Private Equity International

Operational Excellence

October 2020 • privateequityinternational.com

Value creation in action

OpEx Awards winners revealed

How to contact us

Senior Editor, Private Equity, Americas
Isobel Markham
isobel.m@peimedia.com, +1 646 380 6194

Senior Editor, Private Equity, EMEA
Adam Le
adam.l@peimedia.com, +44 20 7566 5437

Senior Special Projects Editor
Graeme Kerr
graeme.k@peimedia.com, +44 20 3862 7491

Special Projects Editor
Louise Fordham
louise.f@peimedia.com, +44 20 7566 5440

Senior Reporters
Carmela Mendoza
carmela.m@peimedia.com, +44 203 640 7512
Rod James
rod.j@peimedia.com, +44 20 7566 5453

Senior Reporter – Asia
Alex Lynn
alex.l@peimedia.com, +852 3704 4638

Contributors
Amy Carroll, Claire Coe Smith, Vicky Meek, Victoria Robson

Managing Editor, Production: **Mike Simlett**

Production Editors: **Daniel Blackburn, Adam Koppeser**

Copy Editors: **Eric Fish, Nicholas Manderson**

Art Director: **Mike Scorer**

Head of Design: **Miriam Vysna**

Senior Designer: **Lee Southey**

Designers: **Denise Berjak, Pio Blanco**

Head of Marketing Solutions, Private Equity Group:
Alistair Robinson
alistair.r@peimedia.com, +44 20 7566 5454

Subscriptions and reprints
subscriptions@peimedia.com

Customer Service
customerservices@peimedia.com

Editorial Director, US: **Rich Melville**

Editorial Director: **Philip Borel**

Director, Product: **Amanda Janis**

Director of Research and Analytics: **Dan Gunner**

Managing Director, Americas: **Colm Gilmore**

Managing Director, Asia: **Chris Petersen**

Chief Commercial Officer: **Paul McLean**

Chief Executive: **Tim McLoughlin**

For subscription information visit
privateequityinternational.com

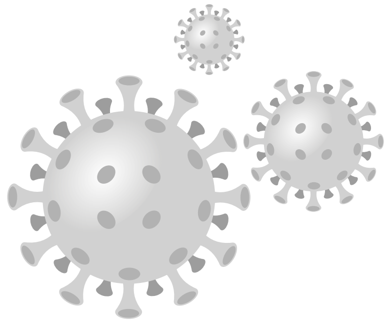
PEI

Private Equity International

Operational Excellence

ISSN 1474-8800 • OCTOBER 2020

Insight



Key trends **Private equity's value creation playbook looks to prove its worth amid today's pandemic-induced uncertainty**

Financial engineering will ever be integral to the private equity model; it is called leveraged buyout for a reason. Still, the shift in GPs' focus towards creating value through operational improvement has been one of the most striking trends of the past 10 years, ***writes Rod James***.

Every one of the 25 largest private equity firms in the world has an operating group focused on supporting value creation in their portfolios, according to McKinsey. These teams are also getting more hands on. In 2015, the consultancy found operating teams spent almost a third of their time "monitoring and reporting" company performance. In 2018 this dropped to 19 percent, with "driving measurable performance improvement" coming to represent more than 50 percent of time spent.

"We aim to support portfolio companies throughout the life-cycle of an investment – from pre-deal, through the growth strategy implementation and journey to exit, and possibly even beyond, if we reinvest in a business," Geoff Tomlinson, value creation partner at LDC, told *Private Equity International* last year. "This is a much broader responsibility for operating partners than has previously been the case, particularly in pre-deal."

> "[The crisis] has underlined the importance of being highly engaged in good times and bad"
>
> Stewart Kohl, Riverside Company

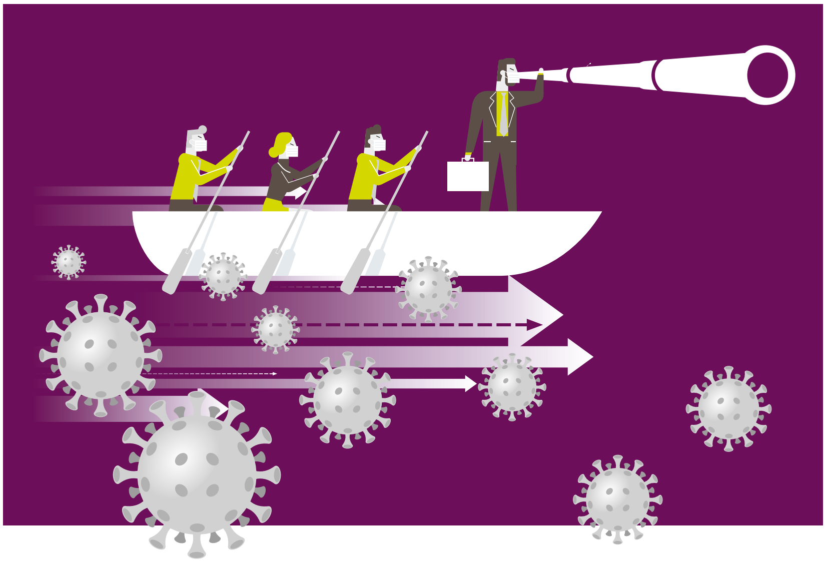
Lessons from the GFC

It is prescient that a key driver of this trend was the global financial crisis, when it became clear GPs would have to intervene, financially and operationally, to save businesses under stress. With hindsight, it seems that not only did this intervention save companies but helped them thrive. McKinsey found that GPs with operating groups achieved internal rates of return roughly 500 basis points higher than those without on their 2009-13-vintage funds, a phenomenon unapparent in relation to other vintages.

A 2018 paper titled *Private Equity and Financial Fragility During the Crisis* found sponsors' willingness to get stuck in not only helped companies survive but also allowed them to increase market share versus non-PE-backed peers.

The situation today differs from the GFC in several ways. Though extensive investment means GPs are better resourced to help than a decade ago, the unpredictability of the virus makes it harder for GPs to provide strategic guidance to their businesses, the paper's co-author Josh Lerner, a Harvard University professor, tells *PEI*.

The growth in operational resources has also been matched by an expansion in the number of deals



that firms are doing, notes Daniel Winther, head of private equity and infrastructure at Skandia Asset Management, which has around €4 billion in PE assets and favours GPs with a focus on operational improvement. "What I worry is that they have maxed out," he says. "When a crisis hits like this one, where every company is getting hurt, these resources will help but it might not be enough."

In May, a Northern European pension fund manager told *PEI* he took comfort in how embedded operating partners are in their portfolio companies. They understand the business intimately and their compensation is closely aligned with that of management. Most were hired, however, during a decade-long bull run. They clearly understand growth but what about distress?

Positive early signs

While the crisis still has a long way to run, the initial response of operating partners has given cause for optimism. Companies such as packaging business GPA Global, owned by EQT, quickly pivoted to manufacturing personal protective equipment for export to Europe and the US. It had shipped 40,000 masks as of the end of April and planned to ship an additional 860,000.

Algerian pharmaceutical business Biopharm, acquired by Development Partners International in 2013, converted two production lines dedicated to the manufacture of topical creams and gels to producing hydroalcoholic gel for hand sanitiser. It donated the first 30,000 to various public bodies and will sell further batches "practically at cost", *PEI* reported.

"It is an entrepreneurial response to this crisis," Sriwatsan Krishnan, a Mumbai-based partner at consultancy Bain & Co, told *PEI*.

Mid-market buyout shop Riverside Company has seen a modest increase in the value of its portfolio since the start of the crisis, with year-to-date sales and EBITDA around flat on last year, a product of the firm learning quickly "to do more with less", says co-chief executive officer Stewart Kohl. He cites the success of Galvanina, a sparkling water company from Northern Italy, one of the earliest hot spots for covid-19.

"One might think they were shut down or even at risk of going out of business," he says. "They developed meticulous safety protocols that we replicated across our portfolio. They saw demand increase as sales to groceries boomed, and they met that demand while overcoming a strict lockdown, shipping challenges and scores of unknowns. They are an inspiration."

Further tests ahead

For the aforementioned Northern European pension fund manager, the crisis has reaffirmed his belief in backing GPs with an operational focus, though he acknowledges his good fortune in being highly exposed to sectors such as software-as-a-service, whose spike in popularity during lockdown has helped buoy the whole portfolio.

Speaking to *PEI* in September, six months since much of the world introduced lockdown measures, he is at pains to emphasise the worst of the crisis may not be over and the removal of state support could be a death sentence for some sponsor-backed businesses, even with the best efforts of the operational team.

"Some manufacturers said [at the start of the crisis] 'let's burn through our excess inventory and not order more'. They've now burned through it and they need to start the plant up again, but they are not at full capacity because the demand is just not there. So, once again we have a cost absorption problem. We are in a kind of twilight zone."

Despite the considerable uncertainty, there is no suggestion yet that coronavirus will challenge the fundamental pillars of the operational improvement playbook. If anything, it is likely to hammer home the benefits of not just being a financial engineer.

"It has underlined the importance of being highly engaged in good times and bad so as to be ready to jump in with both feet on a moment's notice," says Riverside's Kohl. ■

Value creation **Four key learnings from the OpEx Awards**

The Operational Excellence Awards shine a spotlight on private equity firms' value creation achievements – and the hard work, skill and strategic thinking behind these, ***writes Louise Fordham***. This year's winners range from a US connected fitness business to a cybersecurity software firm in Israel. In line with the particularities of each company and market, GPs pulled on numerous and diverse value creation levers over the course of their investment periods. Alongside examples of innovation in action, there were some common threads that ran through the winning submissions.

1 Honing the brand

In today's social media age, developing a company's brand image has become increasingly fundamental to its success. L Catterton recognised this with former portfolio company Peloton, which sells exercise equipment and access to live and on-demand classes. With consumer interest in health and wellness accelerating, L Catterton reinvested cost savings achieved through improvements to Peloton's operational infrastructure into marketing and branding initiatives. This helped grow a sense of community among customers and catapult Peloton into the lifestyle brand well known today.

Identifying and focusing on your best attributes is a key tenet of effective branding. In Moldova, Horizon Capital assisted Purcari Wineries in streamlining its product portfolio and relaunching its four main wine brands, which was marketed via a digital and social media-led strategy.

2 Moving into new markets

Several of this year's winners took steps to facilitate geographic expansion. KPS Capital Partners not only helped Netherlands-based Chassis Brakes International to grow its operations in China, it also oversaw the automotive brake manufacturer's entry into the North American market where its revenue grew to nearly €100 million in three years. In Israel, software security solutions business Checkmarx grew its footprint in Europe and North America with the backing of Insight Partners. To aid its international expansion, former Fortify Software COO John True was appointed to the Checkmarx board, bringing with him operational experience and knowledge of the North American software market. Checkmarx now serves more than 40 companies in the Fortune 100.

3 Making strategic acquisitions

M&A featured heavily among 2020's winning entries, including the successful simultaneous acquisition and merger of payment integrity platform Equian and cost containment services and software provider Trover by New Mountain Capital.

Meanwhile, during its investment in LBX Pharmacy, EQT helped capture growth opportunities in China's pharmaceutical retail market via more than 40 add-on acquisitions. In addition to accelerated store openings, this strategy saw LBX's store numbers rise more than 40-fold.

Elsewhere, Riverside-backed US training and compliance company Health and Safety Institute executed four acquisitions during the GP's 2015-19 holding period. These enabled it to grow market share and increase its recurring revenue mix. Notably, Riverside invested in IT systems at HSI, which allowed it to migrate the bolt-on acquisitions onto a unified platform.

4 Developing and aligning talent

Finding the right people to lead and support a firm's growth trajectory is an integral piece of the value creation puzzle. When Affinity acquired Virgin Australia's frequent flyer loyalty programme, Velocity Frequent Flyer, it identified 20 strategically important roles and led the recruitment initiative, while EQT introduced incentive programmes at LBX Pharmacy to align management with its aims and support long-term talent acquisition and retention.

Inclusive talent practices also came to the fore this year. During its ownership of Japanese care home operator Vati, NSSK led initiatives to support the hiring and career progression of women and people with disabilities. Today, 68 percent of Vati's managers are women. ■

PEI

New York
130 West 42nd Street
Suite 450
New York
NY 10036
T: +1 212 633 1919

London
100 Wood Street
London
EC2V 7AN
T: +44 20 7566 5444

Hong Kong
19F On Hing Building
1 On Hing Terrace Central
Hong Kong
T: +852 2153 3240

Private Equity International
Published 10 times a year by PEI Media. To find out more about PEI Media visit **thisisPEI.com**

Printed by Stephens & George Ltd
stephensandgeorge.co.uk

Editor's letter

Value creation reimagined for a new era

Louise Fordham
louise.f@peimedia.com

At *Private Equity International*, we have now been running the annual Operational Excellence Awards for nine years, and in that time the ability of operating teams to successfully execute value creation plans has only grown in importance. In this issue, we celebrate 2020's winners and explore the array of operational levers they utilised to grow their portfolio companies, but we also go beyond this to examine how the role of the operating partner is evolving.

This year we have witnessed fundamental changes in the way companies, their employees, customers and whole sectors operate. With the continuation of measures to restrict the spread of covid-19, as well as the reintroduction of local and national lockdowns in several countries, we are a long way off from returning to pre-pandemic norms. It seems likely that many aspects of daily life and business operations will be reshaped for the long haul, particularly as we become accustomed to more digital transactions and interactions.

> **"Operating teams are uniquely placed to support portfolio companies today"**

Operating teams are uniquely placed to support portfolio companies through today's shifting sands, from assessing alternative revenue models to addressing supply chain issues. Yet firms may need new or less traditionally sought-after skills to help them deliver optimum impact in this era of uncertainty and the challenges trailing in its wake. This may mean bringing in talent with more diverse backgrounds and experience, who can provide fresh perspectives.

How such diversity can be achieved at both the firm and portfolio company level is one of many issues you can read about over the course of this supplement, as we look back on the value creation successes of the last 12 months and look ahead to envision the operating partner of tomorrow.

Louise Fordham

KEYNOTE INTERVIEW

Driving value creation through data analytics

Applying data insights effectively can be key to improving portfolio company profitability or successfully integrating acquisitions, says Rich Davis, growth acceleration leader at RSM

Q What kinds of demands are being placed on portfolio company chief financial officers?

There was an immediate focus on cash-flow and liquidity when the pandemic hit. Most of the portfolio company CFOs and operating partners we spoke to were trying to become laser-focused on cash, and that meant looking at cash projection modelling, examining the assumptions that were built into P&L from top to bottom, and rolling that forward to understand the impact of covid-19 on overall liquidity.

Those exercises highlighted the importance of having the right data to refine the key business assumptions that were going to have a major impact on their ability to project cash through the downturn and understand sources and uses of cash. Covid-19 caused CFOs to take a hard look at how to make data effective for their organisations. Moreover, there was a clear need to step beyond accounting and drive business insights that could be pushed back to functional teams to partner with the business more closely. We have seen teams become more glued together around this, because even though the liquidity risk may have passed, many organisations are now asking much more detailed questions of their CFOs.

SPONSOR
RSM

Q What dynamics typically exist between the CFO, sales, operations and IT, and how are these teams organising to drive value creation?

In most mid-market portfolio companies, the IT team has either a direct report into the CFO or a tight linkage. Where the CFO role continues to evolve is that connection between business performance and the underlying technology that supports the business.

From the front office perspective, a chief revenue officer at a portfolio company is always looking to understand how to drive core relationships and opportunities for the business, and how to ensure existing customer base and organic growth opportunities are not missed. Now, the CFO often sits between sales and operations as a real arbiter of profitability in customer relationships.

From an operations standpoint, there is this dynamic between what is being sold and how quickly it can be satisfied. A CFO armed with data can look at that and what it means from a margins perspective, helping the operations team understand the opportunities in terms of delivering on the customer mandate and reducing the overall cost to serve.

The toughest gains, with the most scalability, are the ones hiding in the corners of operational synergies and the CFO with the right data can identify those. Having that ability to drive the top line by working with the chief revenue officer on the one hand and with the operations team on the other is key.

Q How can a portfolio company executive team best position the business to drive the investment thesis and use data to inform that decision making?

For a portfolio company operating partner working to create a platform to grow beyond organic growth, the real challenge comes around M&A. With covid-19, opportunities are being presented and there are deals to be done. To realise the value of those deals, you have to understand how to integrate an acquisition into the portfolio company without missing a beat on servicing existing customers or capturing the benefits of combining. An executive team focused on understanding the data and the systems coming with that acquisition can help enhance value creation.

Q What role can external advisors and industry expertise play at portfolio companies?

The managers and portfolio companies we work with rely on a wide variety of service providers. It is difficult to provide a lot of exponential and accretive value to a portfolio company executive team that is already very knowledgeable about its industry. We have to assume the private equity firm has significant depth in the industry vertical, talented operating partners and an incredibly knowledgeable executive team, so it is hard for an external advisor to move the needle when the client is already out ahead.

Firms like ours are putting a lot of emphasis on demonstrable industry depth. That means that if we are working with 10 portfolio companies, we can bring 10 perspectives from portfolio companies operating in that industry to a client that may benefit from hearing those experiences. We can build relationships with portfolio company executive teams and provide that industry lens and benchmarking that clients can use to drive value.

> *"Covid-19 caused CFOs to take a hard look at how to make data effective for their organisations"*

Q Assuming a portfolio company could capture any and all operational and financial data, should everything be measured?

That is where the industry perspective becomes so critical, because in any portfolio company there is a handful of key performance indicators that matter most. A lot of the time we find ad hoc reporting where clients are trying to go deep on analysis but have not got the basics to understand how to take that information and identify what the best initiatives are going to be to help drive additional value, so the initiatives fall short.

In our experience, those portfolio companies that have the critical view established at a management team level can drive specific and targeted organisational initiatives that have an impact on sales, customer acquisition and churn, all the way through to P&L. Portfolio companies are looking for systems that really help them tell the story. A good team that understands sales and operations, armed with the right data from the right systems, is going to be the most successful.

Q What is the best way to accelerate the process of making the right investments in infrastructure, technology and business processes with the most operational payback?

In most portfolio companies we look at, unless there has been tremendous under-investment in technology, usually the technology has been under-leveraged. It is not about the transformation of a portfolio company's enterprise resource planning platform; instead, it may be as simple as looking at the available data and modelling performance over time to help understand how that platform can be better employed. There are so many CRM systems out there that are under-utilised.

Companies have focused on making lots of requests to try to understand where the business performance opportunities lie, or they install an expensive analytical tool to solve a problem. In reality, they may already have the right systems but lack the understanding of how best to use them. The biggest opportunity usually comes from taking a fresh look at the systems and technology already in place to see how it can work better to drive performance. ■

The operating partner of tomorrow

As portfolio companies face disruption from the pandemic and accelerating digitalisation, private equity firms are on the hunt for operating teams with more diverse skill sets, writes Vicky Meek

Over the past decade, private equity firms have doubled down on operational improvement as a driver of value creation, a trend that was only accelerated by increasing purchase price multiples in the run-up to the pandemic. In a 2019 survey by Heidrick & Struggles, the recruitment firm said it was experiencing record demand for private equity operating partners and that the role was "the fastest-growing position within the industry as of mid-2019".

This trend has continued unabated through 2020 as firms have focused on supporting portfolio companies through covid-19-related disruption. "Private equity firms have been investing in their operational expertise for many years now," says Olof Faxander, head of the operational team at Nordic Capital. "But recent experience has highlighted how important an operationally focused approach and mindset is when navigating tough conditions and repositioning for a new normal."

If operating partners' skills were not already highly valued in a firm, the pandemic's impact on portfolio companies will have underscored their significance. "Operating partners have undoubtedly been busier than usual over the past six months as they have supported portfolio companies through challenges and helped them identify new opportunities," explains Erol Uzumeri, founding partner at Searchlight Capital Partners. "Companies have really needed operational expertise to protect the business or go on the offensive to capitalise on increased demand in parts of the economy."

New skills for a new era

As we have moved through the initial shock, it has become apparent the pandemic has ushered in a different era for businesses across all sectors – a development that could affect the kinds of skill and experience operating partners will need.

"We are challenging portfolio companies to think about longer-term shifts, which trends have been accelerated and which created," says Faxander. "There is a need to think strategically as portfolio companies leverage new opportunities in the market and consider what the new environment will mean for their business models in one, two and three years from now."

Among the biggest trends is increased demand for digital solutions as people have had to work and conduct daily life in a more virtual sphere. "Over the past six months, we've really seen an acceleration of things like the emergence of digital channels to market and, evidently, the shift to remote working," says Jérôme Losson, partner and head of the portfolio operations team at BC Partners. "That has really changed the way companies deal with staff, customers and suppliers and it can change companies' infrastructure requirements."

In some firms, the recruitment of operating partners with technology backgrounds had already started pre-pandemic. "When I joined the firm in 2012, the profile of an operating partner would have combined management expertise in a sector and consulting," says Losson. "Yet since around 2016, we've been recruiting people with a variety of technology backgrounds – people who have, for example, worked at Amazon or in data science businesses."

For other firms, the experience of the past few months, combined with predictions of an increasingly digital future, will lead to a different emphasis when it comes to hiring operational expertise. "The skill sets required to help companies shift to digital technology may not have taken prominence until recently," says Uzumeri. "Many firms have tended to focus on areas such as supply chains and even where technology expertise has been brought in, it may not have been strategic technology experience. But now we're seeing many businesses either disrupting or facing disruption, you'll see increasing demand for a unique set of skills in house."

Yet hiring these individuals may not be easy. "It's quite a challenge to find people who understand both the technology and the business outcomes it can enable," says Losson. "There is a significant role for operating partners to be intelligent translators, to be the architects of technology-led transformation journeys, communicating them in a way that is digestible by boards, enabling the right decisions to be taken."

An emphasis on agility

Even where firms are working on more familiar operational territory, they may find the landscape has shifted. For example, the restrictions put in place because of covid-19 have highlighted the fragility of the dispersed and complex supply chains many companies built

Getting the right people on board

As operating partners become integral to private equity firms' success, attracting and retaining the right people becomes increasingly important. Yet operational hires have not always gone to plan, with "people flitting in and out of operating roles" in some instances, according to recruitment consultant Egon Zehnder's head of US private equity, Kenna Baudin.

"One of the issues is that the term operating partner means different things in different private equity houses," she says. "When identifying the skills a firm needs, it's important to draw up a well-defined specification of what it needs the person for. Will it be a full or part-time role? Will they work on deals or post-acquisition, for example? One size really doesn't fit all when it comes to operating roles – some are clearly figureheads; others are worker bees."

She also points to situations in the past where operating partners "have tended not to have a seat at the table and be considered a bit like second-class citizens", although she adds that this is changing as operating skills become more critical to returns.

Diversity across teams is a major focus for firms today, and to achieve this, Baudin advises taking a different approach to recruitment. "You really do have to be deliberate in your search if you are to build genuinely diverse candidate shortlists," she says. "You have to look in different places otherwise you'll just come up with the same people. Firms also need to focus on the skill sets they're trying to address rather than on the chair an individual sits in today. It's not about what has happened, but about their potential. This is probably more important now than ever because so much has changed – you need agility."

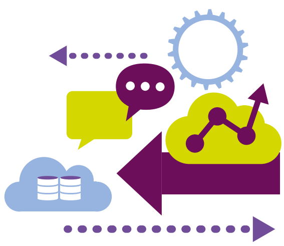
over the past decade. As Losson notes: "Companies have been forced to examine their resilience across a number of dimensions. Supply chain is clearly one of these – where in the past, there was an unquestioned dogma that just-in-time, cost-effective supply chains were highly desirable, we've seen significant dislocations over recent months to the flow of goods and people. We can expect an increased focus on trading off resilience and cost-effectiveness."

The agility required to navigate such trends could mean a change in the way operating partners approach challenges. As the former CEO of UK supermarket group Tesco, Sir Terry Leahy, a senior advisor to Clayton, Dubilier & Rice since 2011, knows more than a little about areas such as supply chains. He points to "good expertise in supply chains" in many private equity firms, but adds that he expects "new and different supply chains to emerge, although it's not yet clear what will change and how they will look".

As a result of this uncertainty, he predicts the need for a different style. "Operating partners are likely to be more reflective, open and be prepared to listen," says Leahy. "In the past, the emphasis has been on people being certain and decisive; today, companies and entire sectors are seeing new problems and challenges, in part because of digital disruption, but also because of the pandemic. Past experience may not always lead you to the best answers even if it helps inform a response. More collaborative work and flexible thinking will be required."

"Past experience may not always lead you to the best answers even if it helps inform a response"

SIR TERRY LEAHY
Clayton, Dubilier & Rice



The search for expertise

With widespread change happening across portfolio companies, it is perhaps unsurprising that private equity firms are hunting for expertise across a range of issues, with, according to Leahy, a greater emphasis on areas such as environmental, social and governance, and talent. It's a trend picked up by Kenna Baudin, partner and head of private equity in the US at leadership consulting firm Egon Zehnder. "We've seen increased interest in operating partners with talent experience," she says. "We will see that continue as we come through the pandemic because portfolio companies will need support around managing through change and increasing their agility."

The dimension of talent that may well gain greater attention is diversity and inclusion, in particular as the Black Lives Matter protests have brought the issue of racial inequality to the fore this year. "Diversity and inclusion are becoming critical areas for companies that want to achieve operational excellence," says Uzumeri. "Operating partners will become more focused on driving through diversity and inclusion initiatives through the portfolio – deal teams would be far less focused on this."

The events of the past few months, combined with growing recognition in private equity that groupthink is the enemy of innovation, could also impact the diversity of operating teams themselves. Uzumeri adds: "Operating teams will need to become more diverse to ensure they have a variety of perspectives on tackling challenges and making improvements. This will be critical for the success of both private equity firms and portfolio companies – it may not have been a priority previously."

And, echoing Leahy's point, many believe operating partners will increasingly need to understand how to create value through ESG. As Faxander says: "In a more financially restrained environment, you might expect ESG to move down the priority list, but we've seen the reverse happen. The pandemic has really moved things forward, showing how a robust approach to sustainability integration can help companies navigate through turbulent periods and lay strong foundations for the future. Operating partners really need to understand the ESG levers and issues in portfolio companies, with experience in this field contributing great value to a company's long-term future."

Tomorrow's operating partner is unlikely to look like those of the past. While there will remain a place for those with consulting skills, we could see the emergence of a new breed of tech-savvy, ESG-focused executives with strong collaboration capabilities as firms build operating teams with more specialist and diverse expertise.

As Leahy says: "I see operating partners being younger with more digital experience – perhaps in the nexus between data, technology and marketing – an open mind and a willingness to learn alongside everyone else. To be successful, operating partners won't necessarily be the ones that come up with the answers, they will be the ones that lead a group of people to the answers." ■

Gender diversity: A challenging win

Guest comment by **Gail McManus**

Positive action from every investment firm will help address gender imbalance at the operating partner level, says PER's founder and managing director

Gender diversity data from PER's *2020 UK Private Equity Investment Professionals Compensation Report* reveals that 75 percent of firms have no female operating partners. Sadly, that figure is not surprising and broadly reflects the gender balance at senior levels in funds. What is surprising is that the industry has not taken a simple, low-risk and potentially high-return measure that will have an immediate impact on female representation among operating partners.

When faced with historic inequalities, it is important to be mindful of how they came to be. Crucially, most operating partners are not usually hired through a recruitment process. Firms tend to appoint someone they know, often through first-hand experience of the value they have already created. Operating partners hold a position of trust and, as such, are often someone who is already an established member of a firm's network.

This, of course, is good business sense and no-one is suggesting that these tried and tested routes for finding operating partners have had their day. That said, why should firms limit themselves to this group? A broader range of talent can benefit decision making and help to access investment opportunities that the fund may not have at first thought of, bringing a different perspective to a broad range of operating issues.

Valuing different experiences and perspectives

A small change that would have a massive impact on this industry would be for every firm to consciously welcome on board one additional operating partner who is female. This first step would have an immediate impact on the industry's gender balance at this level.

I am by no means suggesting private equity adopts the 'one and done' strategy that has been highlighted by the Hampton-Alexander Review into the lack of gender diversity on the boards of FTSE 350 companies. But it is a start that we need to consider.

"A broader range of talent can benefit decision making"

One of the challenges in taking this first step is that there is a perception there are not as many women who have the same depth and breadth of experience as their male counterparts. And for sure, there may not be the same absolute number. But operationally successful women do exist.

If firms are prepared to hire an operating partner who is not instantly known to them, and instead focus on bringing on board a proven business leader whose experience may lie elsewhere in the corporate or advisory world, then they will open the door to a world of talent that might surprise them.

Positive action is necessary to increase female representation at the operating partner level and we are all going to have to try a little bit harder to make it happen. It is by no means an easy win; it is a challenging win – and aren't those wins all the sweeter for it? There is no doubt in my mind that firms with a diverse operating partner group are at a competitive advantage in this market. The new perspectives that women can bring should be valued in the same way as the tried and trusted experience that firms have opted for in the past. ■

Gail McManus is founder and managing director at search firm Private Equity Recruitment

KEYNOTE INTERVIEW

Why tech transformation is 'critical' to growth

The pandemic has underlined the power of digitisation in the private equity industry, says Intertrust Group's Chitra Baskar

As the world contends with the impacts and uncertainties of the covid-19 pandemic, we asked Chitra Baskar, global head of funds at Intertrust Group, how deployment of new technologies can contribute to operational efficiencies and growth across the private equity industry.

Q Is the private equity industry opening up to digital transformation?
Historically, the private equity industry has not been particularly tech savvy. Firms were happy using Excel, emails and Word documents as they made and tracked investments. However, as the growth of private markets has accelerated, so has digitisation. This has been driven by the imperative to handle data more systematically to create meaningful insights and inferences. In the wake of covid-19, digital platform usage is growing quickly as firms seek out ways to share information across multiple locations and geographies for several people to work on collaboratively. At the same time, structural changes in the way private capital managers invest has introduced a high level of complexity that is reinforcing this trend.

SPONSOR
INTERTRUST GROUP

Q What daily challenges are managers facing?
Private capital transactions are now multi-dimensional. For a manager raising capital, investors from all over the world can commit to their fund, using different currencies and complying with various tax and regulatory requirements. The manager needs to take into acount the above complications. Increasingly, larger investors are demanding the creation of separately managed accounts that invest alongside the main fund. That requires separate documentation and the proportion of their investment and distribution needs to be calculated. Further, in order to invest in assets in different jurisdictions,

managers typically set up separate entities in those locations. Some private funds have hundreds of entities that need to be administered and monitored to a high level of compliance.

At the portfolio company level, for funds investing across geographies and industries, the reporting parameters vary depending on the asset. For instance, the financial dynamics and accounting requirements for a German IT services company are very different from, say, a healthcare company involved in drug discovery in the US.

Data and information need to flow from all these entities into the main fund vehicle, where it is consolidated into one balance sheet. That requires currency consolidation, and Generally Accepted Accounting Principles normalisation, etc. The investor sees one statement that captures its share of capital and the P&L, but it takes a lot of work to get there.

Q How can technology help managers overcome these challenges?

As fundraising and investing become more demanding, fund managers are becoming more comfortable with outsourcing rather than doing everything in house and focusing instead on what they do best – investing. During fundraising a manager can use a third party to source capital and pitch to investors and another third party to undertake Know-Your-Customer work, LP due diligence and subscription documentation. Managers outsource fund domiciliation and the establishment of special purpose vehicles. Depending on the underlying investments the accounting needs will vary, as well as the need for information. For instance, a GP typically appoints a property manager to oversee its real estate assets. However, in the case of private equity or private debt investments, accounting performance or cash flows all become relevant to consolidate and monitor.

Over the course of the pandemic, technology has become a critical factor, bringing people together across time zones and allowing them to work on the same documents and transfer data internally and externally. Digitisation has facilitated workflows. Investors can upload their KYC documents and commit to a fund without sending papers by mail, and that information can be validated online. Managers can complete the entire investment process, including due diligence, from home.

Firms are using portals and dashboards to display data, and software to manage accounting and perform fund tasks such as setting up numerous entities and making the investments. Investors are also able to digitally reach out to managers, make their investments and obtain their ownership statements all with increasingly complex waterfall calculations. We also see the adoption of cloud services, which are becoming increasingly relevant when employees are working remotely and may not have access to an internal server room.

Q How does digitisation contribute to growth?

At the portfolio company level, in addition to financial statements, managers need information on sales growth, cash flow collections, debt-to-equity ratios and other financial health parameters that indicate how the business is performing. There is rising pressure on management teams to submit these numbers on a more-timely basis and with more meaningful inference. Digitisation creates efficiencies and can reduce costs. As the company improves its processes and deliverables, it will attract better clients and grow its market share, and the manager will benefit from higher quality information with which to monitor their investment.

At the fund level, software helps a manager gain control and comfort with the numbers and better awareness of the fund's risk profile, which is essential. It aids communication with investors by improving monitoring and measurement of the portfolio and facilitates the provision of information to LPs in an easily digestible format. Greater transparency is key to keeping investors happy and open to re-investing in the manager's next vehicle.

Q What protections can technology offer in a downturn?

Information gathering is beneficial in good or bad times. Typically, when a manager outsources to a fund services provider, the vendor supplies the technology that supports processes and collects, collates and distributes data. The provider is the one who has invested, for the benefit of all its clients, in the latest software and systems to keep pace with best practice. This means the GP has, to some extent, de-risked the fund by not committing capital and headcount to this function. In the event of a downturn, managers are free of the drag of sunk costs. At the same time, if a fund is shrinking as economies decline, access to good data and software that can analyse it in different ways in response to market trends is critical to adjusting the investment model.

Q To take advantage of new technology, what skills do operating partners need?

First, they need the right accounting and domain knowledge to understand underlying portfolio risk management. Second, they need a strong technology solution group that can anticipate problems and keep ahead of industry trends. For instance, we see the private capital market shifting from closed-end funds to a hybrid format that permits investors to enter and exit when they want. This introduces new complexities regarding fund valuations and distributions, which need to be addressed.

Currently, at Intertrust Group, we are busy building hybrid waterfalls and fee calculations. We are also investing more broadly in technology to increasingly embrace digital delivery and data management solutions for our clients as we continue to expand the number of locations we serve. ■

Private Equity International

AWARDS 2020

operational excellence

Private Equity International's annual Operational Excellence Awards celebrate standout value-creation stories in the private equity industry. In our 2020 awards special, we go behind the scenes to explore the winning strategies GPs have employed from entry to exit

KPS Capital Partners: Chassis Brakes International

Backed by KPS Capital Partners, Chassis Brakes International diversified its revenue base and extended its international reach. *Read more on p. 38*

Portfolio company HQ: Eindhoven, The Netherlands

Partners Group: Vermaat

With the support of Partners Group, catering services company Vermaat added more than 172 high-footfall food and beverage locations and entered the German market. *Read more on p. 39*

Portfolio company HQ: IJsselstein, The Netherlands

Riverside Company: Health and Safety Institute

Four acquisitions helped widen Health and Safety Institute's training and compliance services during Riverside Company's holding period. *Read more on p. 24*

Portfolio company HQ: Eugene, US

New Mountain Capital: Equian

New Mountain Capital's focus on tech investment and strategic acquisitions helped transform Equian into a tech-enabled leader in the US payment integrity market. *Read more on p. 23*

Portfolio company HQ: Indianapolis, US

Riverside Company: Censis Technologies

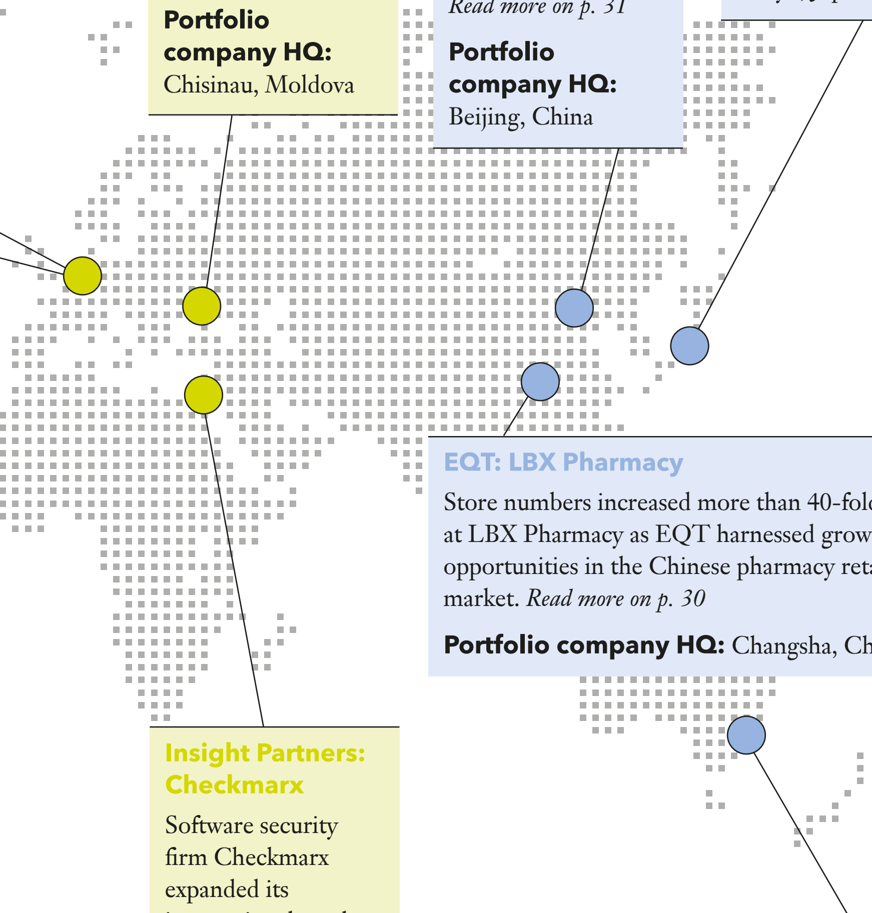
Growing the sales function was key to Censis Technologies' expansion into the underpenetrated surgical inventory management software market under Riverside's ownership. *Read more on p. 25*

Portfolio company HQ: Franklin, US

L Catterton: Peloton

With L Catterton's backing, Peloton grew its product range beyond connected at-home exercise bikes to provide broader content and equipment options to subscribers and commercial customers. *Read more on p. 22*

Portfolio company HQ: New York, US



Horizon Capital: Purcari Wineries

Horizon Capital successfully pivoted from a growth to a turnaround investment after a Russian ban on Moldovan wine imports shut down Purcari Wineries' largest export market. *Read more on p. 36*

Portfolio company HQ: Chisinau, Moldova

Morgan Stanley Private Equity Asia: China Feihe

MSPEA's hands-on approach with baby milk powder producer China Feihe helped deliver operational efficiencies while strengthening food safety management best practices. *Read more on p. 31*

Portfolio company HQ: Beijing, China

NSSK: Vati

NSSK's strong focus on talent development and inclusive recruitment practices boosted retention rates at nursing home operator Vati. *Read more on p. 32*

Portfolio company HQ: Tokyo, Japan

EQT: LBX Pharmacy

Store numbers increased more than 40-fold at LBX Pharmacy as EQT harnessed growth opportunities in the Chinese pharmacy retail market. *Read more on p. 30*

Portfolio company HQ: Changsha, China

Insight Partners: Checkmarx

Software security firm Checkmarx expanded its international reach and customer base with the support of Insight's operational value-add team. *Read more on p. 37*

Portfolio company HQ: Ramat Gan, Israel

Affinity Equity Partners: Velocity Frequent Flyer

Affinity was instrumental in enabling Virgin Australia's loyalty programme, Velocity Frequent Flyer, to expand its redemption offers for members through a series of partnerships. *Read more on p. 29*

Portfolio company HQ: Sydney, Australia

Awards process

How the winners were selected

In May-July this year, *Private Equity International* invited managers to send us their best examples of delivering operational value to portfolio companies. From small to large-cap deals, we called for submissions involving investments located across three regions: the Americas; Asia-Pacific; Europe, the Middle East and Africa. To be eligible, an investment must have been fully or partially realised on or after 1 June, 2019.

These submissions not only detailed key metrics, such as exit multiples, revenue and EBITDA growth, product line and geographic expansion, but also the story behind these numbers.

The entries were put before a panel of industry experts, who considered factors such as innovation, growth strategy, and environmental, social and governance initiatives. The judges were ultimately asked to score each entry for the overall level of operational excellence displayed, and the four submissions that achieved the highest score in each region, regardless of deal size, have received 2020's Operational Excellence accolades.

We had a high standard of entries this year, resulting in some very close runs for the top spots. Our thanks go to all those who shared their value creation stories with us, and to the judges for their expertise and the time they dedicated to carefully reviewing the submissions.

Meet the judges

With decades of experience in the private equity industry between them, this year's judges combed through the awards submissions across the Americas, Asia-Pacific and EMEA

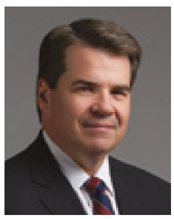
Americas

STEVEN KAPLAN

University of Chicago Booth
Steven Neil Kaplan is the Neubauer Family Distinguished Service Professor of Entrepreneurship and Finance at the University of Chicago Booth School of Business. His research focuses on private equity, venture capital, entrepreneurial finance, corporate governance and corporate finance. He is co-creator of the Kaplan-Schoar PME (Public Market Equivalent) private equity benchmarking approach and co-founded the entrepreneurship programme at Booth, helping start its New Venture Challenge competition, which has created more than $10 billion in value from companies like GrubHub and Braintree/Venmo.

JONCARLO MARK

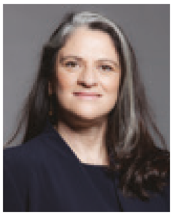
Upwelling Capital Group
Joncarlo Mark is founder of Upwelling Capital Group, an investment advisor that provides capital solutions to premier institutional investors. He was previously a senior portfolio manager in the alternative investment management programme at the California Public Employees' Retirement System and chairman at the Institutional Limited Partners Association. He continues to serve as a faculty member for the ILPA Institute. From 2015 to 2020, Mark served as a trustee for the University of California Davis Foundation, and chaired the Finance and Investment Committee.



MICHAEL McKENNA

Alvarez & Marsal
Michael McKenna is a managing director of Alvarez & Marsal's Private Equity Performance Improvement group. He works with private equity funds and their portfolio companies across the transaction lifecycle to execute transactions, accelerate portfolio company performance and provide a smooth investment exit. His primary area of focus is finance operations – driving improvements in liquidity and working capital management, strategic analytics and performance management.

Asia-Pacific



VERONIQUE LAFON-VINAIS

Hong Kong University of Science and Technology

Veronique Lafon-Vinais is associate professor of business education in the School of Business & Management of The Hong Kong University of Science and Technology, where she is the executive director (career development and corporate outreach), associate director of both the undergraduate and World Bachelor in Business programmes, and a project director of the MSc in Global Finance programme. Lafon-Vinais is a seasoned financial market professional with more than 20 years' banking and capital markets experience.

JIAN LI

AlixPartners

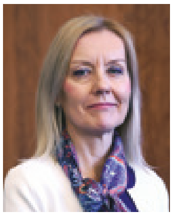
Jian Li is a managing director at AlixPartners' Shanghai office. He is a senior management consulting professional with extensive experience in supply chain management and large-scale operations transformation in Asia. He has worked with clients in the consumer goods, industrial goods and logistics sectors. Prior to his consulting life, he was with P&G and ExxonMobil in China in the area of operations and supply chain management.

IVO NAUMANN

McKinsey & Company

Ivo Naumann is a partner with McKinsey & Company where he leads the Private Equity and Institutional Investor practice as well as the RTS service line, a special unit that delivers a proven approach for transformational change, for Greater China. Naumann has more than 20 years' experience in supporting shareholders and management to restructure and improve performance of underperforming businesses in Asia. He has acted in multiple management roles and served on various boards of directors in China, Japan and South-East Asia.

EMEA



KATJA SALOVAARA

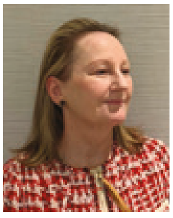
Bureau of Asset Management, NYC Comptroller's Office

Katja Salovaara is a senior investment officer – private equity in the Bureau of Asset Management at the NYC Comptroller's Office. She works closely with the head of private equity in making investment recommendations and helps manage the approximately $22 billion PE portfolio, as of 31 March 2020, of the five New York City retirement systems. Salovaara was previously senior portfolio manager – private equity at Ilmarinen Mutual Pension Insurance Company in Helsinki, joining in 2000 to establish its PE investment programme. Prior PE investment experience includes Shell Pensions Management Services and Pantheon Ventures in London.

ANTOON SCHNEIDER

Boston Consulting Group

Antoon Schneider is a managing director and senior partner at The Boston Consulting Group and leads the principal investors and private equity practice in London. He advises leading principal investors and private equity firms globally on a range of deal sourcing, due diligence and firm strategy projects. He has also worked extensively with their portfolio companies on Value Creation Planning and operational improvement projects, and has deep experience in corporate strategy and M&A.



LISA STONE

Independent chairperson

Lisa Stone joined Mercury Private Equity in 1999, shortly before the creation of HgCapital, of which she was a founding partner. Over a career at HgCapital spanning 19 years, the firm grew AUM to €10 billion with more than 120 people. While at Hg, Stone established the portfolio support model which evolved to become today's leading Portfolio Support team. She also participated in building the partnership, sitting on the operating, investment and portfolio committees, as well as the board. Since leaving Hg in 2018, Stone has worked as the chairperson of a number of private equity-backed businesses.

E X P E R T   C O M M E N T A R Y

Laying strong foundations for procurement transformation can help organisations create long-term value, write Efficio's Patrick Traynor and Fabian Bodoky

Sustaining procurement's impact on EBITDA

Private equity recognises the impact that transforming procurement can have on portfolio company performance and value. However, the focus is typically on short-term transformation, while sustaining the performance in procurement and delivering higher year-over-year value can boost EBITDA and valuation.

Many initial procurement transformation efforts have yielded strong results. Transformation programmes have proven to be an effective way to reset external costs and reposition the procurement function within the organisation. Despite this initial success, most companies struggle to sustain measurable impact beyond the initial surge. They fail to build on the momentum from the transformation programme and embed the discipline and practices needed to sustain performance.

SPONSOR
EFFICIO

The stakes for sustaining performance in procurement are real. High-performing organisations are realising a 3-5 percent productivity impact year after year from effective procurement, compared with 0-2 percent for average performers. Maximising this long-term impact should therefore be a priority right from the beginning of the transformation to have the value flow through to EBITDA and valuation when exiting.

Organisations that sustain high year-over-year impact from procurement have four common characteristics, which are detailed below.

1. Clear spend accountability

Most organisations understand revenue and profit accountability, but a surprising number do not practice spend accountability. An effective strategic category manager, one who is accountable for a key category spend area, can be as impactful for organisations as a strong sales or account manager.

Effective category managers understand how to work with business spend owners to balance short-term needs with longer-term category strategies. Strategic category managers develop multi-year category plans, setting year-over-year targets and working with the business to deliver against the targets. Top performing organisations integrate the review of these category plans into their c-level business review cycle, providing the category managers with the increased exposure and accountability befitting this important role.

2. Organisational alignment and commitment

Company leadership must commit to procurement – with actions not just their words. Procurement needs to be positioned as a strategic function that works cross-functionally to support the business to achieve its goals. Price compression through volume leverage cannot by itself lead to sustained, year-over-year impact. Realising maximum sustained impact from procurement can only be achieved through a holistic total cost focus, leveraging both demand and supply-side strategies.

Effective leaders include procurement when setting business targets and position the procurement team as support to the business managers. This enables the category manager to work hand-in-hand with their business and functional customers to understand their needs and help to choose and manage those suppliers to meet those needs. Procurement's involvement early in the process is an important factor to maximise the category manager's impact. Early engagement, shared objectives and aligned incentives across procurement and the business/functions will also help to promote collaboration and alignment.

3. Alignment with key partners

Once procurement has cross-functional alignment internally and has achieved success in helping the business source the right supply partners, it can look to key partners for next-level improvement across the supply chain. Suppliers often have innovative ideas that can help take cost out of the supply chain – ideas stemming from their product development efforts or from their other customer relationships.

Effective teams leverage ideas from both incumbents and challengers to this goal. With incumbents, they set up a structured supplier performance improvement process to achieve a collaborative, evolutionary change. Challengers can bring disruptive ideas to the table, which can lead to stronger results but more change. Mature procurement teams articulate advantages of both approaches, but incentivising suppliers to bring new ideas to the table is key.

> *"Realising maximum sustained impact from procurement can only be achieved through a holistic total cost focus"*

4. Measurement discipline

A frequent complaint about procurement functions is the inability to clearly see their impact on the bottom line. "We have two sets of numbers" and "I'm not sure what I'm getting from procurement" are common refrains. Poor measurement discipline coupled with changing demand and business growth lead to uncertainty surrounding procurement's impact.

Effective organisations employ strong measurement discipline to assess this impact. Beginning with a solid savings tracking approach, one which ensures that negotiated price points are applied and new suppliers or services are leveraged. Effective measurement also requires tight co-ordination with finance to ensure that impact definitions are clear and to map category spend areas to budgets. Clear budget linkage enables organisations to understand where savings hit and to make explicit decisions on whether to re-invest savings into the business or to have them flow through to the bottom line. A disciplined, transparent approach to savings measurement helps organisations effectively assess procurement's impact while also enabling the organisation to row in the same direction.

Catalysing change

Embedding these four characteristics in an organisation can be a catch-22. Procurement needs to build credibility with the business and management to get its seat at the table. However, without the support and alignment of the wider organisation, procurement cannot grow into its role as an enabler. Transitioning to an accountability-based category management organisation – for example, one in which procurement is a key player early in demand processes – requires initial success stories for credibility.

The transformation programme can be an effective catalyst for this change. To sustain the value and transform the company long term, organisations need to lay the foundation for the improvement of these four key characteristics. Effective transformation programmes build accountable category leads, promote cross-functional working and implement solid savings measurement standards. Success in a transformation event can prove to the organisation that early engagement of procurement pays dividends.

While transformation programmes can provide a catalyst, sustaining procurement impact requires more than a one-time programme. Successful companies work purposefully to imprint these characteristics of accountability, alignment and discipline in procurement into their organisational DNA. ■

Patrick Traynor, vice-president, leads Efficio's US operations. He is a recognised leader in procurement transformation, strategic sourcing, supply chain operational improvement, organisational development and supplier performance management. Prior to joining Efficio, Patrick held leadership roles with ICG Commerce, Regan Advisory and AT Kearney. He holds a BS in Electrical Engineering from Penn State University and an MBA in Finance from The Wharton School, University of Pennsylvania.

Fabian Bodoky, principal, is part of the Efficio US leadership team. He has extensive experience in improving procurement performance and has been running several large transformation programs around the world, across four continents. Prior to joining Efficio, Fabian was part of Boston Consulting Group's Global IT Sourcing Practice. Fabian holds a PhD in Theoretical Physics from the Delft University of Technology (TU Delft) in the Netherlands.

L Catterton

With L Catterton's backing, Peloton grew its product range beyond connected at-home exercise bikes to provide broader content and equipment options

When L Catterton led a $75 million growth capital round in Peloton in December 2015, it identified a raft of opportunities to build on the connected fitness company's potential for digital disruption and its ability to harness fast-growing health and wellness trends.

Peloton sells exercise equipment with access to live-streamed and on-demand classes, adding an immersive and socially connected element to at-home fitness. Drawing on its knowledge of the fitness space, where previous investments included CorePower Yoga and Xponential Fitness, L Catterton set out to help grow Peloton into a full-service fitness and technology company.

This included launching a commercial version of Peloton's exercise bike for use in gyms, expanding the online content available to subscribers via the portals installed on its bikes, as well as growing its range of home fitness equipment. L Catterton played an instrumental role in the development, sourcing, and positioning of the Peloton tread – a connected treadmill.

L Catterton also employed its operations and supply chain expertise to increase the company's manufacturing capacity and to achieve manufacturing and supply chain cost efficiencies. Among other initiatives, this included assisting Peloton in developing a last-mile delivery process and a long-term plan to improve the delivery experience for consumers. Improvements to the company's operational infrastructure facilitated immediate cost savings of 25 percent.

The firm reinvested cost savings into marketing and branding initiatives, helping to transform Peloton into a unique lifestyle brand and develop a community feel among subscribers. It also sought to grow the company's customer base and expand internationally. The business now ships exercise equipment globally, and during L Catterton's investment period its subscriber base grew from approximately 20,000 to 563,000 members. The number of Peloton showrooms also increased from 12 to 74 under L Catterton's ownership, and the company's revenues increased 30-fold.

110%

Gross IRR

10x

Gross money multiple

In addition, L Catterton supported the company through subsequent financing rounds, and aided Peloton in recruiting for roles across key areas such as finance, marketing and product innovation. By mid-2019, the business employed approximately 2,000 staff compared with just under 200 when L Catterton first invested.

Peloton listed on Nasdaq in September 2019, raising approximately $1.16 billion. L Catterton's complete exit from the company came after the IPO, in February 2020. The investment generated a gross IRR of 110 percent and a 10x gross money multiple.

The judges praised the "very impressive" transformation of the company, awarding it full marks for growth strategy and scoring it very highly for innovation. "L Catterton contributed a wide range of strategic and operational benefits that has led to the building of a remarkable company," said one member of the judging panel. ■

New Mountain Capital

New Mountain Capital's focus on tech investment and strategic acquisitions helped transform Equian into a tech-enabled leader in the US payment integrity market

New Mountain Capital pulled off the difficult feat of simultaneously acquiring and merging two companies. In December 2015, it bought payment integrity platform Equian and cost containment services and software provider Trover. The transaction led to the creation of the Equian operating across the US today, providing technology-enabled payment integrity and cost containment solutions to the healthcare and property and casualty industries.

At the outset, New Mountain Capital assisted Equian in establishing a board of independent directors comprised of leaders within their fields. It also lent a helping hand in other talent initiatives and strategic hires, such as the appointment of a new chief technology officer and a new chief operating officer to support the business as it scaled.

> *"A great example of innovation in private equity"*

A key tenet of the value creation plan for the Indianapolis-headquartered business was inorganic growth via strategic M&A. Including Trover, New Mountain Capital worked with Equian's management team to identify and execute on six acquisitions. Among these was the purchase of overpaid claims recovery specialist OmniClaim in 2018. The acquisition allowed Equian to build on OmniClaim's strong customer relationships and further strengthen its position in the payment integrity market.

Investing in automation

Perhaps the most notable aspect of the company's transformation, though, is investment in technology, including automation technology for data processing. The adoption of new technologies enabled the business to develop platform-based solutions that could harness growth driven by the US healthcare market's shift to a value-based payment model. The investments also delivered benefits in terms of cost management and operating efficiency. For example, workflow enhancements resulted in improvements to key performance indicators such as conversion rates within audit and data mining.

At the point of exit, the company operated in all 50 US states and served more than 300 customers, including 22 of the top 25 healthcare payers.

The judging panel viewed New Mountain Capital's work with Equian as "a great example of innovation in private equity". As one judge commented: "The exit is a remarkable outcome and was not simply a product of being in the right place at the right time; it appears that real value was added by the sponsor." ■

6

Acquisitions

Riverside Company

Acquisitions helped widen Health and Safety Institute's training and compliance services under Riverside's ownership, in one of two OpEx Awards wins for the GP this year...

Based in Eugene, Oregon, Health and Safety Institute is an environmental, health and safety compliance and training company, acquired by Riverside in 2015, and sold to Waud Capital Partners last year. Riverside has a longstanding relationship with the business, having originally invested in 2006 before exiting in 2012.

During its latest four-year holding period, Riverside executed four strategic acquisitions to expand the addressable market, grow market share and increase the recurring revenue mix. The acquisitions added a full set of workplace compliance solutions, including digital workplace training safety programmes; document management, reporting and tracking software; chemical inventory management software; and on-site inspection services. The target companies included Safetec Solutions in 2015, Comprehensive Loss Management in 2017, Vivid Learning in 2018 and EMS Safety last year.

104%

EBITDA growth

122%

Revenue growth

Riverside enhanced the management team, including bringing in chief executive Chad Birckelbaw, who the firm had previously partnered with at FairPay Solutions. The firm also hired a new chief financial officer, a new VP of sales and a new VP of marketing, as well as several new second and third layer managers.

In addition, Riverside invested in sales, marketing and software development capabilities to accelerate HSI's organic growth rate. The firm improved HSI's regional sales leadership with new hires. It consolidated the sales team from three offices to one and almost doubled the size of the sales and marketing team. It also improved the company's pricing strategy, revamped its website and enhanced digital marketing efforts.

Single platform

Indeed, investment in IT was critical. The firm migrated all the bolt-on acquisitions onto a unified platform that can pull a customers' entire organisation together around safety and compliance in one system.

The results of these initiatives were significant. At the point of acquisition, HSI serviced around 48,000 authorised trainers in the US and Canada. When the firm exited, it serviced more than 54,000 authorised trainers, as well as 4,300 workplace compliance solutions customers, across a diverse range of end markets.

Over the course of the investment, HSI's workforce expanded from approximately 100 to almost 300 staff members, EBITDA grew by 104 percent and topline revenue growth reached 122 percent.

"A great story about a high-quality firm that can repeatedly create value when partnering with successful management teams," said one judge. "HSI's ability to become a leader in a crowded training market is a big accomplishment and Riverside has been instrumental in both developing the strategic plan and helping the company execute." ■

Riverside Company

...Riverside's second accolade is for Censis Technologies, where growth of the sales function was key to market expansion during the GP's investment period

Founded in 2001, Tennessee-based Censis Technologies provides software as a service-based surgical instrument tracking and workflow solutions for the sterile processing departments of hospitals and ambulatory surgical centres. The software is used for assisting with the assembly of trays for surgical procedures, which can contain hundreds of instruments; sterilising instruments; and managing inventory from purchase through to retirement.

The company's flagship product, Censitrac, provides customers with a real-time dashboard that can locate a specific tray within a hospital and automatically alerts users to issues such as incorrect assembly, insufficient sterilisation, missing instruments or instruments requiring maintenance.

Disorganisation in sterile processing departments can cause costly disruption and delays, while improperly sterilised equipment can lead to widespread infections. Riverside acquired the business in the summer of 2014, drawn by the increasing demands that hospitals face when it comes to regulation and the need to deliver exceptional care.

At the point of acquisition, Riverside had a clear vision for value creation – the firm planned to work alongside management to drive organic growth through investment in sales and marketing and strategic price increases. It also aimed to improve the product suite by introducing new modules that could be sold separately and to add new functionality to the core software. Another key component was the completion of an important strategic acquisition.

"The strategic combination of Applied Logic was important"

Among the firm's key wins was the successful expansion of the sales function, which enabled Censis to capitalise on an underpenetrated market. The company more than quadrupled the number of hospitals served during Riverside's five-year holding period.

4x

Increase in number of hospitals served

Riverside also sourced and completed the bolt-on acquisition of St Louis-based Applied Logic in 2018, to support Censis Technologies' vision to remain the first-class choice for surgical inventory management software. Applied Logic provides software and third-party hardware used in hospitals' and other medical facilities' sterile processing departments.

Riverside sold Censis to Washington-based conglomerate Fortive, a spin-off from Danaher, in November 2019.

The judges, who scored this deal particularly highly for growth strategy, praised the innovative solutions the company provides to the healthcare industry. "Censis Technologies' client base grew dramatically," one judge added. "The strategic combination of Applied Logic was important." ■

KEYNOTE INTERVIEW

Pricing: PE's hidden gem?

In the future, private equity professionals will struggle to remember a time when pricing wasn't high on the value creation agenda, say Simon-Kucher's Mark Billige and Adam Echter

Achieving top-line growth during a downturn can be a significant challenge, and private equity firms will need to pull all the levers at their disposal to build more resilience in portfolio companies. Although many managers already have expertise in areas such as supply chain optimisation and cost cutting, few have placed serious emphasis on pricing to date. We caught up with Mark Billige, CEO of Simon-Kucher & Partners, and Adam Echter, partner at the consulting firm, to discuss how pricing can tie into value creation strategies and how portfolio companies will need to navigate revenue generation in the year ahead.

SPONSOR
SIMON-KUCHER & PARTNERS

Q What are the recent trends in private equity operational improvement?

Adam Echter: Most private equity professionals we work with describe four eras of value creation: leverage, balance sheets, cost cutting and now growth. Each period has captured attention for approximately a decade and they are cumulative, meaning the current private equity professional needs to be proficient in all four topics. Growth really emerged as a focus following the 2008 crisis. Although nearly all aspects of the first three phases are well understood, there are still some elements of top-line growth that are not receiving the attention they should. Pricing is one of these.

Mark Billige: We see the ongoing build out of value creation teams separately to investment teams, with significant access to portfolio companies, greater influence, and a bigger mandate. But more and more I am also being introduced to value creation professionals who wear a dedicated pricing hat. This is still the exception, and whilst revenue topics are starting to get more traction, there is still some way to go.

Q Why does pricing not always get the attention it deserves?

AE It's really a conundrum. There is recognition in private equity that pricing can have a huge impact and it scores highly on return on investment, but there is simultaneously an acknowledgement that too little resources are devoted to it. Based on what we see, around 10-15 percent of firms actively look at pricing as part of their investment thesis, most still see it as a 'nice-to-have' as opposed to a systematic, planned process.

MB: As pricing is a relatively new area of focus and value creation lever for many, there are not that many people with the necessary expertise. The skill set is harder to find than, for example, cost optimisation. This means firms are finding it difficult to grow teams with experience in pricing at the speed and quality they would want.

AE: The other key factors are financing and risk aversion. If you go to a bank and present an investment hypothesis that relies on taking cost out, the bank is more likely to underwrite the deal than if pricing is a key theme. We are working with banks to help address that and seeing traction there. The next issue is risk aversion – it often seems riskier to increase prices and push hard on customers rather than pushing suppliers to take out costs. As firms get more cycles with pricing, they realise how to de-risk pricing moves, so that concern is changing as well.

Q How does pricing fit within private equity's value creation playbook?

AE: Pricing is a well-kept secret in private equity. It feeds into the three main components of value creation. Optimising pricing can push EBITDA growth, particularly in a more benign market. It can also generate multiple expansion through, for instance, the creation of recurring revenue streams. If we take the example of a well-trodden path – software businesses – it is clear that you can create a more valuable business by evolving pricing models. For example, if you buy a $100 million revenue transactional software business at, say, an 8x multiple, then convert it to a recurring revenue model, you might have the same revenue four years later but you can achieve a double-digit multiple because the subscription model creates more resilient revenue streams.

How will work on pricing develop through 2021?

AE: There will be increased consolidation as we work through the downturn, including acquisitions of companies that are in a weak position because of erratic pricing. While many managers will accept issues in their market may be driven by lower demand, some will recognise that discounting does not help. Others will continue to discount, and these will be the businesses that get bought. This will require the acquiring firms to quickly unwind bad pricing policies of their targets.

MB: The days of being able to tolerate anarchic discounting have now gone. Every penny and every percentage point will count because the cost of doing business has increased in the wake of covid-19. You will see repatriation of supply chains and a focus on quality, which will affect the cost of goods sold. Cost-inflation is coming, and companies will have the option of absorbing that cost through lower margins or working out how to structure pricing to pass the increase on to customers at a time when demand is soft. That is a brand new skill for most businesses.

MB: Pricing also comes into play in buy-and-build strategies. While traditionally the focus has been on reducing operating costs and increasing operating synergies post-acquisition, more private equity firms are now looking at revenue synergies as a source of value creation. If you put together company A and company B, they may have the same customer base, but one business may offer cheaper products and services. This can lead to pressure to reduce the higher prices, but it is possible to avoid that by proactively restructuring the product portfolio to avoid price cannibalisation.

Q What trends are you seeing in pricing?

MB: The biggest single trend is revenue model transformation as businesses try to build recurrence and resilience into pricing. The move that Adam mentioned in software is an obvious example, but we are also seeing this kind of shift in other areas. We are working with far more traditional services and products businesses and helping them to move towards a subscription or recurring contracts model. This is increasingly becoming part of the private equity investment thesis as firms look at ways of generating a return beyond simply optimising operational areas.

AE: If ever there was a time to shift revenue models, 2021 will be it because businesses cannot afford to track the ups and downs of renewed lockdowns – they need stable revenue models.

Q How is the pandemic playing into private equity's interest in pricing?

MB: When covid-19 first hit and the lockdowns came into force, we saw private equity firms focus on cash preservation, they created war rooms and worked hard to stabilise portfolio companies, but that phase is now over. And while firms were already showing curiosity in pricing well before the start of this year, over the coming period we expect more focus on pricing and revenue management as they seek to create more agile portfolio companies. Unlike previous downturns, which have been more linear in nature, the current economic picture is more unpredictable as we may well have ups and downs with lockdowns and businesses needing to adapt to social distancing measures. Commercial agility will be key in this kind of environment. You can't just cost cut your way out of a downturn; you need to generate income wherever you are in the cycle.

Q What kind of heavy lifting do you expect to see in this area?

MB: The topics are the same as they would be in any environment, but the uncertainty will create opportunities for private equity and there will be action across all levers, with pricing moving up the agenda. Some will view this as an opportunity to pick up acquisitions, including stressed businesses that may have engaged in heavy discounting – here we would expect to see product and service restructuring come into play.

> *"Pricing is a well-kept secret in private equity. It feeds into the three main components of value creation"*
>
> **ADAM ECHTER**

AE: There is a bias for action in private equity and the current crisis has accentuated this. Private equity-backed companies are most likely to go on the offensive to capitalise on an unprecedented event to clear out bad pricing practices and unprofitable customers.

Q How will private equity's approach to pricing evolve?

AE: Currently management is asked during due diligence about products and supply chains, for example, but going forward it will become standard practice to ask about pricing. Private equity will become as comfortable interrogating pricing and the price/value model as it currently is with manufacturing and supply chain issues. That shift will lead to stronger companies.

MB: We will see a move beyond simple pricing 'quick wins' into much more sophisticated revenue management capability as firms focus on getting the apparatus and skills in place to ensure their work in this area reaches the same standard as on cost management. Part of the answer to this in portfolio companies will be technology – most projects we work on involve swapping out Excel for pricing software and controlling tools.

AE: We don't know what the next era of private equity will be, but we are confident that in 20 years the pricing playbooks will be developed to the level financial engineering is today and the next generation of private equity professionals will struggle to imagine a time when pricing wasn't on the agenda. ■

Affinity Equity Partners

Affinity was instrumental in enabling Velocity Frequent Flyer, Virgin Australia's loyalty programme, to expand its redemption offers for members through a series of partnerships

Affinity invested in Velocity, the frequent flyer loyalty programme of Australian airline, Virgin Australia, in October 2014.

Having first led the carve-out from Virgin, restructuring the organisation from a business division within an airline into an independent, autonomous business, Affinity set about expanding the opportunities for the loyalty programme's members to earn points as well as broaden redemption offers available beyond flights. This included a new partnership with energy company BP enabling members to earn and redeem points at fuel stations, as well as partnerships with Flybuys, the loyalty programme belonging to the second largest retailer in Australia.

Partnerships were also established with China's HNA Group, which was introduced to Virgin Australia by Affinity, as well as with TEG, then an Affinity portfolio company. The latter partnership gives members access to exclusive event offers and pre-sale tickets.

2.5x

Increase in members

16%

EBITDA CAGR

Critical to this transformation was Affinity's approach to human capital. The firm identified 20 strategically important roles in the organisation and led the recruitment initiative, including recruitment of the c-suite. In addition, Affinity recognised the value of Velocity's database and invested heavily in data analytics to drive engagement through tailored points-earning and points-redemption opportunities. As part of that process, Velocity acquired Torque Data. The company's management team and Affinity evaluated more than 100 different prospects before deciding on the data analytics business as the best fit for Velocity.

Indeed, creating a culture that embraced data and cutting-edge technology was fundamental to Affinity's vision for value creation. Velocity launched its mobile app in 2018, as well as refreshing its website, driving incremental points earning and points redemption activities, as well as enhancing marketing capabilities for the company's partners.

Another significant move for the business was its relocation from Brisbane to Sydney, together with the consolidation of divisions into a single location. Enhancing Velocity's environmental, social and governance credentials was also key. Business partnerships were designed to use the 'power of points' to reward members for socially conscious choices, for example electing to purchase energy saving plans and solar power. In 2018, the company also established a points partnership programme with Envirobank, a recycling business.

As a result of these efforts, Affinity grew its membership base by 2.5 times, from four million to over 10 million. It also substantially diversified its revenue base over its five-year holding period, delivering compound annual growth rates for revenue and EBITDA of 17 percent and 16 percent, respectively.

Affinity exited the investment in 2019, selling its 35 percent stake to Velocity's controlling shareholder, Virgin Australia.

The judges praised Affinity's investment in human capital and its introduction of resources from other Affinity portfolio companies. They were also impressed with its ESG efforts, as well as the innovative and creative operational development displayed, which resulted in strong growth numbers. ■

EQT

Store numbers increased more than 40-fold at LBX Pharmacy as EQT harnessed growth opportunities in the Chinese market

EQT acquired a 48 percent stake in LBX Pharmacy through the EQT Greater China II fund in 2008. The Chinese pharmacy superstore chain, established in 2001, had grown to 114 stores, and EQT identified further organic and acquisitive growth opportunities in China's expanding pharmaceutical retail market.

EQT set out to capture these opportunities through more than 40 synergistic add-on acquisitions of local and regional competitors. It also accelerated store openings and upgrades, with the total number of stores rising more than 40-fold between 2008 and EQT's exit in 2019. As of 30 September 2019, LBX operated 3,756 self-owned stores and 1,052 sub-franchised stores across 22 provinces and three municipal cities in China.

The firm implemented a number of operational improvements, such as strengthening corporate governance and the management team. This included setting up audit, remuneration and strategy committees, establishing an experienced board of directors, and recruiting key c-suite hires to lead the company forward. An investment committee was also formed to optimise the add-on acquisition due diligence and approval process. EQT took steps to align management and directors with its aims for LBX and to support long-term talent retention and acquisition through the introduction of incentive programmes.

40

Add-on acquisitions

In addition, it tapped into the global EQT network to leverage expertise in the retail and healthcare industries, as well as visiting leading pharmacy groups outside of China to help drive business development.

LBX listed on the Shanghai Stock Exchange in 2015, raising approximately $177 million through its oversubscribed IPO. According to EQT, this was the first IPO in China with a foreign private equity fund as control or co-control shareholder. The fund retained a 35 percent stake in the business following its public listing. It fully exited in November 2019 when it sold its remaining equity interest of approximately 25 percent to Primavera and FountainVest at 235 percent above the 2015 IPO share price.

Under EQT's ownership, LBX achieved double-digit average annual EBITDA and revenue growth, with sales rising by more than 570 percent and EBITDA by more than 1,100 percent over the total course of the investment period. Employee numbers almost tripled between 2008 and 2019 in line with the company's growing geographical and market reach.

As one judge noted: "EQT contributed to LBX Pharmacy's profitable growth over a long period of time by enhancing the functional excellence and making synergistic add-on acquisitions."

Another member of the judging panel praised the firm's "spectacular growth numbers", as well as the operational developments achieved across corporate governance, board and management, and geographical expansion through acquisitions. ■

Morgan Stanley Private Equity Asia

MSPEA's hands-on approach with baby milk powder producer China Feihe helped deliver operational efficiencies while strengthening food safety management best practices

In 2013, Morgan Stanley Private Equity Asia invested in Chinese infant milk powder producer China Feihe in a take-private deal valued at approximately $147 million. The company had previously been listed on the New York Stock Exchange. MSPEA took a minority stake in China Feihe, committing $34 million of equity under the deal, alongside financing from China Feihe's founder and $50 million in debt financing.

The transaction took place at a challenging time for the baby milk formula industry after some domestic products were found to contain melamine. A China Feihe spokesperson confirmed at the time that its products were never among those involved in the scandal or suspected of being unsafe. The scandal led to the introduction of tighter infant formula regulations in 2015, which came into effect in 2018.

Against this backdrop and with the support of MSPEA, which appointed a dedicated operating partner to work with China Feihe, the company realigned its value proposition to be "more suitable for Chinese babies". Steps were taken to drive this value proposition, such as further enhancing food safety management, investing in product innovation and R&D, and developing environmental, social and governance programmes.

The operating partner worked closely with management and production site teams to help implement initiatives to grow and develop the business. This included appointing a chief quality officer and upgrading quality-assurance processes, implementing world-class manufacturing practices at production sites to support quality while also achieving cost efficiencies, as well as attracting talent from multinational corporations to contribute additional market knowledge and expertise.

31%

Revenue CAGR

45%

EBITDA CAGR

Product freshness was also a key priority, and numerous supply chain improvements were introduced to support this, such as establishing a central planning function. As a result of the changes, supply chain lead-time was shortened by nearly half. In addition, MSPEA was instrumental in establishing and driving the ESG agenda, which included investments in areas such as waste-water treatment.

Between 2014 and 2019, China Feihe's workforce more than doubled, and the company's market share in China grew around four-fold. Revenue and EBITDA increased at 31 percent CAGR and 45 percent CAGR over this period, respectively. And in 2019 alone, revenue and gross profit were both up more than 30 percent over 2018.

In November 2019, China Feihe listed on the Hong Kong Stock Exchange, raising approximately $855 million. Morgan Stanley's Asian private equity arm partially exited the investment over April 2019-September 2020.

The judges were impressed by MSPEA's diligence and the breadth of value creation levers it used. They also highlighted the investor's "remarkable" environmental focus, as well as the in-depth operational developments undertaken, which they noted helped to boost performance and propel growth within an industry facing regulatory and branding issues. ■

NSSK

NSSK's strong focus on talent development and inclusive recruitment practices boosted retention rates at nursing home operator Vati

Vati is a Japanese nursing home operator focused on the lower cost end of the market. NSSK backed the business in October 2016, embarking on a multi-faceted transformation programme covering everything from a human capital development strategy to marketing initiatives and diversity efforts.

Key among NSSK's value creation strategies was a focus on analytics. The firm developed a tool with a multi-variable equation that drives better decision-making for new facility expansion. The tool optimises decision-making on location, size and scope that drives lower cash break-evens. The result has been a 16 percent increase in the number of facilities, a 31 percent growth in sales and EBITDA margins of 13 percent.

Occupancy management was another priority, because of its impact on both revenues and profitability. This was achieved through a complex revenue management programme that required sales initiatives with hospitals and nursing care counsellors, as well as the elderly population directly. Systematic calling programmes were initiated and monitored. The combined effect was an increase in occupancy levels from 84 percent to 92 percent.

Recruitment and retention, meanwhile, can be challenging in the care sector. As a result of employee compensation schemes tied to performance, training and education programmes, the development of career path blueprints for every staff member, and strong communication between facility managers and head office, the number of employees at Vati increased by 23 percent during NSSK's period of ownership, while retention levels reached industry highs in what is an extremely competitive labour market.

NSSK also instilled a strong commitment to environmental, social and governance principles, including diversity and inclusion. The firm led initiatives around hiring and promoting women to key management positions, as well as hiring people with disabilities, which it believes has contributed to the company's overall success. Today, 80 percent of Vati's staff and 68 percent of its managers are women.

It strengthened governance protocols at the company through the establishment of a compliance promotion office, which facilitated more frequent and robust internal audit procedures, as well as enhancing training and development in this area.

68%

Percentage of female managers

23%

Increase in staff numbers

"The social impact on women's leadership in a Japanese company is inspiring"

NSSK sold Vati to an investor group that includes Neuberger Berman in early 2020. While the actual returns are not disclosed, they are believed to be in excess of 3x MoM and over 45 percent gross internal rate of return.

"The social impact on women's leadership in a Japanese company is inspiring," remarked one judge. The judging panel highlighted the strong growth numbers achieved across the board and praised NSSK's role in introducing a comprehensive ESG strategy, particularly around employee retention and diversity. ■

KEYNOTE INTERVIEW

Reassessing carve-outs' value creation potential

As the pandemic continues to put pressure on corporate balance sheets, private equity firms may do well to look at carve-out opportunities, say PwC Germany's Friederich von Hurter and Filip Debevc

Q Given the current macroeconomic environment and deal climate, is now a good time for managers to embark on carve-out transactions?

Friederich von Hurter: Covid-19 aside, we have seen two key dynamics shaping private equity interest in carve-out transactions over the last few years. First, private equity as an investor group is seeking an increasing number of targets because firms have a growing amount of money that they need to put to work in high quality assets. Second, private equity firms often did not previously look at carve-outs because they thought they were quite complicated for them to deal with – it was difficult to do the due diligence, to manage the disentanglement from the corporate entity in the short term, and to transition the carve-out from the culture of the corporate seller to the culture of the investor. But private equity firms have had to search for new investment opportunities in the deal landscape, and as attractive standalone targets have become rare, firms have begun to look more closely at carve-outs.

SPONSOR
PWC

Filip Debevc: The market has shifted significantly to focus on these types of deals, and firms have become more capable of navigating the challenges involved. Almost 50 percent of the large-cap deals being done involve carve-outs, according to PwC's *Private Equity Trend Report 2020*. So far, we see less of this activity among mid-market private equity firms, but there is clear potential for mid-caps to invest in carve-outs in the future.

Q What does the pipeline for carve-outs look like, and where might opportunities lie?

FvH: The impact of the covid-19

Q How can operational value creation be initiated in carve-out deals on day one?

FvH: Value creation starts from due diligence and needs to continue throughout the entire life cycle of the investment, embedded into the leadership of the new company, including the private equity investors. Instead of looking at performance over, say, the last three years and building on that, the buyer needs to think about the future and its possibilities. It is almost a creative process, drawing on experience gained from other businesses to see what strategies can be implemented.

Buyers who might have taken a so-called 'pay-and-pray' approach will need to fundamentally rethink their strategy, with value creation at the heart. That also means due diligence must go much deeper, delving into IT, operations, legal and everything else to understand where the target's potential lies. Initiating operational value creation from the beginning means taking the time upfront to fully understand the impact on the new company of its separation from the group, the operational and financial effect of disentanglement, and the efficiencies that will be possible for the standalone business.

Prospective buyers should be sure to develop their own view of the target and test that with the sell-side as much as possible. They should create an investment story for the standalone operation and be mindful of taking only the elements that they want in the transaction – we advise our clients to be careful not to let sellers hand over 'presents' that they do not actually want. If these points are kept in mind, value creation can often far exceed expectations in a carve-out deal.

pandemic on the market is not yet clear, but our expectation is that carve-outs will become even more popular. Large corporates will use this crisis – just like every other crisis – as an opportunity to focus on their core activities and take a stronger view on portfolio considerations. This means the big conglomerates will put more assets on the market, whether for strategic or performance reasons. With the pipeline of deals increasing due to corporations' restructuring and cash needs, now is a good time to acquire undervalued targets with potential via carve-out transactions.

There are a number of targets coming to market from corporates that are being forced to review their portfolios due to market challenges. This is particularly the case in the automotive industry, where technological change and consumer behaviour are serving as additional drivers. We have seen some interesting targets come to market there. The second stream is leisure and consumer goods, where we are seeing a change in consumer behaviour as well as rather narrow financing structures behind corporates, which mean they also are being forced to put assets on the market. Obviously, these trends vary by region and depend on the strength of individual players, but these parts of the market are under more pressure than others, particularly in central Europe.

"As attractive standalone targets have become rare, firms have begun to look more closely at carve-outs"

FRIEDERICH VON HURTER

FD: In terms of deal sourcing, it can sometimes be a challenge for mid-market firms to become listed as a potential investor and be informed about sale processes for these deals. The information about a transaction may also be routed by the sell-side to a specific group of people. So, if you are a mid-sized private equity player, you have to get past that hurdle and make sure you are listed as a potential buyer, and only then will you be invited to look at the target.

FvH: A lot of mid-sized buyout firms may also lack experience of carve-out transactions and may be put off by the complexity, but they should not be. At PwC, we do about 5,000 deals a year and we are convinced that almost all carve-out deals bring more value to an acquirer than they thought they would upon first look, because there are a lot more value creation opportunities than there are in standalone deals. Although there are some private equity firms that are reluctant to do carve-outs, they are becoming fewer and fewer in number.

Q What are the barriers to getting carve-out deals off the ground?

FD: One of the main challenges that

private equity investors face with carve-out deals is that they will not end up operating what they buy, because what they acquire will not be a fully functional company until it is completely separated from the group. They do not have the opportunity to look at a standalone operation or access the usual data on historical performance. Instead, they need to do much more to understand the challenges and calculate assumptions based on a future standalone scenario. The buyer, supported by industry experts, must be capable of developing an operating model which is based on a strong understanding of the market and which takes into account the operational and financial implications of the separation.

We have also observed some key issues that occur in terms of the financials. First, the impact on carve-out financials is generally under-estimated, so the positive EBITDA impact that usually materialises means there is the potential to take a more aggressive approach to pricing going into the deal. Second, a lot of the time buyers do not have fully prepared documentation from the sell-side, meaning the corporate sellers do not necessarily help the buyer to form a view on the carve-out. Third, the seller tends to underestimate the growth potential of the company they are selling. In order to understand the full value of the company, the buyer needs to actively identify improvement levers during the acquisition process that can be used over the following few years.

FvH: From a private equity investment perspective, this means more effort and thinking needs to be put into the deal to fully understand its implications and potential. Once the buyer has understood this, they have likely identified value creation potential to put into their business case that the seller has not recognised, so they have a value creation advantage and an information advantage for negotiations.

Q How do carve-outs differ from standalone deals when it comes to the transaction process?

FvH: The transaction process is not as straightforward as the usual auction of a standalone business. The buyer needs to maintain a carve-out perspective on the deal, as well as a seller-minded perspective; that is important in these negotiations.

FD: Understanding the carve-out financials is a vital element of the transaction process, and particularly the cost-out element, which refers to the relevant cost allocations that will not discontinue as a result of the deal. Of course, specific service provisions will have to be rebuilt, so you are taking costs out, but it is important to understand which costs need to go back in. We see in most of the cases that the cost-in is much lower than the cost out – hence value creation is already happening.

The other issue is transitional service agreement costs. These are costs that a buyer must pay to a seller to keep running specific services, such as IT, until a standalone option has been implemented. These costs are typically calculated too high, and the implementation of an improved standalone solution quickly reduces them. However, these transition costs are especially important because the transition period can last for 12-18 months, which may be as much as a third of the investment period for a private equity firm.

Finally, it is important to be very clear about one-off costs. Typically, the seller will need to pay a larger proportion of the separation costs until the transaction closes, but the remaining standalone build-up costs will be an additional cost, so a buyer needs to have clarity about those and consider them when negotiating enterprise value and the investment needed to enable the company to perform. ■

Filip Debevc is senior manager, Deals, and Friederich von Hurter is partner, Deals, at PwC Germany

Horizon Capital

Horizon Capital successfully pivoted from a growth to a turnaround investment after a Russian ban on Moldovan wine imports shut down Purcari Wineries' largest export market

15x
EBITDA growth

Founded in 1827, Purcari Wineries operates three wineries in Moldova and another in Romania. When Horizon Capital backed the Moldovan company in 2010 through its 2008 vintage fund, Emerging Europe Growth Fund II, it believed it was looking at a typical growth deal. At the time of the investment, Horizon Capital identified an opportunity to expand the company's customer base and draw on its relationships and expertise in the sector to grow sales quickly while implementing operational improvements.

However, in 2013, Russia placed an embargo on Moldovan wine imports, shutting down Purcari's largest market overnight and depleting it of over half its accounts receivables. A year later geopolitical turbulence and economic shocks in CIS countries such as Ukraine, Belarus and Kazakhstan – also significant export markets – caused currency devaluations which compounded the challenges facing Purcari. The company's EBITDA dropped to nil, while net debt approached $20 million, straining its liquidity.

As a result, what Horizon had envisioned as a growth deal became a distressed, turnaround deal, and the fund manager had to reshape its value creation plan significantly. To mitigate the loss of the Russian market following the 2013 embargo, it developed a new commercial strategy targeting CEE markets, primarily Romania and Poland. To support this, Horizon's investment team took a hands-on approach to training management in sales and marketing best practices, as well as streamlining its product portfolio and relaunching Purcari's four main wine brands. Horizon developed a "marketing on a shoestring" strategy, emphasising the use of new digital channels and social media.

Strengthened leadership

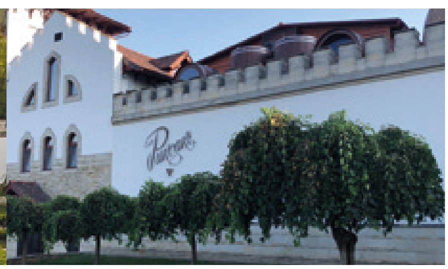
Horizon strengthened the management team under the CEO by making key hires including HR director, chief operating officer, commercial director, financial controller and marketing director. It implemented greater working capital discipline, more robust procurement processes, as well as environmental and health and safety best practices.

The company has also made an ongoing investment into the latest wine technology and has been digitising processes to enhance its operations.

In 2018, with the support of Horizon's investment team, Purcari Wineries became the first Moldovan company to go public on the Bucharest Stock Exchange. The IPO raised approximately 186 million Romanian leu ($50 million; €40 million). As a result of the listing, Horizon sold a 41 percent stake in Purcari, realising a 3.2x gross cash-on-cash return. It remained an active shareholder with a 23 percent stake, before fully exiting in October 2019. It realised a gross 3.3x cash-on-cash multiple on exit.

Over the fund's investment period, Purcari Wineries' workforce grew from 652 to 1,172 employees and EBITDA increased 15-fold. Between 2013 and 2018, the company's revenues more than doubled. Today, Purcari delivers to more than 40 countries and manages over 1,392 hectares of vineyards.

The judges commended Horizon for the "excellent turnaround of a business with continued growth despite a significantly challenging business environment". ■

Insight Partners

Software security firm Checkmarx expanded its international reach and customer base with the support of Insight's operational value-add team

Checkmarx, an Israel-based company specialising in software security solutions, secured an $84 million investment from Insight Partners in June 2015. Checkmarx was founded in 2006, and at the time of Insight's investment, the business had grown its employee and customer count to over 150 and 700, respectively.

Insight took a scale-up approach to accelerate the company's geographical reach and build on momentum in the fast-growing cybersecurity market. In order to do so, the GP drew on the expertise of its more than 50-strong operational value-add team Onsite, whose knowhow spanned marketing, pricing, M&A, product, sales and strategy. The team helped Checkmarx catalyse growth by focusing on five pillars. Among these was go-to-market acceleration involving intensified hiring and resourcing in this area, with increased investment in sales and marketing serving to speed up growth.

Insight's product team helped Checkmarx move from one product to a full suite including static application security testing, software composition analysis, interactive application security testing, and developer AppSec training and awareness capabilities, together with a strong managed services organisation. R&D and cost efficiencies were also achieved through the opening of an R&D centre in Braga, Portugal, in 2016.

Another core pillar of the value creation strategy was inorganic growth; in 2017 Checkmarx acquired Codebashing, an application security education company that provides training for developers. The developer training tool serves as a complement to the Checkmarx Software Security Platform. Insight provided M&A expertise and execution support pre- and post-acquisition.

The GP also supported the company's expansion in international markets, contributing to its growth in North America and Europe. This included the appointment of former Fortify Software chief operating officer John True to the Checkmarx board, who brought with him extensive operational experience and knowledge of the North American software market. Today, Checkmarx serves over 40 companies in the Fortune 100 and half of the Fortune 50.

Checkmarx now has more than 1,400 customers across 70 markets, and its employee headcount has grown to over 600. In 2020, Checkmarx was named a leader in the Gartner Magic Quadrant for Application Security Testing for the third year in a row.

Hellman & Friedman acquired the cybersecurity business from Insight in March 2020 in an all-cash transaction valued at $1.15 billion. TPG also partnered with Hellman & Friedman on the acquisition and holds a minority interest in Checkmarx. Insight has retained a substantial minority interest in the company.

1,400

Customers now served

The judges were impressed by the company's "outstanding performance", particularly the strength of its client base and international expansion, which they said demonstrated a "well-executed growth strategy". As one judge remarked: "Insight provided critical international go-to market knowhow and support, as well as hands-on operational excellence in several areas, enabling Checkmarx to scale in an impressive manner." ■

KPS Capital Partners

Backed by KPS Capital Partners, Chassis Brakes International diversified its revenue base and extended its international reach

KPS Capital Partners created Chassis Brakes International to acquire Robert Bosch's foundation brakes business in 2012. This was based on its track record of investing in global manufacturing businesses, including in the automotive industry, and of improving their performance, nurturing constructive relationships with unions, and saving and creating jobs.

Having acquired a collection of assets that KPS valued at almost €600 million for just €88.6 million, and with Bosch receiving no cash consideration at closing, KPS embarked on a radical business transformation. First, it was faced with a complex global carve-out that saw CBI exit all manufacturing facilities previously shared with Bosch. Netherlands-based CBI opened four new, state-of-the-art manufacturing facilities in Poland, China, India and Mexico, and built four R&D and engineering centres in Germany, India, the Netherlands and China.

6.2x

Euro cash-on-cash realisation

Furthermore, KPS put together a new management team, helped implement a new enterprise resource planning system, and established a new organisational structure and corporate culture, focused on maximising profitability and cashflow generation.

Growth was also central to KPS's investment philosophy. Under the firm's ownership, CBI expanded and diversified its revenue base through new business wins that increased market share with key customers, expanded the company's customer base and extended its reach overseas. Indeed, between 2011 and 2018, CBI increased annual new business wins by around €600 million, experienced record new business wins for five consecutive years and built a robust order book, positioning the company for future growth.

In particular, CBI successfully grew its operations in China. Chinese revenue increased by over 66 percent, while simultaneously improving adjusted EBITDA margins by around 690 basis points between 2012 and 2018. In addition, CBI built a new assembly facility and engineering centre in North America where it had previously had no presence, taking market share from key competitors and building revenue to nearly €100 million in three years.

Under KPS, CBI invested over €234 million in research and development and applied engineering to commercialise three new industry braking products and develop the world's first all-electric brake.

Overall, CBI materially increased adjusted EBITDA under KPS's stewardship, from €1 million at acquisition to €86 million at the end of 2018, with EBITDA margins rising from 0.1 percent to 9.2 percent.

KPS sold CBI to Hitachi Automotive Systems in 2019 for an enterprise value of €690 million, achieving a total 6.2x euro cash-on-cash realisation (5.6x US dollar cash-on-cash realisation) and a gross US dollar IRR of 30.1 percent.

"This is a remarkable case of business transformation, investing in new products and of growth," said the judges, who scored the deal exceptionally highly for innovation.

"There was a complex carve-out resulting in the creation of eight new facilities supporting multifaceted business improvements." ■

Partners Group

With the support of Partners Group, catering services company Vermaat added more than 172 high-footfall food and beverage locations, and entered the German market

Established in 1978 as a delicatessen store, Vermaat is a leading provider of premium catering services to corporate, leisure, hospital and travel locations, as well as events. The company is headquartered in the Netherlands. Global private markets investment manager Partners Group, on behalf of its clients, developed a relationship with the family owners and management, positioning itself as an experienced succession partner with a track record of working with family businesses.

Partners Group was attracted to Vermaat based on the growing and resilient Western European catering segment where it operates, driven by an ongoing outsourcing trend. The company also had long-term client contracts with impressive renewal rates, as well as a strong financial track record.

Nonetheless, Partners Group had a clear value creation plan to leverage organic and inorganic growth opportunities. The firm set about professionalising what had been a family-run business while maintaining its entrepreneurial approach. It institutionalised financial and operational reporting and controls, as well as budgeting, strategic planning, training and development.

Next, it helped management to invest in growth and increased Vermaat's number of high-traffic food and beverage locations, both organically and through a series of accretive acquisitions. Vermaat increased its high-footfall locations by more than 172 to around 360. It was also awarded a Michelin star for its RIJKS restaurant.

172

High-footfall locations added

"An outstanding journey of creating the leader in sustainable premium catering"

In order to support this growth, Partners Group added seasoned retail experience to Vermaat's board, alongside its own industry and investment professionals. The firm also installed a project management office to drive digital strategy, including a KPI dashboard for location-by-location insights and management, and like-for-like growth.

Environmental, social and governance considerations were also a central tenet of the investment philosophy. In particular, Vermaat was focused on using healthy sustainable food while reducing food waste by collaborating with suppliers to purchase imperfect ingredients and working with seasonal fruit and vegetables to reduce its carbon footprint.

International expansion was next on the agenda. Partners Group analysed different avenues from when it first invested in Vermaat to 2018, and created a platform to enter the German market.

Vermaat generated annual sales of €138 million at the time of Partners Group's investment in 2015, and this rose to more than €300 million last year, when the private equity firm exited.

Vermaat was acquired by Bridgepoint in 2019. Partners Group remains a minority investor.

"This story represents an outstanding journey of creating the leader in sustainable premium catering," a member of the judging panel commented. The judges also noted the company displayed strong growth while maintaining margins, and that it had been convincingly focused on ESG. ■

Q&A

Rodolfo Spielmann, managing director and head of Latin America at CPP Investments, on building long-term value and relationships with family-led firms

Q What opportunities does partnering with family-controlled businesses present to institutional investors?

A Family-controlled businesses, especially multi-generational ones, are recognised as best-in-class operators, with deep knowledge of their business and markets, and long-term investment horizons. Institutional investors can benefit from those distinctive features to create an effective strategy for deploying long-term assets.

These businesses have recurring traits, such as strong governance, stable shareholders and long-term value creation strategies that resonate with institutional investors, especially long-term focused investors like CPP Investments, creating mutually beneficial partnerships, where family-controlled businesses contribute their operational and market expertise, and investors contribute with top-notch governance, decades of investment expertise, and a global business perspective. By creating these partnerships, investors benefit from access to the best assets in the region and can create a scalable investment platform leveraging the partner's operational excellence while contributing their investment expertise.

Q What operational knowledge is brought to the table when investing alongside family-run firms?

A Multi-generational family businesses build companies and assets to last, and usually resist short-termism,

which can translate into greater fixed investment and higher R&D expenditures, even during a crisis, as these firms tend to pursue long-term strategies.

These firms are among the top global operators, with an appetite for smart risk-taking, a strong business focus and determination. Since we are not operators, and don't aspire to be, we partner with best-in-class operators, providing long-term capital and investment expertise, as well as advice and best practices from our global portfolio.

Q What's the key to building collaborative relationships with family-owned firms?

A It is important to bring more to the table than just money. Be clear what value you bring to the business, such as a shared emphasis on governance, investment and industry expertise, global experience in the relevant sectors, and long-term commitment. Family-led enterprises are more willing to do business with long-term investors as both share multi-generational horizons, not only six to 10 years.

Since these relationships can last decades, it is essential to focus on the people you will be partnering with rather than on the individual transaction. It is an approach that requires patience and a deep commitment to a long-term philosophy, so invest significant time before making such an investment. Build the relationship slowly, as both sides gain confidence in the other. Over time, a simple investment can scale into an entire investment platform. Make sure your values align with those of your potential partner and take the time to be certain about compatibility. Finally, approach these relationships as equal partnerships, unlike more transactional arrangements.

Q Are there any operational considerations particular to investing in Latin America?

A Traditionally in Latin America, cost of capital, including cost of debt, was markedly higher than in developed markets, which led to more conservative capital allocation strategies and financial engineering. The gap has reduced substantially, but is still far from the US and Canada, making these strategies imperative.

Compliance is a key consideration. This isn't exclusive to the region, but investors should consider intensified due diligence in compliance-related issues, especially for companies involved in infrastructure, large construction projects, or public sector contracts. ■

Why misjudged cuts can misfire

Guest comment by **Matt Brubaker**

To avoid hindering long-term growth, portfolio companies trimming budgets must first rework human capital strategies, says FMG Leading's CEO

As private equity portfolio companies reassess their strategies in today's shifting landscape, they would be wise to do the same with their human capital strategies, especially while trimming budgets. Short-term gains from a cut in the wrong place could ultimately put them behind the competition.

Despite a growing awareness of all things human capital, too few private equity leaders have fully internalised that human capital initiatives only drive significant returns when they flow from an integrated human capital strategy, designed to drive big-picture financial objectives. And like all strategies, those focused on human capital must evolve as business environments evolve.

To illustrate, the pandemic has upended myriad companies, creating swift and significant changes to the profitability of respective business units or areas. By now, most companies have sought to pivot and lean heavily on the aspects of their business that they believe will get them through the covid era.

But have their leaders deeply considered the people driving these parts of their business? Do they understand which positions will create the most value in this new environment? Have they determined whether the crisis has changed the company's "fulcrum roles", meaning those outside senior leadership circles that have an outsized impact on the company? What are they doing to ensure these people are protected, engaged and empowered to thrive amid the impact of covid-19 on both their professional and personal lives?

Only by devoting requisite time, energy and resources to answering such questions can companies devise a comprehensive human capital strategy that can support its larger goals in the midst of covid-19. And only then can they be sure cuts will not lead to long-term pain for their organisations.

Human dynamics

Without understanding companies' evolving human dynamics, it is all too easy for budgetary adjustments to undermine the very teams best poised to drive growth. How do you cut staff without risking eliminating key support roles? How do you prioritise engagement initiatives without knowing who is most important to engage?

"Every crisis presents an opportunity for companies to become smarter and savvier"

Because the everyday demands on portfolio company management can make it difficult to achieve and maintain this holistic perspective, it often falls to operating partners to question how reworked budgets will impact organisations' most crucial people, and – big-picture – whether companies have reworked their human capital strategies to guide further decision-making in the new normal. This can rein in short-term thinking that can hinder future growth.

What's more, it can help unlock organisations' growth potential, even amid today's serious economic downturn.

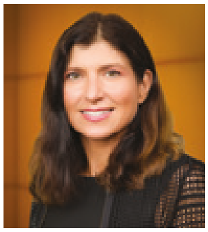
Every crisis presents an opportunity for companies to become smarter and savvier. Though unprecedented, today's crisis is no exception. But it requires deep thinking about the people who are best positioned to help the company survive and thrive. Together, operating partners and portfolio company management must look to harness their full power and potential. ■

Matt Brubaker is CEO of FMG Leading and an expert on organisational assessment and change. A frequent advisor to private equity firms, he serves as an operating partner at Windrose Health Investors and is a board member at JM Search

Cultivating human capital

Talent management, embedded in supportive and inclusive cultures, is a core operational lever that can seed benefits across portfolios and beyond

Panel



Merche del Valle
Managing director and chief talent officer at Grain Management

Elizabeth Wallace
Head of portfolio talent at Hg

Séverine de Wulf
Managing director in the PAI Performance Group at PAI Partners

Covid-19-related challenges, the rise of remote working and the growing diversity imperative have highlighted the importance of effective people management. We asked a selection of private equity talent and portfolio management specialists to share their perspectives on human capital as a value creation lever.

Q What role does employee reward and engagement play in creating value?

Merche del Valle: Engaged and motivated team members are what drives success in our portfolio companies, and our firm as a whole. That is why we structure our rewards to incentivise value creation, and reinforce our core organisational goals: efficient and proactive management of our portfolio companies; identifying, developing and retaining high-quality, diverse talent; and establishing a culture of doing the right things, for the right reasons, in the right way, at the right time.

Elizabeth Wallace: In a private equity context, the reward scheme is transparent – everyone knows what they are working towards and that is the growth of the business and, ultimately, a good result at exit. For many, this includes sharing financially in the success of that exit and this creates inclusion towards a common goal. This can be very powerful for personal accountability and ownership of a positive outcome.

> *"Employee satisfaction is central to value creation"*
>
> **SÉVERINE DE WULF**
> **PAI Partners**

Séverine de Wulf: Employee satisfaction is central to value creation, with research showing engaged management teams deliver superior performance. To realise this potential, it is key to recognise the intrinsic value of engagement initiatives goes beyond monetary rewards, as management teams need to feel connected to be fully engaged. This is why the PAI Performance Group, PAI's senior operations team, has prioritised building a sense of community among our portfolio companies; to learn best practice from each of our businesses and to provide them with access to a global portfolio of cultures and initiatives to benefit their entire workforce.

Q How have approaches to human capital evolved?

MdV: The most important evolution has been the emergence of human capital as a core operating principle. We now place a much stronger emphasis on leadership assessment and development at our portfolio companies, in particular with the C-suite executives and board advisors we appoint. We are constantly seeking leaders – both internally and externally – who will help our portfolio companies nurture their in-house talent.

EW: Human capital management is increasingly seen as a core value creation lever. The approach has evolved to become more proactive in nature. This

allows for better decision making in the talent acquisition process. Also, we are seeing a more deliberate approach to talent management and development as well as thoughtful cross pollination of talent across portfolio companies.

SdW: The investment community's approach to human capital has undergone a transformation in recent years. There is an increasing awareness that the structured, cutting-edge management of human capital can be a key lever of long-term, sustainable value creation. It is also well understood that transitions and succession, for example during a change in ownership, need to be carefully managed. The importance of diversity as part of the recipe for successful corporate governance has also pushed the market to adopt a more active approach in managing human capital.

Q Do you expect the crisis to have a long-term impact on talent strategies?

MdV: We have learned this year that teams can adapt quickly to new working models, and that we do not necessarily lose efficiency if we are not physically together. While we hope to bring our teams back together soon, these lessons are here to stay. This means we will be able to consider leveraging talent across geographies and portfolio companies in a more flexible manner than before. This will need a strong focus on building and maintaining our culture, and that is a challenge we look forward to.

EW: Yes, we do and this is for the better in our view. The fact that everyone has experienced remote working first-hand, knowing the upsides and downsides means that the workplace of the future has to look different. There is a better education and greater empathy around balancing home and working life given what has happened. Also, the ability to work flexibly and remotely will attract a broader set of candidates, thus widening talent pools and allowing for greater diversity in hiring processes.

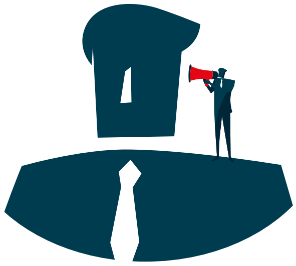
SdW: It is too early to draw long-term conclusions, but we are encouraged by the speed at which management teams have reacted, and the flexibility and resilience that our businesses have demonstrated in response to the crisis. The first phase of the pandemic required a focus on people and operations to ensure employee safety, followed by a phase of "maximum resilience" where leaders adopted measures to mitigate risk; now we have entered a phase where companies need to bring people back to work and provide stability.

Q How can GPs help foster diverse and inclusive cultures at portfolio companies?

MdV: One of our firm's core competencies is ensuring every level of our organisation creates an environment that enables growth, listens and communicates clearly and effectively, and encourages a diverse, inclusive, high-performing environment where everyone can voice their opinion safely. That is one reason why earlier this year we joined Diligent Corporation's Director Network, which helps post and fill board roles at leading private equity firms with diverse director candidates. From entry level to the board room, we know diversity of background and perspective leads to smart, differentiated investment decisions.

EW: Private equity as an industry is on a journey in terms of inclusion and diversity. This means that there needs to be education around these important topics. Getting the story right at the GP level first, then leading by example for the portfolio companies is a good start. We really should shift the conversation towards equality rather than inclusion. Of course, we know well that there is little point bringing diversity into the equation if there is a lack of equality.

SdW: The role of operating partners is to share best practice from decades of cumulative experience with management teams, to enable diverse and inclusive cultures to emerge within our portfolio. As it becomes widely understood that diversity leads to superior results over an investment's life cycle, GPs need to fully integrate professional talent management into their investment thesis. Culture plays an important role in value creation; PAI's origins date back to 1872, allowing us to share with our management teams a long and successful history of creating industry leaders, building on a culture of excellence. ■



The secret CEO

A seasoned portfolio company chief executive gives the inside scoop on what makes for an effective private equity-management working relationship

Our anonymous CEO leads a private equity-backed financial services business in Europe and has extensive senior management experience at both public and private companies. Well-versed in working with private equity firms, the CEO offers their candid take on the pros and cons of having private equity owners, including during the pandemic.

Q What was your experience of liaising with private equity backers remotely while running a business during lockdown?

We had very supportive private equity shareholders who were close to the business, supportive of management and confident to let management deal with the various scenario plans and changes required. While they were concerned about the potential negative impact on the business, they stood ready to support the business with additional funding if required. Fortunately, it was not needed.

Q What are the greatest challenges of working at a private equity-backed firm?

Firstly, depending on the culture of the private equity firm, they can be supportive to the CEO or very intrusive to the day-to-day operations of the business. Having worked with both, and as an experienced CEO, I clearly prefer the former operating model.

Secondly, as CEO of a portfolio company it can be difficult to get visibility of the issues, fund strategy, investment parameters, etc, at a private equity level that may adversely impact on the business but may not be obvious.

> *"Be assertive in your role as CEO and your vision for the business"*

Q And the benefits?

As an experienced CEO, alignment of the operating model with the private equity partners can be liberating, so that myself and my executive team have the ability to drive the business on a month-by-month basis without undue interference. However, this requires me to have strong stakeholder management and strong governance routines with the private equity company and other shareholders.

The other significant benefit is that decision making is usually quick, rationales for decisions are very clear and working in a private equity environment is much more dynamic as opposed to a large company or corporate structure.

Q Is there anything you wished operating partners at private equity firms better understood about your role?

Depending on the private equity company culture, there can be little regard for colleagues and customers within the business, with the view that it is basically a financial transaction.

Q What would be your top tip for a first-time portfolio company CEO?

Be assertive in your role as CEO and your vision for the business, and remember that private equity partners are not primarily experienced in running and operating a business. Build a strong relationship with the private equity partners and engage proactively with them. ■


Creating value through your investment's entire life cycle.
That's why we call it *M&A360*™.
Maximize return and minimize risk through each step of the transaction with *M&A360*™. The outcome-driven framework considers each unique structure to assist in achieving your priorities.
Experience the power of being understood. Experience RSM.
rsmus.com/ma360