



How leading funds are transforming portfolio companies

Identifying and exploiting opportunities to drive growth, transforming business models and enhancing efficiency in portfolio companies are essential for Private Equity investments particularly with increasing valuations and fierce competition on deals.

At the Private Equity Europe Forum 2018 in London, FTI Consulting, which works extensively with medium and large sized funds to support their value creation programmes, moderated a panel of leading Private Equity operating partners to share their knowledge and their different approaches to enhancing value in their portfolio companies.

The panel consisted of:

- Amanda Good, Partner and Head of the Operations Innovation Team, Hg Capital
- Bertrand Pivin, Partner, Apax Partners France
- Immo Rupf, Partner, Cinven
- John Leahy, Founder, Partner and Head of Value Enhancement at DH PEP
- Volker Hichert, Founding Partner & Managing Director at Deutsche Private Equity
- Adam Bradley, Senior Managing Director, FTI Consulting

For **Amanda Good, Partner and Head of the Operations Innovation Team at Hg Capital**, a key strategy is to focus on commercial excellence as a repeatable intervention in all the

firm's portfolio companies. Commercial Excellence covers sales execution, digital marketing, pricing and retention, cross selling and upselling.

This focus builds companies for the longer term since higher top line growth supports higher multiples on exit. It also builds early collaboration with management teams so that initiatives can be implemented more quickly with buy-in across the company. Most importantly, the approach is highly repeatable since all companies that Hg invests in have similar sales, marketing and pricing needs.

Hg Capital is also a believer in incremental improvements. The firm works with portfolio company management to identify ways to deliver at least 1% improvements in pricing, new sales wins and retention. In a recurring revenue business this creates a snowball effect on growth in the later years.



We are operators focussed on getting to differential first year IRR in our businesses.

Amanda Good – Hg Capital



As part of its playbook Hg Capital benchmarks every portfolio company during its first 100 days post-acquisition. It judges the maturity of each company based on qualitative and quantitative metrics against its overall portfolio. It introduces its experts into each of the company's operating areas and builds a plan that incorporates a series of initiatives. Results are then tracked at board level.

Rather than having an operating partner model, Apax's professionals have dual responsibility for the investment execution and portfolio company transformation, according to **Bertrand Pivin, a Partner at Apax France** who is responsible for the firm's investments in the healthcare and services sectors.

Digital transformation, the acceleration of business processes, operations and models powered by digital technologies is the key to success for Apax France. Mr Pivin quoted a survey which indicated that 45% of small and mid-cap companies in continental Europe have no or low digital awareness while only 20% have a real digital transformation plan prepared. Apax views this lack of awareness and preparedness as a major opportunity to create value.

The fund uses three levers to transform its portfolio companies. The first involves raising awareness of the need for digital transformation and the opportunities it presents through a number of channels including: Apax Talks, an on-line news magazine with its own content as well as Apax Lab, which runs conferences with thought-provoking speakers. The CEOs of portfolio companies are also invited to attend Singularity University, a Silicon Valley think tank that offers educational programmes and a business incubator.



Within the first few days of the investment, our Partners work with external consultants to develop digital transformation plans to be shared with the CEO of the business around how to leverage the digital technologies available. We then follow through at the board level to make sure that plan is being implemented within the first 100 days.

**Bertrand Pivin, Partner,
Apax Partners France**



Bertrand Pivin, Partner, Apax Partners France (left). **Volker Hichert, Founding Partner & Managing Director**, Deutsche Private Equity (centre). **Amanda Good, Partner and Head of the Operations Innovation Team**, Hg Capital (right)

The second lever is exemplarity – Apax practices digital transformation so that its portfolio companies can see the benefits. This internal digitalisation programme includes an office with zero paper, digital HR processes and increased software security among other features. Third, the company offers assistance in the form of its Partner + Apax CDO which helps a portfolio company to develop a digital transformation plan as well as monitoring its implementation and fostering continuous innovation.

Immo Rupf, a Partner at Cinven, and a member of the portfolio team, pointed out that there are always opportunities for cost reduction and productivity. Funds and companies just



Our philosophy is very much around active ownership: working in partnership with the management teams of the portfolio companies. Our operating team work in partnership with CEOs in order to create value.

John Leahy, Founder, Partner and Head of Value Enhancement at DH PEP



have to decide how this opportunity ranks in the overall list of priorities. For approximately half of all portfolio companies cost reduction and optimisation is part of the value creation plan. The firm sets great store by proactive and positive cost take-out, comparing core KPIs to strong benchmarks.

The firm’s approach to cost savings consists of two phases. The first is essentially diagnostic and forms part of its due diligence but it also involves analysing productivity benchmarks, for example, looking at the number of back office people versus front office people in a company and identifying the best practice in a specific sector. The second step is to creatively rethink the Target Operating Model (TOM) function by function. This includes considerations around reengineering business processes, bringing operations in-house vs outsourcing, as well as the optimal location for any given value-added step in a global value chain.

The fund often finds that with a merger or acquisition it will be able to compare the operating models and organisations of the two businesses and choose the one that works more efficiently to serve as the TOM.

In one case, when merging two pharmaceutical companies, after removing overlap Cinven rethought the go-to-market strategy including a review of what the sales and marketing department should look like as well as the back-office functions. In general, mergers give the firm the opportunity to think more creatively, looking at each function individually.

John Leahy, Founder, Partner and Head of Value Enhancement at DH PEP, focuses on accelerating the growth of the core business by bolt-on acquisitions. This broadens the customer base, drives growth in emerging markets and expansion into adjacent categories. DH places great emphasis on achieving successful integration. This involves developing a narrative around the strategy, objectives and expectations.

Mr Leahy cited the example of Quiron, a chain of private hospitals in Spain. DH PEP merged it with another hospital chain and, in the process, tripled the size of the company.



John Leahy, Founder, Partner and Head of Value Enhancement at DH PEP (left) Immo Rupf, Partner, Cinven (right)

This was a very challenging transformation but it created considerable value, giving the new company significant leverage from an operational perspective so that it could optimise equipment across its hospitals. It also added specialist consultants (doctors) and increased its leverage over pharmaceutical suppliers and insurance companies. The deal generated synergies worth €19million in the first year.

As the leader of a fund focussed on small tech companies with growth rates of 20 per cent, **Volker Hichert, Founding Partner & Managing Director at Deutsche Private Equity** and his team will scan the market for businesses that are the right size and have sufficient competitors with the aim of building a company that might not currently even exist in the market place.

These markets are often based in the building and construction sector or around servicing an existing asset base, and are typically operating in large markets, for example, electrical installation. They often lack professional, experienced management.



We see ourselves as the strategic architects, actively supporting management.

Immo Rupf, Partner, Cinven





Adam Bradley, Senior Managing Director,
FTI Consulting Business Transformation Practice

Having identified an investment opportunity with a minimum requirement of core managers, the fund will complement them with talent from within its operations team, employing people that it has already worked with. This means that it can put together management teams that are able to initiate aggressive buy-and-build programmes. Rather than focus on synergies Deutsche Private Equity aims to build a particular type of company, one that it believes has a place in the market.

For example, Mr Hichert and his team took a €50million electric company and built it into a business worth some €330million with over 25 acquisitions. Once structures are in place the company can then typically be sold to an international conglomerate that wants to enter the German market but which needs a certain solidity of structure to invest.

Ideally the portfolio company becomes self-funding relatively quickly and therefore requires no additional investment from the fund. They become their own M&A engine room, meaning that the fund needs very low capital deployment.

In summary, our panel revealed that leading funds are adopting a range of different but successful strategies when it comes to transforming portfolio companies:

- Developing a tried and trusted playbook that can be repeated with every investment, but with some flexibility on which initiatives are applied in which portfolio companies
- Creatively rethinking the Target Operating Model (TOM) function by function
- An aggressive buy-and-build process typically with clear synergies can bring about commercial and cost benefits
- The Operating Partner plays a key role in implementing business transformation in portfolio companies
- Digital transformation and the execution and integration of add-on acquisitions are critical capabilities.

How we can help

FTI Consulting's Business Transformation Practice works extensively with leading private equity funds and portfolio company management teams to shape and deliver value creation plans.

We deploy a mix of consulting tools and operating experience and take a data-driven, fact-based approach.

We are practical in our communication and approach to outcomes and take a balanced approach between near-term benefits and long-term strategic goals.

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Our Corporate Finance professionals work closely with clients, partnering with them throughout the value creation lifecycle to anticipate, illuminate and overcome complex restructuring, business transformation and transaction challenges and opportunities. Our experts with impact take an industry-first approach, delivering critical solutions in industries including healthcare, telecom, media and entertainment, business services, industrials, retail, automotive, real estate, energy and infrastructure.

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