# Delivering value

## How leading Private Equity firms are using data and analytics to drive value creation

By

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**Private Equity (PE) leaders and portfolio company managers are looking for better ways to tangibly increase the financial value of their assets and to appropriately quantify the potential value of targets through the diligence process. Here's how leading PE firms are using data and analytics to drive and deliver value creation.**

For more than a decade, the PE value equation has been fairly straightforward. Interest rates were low and capital was cheap. M&A markets were frothy. Valuations kept rising as the supply of investable assets remained constrained. By improving asset governance and increasing access to financial markets, good managers could expect to see multiples expand and valuation grow. PE houses and their limited partners (LPs) were able to realize historic profits.

Now, the equation seems to have changed. In many markets, interest rates are currently at their highest level in more than a decade. The IPO markets have essentially shut down. M&A markets have slowed. As a result, valuations have tumbled below historical entry points — threatening investor returns. For example, where tech companies were being rewarded with multiples north of 20x just two years ago, public markets are now assigning multiples of below 10x at IPO[1], driving a gap in investors' return expectations.

That is creating significant challenges for private equity managers. Many are now sitting on portfolio companies that have lost significant value since acquisition due to lower multiples. Yet their LPs are expecting returns. Volatile valuations are also creating problems on the buy-side as managers try to accurately ascertain the real long-run value of their targets. And that is leaving some LP capital sitting on the sidelines.

[1] Report Title: IPO Insights Q4 2023
Source: KPMG in the US IPO Insights Q4 2023 Perspectives on 2023 IPO market trends (February 2024)

## The search for value

With multiple expansion becoming less of a certainty, PEs are now looking for alternative ways to enhance the value of their portfolio companies and quantify the value of their targets. Demand for 'value creation' and EBITDA improvement has catapulted to the top of the agenda.

To be clear, most PE houses have practiced value creation techniques for years. Indeed, the very first value lever that most PE managers reach for after acquisition is the derisking of the asset from a governance or regulatory perspective. The more active investors will often then move to digitalize key back-office processes, integrate systems and create synergies. Yet while that may have been sufficient to boost valuations in the boom market, it is no longer enough to achieve the type of multiples LPs are looking for.

Today, creating value requires a much more direct focus on operational excellence initiatives aimed at unlocking stronger and more sustainable EBITDA improvement and working capital value creation opportunities — riskier territory where obtaining value could require deeper actions (such as transforming supply chain, pricing, engineering and design functions, for example).

## Stretching a new muscle

Some of the largest PE houses have been pivoting towards this type of active investing for some time. KKR Capstone, for example, was established to focus exclusively on identifying and delivering sustainable operational value within their portfolio companies.

Yet, generally speaking, operational skills and capabilities in the wider market have faded as managers focused more on revenue growth than operational optimization. At the same time, many experienced operational managers have retired. Competition for experienced operators is rising.

Data — or lack thereof — is also creating challenges for PE managers seeking to drive operational efficiencies. Buy-side professionals may often bemoan a lack of data from their targets. Sell-side professionals have lots of data, but it can often be largely stuck in silos and inconsistent.

Even where value creation opportunities can be identified and quantified, delivering on the expected value can be a challenge. It takes deep functional capabilities, sector expertise and highly sophisticated analytical methods to understand and measure a process, let alone a business function. And new management teams rarely have the insights they need to successfully drive and sustain that type of change.

## A better way to do diligence?

It is time for a transformation in the way that PE houses and portfolio companies approach value creation. The tools and technologies have matured. Analytical capabilities have increased. The potential to enable insights that were previously out of reach is notable.

On the buy-side, technology and analytics can provide managers with an 'outside-in' view of their target — in certain instances providing a level of data granularity in areas such as people or commercials — that can help improve the robustness of their due diligence. On the sell-side, transactional-level detail combined with sophisticated analytics could enhance the equity story by surfacing quantified and prioritized value creation opportunities that support improved valuations. And, because the findings are derived from science, technology and data, real asset insights could be generated in a fraction of the time these activities traditionally took.

Let's give you an example of what that looks like in practice. Say you are on the buy-side and you want to understand the value of a target's existing engineering team. The old school way would be to interview a few

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ex-employees, ask a few questions and then arrive at a conclusion on the basis of subjective data. A data-driven approach would involve scraping multiple publicly-available data sites to come up with a very accurate view of the target's organizational structure, employee capabilities, tenure, experience, rotation and focus. Another scraping can tell you how that compares to your target's closest competitors at the same level of detail.

On the sell-side, leaders can unleash technology on the organization's data to quantify the full value potential across different aspects of the business. They can then compare that data to best practice and competitor data. And then they can produce a prioritized list of quantified value creation opportunities that can either be used by portfolio company managers to enhance their valuation, or by sell-side professionals as they negotiate multiples with potential acquirers.

Since the approach uses technology, data and analytics — versus legions of people and subjective experiences — to uncover and quantify these value creation opportunities, PE managers and portfolio company execs can achieve insights and opportunities in a matter of days and weeks, not months. And the findings are explainable, defensible, consistent and measurable, thereby building confidence from the Investment Committee level down to the portfolio company manager level.

Perhaps more importantly, a data-led approach means that PE managers and portfolio company leaders can balance other key priorities outside of pure EBITDA returns. They can look through a resilience lens, a sustainability lens or a customer lens, for example, to help ensure they are making the best decisions for their investors.

## Delivering real results

KPMG firms have developed a data-driven approach to value creation that combines proprietary data, insights and operational experience to help buy-side and sell-side players identify, quantify and execute significant value creation opportunities. And KPMG professionals understand that you need to show results quickly, with a clear path to the growth. So their focus is on helping you rapidly drive deeper insights and support value creation and performance improvement.

For example, a KPMG firm recently worked with one PE-sponsored portfolio company to evaluate a potential M&A target — identifying US$45 million of EBITDA improvement opportunities that enabled them to value their target more accurately (KPMG professionals then helped them capture that value within 8 months of the deal close). On the sell-side, KPMG specialists' use data, insights and experience to help portfolio company owners clearly quantify and articulate the true long-term value of their assets so they can get appropriate valuations at exit.

## A different view on value

A KPMG firm recently helped a PE owner merge an IT portfolio company with a direct competitor. We deployed geospatial analysis to assess the two companies' asset locations, historic ticket volume data, customer SLAs, field engineer and inventory locations, drive time data and other operational data to identify opportunities to optimize their combined network. KPMG specialists' work led to a 20 percent cost reduction in core service delivery for the new entity.

## We can show you how

KPMG professionals believe that — in the current environment — a new approach to value creation and due diligence is needed. And KPMG firms experience and results support the view that data and analytics are essential. Contact your local KPMG member firm to learn more.

# Acknowledgements


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Publication name: Delivering value: How leading Private Equity firms are using data and analytics to drive value creation
Publication number: 139452-G
Publication date: June 2024