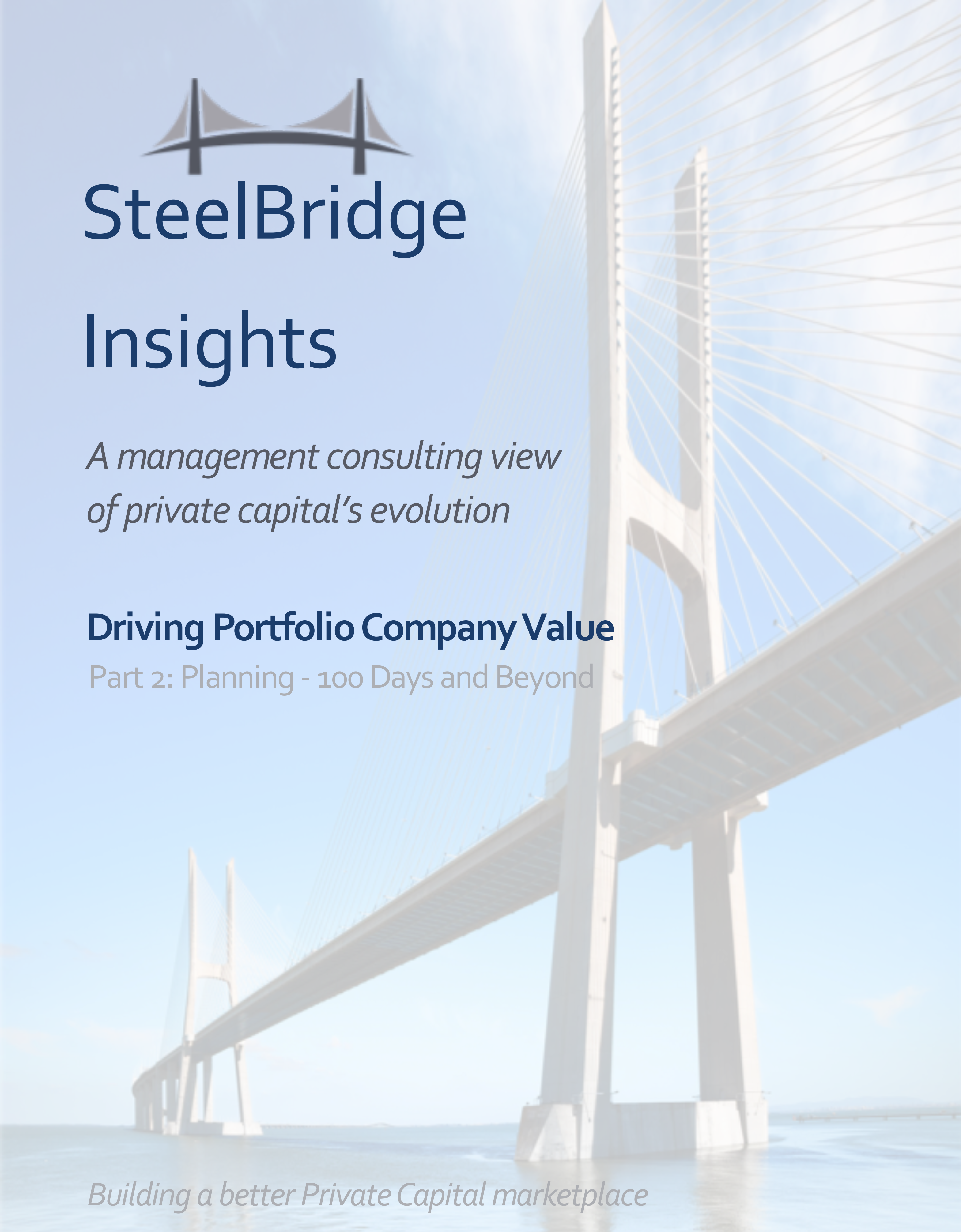


SteelBridge

Insights

A management consulting view of private capital's evolution

Driving Portfolio Company Value

Part 2: Planning - 100 Days and Beyond

Building a better Private Capital marketplace

Key Highlights:

- Establish “must haves” in the first 100 days after a deal closes
- Assess and construct a long-term plan for the portfolio company, closely coordinating with vendors and third-party support
- Establish defined metrics and hold teams accountable to help ensure success

Recap: Deal Due Diligence

In our first paper of the series, we discussed the importance of setting up and implementing a robust due diligence process. This includes looking not only at a potential portfolio company’s internal processes and systems but also at its competitive and partner relationships.

Implementing a repeatable process the entire portfolio can follow is essential, and having a “rinse and repeat” program in place yields a multitude of benefits. Not the least of these is reducing investment risk in any particular deal. More optimistically, a robust due diligence program can prevent write-offs and write-downs and increase overall portfolio IRR.

Intro: Planning and Monitoring

Now that due diligence is complete and a deal has closed, we turn our attention to planning and coordinating with vendors for the portfolio company. There are a number of factors at this stage. Short-term planning is crucial post-close. Long-term planning dovetails with setting up an exit. Throughout, appropriate monitoring of successes and failures must be in place.

The First Hundred Days

When a deal is closed, the first 100 days are critical. During this time the portfolio company team, the deal team, and any external partners can set clear goals for integration and for the management team. It’s important at this point to consider which types of third-party support should be included. We have seen a drastic shift to engaging operating partners for a number of reasons:

Expanding the talent pool

- Geographic and subject matter capabilities must expand rapidly, often outside a manager's capacity

Preventing process breakdowns

- Handoffs from the deal team to the portfolio team can get messy, creating confusion and error

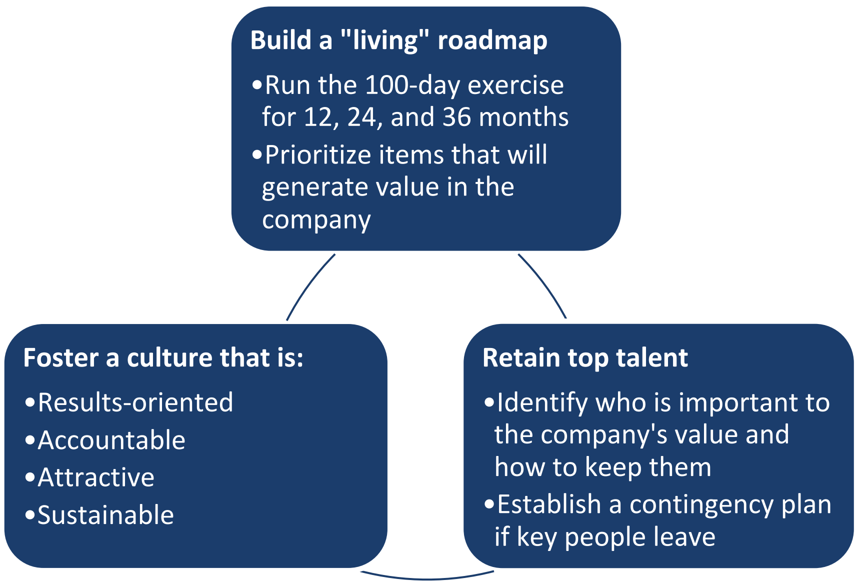
Avoiding the "Big Brother Effect"

- Portfolio companies are increasingly resistant to direct over-involvement by managers

SteelBridge recommends starting from the end and reverse engineering. Ask yourself and your team, "What needs to be done no later than 100 days post-close?" and backtrack to closing date. Not only will this provide a clear roadmap for those early days, but it will also serve as a springboard to creating a long-term value creation plan.

Long-Term Planning

The length of time a portfolio company is held by a firm varies widely. Recent Preqin data indicate the average holding period is just over five years – much longer than those critical first 100 days.[1] Portfolio teams and operating partners should focus heavily on creating a plan for long-term value creation. We see three elements as being imperative to this plan:



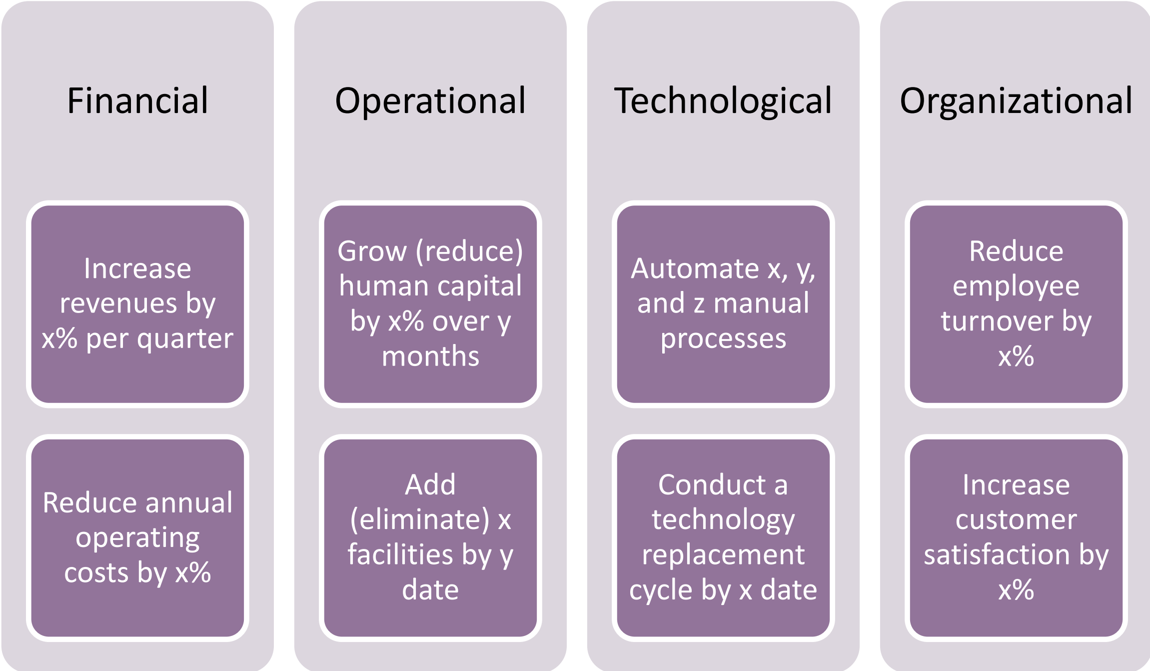
This planning process is best facilitated by a third party. Planning sessions can often be viewed as distractions at best or contentious at worst and as taking time away from the management team that is focused on running the company. Engaging an outside voice not only controls costs but also provides an added measure of objectivity and accountability.

Monitoring

During and after planning, it is important to identify goalposts by which to measure and monitor success. A portfolio company, particularly earlier in the business life cycle, may have a vision of what it wants to accomplish but fail to clearly identify metrics to achieve its vision.

Further, leadership's idea of what constitutes reasonable goals needs to prove attainable at the "boots on the ground" level. For example, a recent BCG study of a company completing an acquisition using metrics decided upon through communication from *all* organizational levels saw a 14% increase in annual revenue.[2] Our own experience has also shown that including representation from line employees creates assertive yet very realistic goals. Beyond that, it helps to foster a sense of ownership at all levels of the organization.

1. “Private Equity Portfolio Company Holding Periods.” Private Equity Spotlight. Preqin Ltd. May 2014.
2. “Organizing for Growth.” BCG Perspectives. Boston Consulting Group. 23 October 2014.



These metrics above are only intended as examples, as individual portfolio company KPIs will vary widely depending on industry and stated portfolio company goals. In addition to the metrics themselves, it’s important to *discuss and document* responses to situations where goals are not being met – at both the organizational and individual levels through clear and consistent communication. We recently completed a project with a portfolio company of a multi-billion-dollar fund, managing a series of interconnected cost-saving initiatives valued at over $13 million. For this we constructed a comprehensive project tracker, segmented by initiative and business unit. Throughout the project, we regularly solicited up-to-date documentation of progress toward our teams’ goals and the financial ramifications of each initiative.

The tracking document provided a valuable central repository for senior leadership to obtain key information “at a glance.” The teams’ discussions, including a weekly regroup of *all* initiative leadership, served two purposes: (1) they facilitated regular updates on the team to ensure that everyone was on the same page and (2) when an issue arose, all necessary resources were available to develop a solution getting organizational initiatives back on schedule.

Conclusion

While planning is critical in any organization, that criticality increases when meshing the goals of the portfolio company with those of deal teams and portfolio managers. The first 100 days can define this relationship for the next several years. Those years, simultaneously, need clearly communicated goals and goalposts by which investor and investment can evaluate organizational growth and valuation.

Part 3 of this series addresses looking beyond planning. In it we discuss the point at which portfolio managers and leadership of the portfolio companies in which they invest drive toward a mutually beneficial exit. Look for **Driving Portfolio Company Value Part 3: Exit Strategies**.

About SteelBridge

SteelBridge is an independent boutique fund advisory service provider offering customized services and solutions to the global private capital industry. We were founded on the principle that we can affect “smart” change within our clients’ organizations. Our people are industry experts, with a common passion to facilitate change and improve performance for private capital firms.

To learn more, call us at 646.737.7960 x1001, visit us at www.steelbridgeconsulting.com, or join us on our Facebook and LinkedIn pages for more information:

Let us show you why we are the leading boutique advisory services firm in the private capital space.

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