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**FUND NEWS**

# A Former Tech CEO Uses Permanent Capital to Build Lasting Businesses

Ex-Rackspace leader Lanham Napier's BuildGroup recruits family offices to back long-haul investments in software



Lanham Napier, co-founder and chief executive of BuildGroup, invests for long-term growth.

PHOTO: BUILDGROUP

By **Preeti Singh**

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When Lanham Napier left Rackspace US Inc. in 2014, he knew what he wanted to do next: build long-lasting software-as-a-service businesses alongside founding entrepreneurs, the former chief executive of the cloud-computing firm said.

By 2015, Mr. Napier had co-founded BuildGroup LLC in San Antonio with managing partners Jim Curry and Klee Kleber, whom he had worked with when they were Rackspace executives. By 2018, the firm had raised \$330 million for its first pool of permanent investment capital.

Today, BuildGroup invests \$10 million to \$80 million in companies that use artificial intelligence tools to build on SaaS or subscription models to create new revenue streams for themselves and their customers, according to Mr. Napier, the firm's chief executive. He describes these companies as following a modern business model.

The thesis of backing SaaS providers that use artificial intelligence to enhance their operations was also attractive to investors in BuildGroup's permanent capital pool—family offices and individuals from Texas and the Rocky Mountains region, said Mr. Napier, a native Texan.

BuildGroup counts among its investors San Antonio's Mays family, whose patriarch, Lowry Mays, founded radio broadcaster Clear Channel Communications, and Salt Lake City's Cynosure Group, which invests on behalf of descendants of the late Utah industrialist David Eccles and others.

According to Cynosure managing director Hebert "Bud" Scruggs, the firm spent almost a year helping BuildGroup hone its strategy and engaging with the team before committing capital as an anchor investor.



Hebert "Bud" Scruggs, managing director of Cynosure Group, which is an investor in BuildGroup.

PHOTO: SAANS PHOTOGRAPHY

“You can tell the difference between someone who is looking to build a company over the long haul and someone that is primarily committed to financial engineering or to pumping up performance so they can monetize an investment in two or three years,” Mr. Scruggs said. Cynosure’s investment in BuildGroup helped augment the Utah firm’s expertise in financial institutions, real estate and industrial business with exposure to venture capital and growth investing, Mr. Scruggs said.

Mr. Napier, who held leading roles at Rackspace for more than a decade, is also a large investor in BuildGroup’s permanent fund. The firm had about \$350.2 million in regulated assets under management at the end of last year, a regulatory filing shows.

“The first thing from an alignment point of view [with investors] was to have skin in the game,” Mr. Napier said. BuildGroup also has an unusual approach to management fees: It plans to end them when its investments begin to generate enough revenue to cover the firm’s operations.

“We feel management fees [are] a big drain on the investor returns,” Mr. Napier said.

BuildGroup’s investors are focused on preserving capital and minimizing taxes, he added.

“We’d rather own something longer and compound even at a lower rate to preserve those gains as opposed to pay taxes and bear investment risk,” Mr. Napier said.

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For entrepreneurs who have used their own capital to create their companies, an investment of permanent capital can be attractive, Mr. Curry said.

“Our needs never dictate the exit. We don’t have a fund with an expiration date,” he said.

BuildGroup already has deployed almost half of its capital pool in eight investments. It aims for several more.

“We would love to invest in a dozen companies and hold them for 20 years. That would be an ideal situation for us,” Mr. Curry said.

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