

**Private Equity
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Operational Excellence

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Stepping up to the plate

Why value creation
will need to be PE's
next big hitter



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Insight

What will be in tomorrow's value-creation toolbox?
Here are five levers that will be integral to driving portfolio performance over the next five years

1

Talent recruitment and retention

Human capital has always sat at the heart of private equity value-creation strategies, so it is no surprise that the people agenda remains integral to the toolbox of the future, *writes Claire Coe Smith*. Still, things have moved on significantly since the days when the talent lever started and finished with the recruitment of a new chief executive.

Matt Brubaker, CEO of FMG Leading, says: "The place where everybody immediately goes is to whether they have the right chief executive, and is he or she fit for the job? The real leverage starts to happen when you are able to look at the entire organisation as a whole and see where people-related investments will drive the biggest returns. That is not just in the C-suite – there are non C-suite roles in every business that have the



ability to have an outsized impact on value creation. Understanding that is where we are starting to see investors developing a higher degree of sophistication."

A growing number of PE shops now invest in an in-house HR

capability to work across the portfolio, sharing best practice and focusing on much more than just recruitment.

Lisa Telford joined mid-market firm Montagu back in 2017 with just such a brief. "When I joined Montagu, HR

75% Portfolio company leaders that expect talent retention to be a major challenge over the next 12 months

Source: AlixPartners Seventh Annual Private Equity Leadership Survey

was normally a C-suite minus one role and was not on the radar of the investment partners,” she says. “That has completely changed and that is because the value-creation strategy is all about change, so if you haven’t got somebody sitting at the top table to help the chief executive drive that change through the business, you have an issue. We have really focused on upgrading that particular role.

“We are now doing a lot more work around partnering with Montagu management teams to accelerate top team performance, because it isn’t down to individual performance. This is particularly important when we are hiring new C-level talent as we tend to over-hire for the company we want to create, rather than the company it is today. Therefore, helping them to onboard successfully and integrate into the team is key to success. You can have the best strategy in the world but if you haven’t got people aligned and capable of executing on it, you are nowhere.”

With an intense war for talent currently in full swing, and the post-pandemic shift to new ways of

“The private equity business is a talent business”

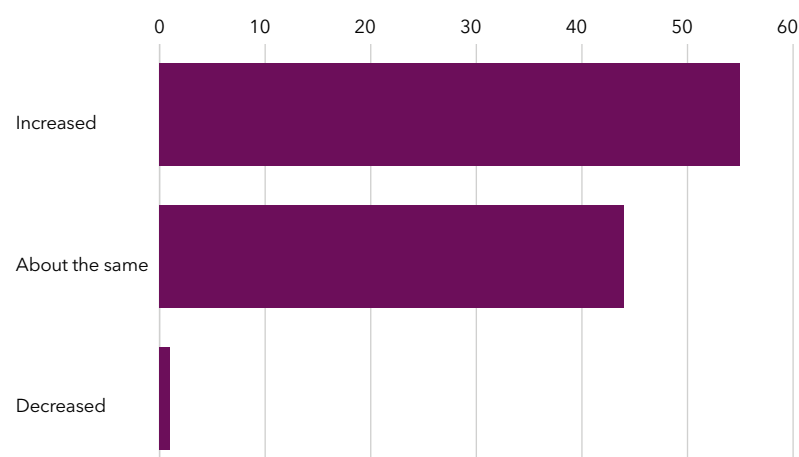
Eric Liu
EQT



working upending the parameters of talent recruitment and retention, getting the right people has never been more critical to growth.

Eric Liu, head of North American private equity and global co-head of healthcare at EQT, says: “For me, talent is the number one consideration, period. The private equity business is a talent business and that is the most important thing we do both at EQT and in our portfolio companies.”

How has the importance of human capital due diligence changed in the past 18 months? (%)



Source: AlixPartners Seventh Annual Private Equity Leadership Survey

2

Culture and purpose

The culture and purpose of a portfolio company can play a key role in effecting change - it may be linked to the talent agenda but increasingly warrants focus in its own right.

FMG Leading’s Brubaker says: “Businesses are driven by

culture, whether that is strategically and thoughtfully planned or not. Leaders have got to understand the motivations and demographics of the workforce and enable those individuals to feel good about

“Purpose drives the corporate vision, team alignment and culture”

Albert Vazquez-Agusti
Sway Ventures

engaging with the business.

“Getting culture right for the particular needs of the particular workforce in a particular place and time requires not big and broad words but many micro actions that are truly unique to the business. Those daily behaviours translate into building a culture that is strategically aligned with the way you want to create value.”

Embedding the right culture in a business is critical to addressing risk, compliance and governance, and is a growing focus of regulators. In addition, a

clear corporate purpose has the potential to create value not only by empowering employees but also with customers and other stakeholders.

Albert Vazquez-Agusti, a partner at Sway Ventures, says: "Purpose drives the corporate vision, team alignment and culture. Managers who embrace a widely held social purpose in their organisation are better positioned to identify opportunities because it allows them to take a more expansive view of the world and see what others might miss. It also increases the odds that employees find meaning in their work, which is a core driver of motivation, leading to higher quality and more creative people."

20% Portfolio company leaders that think their organisation is well equipped to drive positive and productive behavioural change

Source: AlixPartners Seventh Annual Private Equity Leadership Survey

27% US-based PE firms that expect HR, culture and return-to-office issues to present post-M&A challenges over the next 12 months

Source: BDO Private Capital Pulse Survey, Spring 2022

Thank you!

The Riverside Company is proud to receive the 2022 EMEA: Lower Mid-Market Award.

We'd like to thank our investment and operating professionals, as well as the management team at REPA.

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3

ESG

In the last few years, private equity firms' approach to ESG has evolved from focusing on risk mitigation to putting responsible investing at the heart of value-creation strategies.

Stephan Förschle, co-head of Triton's business services team, says: "There is now a much greater appreciation of ESG considerations as a force for value creation throughout the investment process, in addition to being a risk mitigation tool. We have long believed in the power of ESG factors in building better businesses, and we are seeing more and more GPs following suit in building in-house teams to help implement, track and measure sustainable value creation."

Tanja Lukas, an investment director at Schroders Capital, agrees. "ESG considerations should be integrated and applied throughout the private equity investment process and are key drivers of investment decisions and performance," she says.

"Prudently and proactively assessing these factors should lead to an emphasis on investments with strong ESG credentials and the exclusion of investments that pose significant ESG risks," says Lukas. "Improvement on ESG integration over the life of an investment forms an active element of our decision to invest with a given partner, whether that is a fund manager, company or management team."

A strong ESG strategy can add value to a portfolio company in a whole raft of ways – helping to reduce waste and inefficiency through more thoughtful resource

“ESG considerations should be integrated and applied throughout the private equity investment process”

Tanja Lukas
Schroders Capital

usage, driving value by engaging with customers and employees on social issues that matter to them, or helping companies with their energy transition through decarbonisation efforts.

Frédéric Stévenin, a managing partner at PAI Partners, says: "To determine the biggest decarbonisation value-creation opportunities, PAI assesses carbon footprint, carbon intensity, maturity around target setting, and exposure to transition risks and opportunities based on sector and geography for each portfolio company.

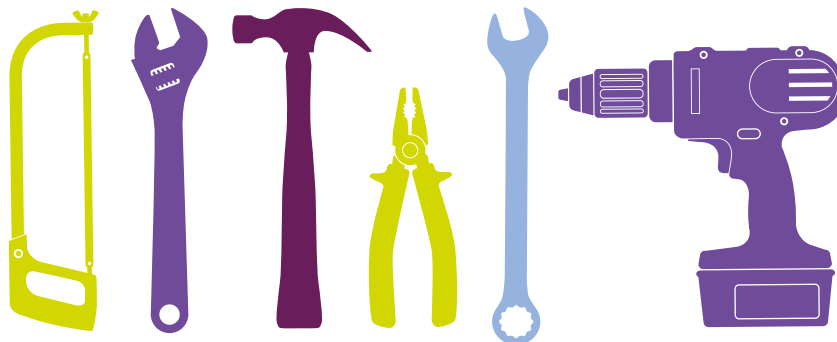
"We see clear value-creation potential, as a company's climate profile will have a direct impact on its value, whether this manifests in cost savings from efficiency, revenue growth from differentiation or improved resilience through aligning to a net-zero economy."

65% LPs that believe ESG adds value by excluding high-risk investments and business practices and by making proactive, positive changes to portfolio companies

Source: Collier Capital's Global Private Equity Barometer: Summer 2022

70% Europe-headquartered LPs that agree or strongly agree ESG commitments influence valuation premiums

Source: ILPA-Bain ESG Survey



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Technology and digitalisation

Technology and digitalisation have long been a key feature of private equity value-creation strategies, but Triton's Förschle says the integration of technology and data will only become more important in the coming years. "We expect that technology will be increasingly seen as a horizontal that sits across all sectors, even those that are not considered digital-ready," he says. "This is the approach that Triton has taken, and it has allowed us to transform businesses in a multitude of ways in traditional sectors such as industrials or services."

Meanwhile, EQT has a 20-person in-house digital team that provides companies with

“We expect that technology will be increasingly seen as a horizontal that sits across all sectors”

Stephan Förschle
Triton

support on everything from search engine optimisation to cybersecurity and the implementation of enterprise resource planning systems, says Liu. "Most executives will only ever deal with one of these projects at any one time, but we might be running six or seven similar

programmes across the portfolio at once and we get to leverage that know-how for the benefit of all our portfolio companies," he explains.

David Bajada, an investment director at Schroders Capital, points out that digitisation and automation are two key areas of focus across all industries that were further accelerated as a result of the pandemic. "There will be a continued push towards AI and data analytics, which will in turn have a significant positive impact on companies' operational performance, through higher productivity and enhanced margins," he says.

77% UK and US-headquartered PE firms that plan to invest more in customer-facing digital transformation in their portfolio companies

Source: KPMG's Delivering on the Promise of Value Creation Report 2022

5

Supply chain enhancements

One tool in the private equity locker that has rapidly moved up the agenda of late is supply chain enhancements, where challenges during and since the pandemic have highlighted the huge risks associated with poor logistics and the value to be gained from improvement.

"Global supply chains have proven highly vulnerable to transportation costs," says Stévenin at PAI Partners. "When we look at how our companies manufacture goods and create services, we focus on building

innovative sourcing strategies and looking closer to home both to reduce transport costs and to lower our businesses' carbon footprint.

"Our aim is to help our companies become as nimble as possible about how they deliver goods and services to their clients. Another part of the solution to supply chain optimisation lies with innovative technologies."

“Part of the solution to supply chain optimisation lies with innovative technologies”

Frédéric Stévenin
PAI Partners

Sway Ventures' Vazquez-Agusti anticipates supply chains being integral to driving operational improvements for PE firms going forward. "There has been a lot of automation taking place in the last few years, but factories are still very unstructured, and unless we put in processes and automation, we are going to hit limitations," he says.

"We really need to rethink how we make and deliver products - that is going to be the next revolution. In the past decade, technological innovation was very much business-to-consumer driven; that has now created an infrastructure and an ecosystem to bring those opportunities to business-to-business use cases so that they too can reap the benefits." ■