



Delivering on the promise of value creation

2022 Market Insights Survey

KPMG International

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Foreword

Private equity activity and deal valuations are at historically high levels. In 2021, it is estimated that almost 8,000 private equity deals were completed globally worth \$800bn. Deal values were particularly strong in North America (\$352bn) and Europe (\$172bn)¹. The returns for private equity investors have also been impressive and have drawn even more investment into the sector.

With higher deal volumes and higher valuations, however, comes higher expectations. To justify paying the increased multiples, private equity (PE) firms are under more pressure to significantly enhance operational value to achieve the desired returns. This has led to a sharper focus on value creation planning, requiring a more comprehensive approach to enterprise-wide transformation by leveraging an ever-increasing set of value levers and a more disciplined and transparent approach to execution.

To better understand this evolving shift, KPMG researched the changing nature of the levers that are driving value creation and the impact this is having on deal processes. In collaboration with Coalition Greenwich, 120 PE firms and portfolio companies headquartered in the UK and US were interviewed during September and October 2021. We asked a series of quantitative and qualitative questions to explore thoughts around value creation. It was found that only around 1 in 10 PE firms feel they have reached the full potential² on their investments 90 percent or more of the time.

Even when the threshold was lowered to hitting full potential 75 percent or more of the time, still only about one-third of firms were able to meet that benchmark. The reasons provided included delaying the value creation process, relying too heavily on traditional value creation levers, and failing to fully realize the advantages of digital transformations.

When the data was examined, it also became clear that value creation is more important than ever. The value creation process is now happening earlier, crossing more disciplines, and integrating more data.

Now is the perfect time to challenge deal and operating partners on preconceived notions of where value creation sits in the deal lifecycle. As one partner at a PE firm said, "Generally, when we come second in a deal process, it's because the fund who comes first has a more mature and well thought through value creation plan, increasing their conviction in the asset and flexibility on valuation." The findings show that over 70 percent of PE firms with US\$1+ billion assets under management (AUM) recognize that value creation planning is a key differentiator in the bidding process.

Traditional levers like buy and build and people and talent remain central to many value creation strategies with newer levers such as technological and digital transformation; data and analytics; and environmental, social, and governance gaining ground.



To justify paying the increased multiples, private equity firms are under more pressure to significantly enhance operational value to achieve the desired returns.

This has led to a sharper focus on value creation planning, requiring a more comprehensive approach to enterprise-wide transformation by leveraging an ever-increasing set of value levers and a more disciplined and transparent approach to execution. ”

**Naveen Sharma, UK Head of Private Equity
KPMG in the UK**



Top six insights from the survey

Structural shift in value creation

The value of value creation

Evolution of value creation levers

Tech and digital rise to prominence

The growing influence of ESG

Advanced analytics drive engagement and insight

A new era of active management

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¹ Prequin - 2022 Global Private Equity Report.

² 'Full potential' - Reaching or exceeding the maximum target enterprise performance and valuation set for the business at the time of initial investment or purchase.

Foreword

There was a clear trend for more active engagement, with three-quarters of firms saying they are 'active' or 'very active' in their investments. PE firms are also recognizing the value that sector or asset-specific value creation professionals can bring, with many being brought in before or during due diligence the majority of the time.

The days of thinking about value creation only after the transaction closes are long gone. Value creation should be a key part of the strategy to build conviction and strengthen your position in a competitive process. In today's crowded market, the winners are engaging in value creation planning and strategies much earlier, digging deeper, and partnering closer with managers and advisors to help ensure that plans come to fruition to help each investment reach its highest potential.

We hope you enjoy this report, and we look forward to discussing these topics and more with you during 2022.



Naveen Sharma

Partner and UK Head of Private Equity
KPMG in the UK

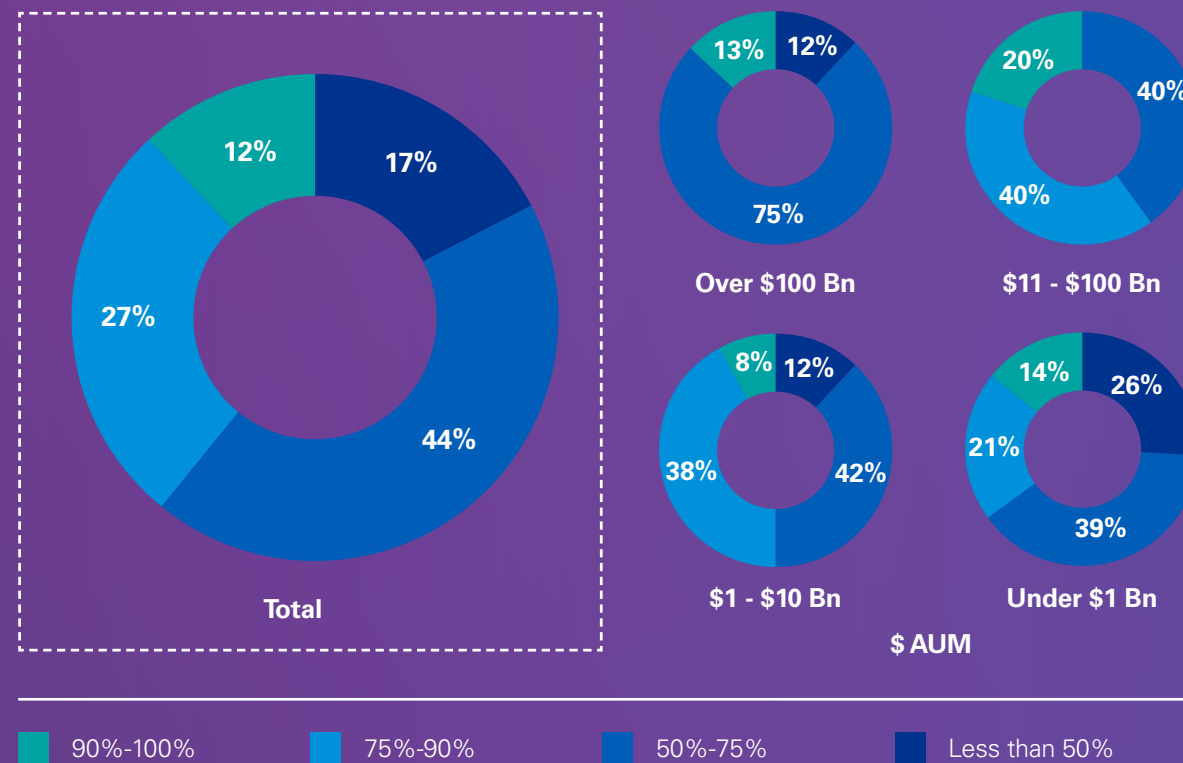


Rajesh Sennik

Partner, Value Creation practice lead
KPMG in the UK

When reflecting on the majority of investments made by your firm, on average, how often do you believe they achieve their full potential?

Just over one in 10 PE firms reach full potential 90 percent or more of the time.



Source: 2022 Market Insights Survey



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Top six insights from the survey

The research revealed the following six key insights:

1. Few PE firms are achieving the ‘full potential’³ of their investments

- Only around 10 percent of PE firms feel they have reached full potential 90 percent or more of the time on their investments
- Reasons included delaying the value creation process, relying too heavily on traditional value creation levers, and failing to fully realize the opportunity and speed of business model shift as the economy becomes ever more digital

2. Value creation planning is starting earlier, going deeper, and having a greater impact on decision-making

- Fifty percent of PE firms with more than US\$10 billion of assets under management (AUM) now activate their value creation plans earlier in the deal process than three years ago
- More than 80 percent of these firms engage actively in value creation planning at or before making the investment decisions, with three-fifths of the largest firms developing their plans even earlier, right at the very start of deal evaluation

3. Advanced analytics and sophisticated value creation planning are driving more competitive deal processes for attractive assets

- Eighty percent of firms with AUM \$10-100bn believe that proper planning enables them to increase their competitiveness in auctions
- Almost half of portfolio company execs feel that the price paid for their business was underpinned by specific value creation assumptions

4. Somewhat surprisingly, ‘buy & build’ and ‘people & talent’ remain the top value creation levers, but ‘tech investment/ digital transformation’ are rising rapidly as preferred strategies

- Buy and build and people and talent retrospectively and prospectively are the two top value creation levers used by PE funds across all fund sizes
- Technology and digital transformation are rapidly gaining ground and are expected to be the third most important lever going forward, with significant focus on customer-facing digital transformation, data analytics, and cyber security

5. ESG is growing in importance for deal consideration, but is not yet an established lever for value creation

- ESG factors are increasingly considered pre-deal, whereas previously, they were a post-deal consideration
- Over 90 percent of firms with AUM over US\$10 billion have declined an investment due to ESG criteria
- However, ESG is not yet considered one of the top five levers for value creation

6. PE firms are bringing in external advisors earlier to help achieve full value on their investments

- External advisors are engaged before or during initial due diligence more than 60 percent of the time
- When choosing outside consultants to help lead value creation planning, US firms favor deep sector expertise, while UK firms put greater emphasis on track record

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³ “Full potential” - Reaching or exceeding the maximum target enterprise performance and valuation (e.g., stretch case) set for the business at the time of initial investment or purchase.

Structural shift in value creation

Value creation planning is experiencing a dramatic shift. Rather than creating and implementing a value creation plan after a deal closes, 50 percent of PE firms of AUM of US\$10 billion or greater are now initiating value creation planning earlier in the deal lifecycle than they did three years ago.

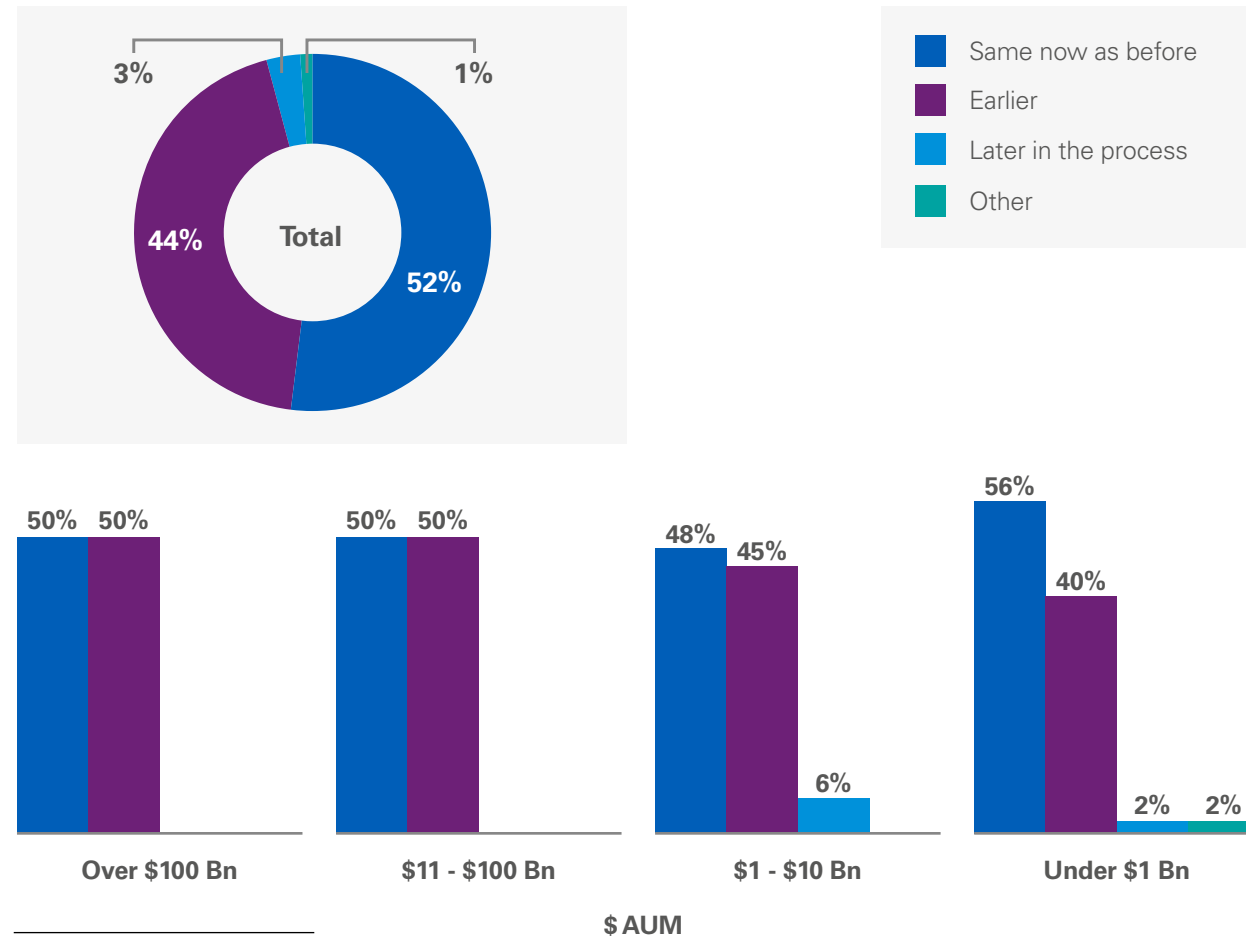


In today's competitive market, the winners are engaging in value creation planning and strategies much earlier, digging deeper, and partnering closer with managers and advisors to help ensure that plans come to fruition to help each investment reach its highest potential. ”

Rajesh Sennik, Partner, Value Creation practice lead, KPMG in the UK

Has the timing of when you have activated value creation planning on your investments changed during the past three years?

PE investors see timing of value creation shifting to earlier in deal cycle.



Source: 2022 Market Insights Survey



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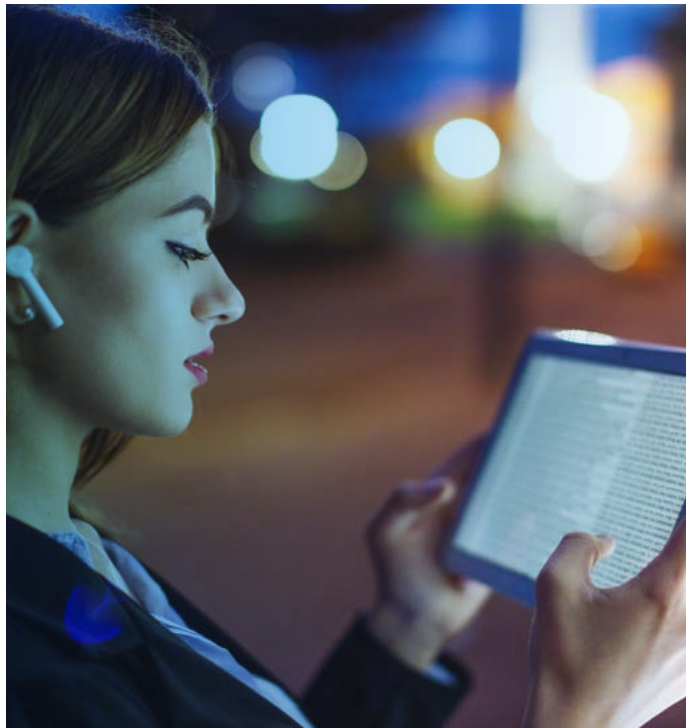
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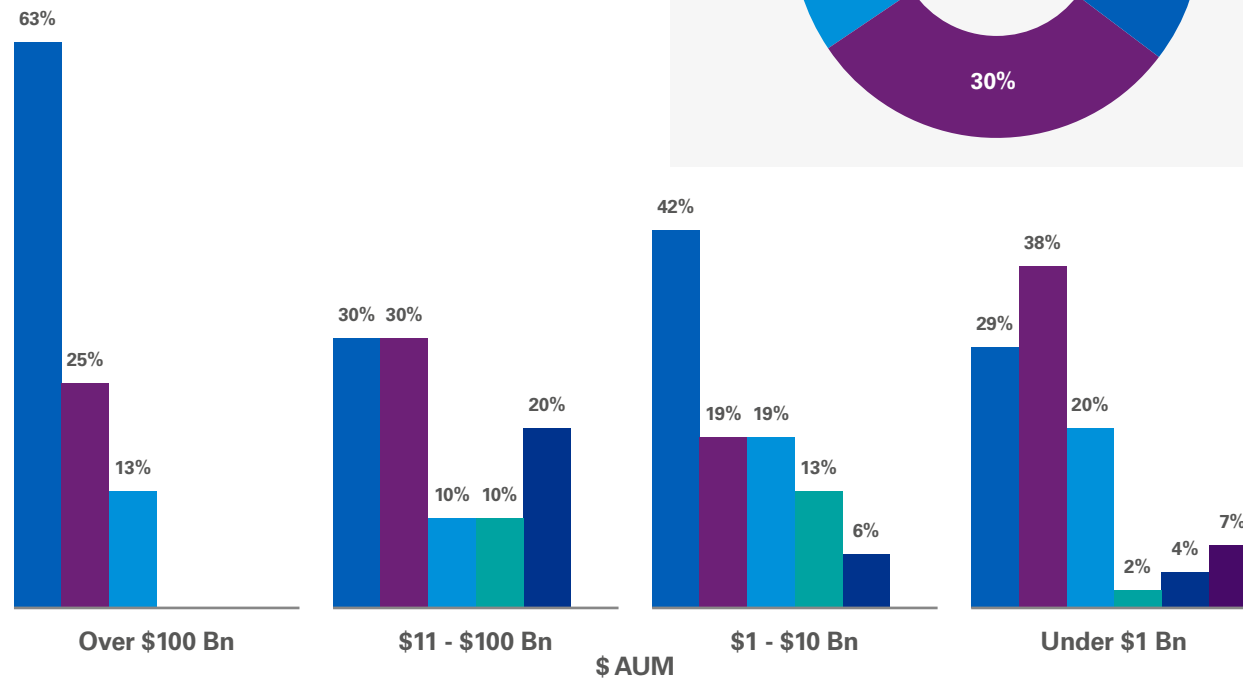
The intensity of the planning is also much higher in the earlier stages. Value creation planning is actively pursued at or before due diligence by 65 percent of all firms, and by 88 percent of the largest firms with an AUM of US\$100+ billion.

The message is clear: Value creation planning needs to be undertaken before the deal is completed, when there is more room for maneuver. It is vital to secure access to an existing repository of value levers, data sources, and analytical techniques early in the process, so the value creation strategy can be fully integrated into the investment plan. If value creation planning is left until post-completion, there is a much higher risk that either the opportunity itself will be missed, or, at the very least, it will be more challenging to realize its full potential.

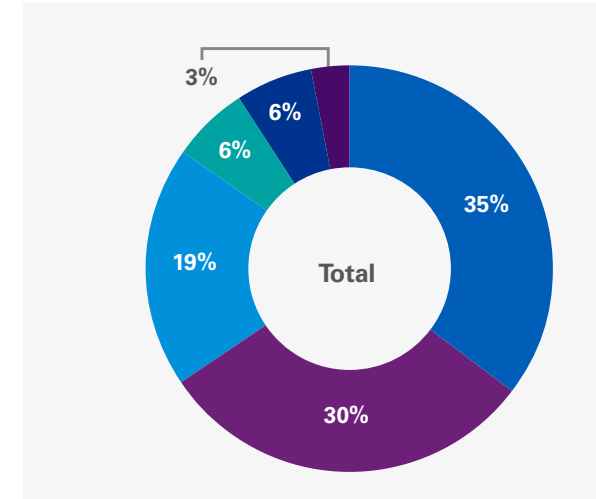


Value creation planning in the deal lifecycle

All sized firms recognize the importance of starting planning for value creation early in the deal lifecycle; larger firms have the most significant focus on value creation at the earliest point.



- At the very beginning of deal evaluation
- During initial due diligence
- As a part of the investment decision
- Between signing and completion of the deal
- First 100 days post-completion
- As part of normal operations of the business



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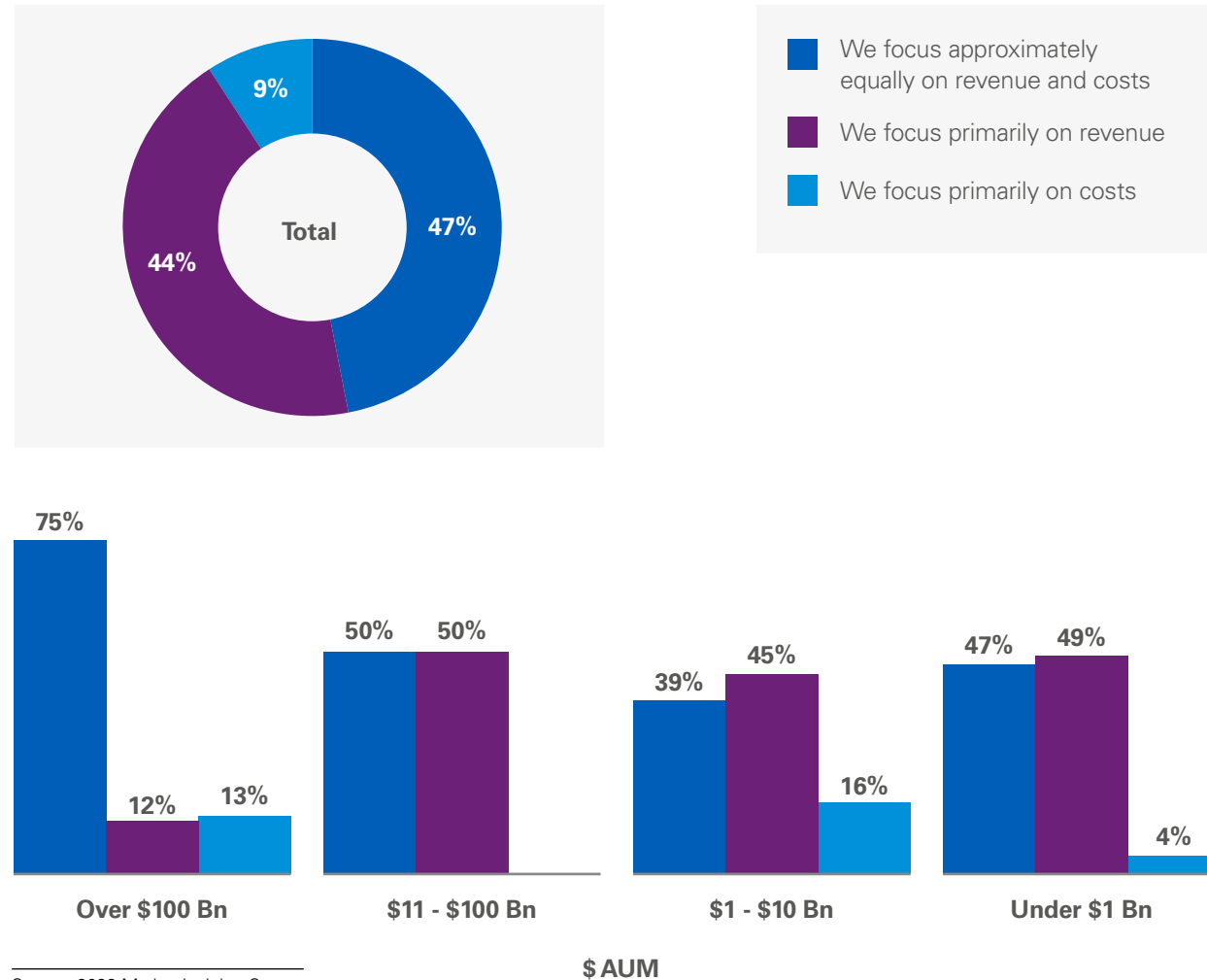
Another key factor in the value creation planning process is the approach taken. Today, the largest firms overwhelmingly take a balanced approach to costs and revenues when developing their value creation plans. For the others, it is a more even split between a balanced approach and a focus on revenues, with only a minority focused on costs.



Approaching cost and revenue in a balanced manner

In terms of value creation, nearly half of all firms take a balanced view on revenues and costs.

These results mirror KPMG's internal research, which shows that those investments with a balanced approach to value creation achieve 15 percent EBITDA growth, versus only 5 percent growth for those that consider costs alone. With the right application, a balanced approach can help to distill potentially dozens of value creation levers down to those few that can create the most value in the particular investment being analyzed.



Source: 2022 Market Insights Survey



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The value of value creation

Value creation planning is becoming an increasingly important part of the bidding process itself. In the last three years, PE firms of all sizes have seen a rise in the use of value creation planning in the bidding process. Firms with AUM greater than US\$10 billion have increased their use of value creation planning by 80 percent, while for firms with AUM between US\$1 and US\$10 billion, the increase is almost 70 percent.

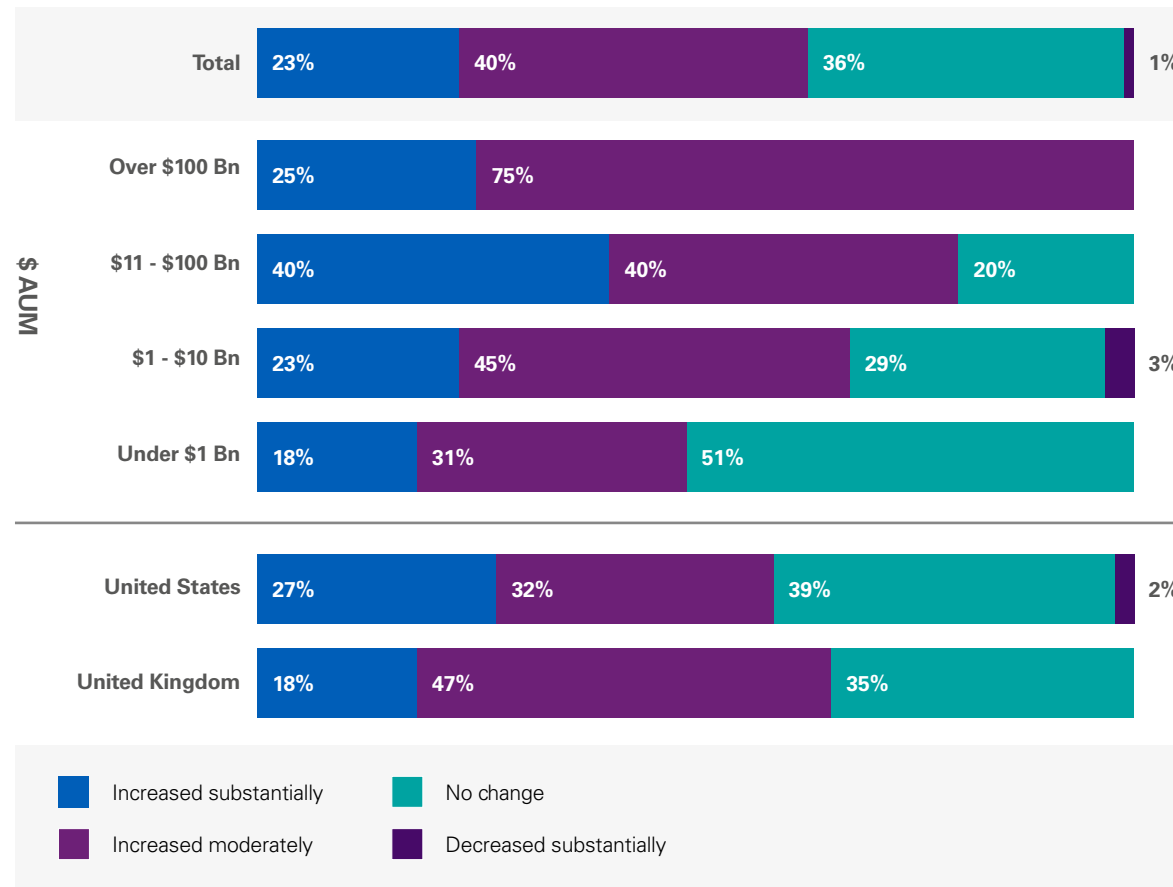
“ In response to increased asset prices, we challenge our deal teams to find more aggressive value creation levers to mitigate compressed going-in base case returns. ”

Partner, PE firm, US\$1 - US\$10 billion AUM

Why are firms starting sooner and moving faster? Because it helps improve their chances of winning. The research shows that value creation planning improves competitiveness or pricing in the bid process more than 50 percent of the time. With so much ‘dry powder’ in search of the next big deal, company founders are not only looking for investment, but also for strategies and focused execution capability that should come from having “the right” PE shareholders to take their business to the next level. This kind of added value is increasingly what makes bidders more competitive - and if you can be more competitive, you can win more opportunities.

The use of value creation planning in the bidding process over the past three years

Value creation planning has increased substantially across regions and AUM asset classes, in particular across larger firms.



Source: 2022 Market Insights Survey



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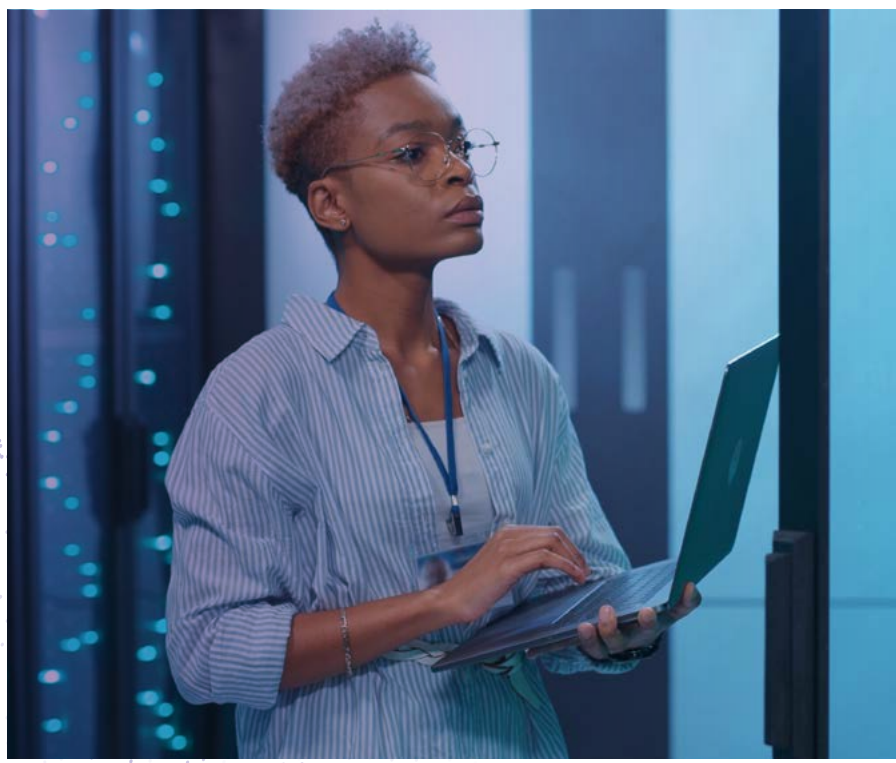
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As deals have become more competitive, having a robust value creation process that is underwritten into the deal allows us to pay more for deals where we have a high conviction of our ability to drive value.”

Partner, PE firm, US\$1 - US\$10 billion AUM



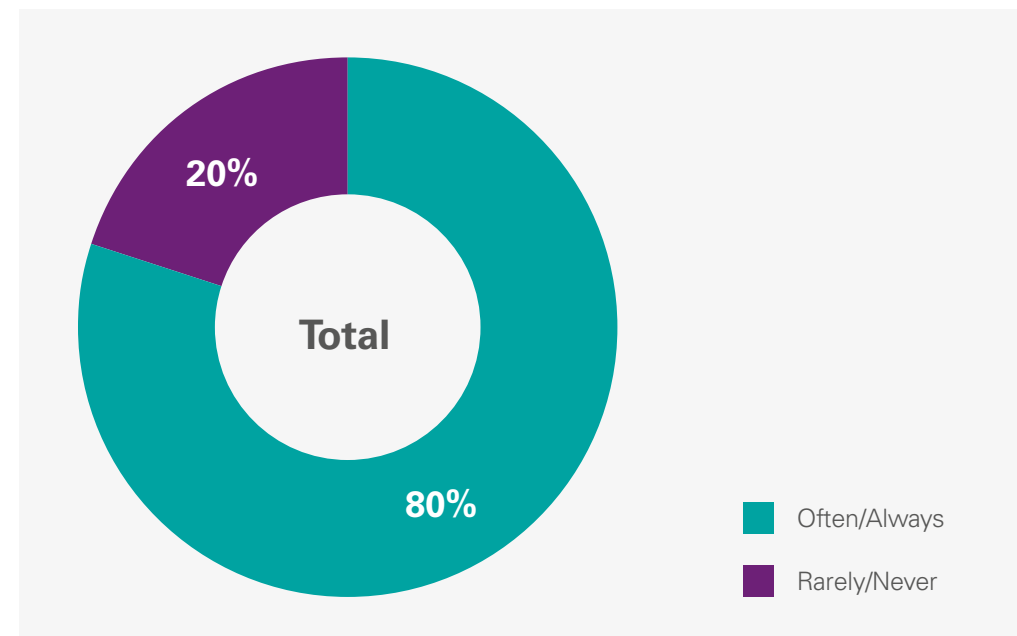
Value creation planning increasing competitiveness in bid process

Value creation planning has a big impact on the bid process, enabling higher bids.

With improved bid pricing, firms can win more deals. The pressure is then on the winning bidder to execute their value creation plan to drive performance. To achieve that, the value creation levers should be properly identified, quantified, and actioned at the appropriate time.

Of particular note, over 80 percent of PE firms with US\$11+ billion AUM recognize that value creation planning is a key differentiator in the bidding process. When combined with quantitative analytics, this enables firms to achieve more effective positioning in auction processes, which in turn helps to secure the most desirable investment opportunities.

To what extent does value creation planning enable higher bids and help rank better in a competitive auction process for PE firms with US\$11+ billion AUM?



Source: 2022 Market Insights Survey



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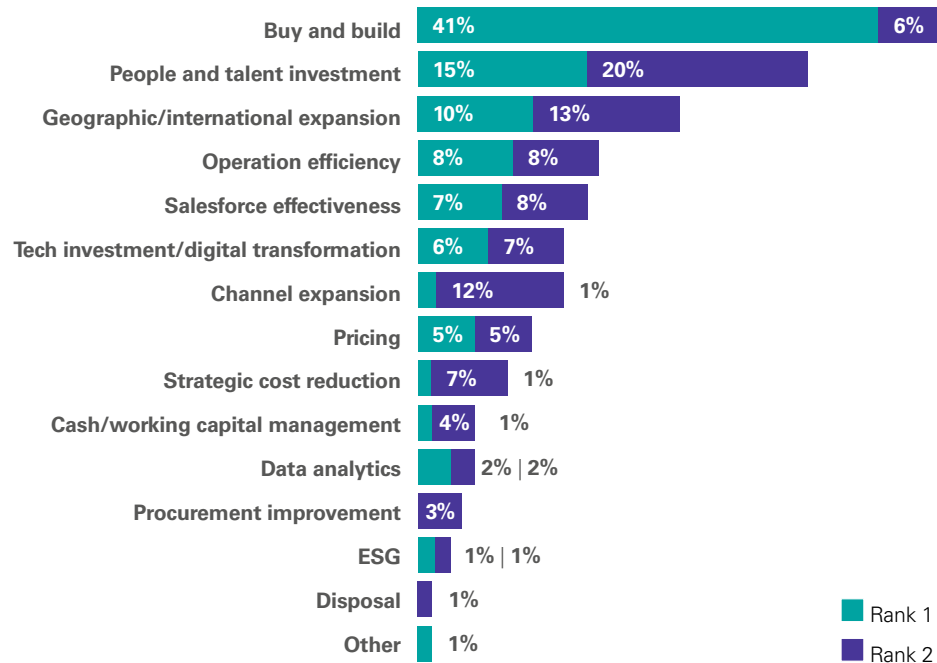
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Evolution of value creation levers

Value creation has always been about driving greater deal multiples or EBITDA, ideally both. While value creation ideas have become an increasingly important part of the bidding process, the top levers of value creation have changed little. Both retrospectively⁴ and prospectively⁵, the research shows the two primary levers for creating value are (1) buy and build and (2) people and talent investment. Notably, technology investment and digital transformation are rapidly gaining ground. The survey found that these two levers are expected to double in importance over the next three years.

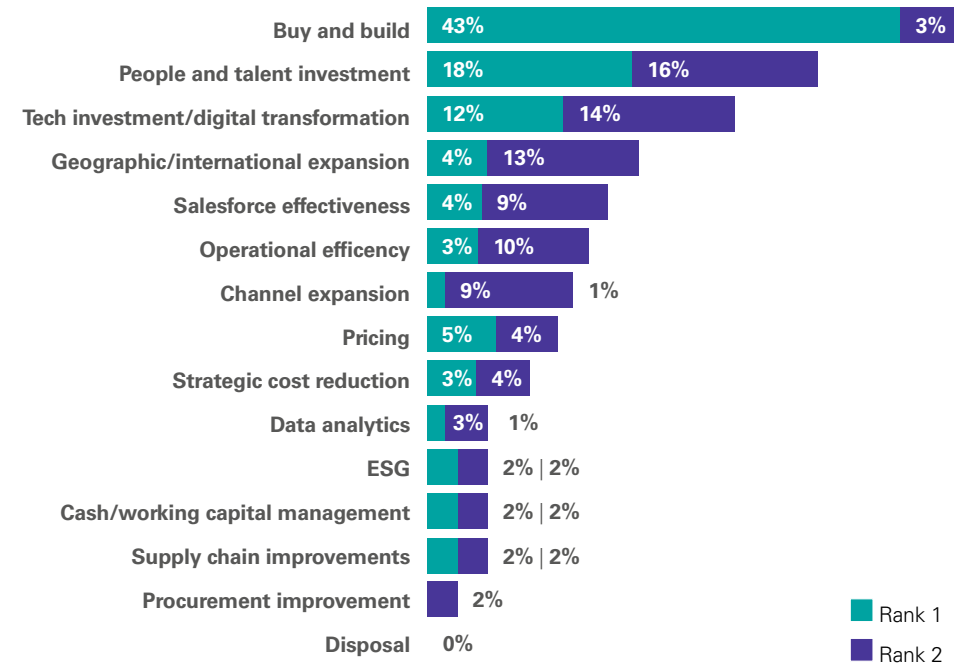
Most common value creation levers to date

Buy and build and talent investment are the top two to date value creation levers over the past three years.



Most common value creation levers in the future

Tech investment and digital transformation doubles in importance over next three years.



⁴ Past three years

⁵ Next three years

Source: 2022 Market Insights Survey



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For the time being, buy and build is the top value creation lever by a significant margin and is expected to remain so. Talent management is also likely to remain a priority focus in the long term, as even in the most high-tech industries, human capital often plays a critical role in differentiating a business. Furthermore, in an environment where the first 12 months under new ownership are often key to an asset delivering on its overall three-year plan, having the right team in place from day one (or day one hundred), puts the portfolio company in a stronger position to achieve its new objectives.

Will reliance on these traditional levers continue to be sufficient going forward? The availability of additional sources of data allows firms to identify many more potential levers. By combining industry insight and experienced advisors, firms can identify the levers with the most potential for each particular opportunity, enabling them to achieve both EBITDA improvement and higher multiples. PE firms should therefore stay abreast of the changing strategies which continue to develop, in particular around technology investment, digital transformation, and ESG factors.

“

Successful value creation strategies are now combining technology and digital transformation with data insight. These strategies build a scalable platform for organic growth, and merger and acquisition integration; they drive better experiences for customers; and they can help reduce duplication, inefficiency, and cost. This potent blend of tech, digital, and data is having a large and compounding impact on EBITDA.”

Phil Murden, Partner, KPMG in the UK

Which levers are most important to you?



“Strategic bolt-ons, identifying under nourished/invested businesses from previous owners and working closely with very experienced industrialists/operators that compliment our management teams...”



“Putting the right people into the right positions... improving the internal management operating system of the business and helping to build financial, strategic planning and operating discipline.”



“In our main fund, we predominantly drove value through topline growth with buy and build, international expansion, salesforce effectiveness, and pricing, all of them key value creation levers for us.”



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Tech and digital rise to prominence

As noted previously, there is a growing focus on tech-driven levers to build conviction in the value creation plan, drive business transformation, and create additional value. Although technology investment/digital transformation was only ranked as the sixth most common value creation lever over the past three years, survey respondents expect it to become a solid top-three lever in the future, a change that was also reflected in many of the comments from respondents.



We are more willing to change out management and have brought on some operating partners to increase digital transformation. ”



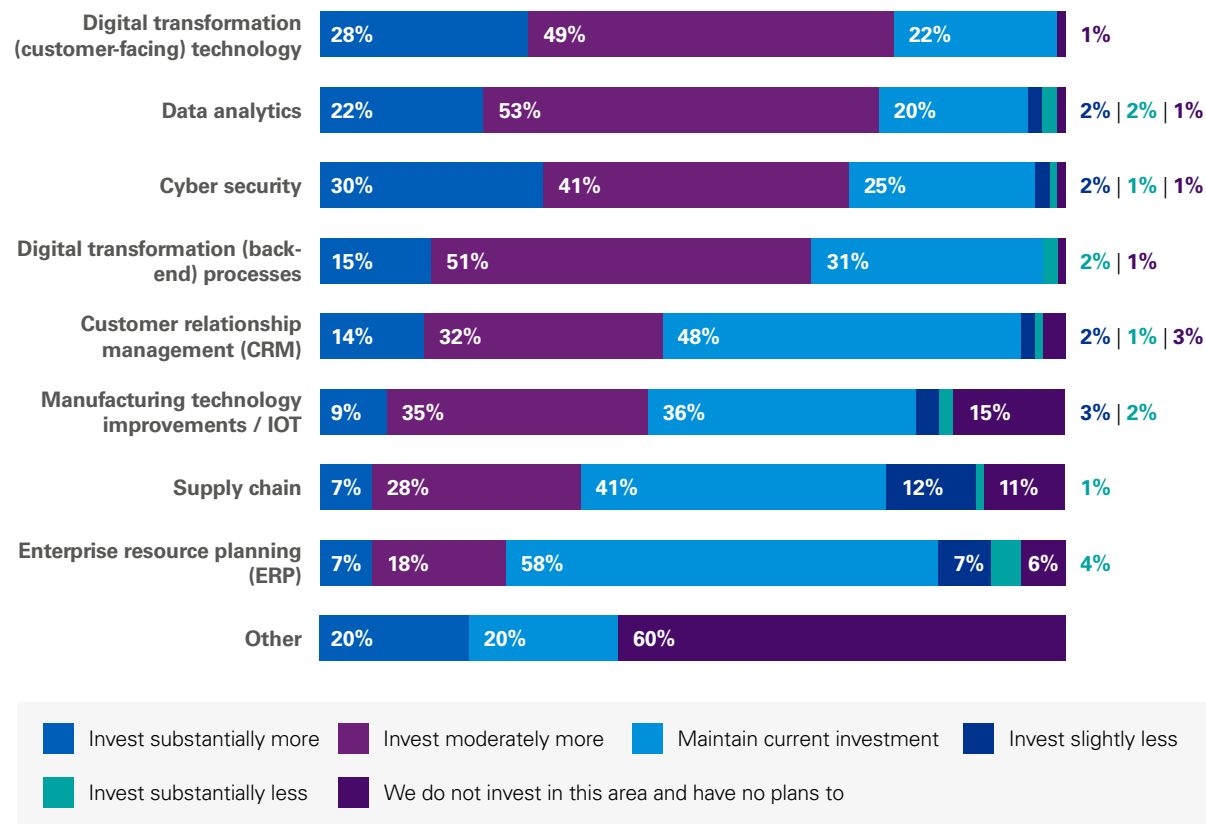
We continue to look for new areas where we can execute value creation strategies at our portfolio companies and are expanding our lens to tech-enabled business processes. ”



ESG and digital transformation are critical value creation levers that have been growing in importance through time. ”

Important considerations for technology investments by portfolio companies

Digital transformation and data analytics are the top choices for technology investments.



Source: 2022 Market Insights Survey



Technology is the golden thread that runs through the lifecycle of an investment. ”

Luke Anderson, Partner, KPMG in the UK

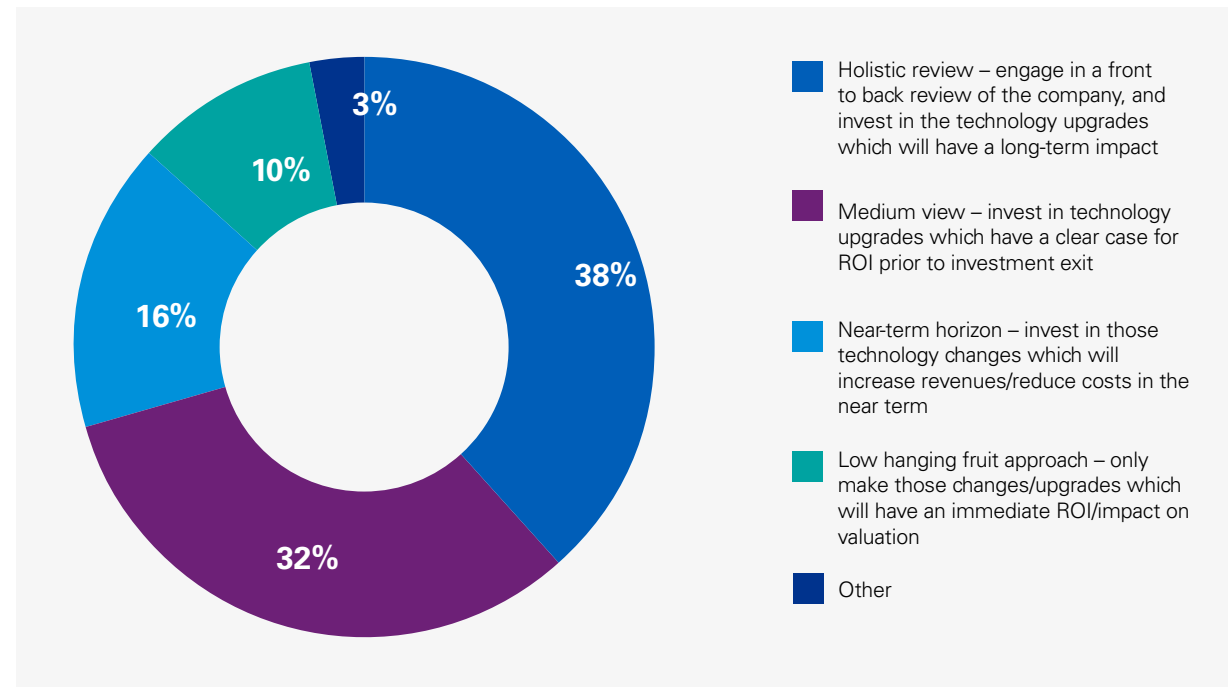


Firms are investing in these areas to refresh their business models and enhance the existing value propositions of their investments. Looking forward, this increasingly intense focus on digital transformation is strongly aligned with the use of data analytics. With 77 percent of firms planning to invest more in customer-facing digital transformation and 75 percent in data analytics (not to mention 71 percent on cyber security), it is clear that technology and data are likely to play an increasing role in the investment process in future. Those firms that choose another path risk getting left behind.

To this end, PE firms are taking a longer-term view towards the technology investments they make in their portfolio companies and their anticipated ROI. In fact, 70 percent of firms have a long- or medium-term view of their technology investments in their portfolio companies, with that figure rising towards 90 percent for higher AUM firms.

Steps in evaluating and upgrading technology investments

Most firms take a longer-term and more strategic approach when evaluating the upgrade of technologies in their portfolio companies and how to execute them most effectively.



Source: 2022 Market Insights Survey

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A major and public cyber- or data-related incident could be the fastest route to value destruction for any business. It is critical that both a business and its investors understand its exposure to threats and proportionately mitigates them. Equally important is establishing resilience and having effective incident response and recovery processes. Cyber should be seen as the foundation for value creation, not just an essential factor in value preservation. This is what investors are seeking to understand.”

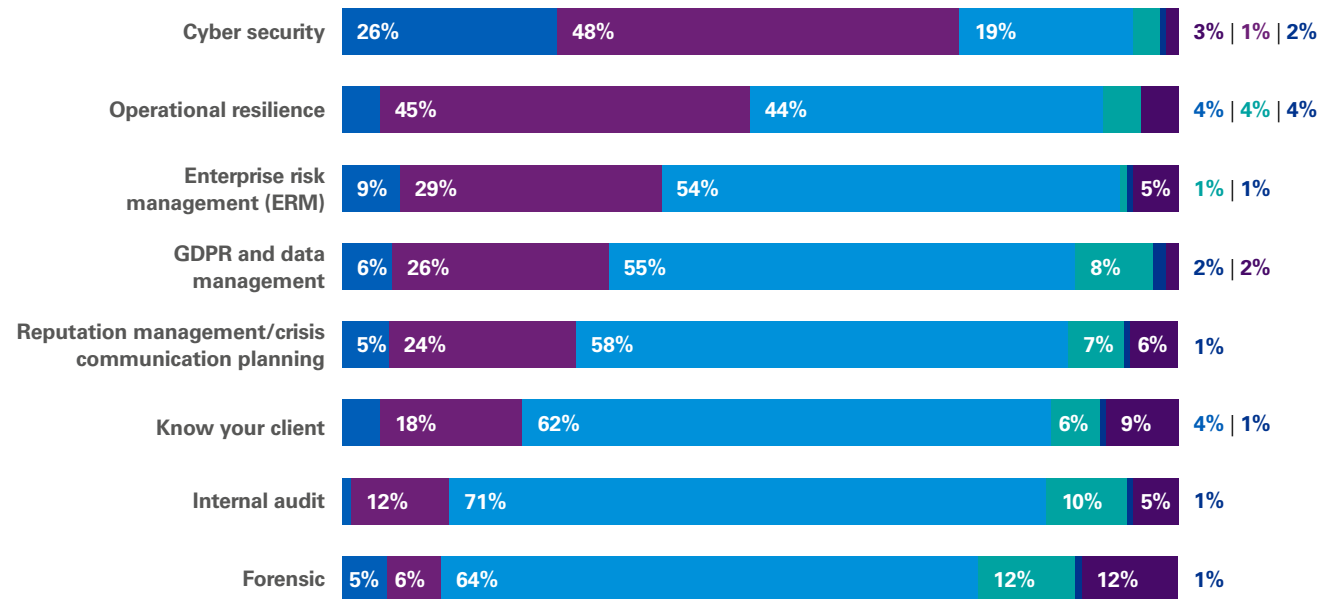
**Martin Tyley, Partner, Head of Cyber Security
KPMG in the UK**

When considering risk mitigation and value preservation, PE firms overwhelmingly anticipate spending more heavily on cyber security, with nearly 75 percent looking to increase their cyber security investment. With reports showing ever increasing cyber attacks, particularly on businesses between deal announcement and deal close, firms should consider this issue as part of their deal modelling.

Similarly, it is no surprise to see investment in operational resilience is also a priority for almost half of those surveyed, particularly given the supply chain disruption and uncertainty of recent years.

Approach to risk mitigation and value preservation

For risk mitigation and value preservation, investments in cyber security and operational resiliency top the rankings.



■ 5 - Invest substantially more
 ■ 4 - Invest moderately more
 ■ 3 - Maintain current investment
■ 2 - Invest slightly less
 ■ 1 - Invest substantially less
 ■ 0 - We do not invest in this area and have no plans to

Source: 2022 Market Insights Survey

Value creation in action

KPMG firms have recently supported PE-backed clients to deliver value from instilling levers to support their strategic business goals.

Case study: Empowering procurement



Market research and media company Kantar, in which PE firm Bain Capital has a majority shareholding, wanted to digitally transform to enable better processes, supplier and risk management, data collection and analysis, and spend control.

In an initial scoping stage, KPMG professionals helped Kantar develop a robust business case for change, and assisted with sourcing the right cloud-based procurement technology platform.

Next, the team actioned 'phase one': implementing the chosen technology and using the Powered Procurement frameworks to methodically 'unlock' best practice source-to-contract processes and supplier risk analysis tools.

Key to successfully delivering phase one was an aligned change management strategy, to help ensure the Kantar team was engaged on the journey, trained in the new system, and ready to make the most of the new capabilities from day one.

Kantar is now equipped with a source-to-contract system that is easy to use, enables greater procurement control, agility, and risk mitigation. The company is now looking to amplify the long list of expected benefits across the 100 countries in its global network. Following this, the team can implement new purchase-to-receipt processes, rounding out a full digital transformation and delivering Kantar a procurement function fit for the future.

Case study: Creating value post-completion in a tech-enabled B2B business

After being acquired by a blue-chip PE firm in London, the client – a tech-enabled B2B provider of data, analytics, and research services to global financial institutions worldwide – engaged the TMT value creation practice to develop an ambitious action plan to drive double-digits revenue growth. The KPMG in the UK team spent 14 weeks working side by side with the management team and the operating partner of the fund to refresh the customer strategy, build a leading digital product roadmap, and identify bolt-on merger and acquisition and joint venture opportunities to help enhance customer churn, increase pricing power, enter new market segments and expand its portfolio of digital tools and capabilities.

The team included business and commercial strategists, customer experience professionals, and digital product developers with a deep operating track record in the B2B data sector. The team had a clear set of hypotheses and priorities from the start of the engagement, which enabled KPMG professionals to provide insights on industry direction, growth opportunities, and potential pitfalls in depth and at a rapid pace. The menu of tools and methodologies applied was extensive, and included commercial KPIs deep dives by customer segment, product benchmarking, voice of the customer, sentiment analysis, and industry macro-trends analysis in the fields of active investing, ESG, and high-frequency data.

To counter the operational constraints of the lockdown, the KPMG Ignition Centre was deployed in London's Canary Wharf to run six online workshops with executives joining in from London, Hong Kong (SAR), China, Sao Paulo, Connecticut, and Singapore. Using miro-whiteboarding and other brainstorming techniques, the combined project team came up with a menu of new product concepts that were subsequently validated and prioritized through customer panels and online surveys.

These priorities were then detailed out into multiple product development initiatives answering the 'what' and 'how' questions (e.g. how to re-platform the product, what content and features to add, what partnerships to put in place), as well as outlining the financial ROI implications and operational execution requirements (skills, head counts, tools, processes, etc).

The company and its shareholders continue to consult KPMG in the UK around elements of its implementation plan.

The growing influence of ESG

With climate change and environmental and social disruption never far from the headlines over the past few years, there is growing awareness that firms cannot continue to act in the ways they have in the past. There is almost universal recognition that all market participants, including PE firms, need to embrace the spirit and the values embodied by environmental, social, and governance (ESG) factors, not only in their investment objectives, but all along the value chain.

The ESG agenda covers a broad range of topics of increasing importance to investors and stakeholders, from individual retail investors and institutions, to legislators, regulators, and activists.

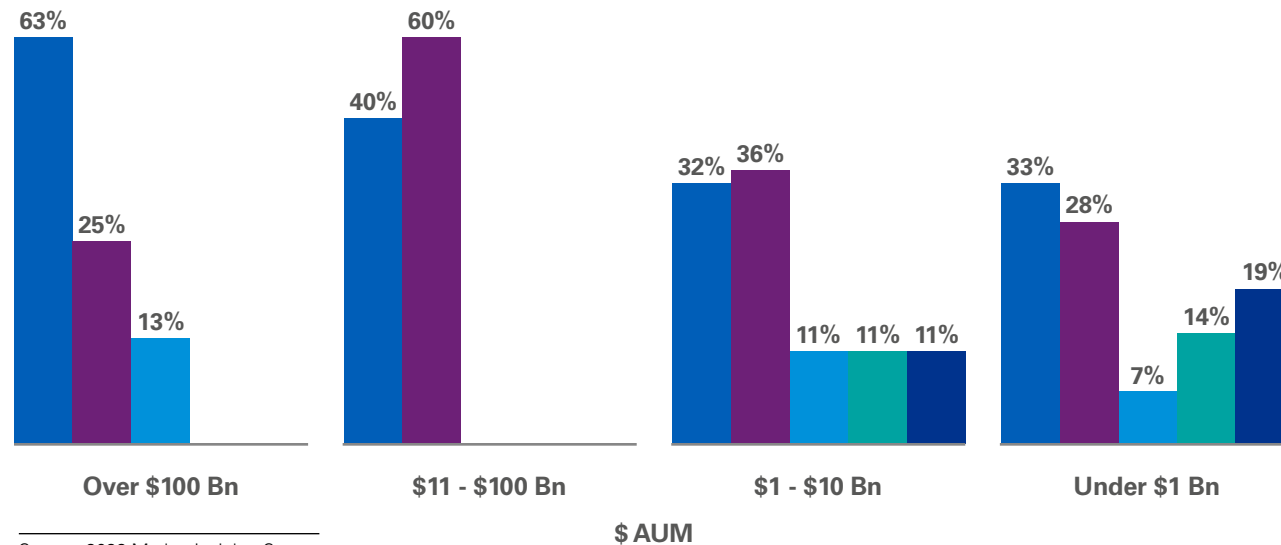
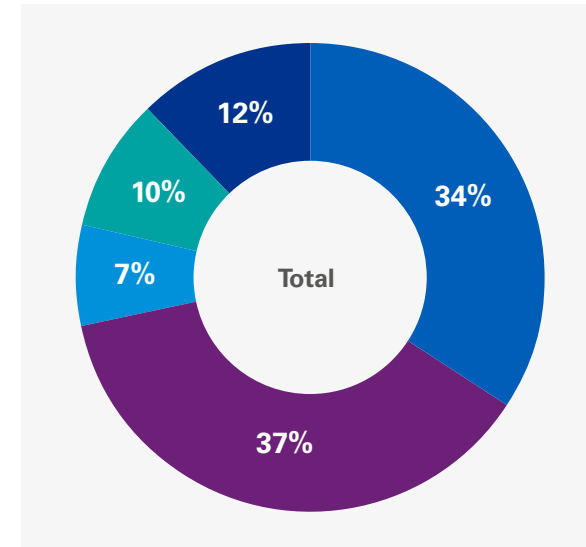
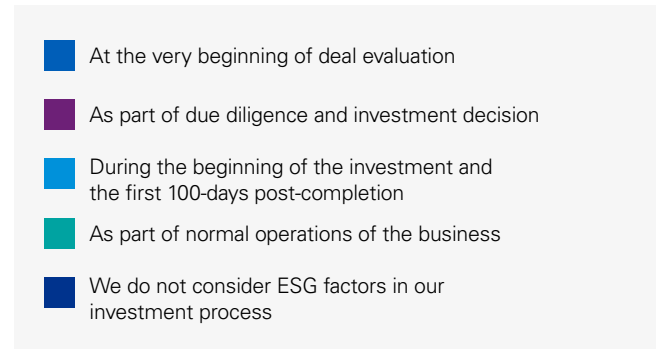
For PE, ESG was originally confined to impact investors or niche-purpose funds with AUMs that allowed (and some would argue, required) them to consider these factors in their investment decisions. The survey found that, today, over 70 percent of PE firms are evaluating ESG factors in the early stages of deal evaluation, with larger funds reporting even higher rates.

“ ESG is a critical value creation lever that has been growing in importance through time. ”

**Private equity operating team member,
US\$11 - US\$50 billion AUM**

Evaluation of ESG factors in the deal lifecycle

Over two-thirds evaluate ESG factors as a part of a due diligence and investment decision, with larger firms taking ESG into account earlier in the deal process and more fundamentally as part of the post-deal value creation plan.



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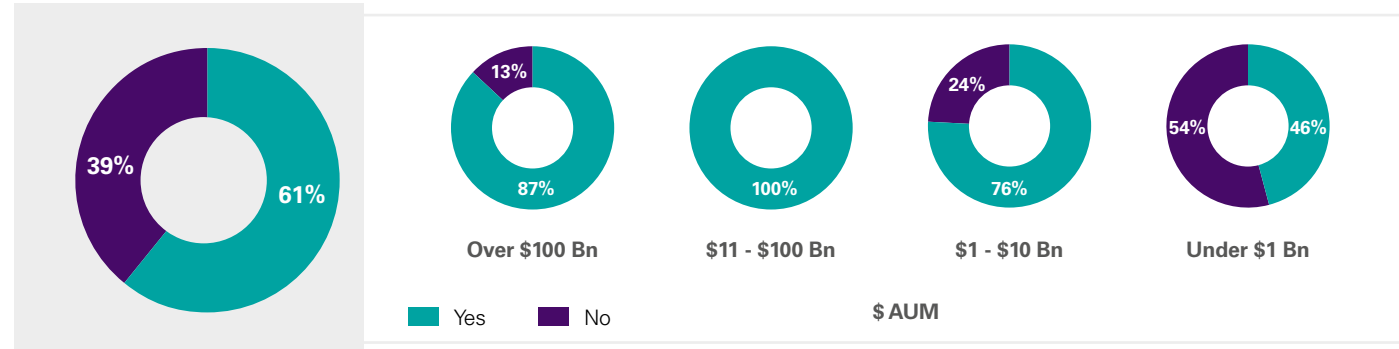
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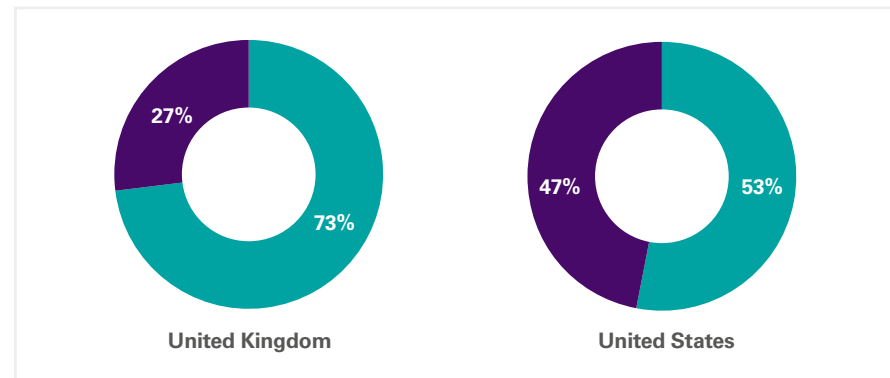
Declining an opportunity because of ESG criteria

The vast majority of firms are committed to ESG to the extent of declining an investment opportunity that does not meet their ESG criteria. Respondents were asked whether they had ever declined an investment opportunity on this basis. Overwhelmingly, the answer was 'yes'.



Although ESG may not be cited directly as a top three lever in value creation planning, it has become an important part of the investment decision-making process. Most firms are looking at ESG factors early in the deal process, and, if that review raises sufficient concerns, investors are more than willing to walk away. In fact, over 90 percent of the largest firms in the survey have declined an investment due to concerns over its ESG performance. Overall in the UK, almost 75 percent of PE firms have stepped away from a deal, due to ESG factors, while almost half of PE firms in the US have taken the same action.

When looking at the geographic split of where firms have declined three quarters of UK firms have done so, and just over half of US firms have done so.



Source: 2022 Market Insights Survey



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Embedding ESG in the value creation plan

The expectation is that acknowledging and embedding ESG in a value creation plan will have a positive impact, during the lifecycle of an investment and far beyond. Firms are using ESG criteria not just to assess risks and identify opportunities, but to manage their portfolio and ultimately aim to deliver improved and more sustainable returns at exit.

While it is expected for ESG to be an area of increased importance going forward, it is interesting to note that it is not anticipated to be a top five lever of value creation on its own over the next three years.



You can see a clear shift from ESG's prominence being seen as a 'nice to have' or a 'must have' to a fundamental lever of value creation, embedded into the value creation plan from the moment a deal is being developed and prepared for the investment committee.

As ESG outcomes start to impact both EBITDA and deal multiples, this will likely only increase its prominence as a valuable tool for investors and portfolio companies. ”

Nathan Beaver, Partner, Head of ESG Consulting, KPMG in the UK

As these figures show, PE firms of all sizes take ESG reviews seriously, with the bigger firms having the most mature processes in place.

ESG Review

Respondents were asked how sophisticated their processes were for assessing ESG factors in investment decision making.

Over \$100 billion:

75%

very sophisticated



\$1 - \$100 billion:

50%

very sophisticated



\$1 - \$10 billion:

32%

very sophisticated



Under \$10 billion:

11%

very sophisticated



Source: 2022 Market Insights Survey

The review of ESG does not stop once the investment is made. Portfolio companies report that nearly 60 percent of their investors are very serious about investment that supports ESG practices.

ESG momentum is undoubtedly growing⁶. Determining how investments may impact the environment, positively or negatively, is now embedded in early stage private equity analysis of opportunities. Social issues are at the forefront of how firms interact on the larger world stage. Governance issues matter both in investment opportunities, where diversity, equity, and inclusion (DEI) has been shown to lead to better management and therefore better results for investors, and within the PE firms themselves. With the proper mindset, as well as the right tools and analysis, it is believed that ESG will be a continuing catalyst for change, as well as a source of investment opportunities.

⁶ See, e.g., Global sustainable fund assets hit record \$3.9 trillion in Q3, says Morningstar | Reuters.



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Advanced analytics drive engagement and insight

Data is vital to help investors understand the intrinsic nature of the business they are investing in, and to create effective value creation strategies. But without appropriate analysis, the amount of data could be overwhelming.

The importance of analyzing and actioning relevant data, therefore, cannot be overstated. The research found that PE firms believe quantitative analysis has influenced bid prices in over 80 percent of opportunities. For the largest firms, this rises to between 90 and 100 percent of opportunities.

Furthermore, clear and consistent data enables greater accountability and transparency pre-and post-deal.



The volume and velocity of data has changed dramatically over the last three years. Also, the models available to slice and analyze, along with bandwidth and computing power, allows for near-real-time data usage. ”

Managing Director, private equity firm, US\$1 – US\$10 billion AUM

Percentage of PE funds who believe quantitative analytics influence the price/bid on opportunities

The analysis showed that over 80 percent of the time, quantitative analytics had an impact on the price paid for an asset, rising to 100 percent for the largest transactions.



Source: 2022 Market Insights Survey



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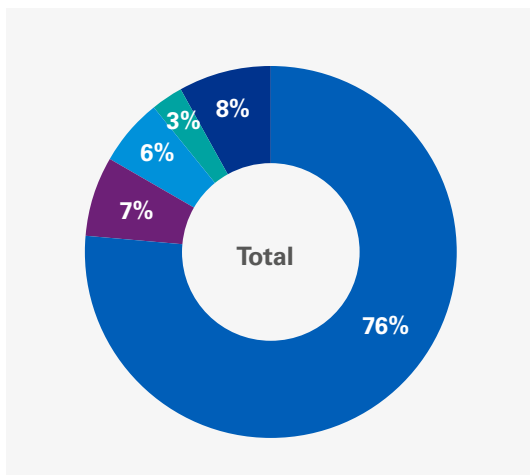
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Advance analytics to calculate expected returns

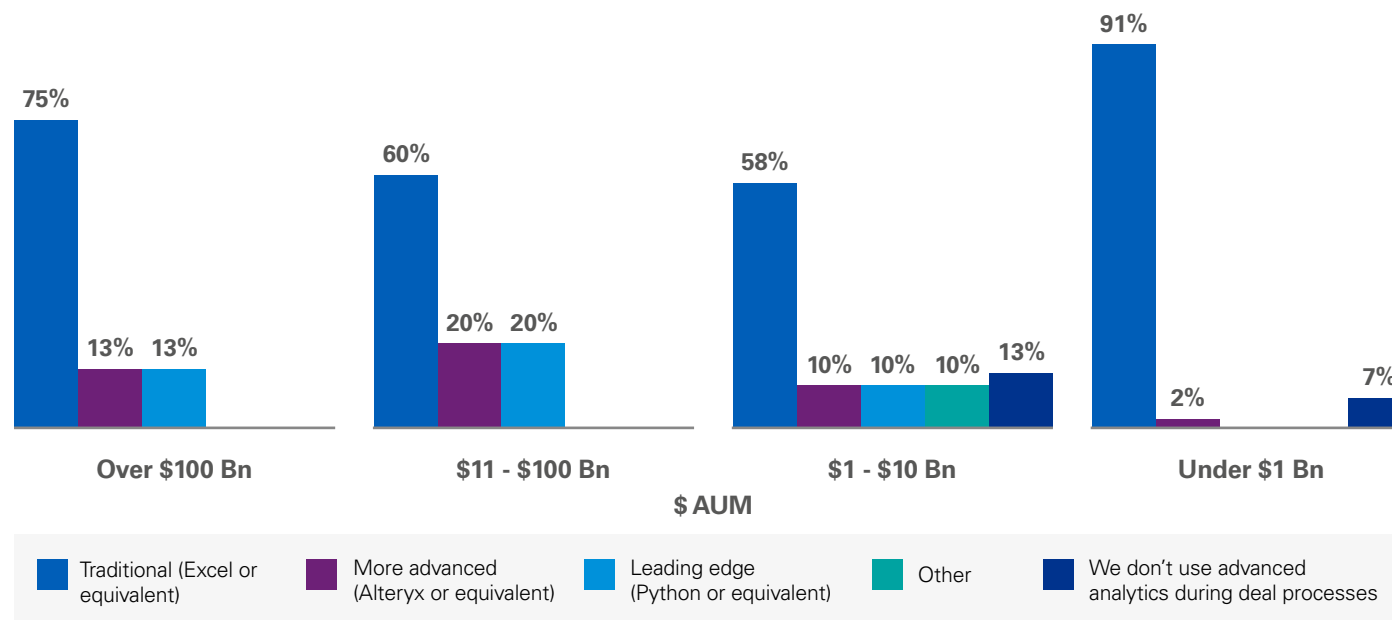
A common desktop analysis tool is the top choice for calculating expected return from value creation technologies, but other advanced tools and techniques are gaining traction.



Source: 2022 Market Insights Survey



A market-leading desktop analysis tool is often the default tool for quantitative analysis for bid pricing. However, more advanced tools and techniques are gaining traction, particularly among larger firms with deeper resources. With advances in AI and machine learning, combined with big data and cloud-enabled services, this can forecast significant growth for these advanced methodologies over the next few years.



In a world that is growing more technologically sophisticated by the day, it may seem surprising that a common desktop analysis tool - first released on the PC in 1987 – is still a primary quantitative tool for data analysis in value creation planning.

With analytics automation platforms such as Alteryx, or with firms developing their own proprietary tools, advanced analytics are expected to drive more decision making, both on the front end during planning, but also in response to dynamic changes in the marketplace. In particular, firms are beginning to recognize the advantages of artificial intelligence (AI) and machine learning, both as inputs when pricing an investment opportunity, and also after the deal is closed in an effort to help transform the business through enhanced decision making, improved operational efficiencies and streamlined product design.

Managing the ever-growing volumes of data associated with every deal and asset is also driving further adoption of AI, machine learning, and other analytical. Tools are continually being developed to help ingest, decipher, and interpret greater volumes of data at ever-quicker speeds, helping to drive conviction in analysis and deliver stronger results.

These tools are only as good as the people that wield them. Therefore, it is important the same care and diligence used to develop the tools is also applied to attract and retain the personnel with the skills to use them effectively.



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A new era of active management

PE firms are clearly actively engaged with their portfolio companies. Long gone are the days where value creation and portfolio management largely meant installing a new chairman and driving management teams hard at board meetings.

The survey found that more than 76 percent of firms overall say they take an 'active' or 'very active' approach with their investments. US firms are more hands-on, with 56 percent 'very active', while UK firms take a more balanced approach overall, with responses split almost equally across 'very active', 'active' and 'balanced'. Results from portfolio companies were similar, with nearly 62 percent of companies saying their investors actively engage post-deal, and only one reporting no engagement post-investment.

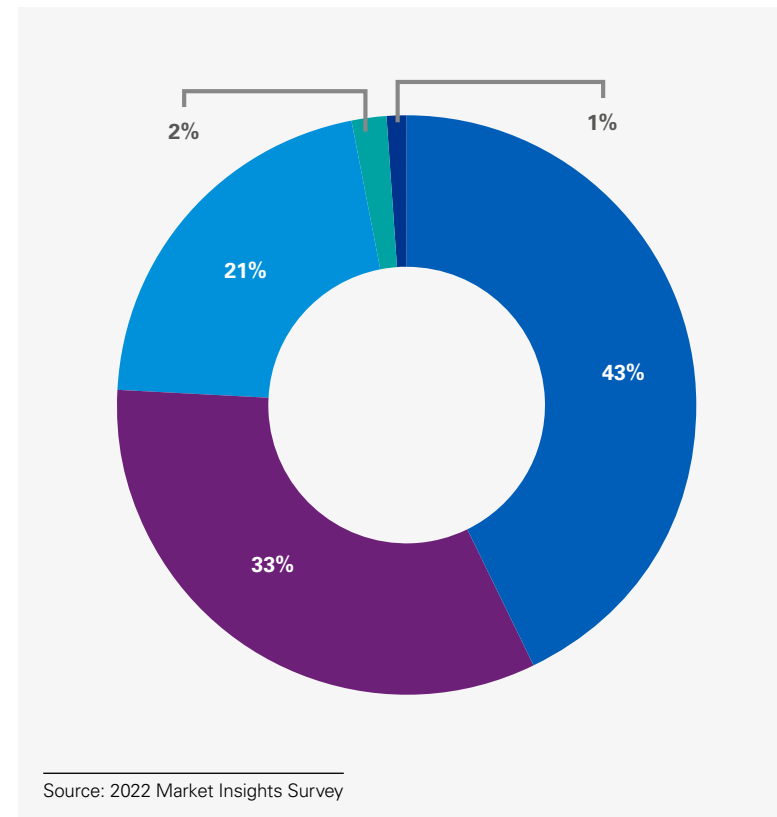
“ We are extending our own team’s capabilities beyond the ‘high finance’ skillset, and, therefore, get more involved in active value creation strategies, working with the management teams we back. ”

Partner, UK PE firm

What is the approach taken by fund/operating team?

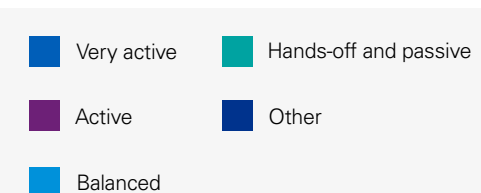
Three-quarters of firms are actively engaged with their portfolio companies.

So, what does it mean to be actively engaged? PE firms are looking for strategic alignment between investors and shareholders. Investors are also laser focused on talent: aiming to ensure management teams receive the proper support, and, when needed, supplementing or changing those teams to deliver on the promises of the original investment thesis.



“ Over next three years we expect to see a continued building of a trusted advisor community - individuals and consulting organizations - that can be deployed at pace. ”

Operations Advisor, private equity firm, US\$11-US\$100 billion AUM



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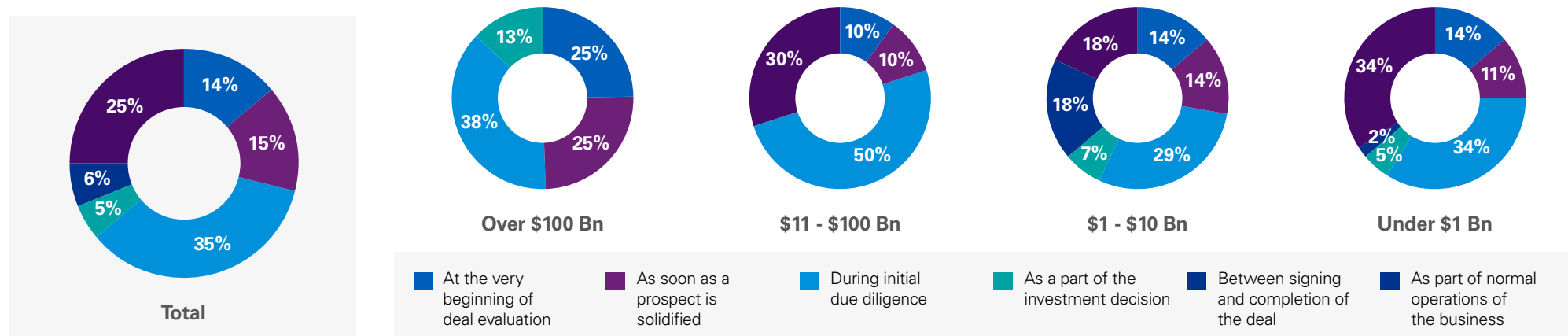
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Value creation execution, working with advisors to identify and drive value

When outside advisors are engaged, they tend to be brought in relatively early. Overall, more than 60 percent of PE firms bring in their external advisors before or during due diligence. This reflects the fact that value creation planning has moved earlier in the deals process, meaning trusted advisors are needed earlier, too.

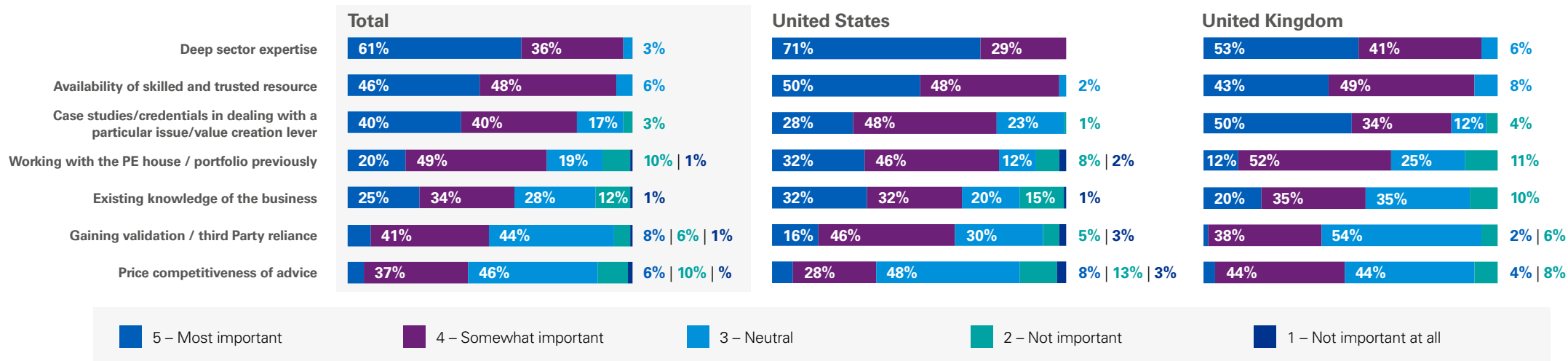
In terms of the most important skills required by external advisors, US firms show a clear preference for deep sector expertise. While sector expertise is important for UK firms, they also show a slight preference for previous case studies when seeking support. Using such experts can help firms to build confidence in their analysis and in their value creation planning. Industry experts and advisors can play a vital role in providing the depth of knowledge to identify the most valuable levers and when they are best engaged.



Important factors when considering an external advisor

US shows preference for sector expertise, whilst UK firms may put higher importance on case studies.

Source: 2022 Market Insights Survey



Source: 2022 Market Insights Survey



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Nine lessons for the future

In summary, it is believed that there are nine fundamental principles to follow, in order to deliver on the promise of value creation.

1.

Start early

Start as early as possible looking at the origination pipeline through a value creation or business model-shift lens. Put operating partners, sector sector specialists, and value creation advisors in the deal conversation or even “shadow portfolio” conversations.

2.

Go beyond the functional

Operational and sector or asset-specific knowledge is a key differentiator and should be embedded in the cycle. Empirical and “lived” experience combined with analysis and modelling should give the best answers.

3.

Focus on deal speed analytics and unique data sources

Create a repository of value creation levers and strive to ensure they are backed up with good data sources and analytic techniques. Use these early in the process so they form part of your thesis from the get-go.

4.

Understand early where tech and digital can drive performance

Is the tech value creation play around the operating model and IT or is there also a fundamental shift in the business model and market opportunity through the move to digital?

5.

Data, data, data

What does the business know now about its customers, people, and processes? What more could it capture and what value could the business derive from better information on all three elements?

6.

Adopt a balanced approach

The research indicates that investments which consider a balanced cost and growth focus achieve three-fold EBITDA growth compared to those that consider a cost only approach.



Taking too narrow a view in value creation at the beginning is limiting. Make sure you look at the full potential of all levers. ”

Operating Partner, private equity firm, over US\$100 billion AUM



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7.

ESG is not optional anymore

Key stakeholders (customers, suppliers, shareholders, employees, and regulators) will likely require both PE investors and portfolio execs to demonstrate their companies' impact on the planet, on its people, and on economic prosperity. Underpinning this can be an expectation for transparent principles on governance and operations.

8.

Conflate the deal and operating partner roles

Consider how you can better combine the deal partner function (origination, deal execution, etc) with the operating partner remit around value creation and portfolio management.

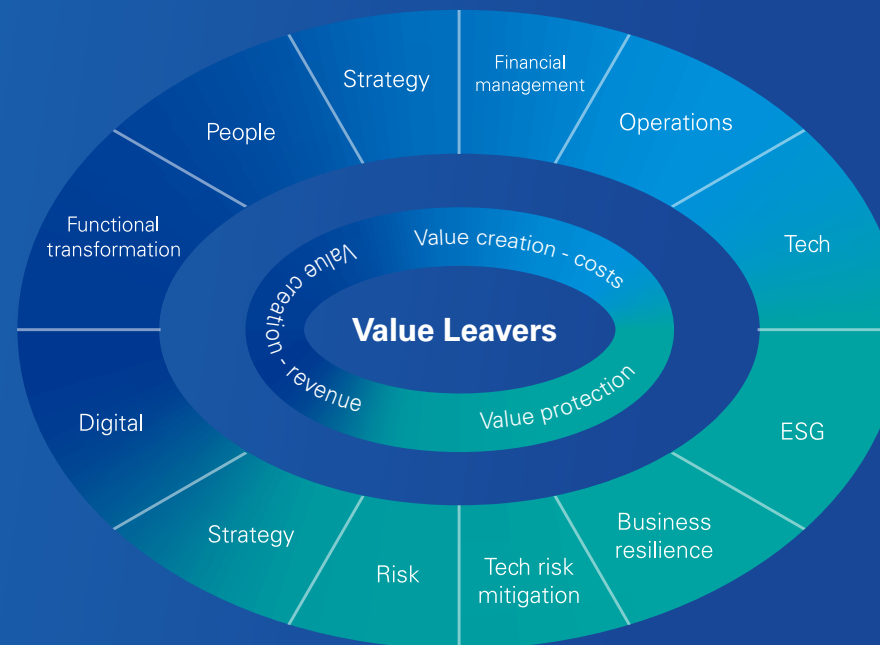
9.

Invest in the portfolio ecosystem

Take time to look for the cross-portfolio commonalities and synergies – where to replicate success or where to build connections in the portfolio. Examples include building cross-portfolio CFO networks or seeking to develop portfolio-wide procurement groups to increase leverage on key suppliers.

How KPMG professionals can help

The PE team is led by professionals in value creation with vast experience of working in and with FTSE 50, FTSE 250, and Fortune 500 companies and private equity firms. KPMG firms bring industry, strategy, and operations professionals together in one coordinated team. KPMG professionals can also draw on KPMG's global organization of professionals on everything from customer experience to supply chain transformation. Value creation specialists can help you understand the risks and upside opportunities of a deal and understand where enterprise value can be improved. Ahead of a divestment, KPMG firms can help you build a compelling plan for change, backed by data. KPMG professionals provide you with wide-ranging delivery – from identifying where potential lies to implementing the programmes to help release it.



For more information on the delivering on the 2022 Market Insights Survey, and how KPMG professionals can help PE firms enhance their value creation planning, please reach out to one of our KPMG contacts.



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KPMG in the UK, in collaboration with Coalition Greenwich, interviewed 120 PE firms and portfolio companies in the US and UK during September and October of 2021 to delve into issues around value creation and value creation planning through a series of quantitative and qualitative questions. Quotes throughout this report that are not attributed to KPMG professionals stemmed from those interviews.



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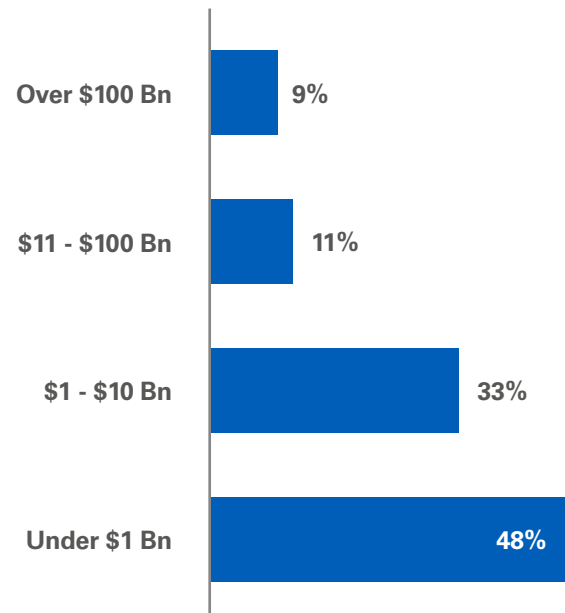
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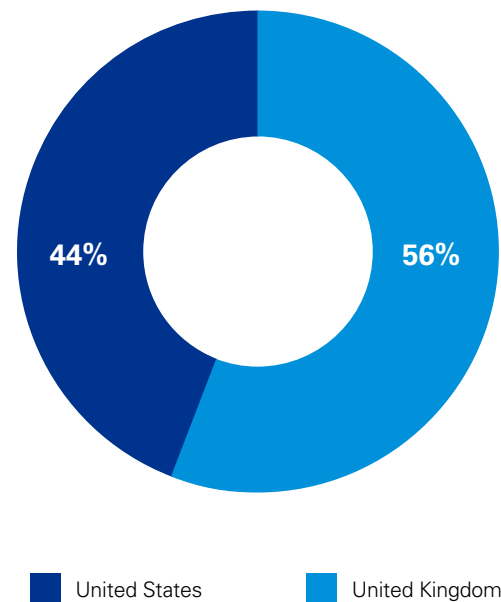
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Participant profile

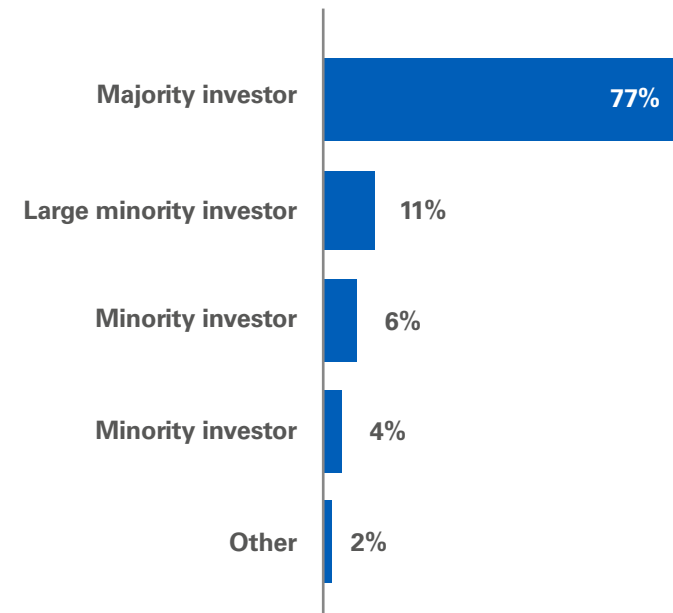
AUM



Region



Type of investment



Source: 2022 Market Insights Survey

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