



Roland Berger
Strategy Consultants

INCREASING THE VALUE
of portfolio companies by improving their
operational performance

Survey results

The study objective was to evaluate the importance of operational performance improvement for PEs

Objectives and background

- The study was initiated to **evaluate the importance of operational performance improvement** for PE companies and understand how they act during times of financial crisis – initial hypotheses have been defined
- The **survey** of PE companies was conducted between **September and November 2008**
- Approx. **250 executives**¹⁾ of PE companies in Europe and USA were contacted – **56 responses** from 9 countries received (**22% return rate**)
- Roland Berger supports PE companies in **increasing the value of their portfolio companies** – **More than 300 projects** related to private equity transactions conducted since 2002 **for many clients**

1) Mainly Partners, Principals and Directors

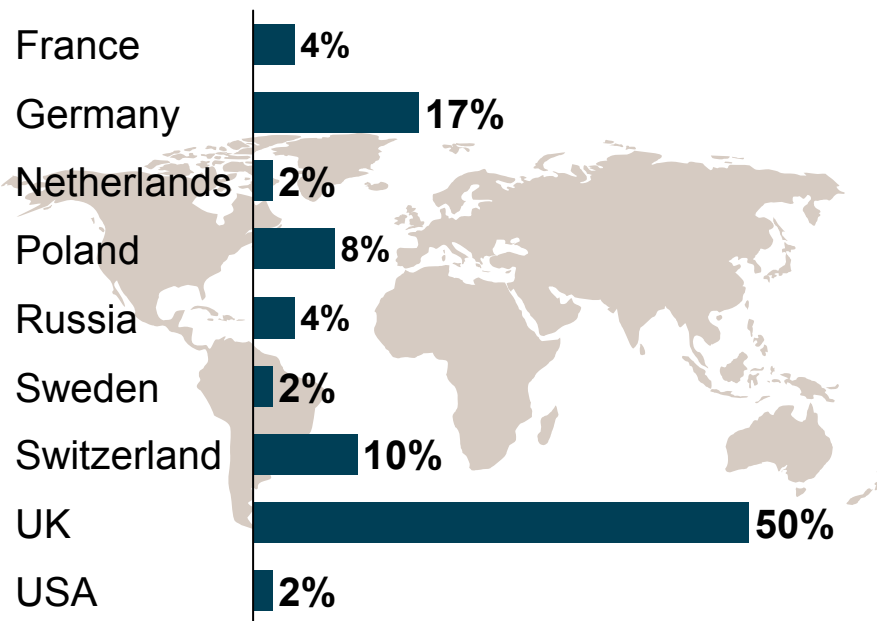
Most of the hypotheses formulated at the beginning of the study were substantiated

Initial hypotheses

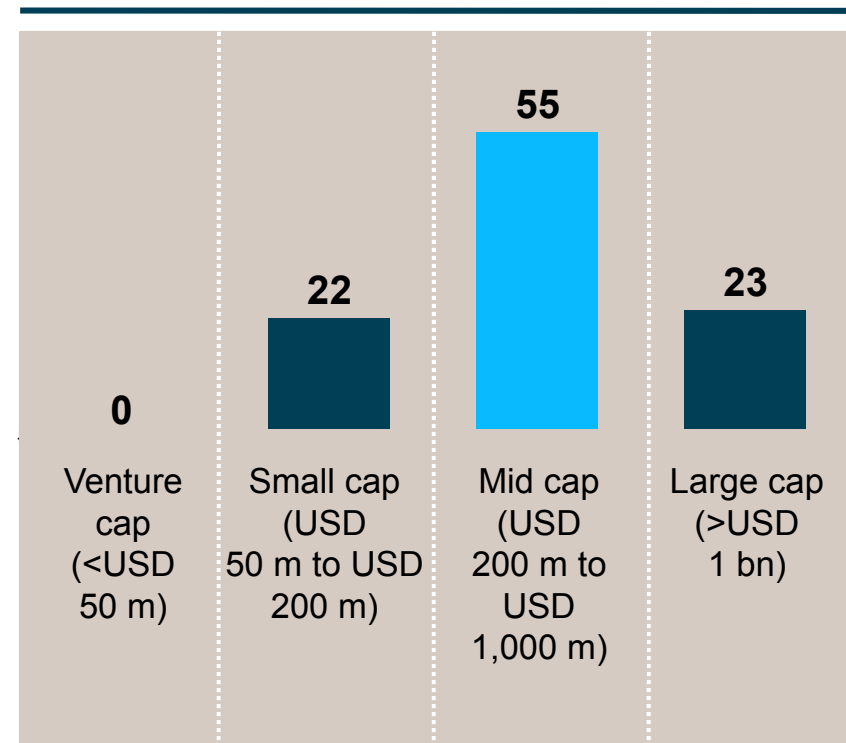
- **Attractive acquisitions and good exits are more difficult**
- PE companies place **greater emphasis on performance improvement** to increase value
- The average **holding period** of portfolio investments has **increased**
- **PE companies work more professionally** these days and give their portfolio companies a comprehensive 100-day plan
- **PE companies use specialized teams** or seek **professional support** to bring about operational performance improvements

Strong contribution from UK and Germany – Main investment focus on mid cap

Questionnaires answered from [%]

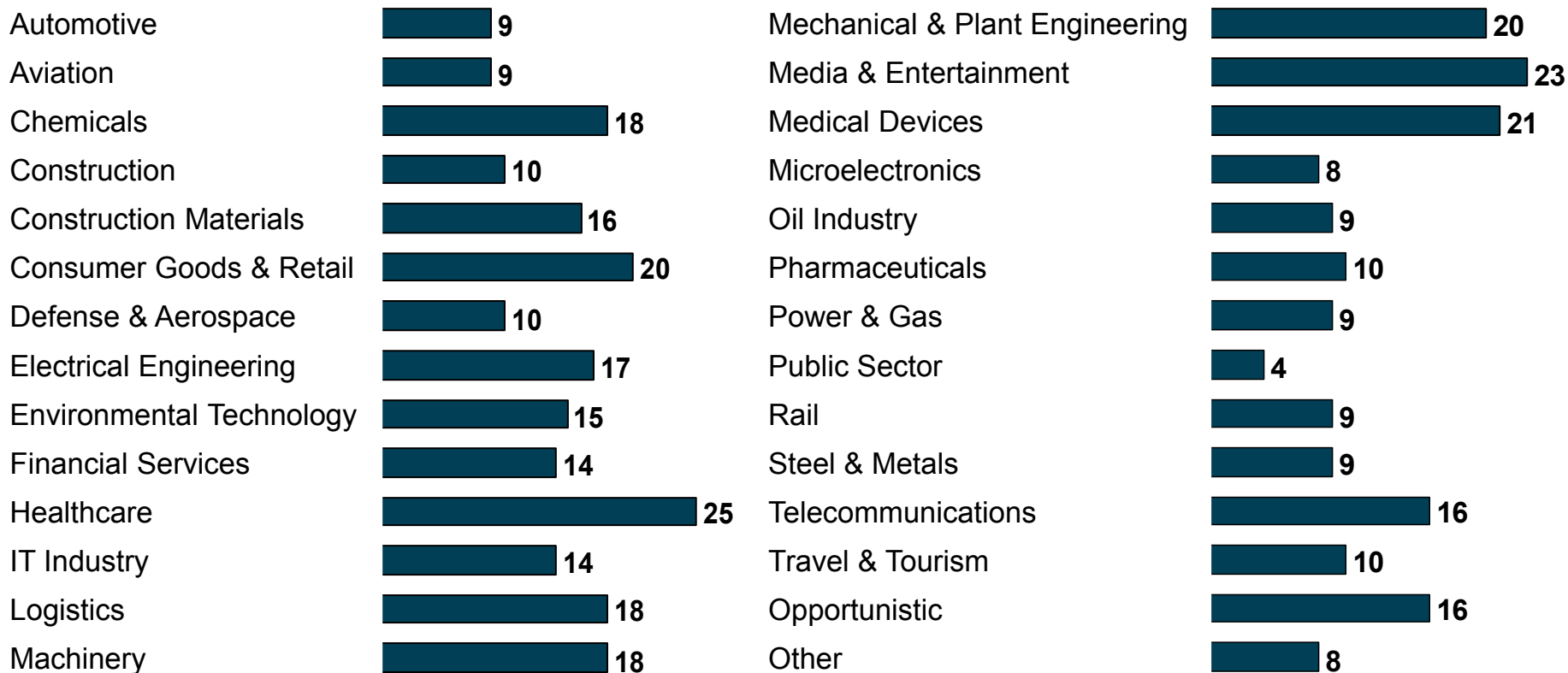


Investment focus (market cap.) [%]



Broad investment focus in terms of industries covered

Investment focus in terms of industries¹⁾



1) Multiple responses possible

Performance improvement growing more important and PE companies becoming more professional

10 key findings on operational performance improvement (1/2)

- 1.** Improving operational performance is becoming more important as attractive acquisitions and good exits are more difficult

- 2.** The average holding period of an investment is expected to increase from 4 to 5 years, giving more time for performance improvement

- 3.** PE companies are working more professionally today, giving nearly all of their investments a 100-day plan (compared to only ~50% 5 years ago)

- 4.** High-impact representation is preferred to ensure the success of an investment (board representation, program mgmt., mgmt. buy-in)

- 5.** There is nearly always a single team assigned for the entire investment lifecycle, which is also responsible for performance improvement

Operational performance improvement levers are introduced and used in specific order

10 key findings on operational performance improvement (2/2)

6. Performance initiatives are typically addressed at the beginning of the investment – Levers introduced in several waves

7. Levers are implemented in order of cost, structure and top line – Cost and top line always addressed, structural levers applied selectively only

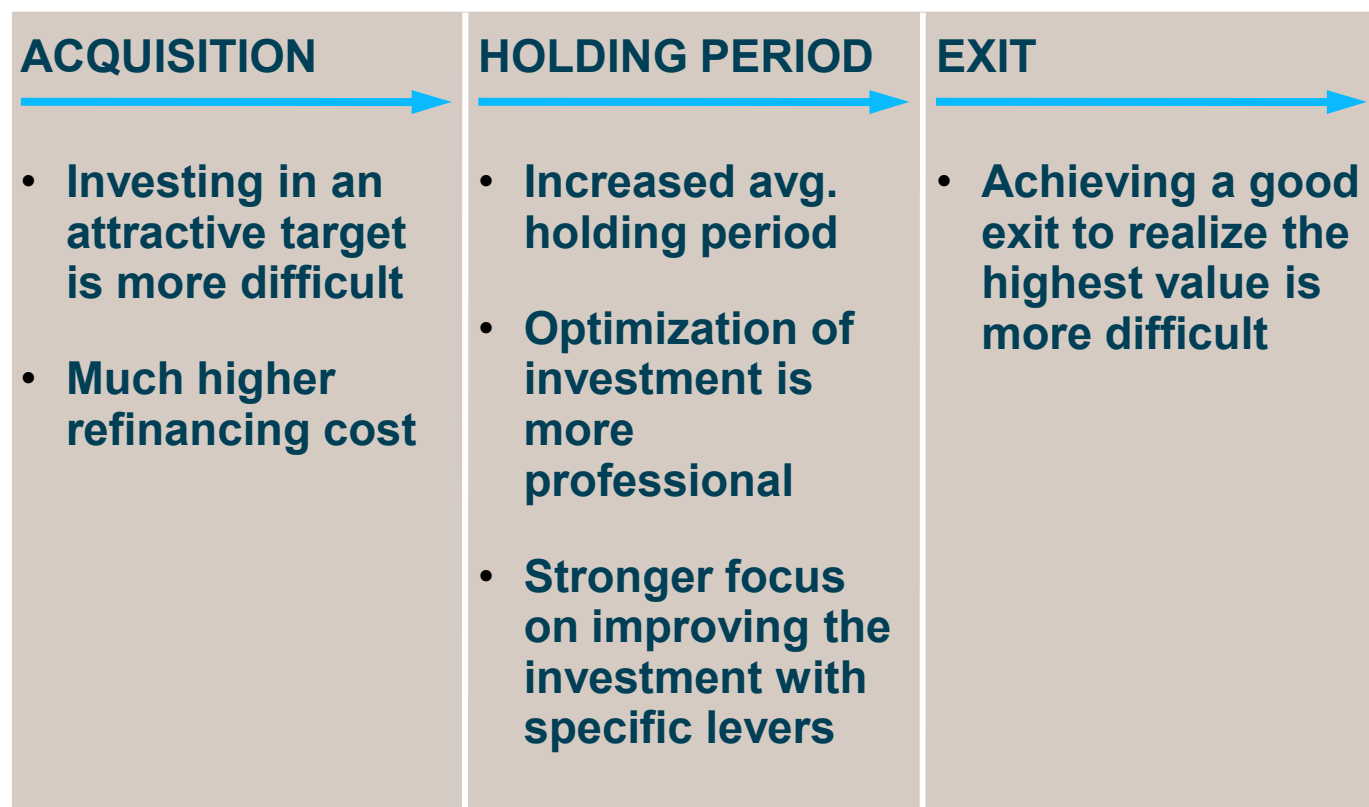
8. PE companies are using levers more often, typically starting their implementation earlier

9. Companies prefer to use strict targeting & controlling with all performance improvement levers, but no clear overall strategy of lever use is evident

10. External consultants are hired selectively for specific investments – Their use depends on the individual person concerned at the PE company

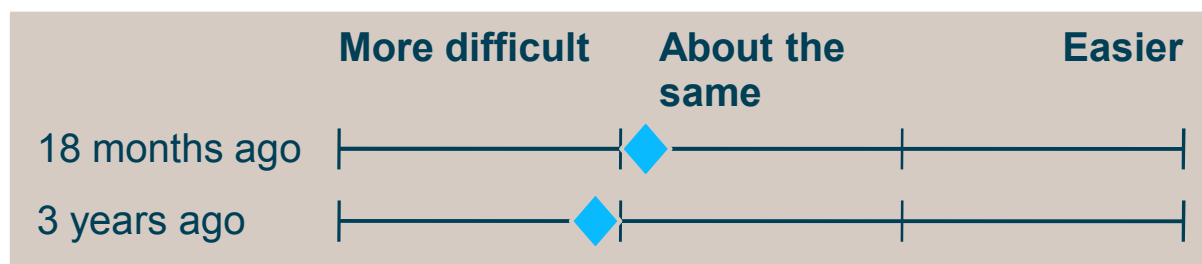
There are significant changes in the different stages of the investment cycle as a result

Changes in the stages of the investment cycle

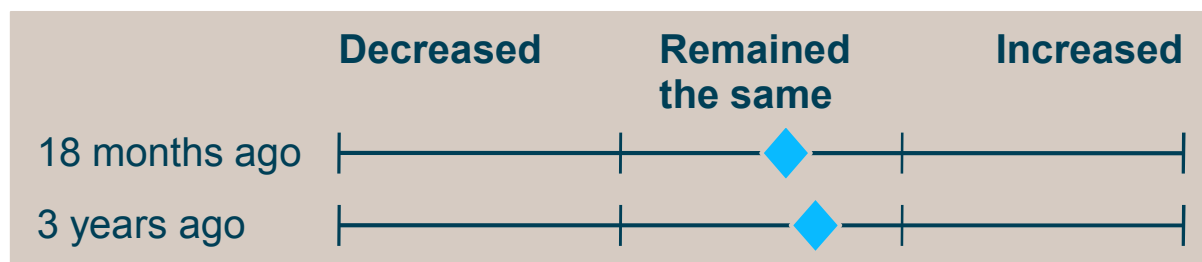


Investing today is more difficult, refinancing costs have increased dramatically

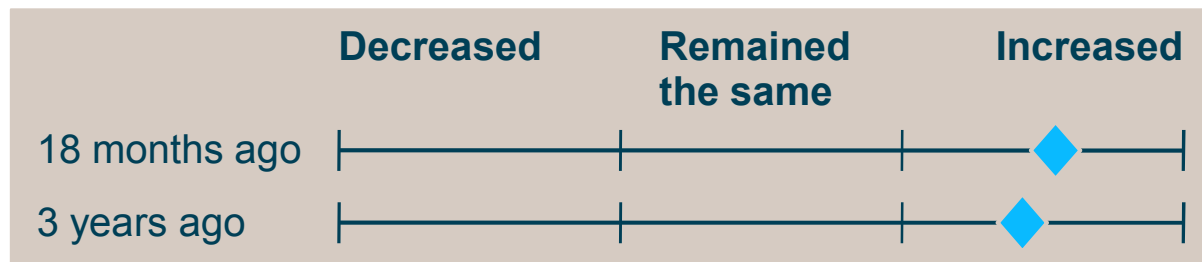
A.1 Finding and investing in an attractive investment target is ... today compared to ...



A.2 Your ratio of "funds raised" to "investments completed" has ... compared to ...

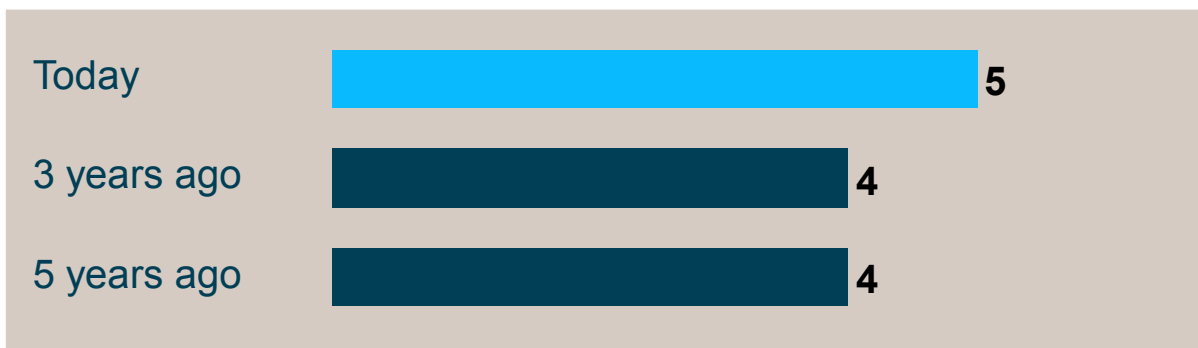


A.3 The refinancing costs of your portfolio have ... compared to ...

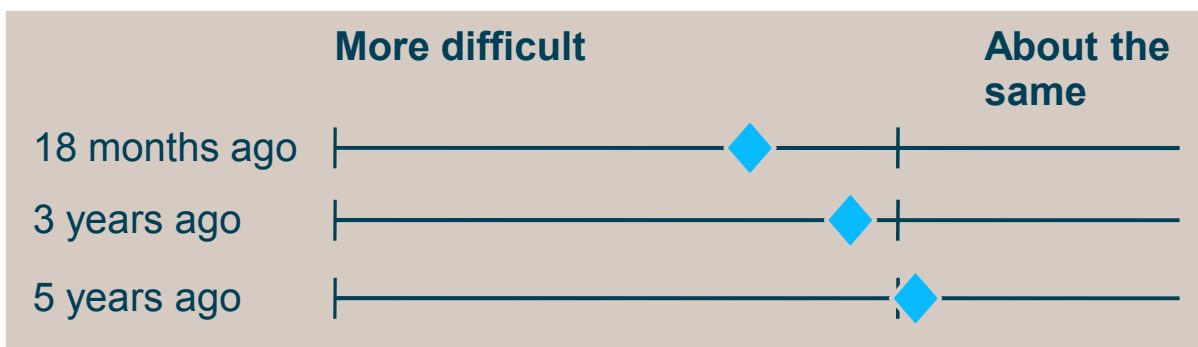


Average holding period of portfolio set to rise to 5 years – Good exit from investment is more difficult

A.4 What is the average intended holding period of your portfolio? [years]

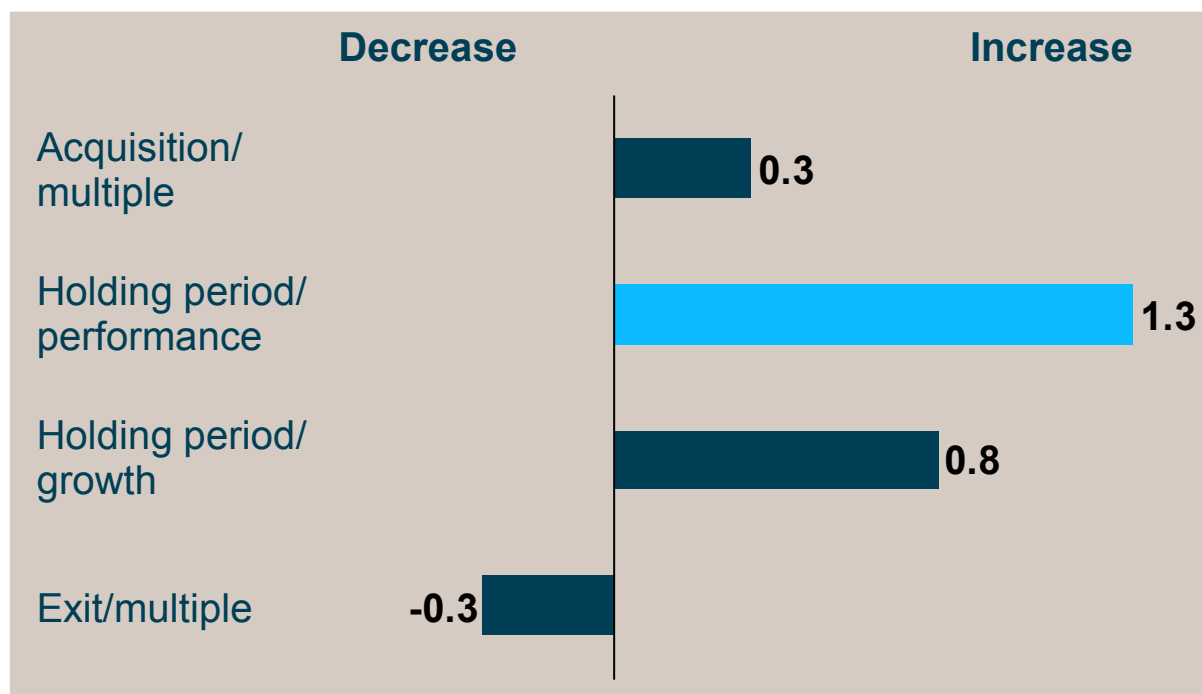


A.5 Selecting the right moment and means of exit to realize the highest value of the investment is ... today compared to ...



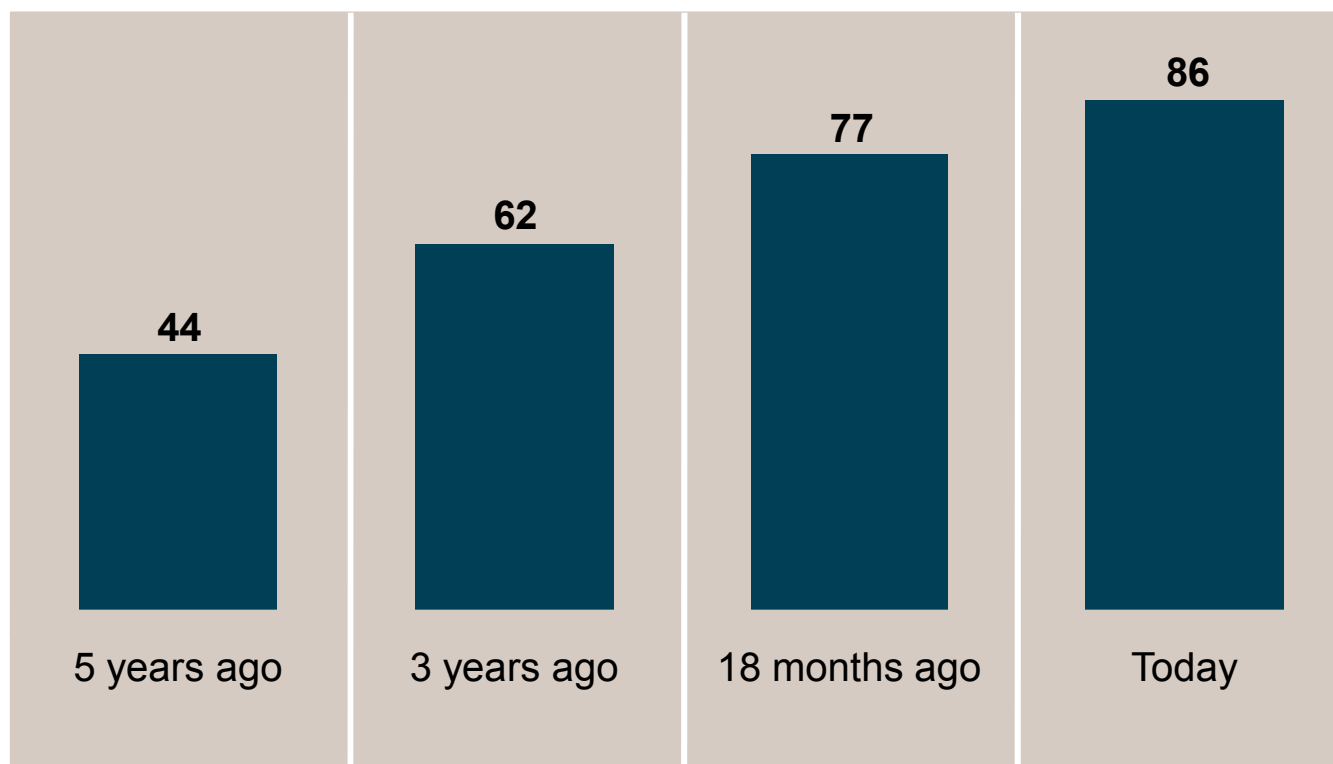
Increasing the value and performance of investments in holding period is comparatively more important

B.1 How did the importance of increasing the value of your portfolio companies develop within the different investment stages over the last three years?



PE companies work more professionally today, giving nearly all investments a 100-day plan

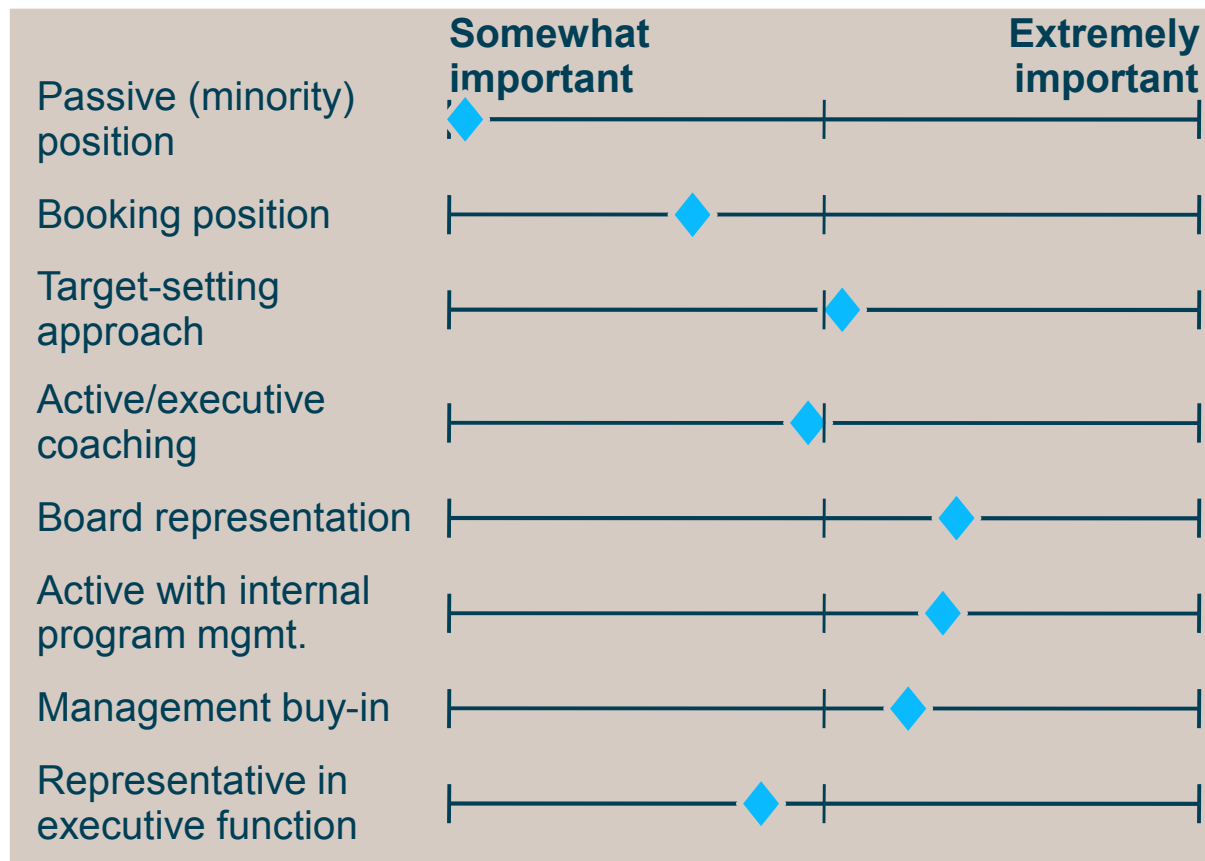
B.2 Looking at your portfolio, what proportion of companies are given a 100-day plan? [%]



- PE companies with a large-cap focus are the most professional – 97% have a 100-day plan vs. 85% mid-cap and 74% small-cap

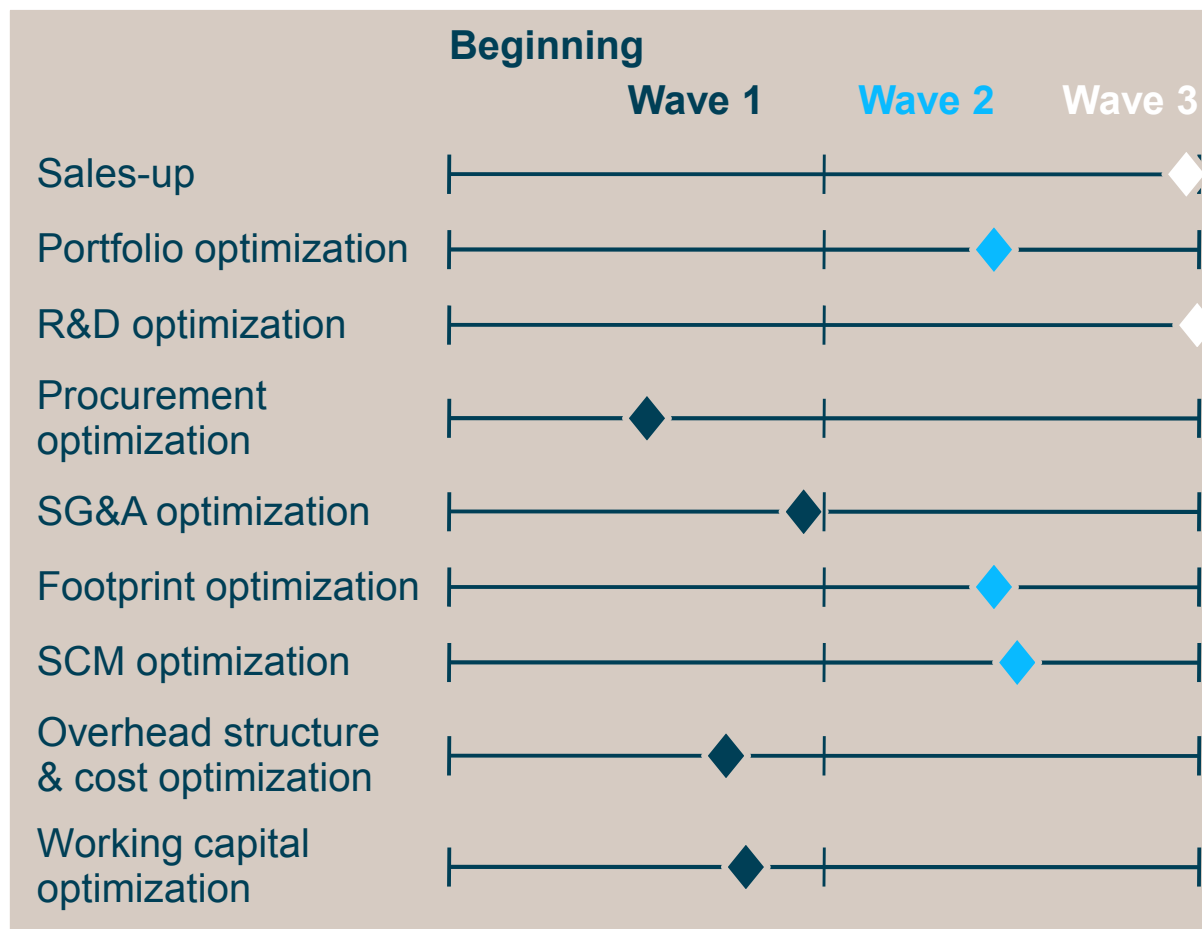
High-impact representation is preferred to ensure the success of an investment

B.3 How important is the relationship between the investor and the portfolio company for the success of the investment?



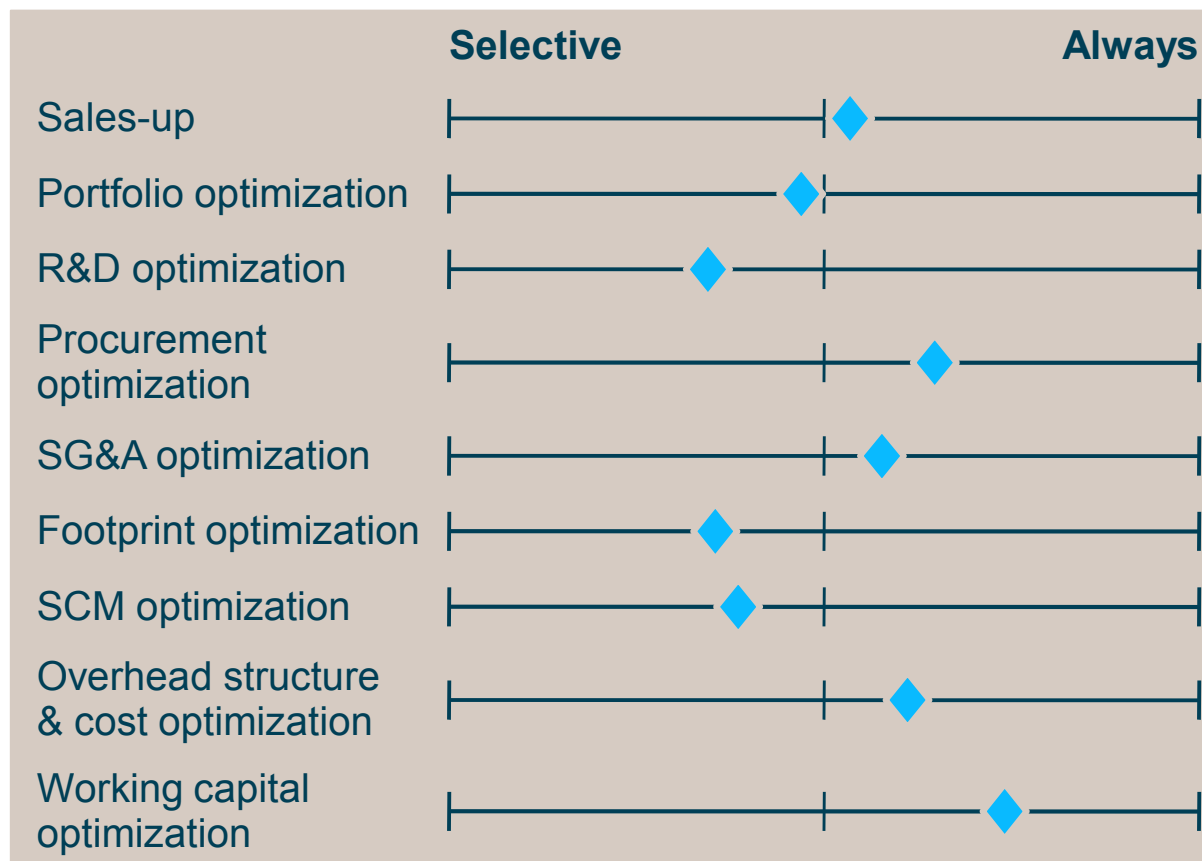
Performance initiative levers typically addressed at beginning of investment in several waves

B.4 At what point in the life of the investment do you typically address the following performance initiatives?



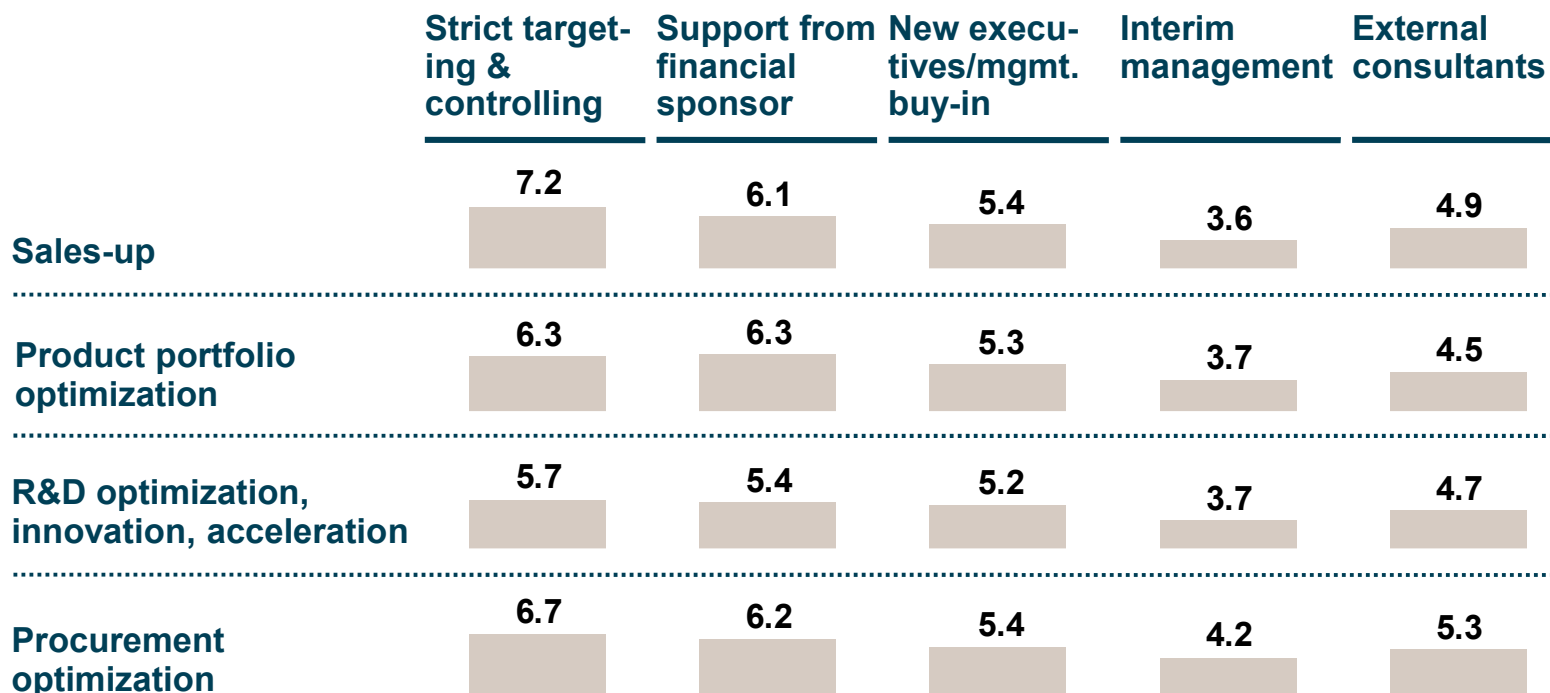
To improve performance, operational levers are always applied, structural levers used selectively

B.5 During the holding period, which levers do you apply to improve the operational performance of your investment?



Targeting & controlling are frequently used, whereas external consultants are hired selectively (1/2)

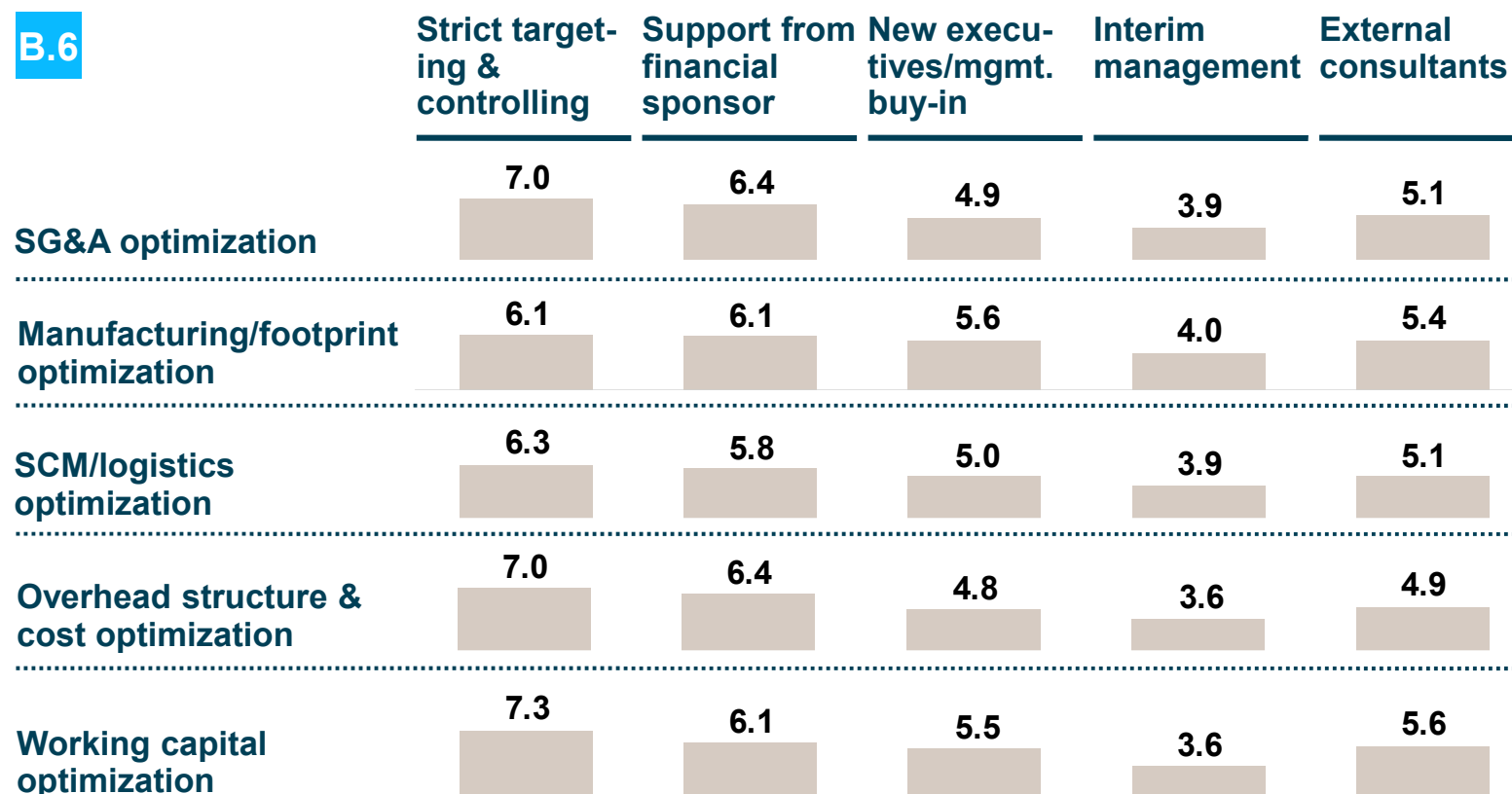
B.6 How and how often do you usually implement performance improvement levers for your investments? (Multiple responses possible, scale from 1-9, where 1 = never, 5 = sometimes and 9 = always)



1) Average value: only users included

Targeting & controlling are frequently used, whereas external consultants are hired selectively (2/2)

B.6

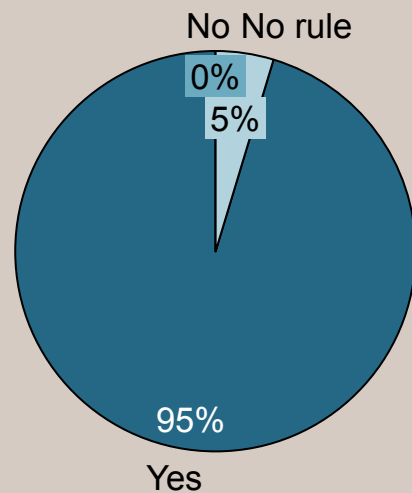


1) Average value: only users included

PE companies mainly assign a single team for the entire investment lifecycle

C.1 Within your PE company, what approach to team staffing do you typically apply?

"One team for the entire investment life cycle"



"Specialized teams for acquisition, holding period and exit for each investment"

