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PERSPECTIVE

## Private equity deal execution and operations strategy

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Fundraising for top private equity fund sponsors has significantly improved and signs point to further growth. Simultaneously, there has been a rise in market pressure to focus on strategic differentiation in an effort to be competitive in a market where valuations are soaring and competition for the best assets is steep. This is creating an environment where targets are increasingly questioning how quickly a deal can get done and with what level of certainty and what the private equity sponsor can bring to bear in terms of operational or growth capabilities. This requires sponsors to focus on two fundamental aspects in an effort to differentiate: (1) deal execution speed and (2) operational and strategic expertise.

### Deal Execution

Fundraising for private equity sponsors is experiencing a period of significant growth. As the amount of capital being funneled to private equity sponsors continues to increase, the competitive landscape has also grown beyond private equity sponsors competing against each other. Corporations are facing pressure to innovate and acquisitions offer one possible strategy companies are pursuing. In addition to strategic buyers, private equity funds are also facing competition from their own investors given the rise in direct investing by limited partners.

To be competitive, private equity sponsors are focusing on speed of execution and certainty of financing to get deals done. Strategies used to accomplish this involve a

number of tactics, including:

- Utilizing subscription facilities to bridge capital calls to avoid the time delay of 10 or 20 business days often required for all of the limited partner capital to fund.
- Reducing timelines for co-investors to evaluate investments and demanding more immediate action on investment decisions.
- Committing to swift acquiescence to terms desired by the targets in order to limit negotiation timelines.

These tactics are increasingly being used to accelerate deal execution timing and certainty to provide sponsors with an edge in securing investments.

### Operations and Strategic Focus on Investment Lifecycle

Private equity sponsors have always highlighted and emphasized their strategic and operational expertise to limited partners during the fundraising process and to targets in connection with executing deals. As competition for investments increase and valuations continue to rise, targets have significant leverage. It is no longer enough to claim the existence of such capabilities, there has to be a plan that is specific to a particular target. This plan has to be cognizant of a number of factors including industry, geography, market potential, the management team, product issues and growth capabilities.

In order to demonstrate this, many of the top private equity firms implement a number of strategies to assist them with developing a strategic plan that can be easily communicated to targets. With the increasing competition for high quality investments, all pri-

ate equity firms should consider the right combination in developing operations strategy for portfolio investments in an effort to differentiate. These strategies can be conceptualized into a framework of (1) Preparation, (2) Players and (3) Strategy, with the goal to align them.

#### Preparation

• During the diligence process, give equal weight to value creation opportunities as is given to identification of risks.

• For every risk identified in the diligence process, consider countermeasures. This will provide a foundation for the strategic plan.

• Consider and assess exit possibilities during the investment selection process. This can help refine chosen operational outcomes.

#### Players

• Seek out experts in the sourcing and selection stages of an investment. They are critical players in the success of a transaction as they can provide the knowledge necessary to help right size the value proposition. Experts can also be utilized at key points throughout the investment lifecycle to maximize returns.

• Assess management team's competencies and gaps based on likelihood of executing the strategy and not on historical performance. Make adjustments as necessary and do so at the beginning of the investment cycle.

• Align performance rewards for management team and other key company personnel with investment and operating objectives to maximize alignment of interests.

#### Strategy

• Consider and weigh post-acquisition strategies and implemen-

tation plans in the context of both industry and market forces.

• Collaborate with the management team to establish and align investment objectives with operating objectives.

• Institute metrics and mechanisms to assess progress throughout the investment cycle.

• Consider relationship synergies in the context of operational plans. For certain industries like media and entertainment, these can be critical factors weighed heavily by targets.

• Once the strategy is developed, layer on contingency planning to help navigate market uncertainty and help ensure maximum possible returns.

Careful consideration of this framework with its focus on aligning preparation, players and strategy can provide a private equity sponsor with an edge in investment selection, transaction execution and, ultimately, higher returns.

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