In June, we attended ACG New York's Industrial Conference. Here are five of our top takeaways from Steve Siwinski's presentation on 'Better, Smarter, Faster Value Creation.'

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5 THINGS YOU MISSED –

1 **Value Creation Using Operational Improvements:** Financial engineering, a once-prominent approach for private equity firms to boost their investment returns on portfolio companies, is lately becoming a distant memory with focus shifting to operational improvement for value creation. However, with changing competition in the global capital markets, factors like increasing levels of global dry powder; EBITDA multiples; and increasing need of equity investments due to decreasing debt leverage, have resulted in the deal environment becoming more challenging than ever. To give perspective, leverage during 2007 was 65% and is now close to 50% despite no change in the EBITDA multiples—implying that deleveraging isn't helping in the desired value creation.

2 **Aiding Challenges to Private Equity Firms—Talent Management, LPs Expectations:** According to a study conducted by Harvard PE, leadership has a 10-15% impact on financial performance and 25-30% on market valuations upon exit, resulting in a war among private equity firms to hire top talent in order to be able to execute the required growth strategies. It is equally important to build the functional side of management by bringing in talent management and human resource capabilities to the operational level early on in the investment cycle—for example, hiring interim management whenever necessary, using a network of recruiters, etc. Another challenging aspect for private equity firms is the fact that LPs demand quicker returns, limiting the ability to create the desired value in the portfolio company.

3 **Value Creation Framework:** In general, PE firms need to think of the value creation framework as a process that involves strategic alignment by developing and monitoring long-term strategic plans; enabling scalability by building the right infrastructure and creating efficient processes; pursuing internal and external growth initiatives (for example, organic growth, add-on acquisitions, etc.); and positioning the business for the next investor. All of these can be achieved by building a management and operations team that supports and shares best practices, and by providing execution support and functional expertise to the business whenever required.

4 **Levers for Value Creation:** A well-built strategic plan that supports long-term revenue and EBITDA growth is the key to value creation. Private equity firms should look to achieve this by adopting a capital-efficient, profitable growth business model that effectively focuses on profit maximization (increasing revenues and controlling costs), and capital efficiency (reducing working capital and improving fixed capital). An effective way to do this is to follow a buy-and-build strategy that enables both margin expansion and multiple expansion.

5 **Buy-and-Build Strategy—Unfolded:** As mentioned earlier, assets have reached record-level valuations, forcing private equity investors to look at the buy-and-build strategy for value creation. Smaller companies generally tend to trade for lower multiples than larger ones, creating an opportunity for multiple arbitrage. Therefore, by merging such smaller companies, private equity groups can boost sales and access larger financing pools for expansion. The potential benefit of this strategy is how revenue growth can be achieved from the improved market positioning and shared marketing technologies, as well as expansion into new geographic markets—all of which can be achieved at a quicker rate as compared to organic growth.