nurturing process. We have sales collateral and enablement capabilities and resources." It's less things that companies aren't doing well and more taking them to the next chapter of their growth and maturation.

Geoff Cockrell (04:14):

There are a number of different approaches that I see private equity funds taking to this topic. Some are more built around standing up processes in the platform. Others are bringing in almost fractional resources. How do you think about the type of resources that you're deploying through that filter?

Tim Schulte (04:32):

Yeah. At the end of the day, our goal is to supplement our portfolio companies. I think a lot of private equity firms use the term "playbook." I know this is a bit semantics, but we strongly dislike the term "playbook" and like the term "toolkit." Our job is not to provide portfolio companies with, "Hey, from our ivory tower, here's the play. We know what to do." It's more tools where we want to make sure that you are well-resourced and equipped to be successful, but you are the architect, you are the builder of this business. So we are more providing supplemental support to teams rather than fractional resources that are running in perpetuity like some firms do.

Geoff Cockrell (05:14):

These resources aren't free to the fund. How do you think about making these offerings available to the platform? Is it a menu of choices that they can make? Are there any mandates? How do you think about that?

Tim Schulte (05:27):

Yeah. There aren't mandates. Every company has different needs. I think there are certainly commonalities in many of the needs. We will share what we've learned has typically working or not working across our portfolio, but yeah, we're not dogmatic. The way that we do it is effectively, we pass through the costs at cost to our portfolio companies. We are the last people who want to take cash off the balance sheet of these businesses. At the same time, we need to be able to fund the capabilities and the resources in a scalable way.

(05:59):

So when push comes to shove, because we're able to spread the resources across a broader portfolio, typically, our portfolio is accessing a level of talent that they would pay two or three times the price for if they were to hire a third-party consultant with a bunch of markups for those services. So there is a cost, but it is a far below market cost of which Council is subsidizing that investment, not turning a profit from it.

Geoff Cockrell (06:26):

I would expect that utilization starts out fairly heavy and then tempers over time. How big of a temper is there over time, or a lot of this resource is permanent in the sense that they remain attached to the PortCo?

Tim Schulte (06:41):

Yeah, you're absolutely right. Up front, there's a lot of work around infrastructure, team, governance, strategy, et cetera, and so most typically, it's heavy in that first year, and it does wane over the course of the investment. It can vary a little bit though. If one portfolio company is going to be doing a bunch of M&A in years two and three, and they need support on the deal diligence and the integration of those acquisitions, year two and three might be the heavier support years for that company.

(07:09):

If there's a company that's struggling for any reason, we can provide extra support when needed. We're not limited to year one. So I'd say in 80% of the time, it's heavy in year one, and then ramping down. In every case, there is still a broad level of support from our investment team, from our boards, from myself. So no company ever reaches a point of no support, but the paid additional value creation resources most get to a point where they aren't needed by the time they exit.

Geoff Cockrell (07:42):

You've touched on this a little bit, but maybe going a little deeper, how would you differentiate Council's approach on this topic versus other approaches that folks have?

Tim Schulte (07:52):

Yeah. I heard it was CEO of a different investment firm. They invest in software businesses, was quoted as saying software companies taste like chicken, and proceeded to elaborate on like, "They're all the same. It's the same process, the same infrastructure, the same tools, et cetera. We know how to do this. We'll tell you what to do." Council is very much not that. One, we invest in a much more diverse set of companies, so services companies, technology companies, mostly majority buyouts, some minority investments as well to a broader diversity of companies, and there's just a culture that's a bit different.

(08:32):

The roots of the firm is even embedded within our name Council Capital where we have a group of three dozen successful public and private sector leaders who are both investors and advisors of the firm, and they have been part of the firm since day one. So, since day one, it has been a culture of collaboration, a focus on growth over financial engineering, and a mindset of enabling our portfolio companies rather than telling them what to do. While all of those things seem obvious and people talk about, I think a lot of firms don't necessarily live that in practice, and we are humbly proud to live that in practice.

Geoff Cockrell (09:13):

Is this approach part of your sales process with a portfolio company that you're going to be working with that helps you get the deal in the first place, or how engaged in those discussions are you even before the deals occurred?

Tim Schulte (09:25):

Yeah, it certainly is. At the end of the day, to oversimplify things, folks are looking for, number one, "How much is an investor going to value my business today?" and number two, "Through a partnership with that investor, how much do I think my business will be worth in the future?" The first is pretty black and white. The second is much harder for an entrepreneur to really discern. Both the capabilities and the culture that we bring forward are something that we've found quite differentiates ourselves in the market. So, a value creation team perspective, we are focused on building the relationships, learning about the business, so we can hit the ground running on day one.

(10:09):

From a diligence perspective, we're not doing a ton of the operational diligence ourselves. Our investment team leads diligence efforts. We use a lot of third-parties if that's compliance reviews or architecture reviews for a software product. The things like, "Hey, a company is not great at marketing." That's good to know. That helps us inform how we can provide value during the investment hold. That's not necessarily going to kill the deal. So, in short, it's lighter on the operational due diligence side from the value creation team perspective, but still meaningful from a sales relationship building and a strategic planning perspective from day one.

Geoff Cockrell (10:47):

Sourcing talent for these roles can be a challenge, and some people might call them an operating partner or something different. What's the picture of the person that you're looking for to serve some of these functions?

Tim Schulte (10:59):

Yeah. There's, really, two role types that I can briefly allude it to. There's our generalist chiefs of staff role, and then there's our more functional subject matter experts. On the generalist chiefs of staff role, it's a pretty similar dynamic. We've had three folks from McKinsey, two or three from BCG, one from Bain, one from Accenture. Think late 20s, early 30s, post-MBA, former consultant generalist of high horsepower, able to ramp into new situations very quickly, very analytical with orientation towards complex problem-solving. That's the demographic that we've largely hired for the generalist roles.

(11:45):

Then, for the specialist roles, it's varied a bit more. So our chief talent officer spent some time as an executive recruiter, spent some time leading an RPO or recruitment process outsourcing business, developing technology and AI-powered tools for recruitment services firms. Our head of portfolio

finance was audit transaction services and then about a decade in investment banking. So the specialist roles are a bit more diverse or less consistent in what their backgrounds were, and then the generalist roles are pretty cut and dry as to a specific demographic that we're recruiting.

Geoff Cockrell (12:23):

The generalists, former high-power consulting, management consulting, do they tend to parachute into the company and work at just one or they spread out over a few? How does that work?

Tim Schulte (12:35):

Most typically, they're going to support two to maybe three companies at a time for, let's call it, 6 to 18 months. So one example that I'll use is StrataPT, is an EMR, electronic medical record and revenue cycle company within the physical therapy space. We invested in this business last year. Colette Edgar, a woman on our team who had joined us from McKinsey, she led for about the first nine or so months with that business, a strategic planning effort, implementation of a new financial reporting system, a new HR system, introduction of some standard reporting for Council, and helped work with the team on some go-to-market strategy and sales enablement practices.

(13:22):

While in parallel, Chris Nichols, our Chief Talent Officer, helped build out... They had a great executive team and CEO in place with two founders and a chief technology officer. But to complement that scrappy, smaller exec team, we added for the first time a CFO, a CRO, and a COO. So those were three net new positions as we wanted to make sure that they had the right high horsepower executive team to grow the business aggressively over the next few years. So, a year or so, infrastructure building, building the right team, and now those resources have largely scaled back from a council side. Those investments have really paid off.

Geoff Cockrell (14:01):

Tim, I know you guys have a group of CEOs from other contexts that work with the fund to provide support around the portfolio companies. Can you describe who those people are and how you think about that approach?

Tim Schulte (14:16):

Yeah. So, this group, our CEO Council is a group of public and private sector leaders who are both investors in and advisors of the fund and portfolio. So this is folks on the public sector side from Leslie Norwalk, who led CMS, to Darin Gordon and John McCarthy to former state Medicaid directors to the private sector. We've got Andy Smith, who is the CEO of Brookdale Senior Living, Tom McCarthy, who was the CFO at Cigna, and a bunch of other folks, I'll say, of that caliber and background.

(14:50):

They're working with us to do a number of things. First is helping us understand within healthcare, what are the trends and opportunities within the market that we should focus from a new deal

perspective. So, for example, over the last three to six months, there's been a lot of, I will neutrally say, noise in the market around tariffs, around big, beautiful bills, and implications to Medicaid and other funding, and what does that all actually mean in practice beyond the political bluster.

(15:25):

Being able to call on folks who have sat in those seats and help us really understand the markets has been invaluable, and that helps us both from a deal side, but also in positioning with our portfolio companies. They also sit on boards of our portfolio companies. They'll make introductions to executive talent, to partners, to new businesses to invest in, to bringing their subject matter expertise. We're meeting on one of them now with payer negotiation effort in one of our portfolio companies. So that group of CEO Council members as high-engagement senior advisors with the connections, and the ideas, and the strategies to help our portfolio companies, and then the W-2 employees on our value creation team who can help with the implementation of those ideas and strategies.

Geoff Cockrell (16:12):

So you have your CEO Council, your W-2 employees that work directly for the fund. Are there any other categories of resources that you bring to bear?

Tim Schulte (16:20):

Yeah, there certainly are. Those are the two biggest from a, say, energy and headcount perspective. The two others that I would highlight are going to be around preferred partnerships as well as ecosystem collaboration, as we call it. So the former is less differentiated, but not less valuable, and that's partnerships with technology and service providers. So think finance professionals, outsource support, technology systems like CRMs and HRAS, legal partnerships, executive recruiters, things of that nature where we're able to help our portfolio companies with streamline, "Hey, this solution has worked really well in the portfolio." If more efficient evaluation, we've got preferred pricing on behalf of council and the scale of the portfolio in a way that's different than any one company could negotiate on their own. Those partners are important because our portfolio companies plus council, we can do a lot, but we do lean on external parties as well.

(17:22):

The last one I mentioned, ecosystem collaboration. While this sounds maybe a bit nebulous or vague, is very real, and so that's basically, "How do we connect the people and the learnings from different portfolio companies with each other?" So that takes a number of different forms. We've had a technology leader forum as well as a HR and talent leader forum sharing ideas, best practices around the adoption of artificial intelligence across portfolio, about hiring paraprofessionals and hourly wage professionals and services industries through the pandemic.

(17:58):

I'll say special topics like that where we bring together the people leading that work at the portfolio. We've had a number of examples of Company A is a customer of Company B within the portfolio, and so there's some shared benefit that's obvious in that regard. We even had two of our companies, Triad and NeurAbilities. NeurAbilities provides behavioral and medical care in the autism space. Triad provides test prep and continuing education for behavioral health companies. The two of them actually collaborated to co-develop a product as Triad extended into the autism and ABA therapy space. So that bucket of ecosystem collaboration is maybe less structured than some of the other engagement models with our chiefs of staff for other value creation team members. That's very real and very meaningful as well.

Geoff Cockrell (18:50):

Tim, when you're looking at a company, it's a bit of a dance, and you're feeling each other out a little bit as to temperament and approach. One of the areas that I'm sure you're testing for is whether or not they'd be a great candidate in this process. How do you think about that when you're evaluating a target?

Tim Schulte (19:08):

I'd say first and foremost is passion and alignment around mission. So at Council, our motto is investing in businesses that make healthcare better. So, yes, every private equity firm, yes, every capitalist investor wants to make money. That is true, but we care very, very, very deeply at Council around having a greater positive impact on the societies in which we live and in our communities, and we do that through our investments in healthcare companies.

(19:38):

So passion and purpose, that's bigger than self, and it's something that the Council, and the entrepreneurs, and business both need to bring to the table, number one. Number two is then recognition of the aligned incentives around that, and we are all on the same team. No pride of authorship. Best ideas win. We are all working towards the same goals with the same incentives in mind. I think that mindset of purpose-driven, assume best intent, we're all on the same team, and we want to grow. Those are the attributes or characteristics of an entrepreneur or business leader that really fits well and thrives within the Council ecosystem.

Geoff Cockrell (20:22):

Tim, I think we'll wrap it there. Super interesting discussion, and Council, certainly, has, for a long time, been a leader both in investing and in transforming companies, and I really appreciate you joining me.

Tim Schulte (20:35):

Thanks. I enjoyed the conversation as well.

Voice Over (20:39):

Thank you for joining us on this installment of The Corner Series. To learn more about today's discussion, please email host, Geoff Cockrell, at gcockrell@mcguireWoods.com. We look forward to hearing from you.

(20:52):

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