5 **THINGS YOU MISSED**

"11th Annual Industrial Conference"

Industrial Outlook

Prepared by TresVista Financial Services

1 **Supply Chain and Labor:** Every company admires Amazon's robust supply chain, where the product gets delivered the same day, and they desire the same kind of efficiency from their portfolio companies. Innovation in product and services is crucial, but it is even more critical to get the product to the consumer's doorstep in as little time as possible. The panel observed that most family-run businesses don't invest enough in their supply chain, which makes them a perfect target for PE firms as they can significantly improve the top line just by investing in the supply chain. It is beneficial if the materials are sourced from the domestic market, even if it is a bit more expensive than the Chinese market, because the 60 to 90 days of inventory supply chain from China is too long and ties up a significant amount of money. Labor prices in the American market are rising steadily, so entrepreneurs are looking at the African and Chinese market to meet their labor demands. But the panel noted that sourcing skilled labor is arduous in such markets. So to tackle the labor problem, it is best if the manufacturing companies hire few skilled labors and automate their manufacturing with high tech machinery.

2 **Modernization and Technology in Manufacturing:** The world is heading towards an era of automation where manufacturing firms, especially in China, are replacing their labor-intensive manufacturing with machines. The panel highlighted that domestic, family-run businesses shy away from investing in technology and high tech machinery. However, a modest CapEx investment in their operations and machines can generate multifold returns. Additionally, a small investment in their marketing can significantly improve the top line; it can be as minimal as investing in a good website, which can serve as a catalyst for sales growth. The panel staunchly supported investing heavily in systems and processes that track KPI and operations. These KPI's and other metrics can be shared with the workforce, whose compensation can be tailored accordingly.

3 **Evaluating Deals:** It is not necessary for every deal to have an exceptional product. PE firms look for companies whose products' applications can be seen everywhere. This can be a simple product which is manufactured with exceptional operational efficiency and execution. It is ideal to invest in industries where there are two or three players in the market, and the addressable market size is quite substantial, where there is the space to increase the sales and market size of the target company. Also, PE firms try to look for deals that might supplement their existing portfolio company. These are known as tuck-in deals, in which the firms try to attain synergies for their current portfolio companies. In the age of high multiples where the GDP is growing at 3%, the panels strongly believed that when valuation multiples exceed more than 6 to 8 times, it is best to avoid such deals.

4 **Deal Sourcing:** Buy-side firms review hundreds of deals every year in their deal pipeline and end up investing in two or three of those deals. The panel noted that it is prudent to get the information on investment preferences from all of your contacts (such as revenue and EBITDA range, investment size, industrial sector preference, etc.). This ensures that the right kind of deals flows to your pipeline. From the investment bank (IB) perspective, it is essential for a PE firm to give the bankers feedback and to be in touch, even if the firm ends up rejecting the deal, as this gives bankers a sense of the kind of deals that interest the firm. As a result, the bankers will reach out again to the PE firms if they find a deal suitable for them. The panel noted that there are many family-owned industrial businesses whose owners are aging out and looking to sell. Their revenue ranges from $20 million to $100 million.

5 **Importance of the Operating Partner:** Operating partners are increasingly employed by PE firms to add value to privately held companies. The ideal operating partner should have a high emotional quotient and strong ability to work closely with the management and sales team. They serve as a trusted advisor and consultant for higher management, especially in dire situations. However, sometimes operating partners become too involved with the portfolio company, which feels invasive to the management. To avoid this, it is crucial to hire an operating partner who asks questions rather than offers solutions to the management. It should be management's responsibility to develop solutions, which makes them feel the responsible for the value created. The panel found that an operating partner should be a partner of the fund and should be incentivized in a manner similar to the GPs, which would drive them to make sure that their portfolio companies perform and contribute to the overall fund's success. As an example, Corinthian Capital hires operating partners with relevant industrial experience and makes them Non-Executive Chairmen of the boards of their portfolio companies.

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