

2024

State of Value Creation

in collaboration with **GRECO.**



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Key Messages

As providers embedded in Private Equity Value Creation, we see first-hand the success and challenges of our practitioner clients, as well as the tremendous variety in models between funds and parts of the market. In this inaugural snapshot of the market, we have undertaken primary research to understand the current state of the Value Creation ecosystem in the UK, as well as a look forward to what might happen in the year ahead.

Stepping back, over a five-year view in-house Value Creation teams are now widely adopted in the UK market – 60% of firms have in-house Value Creation roles, with an average of 8 FTEs. There are some commonalities between the firms surveyed as part of this work in terms of the positioning of Value Creation within the firm and to LPs, and alignment of incentives with the investment team.

The market seems to have moved on from the sense of Value Creation playing second fiddle to the investment team.

Through this research, we have identified a series of choices that characterise each firm's model, which we will dig into. These are primarily positioning choices reflecting the investment strategy and heritage of each firm, and therefore feel relatively immutable.

Areas where we see change as more likely relate to the deployment of Value Creation teams pre-deal, their participation in Investment Committee decision making, and the mix of specialist skillsets recruited, which perhaps will always be evolving in response to wider macro and talent availability dynamics.

Common challenges for practitioners remain around measuring impact of their teams and the perpetual challenge of maintaining a sufficiently deep and effective network of external advisors.

Now a community of 750+ practitioners, our research highlights the breadth and depth of capabilities of the Value Creation ecosystem in the UK today. We hope that this will provide valuable external content to practitioners and stimulate ideas for further development.

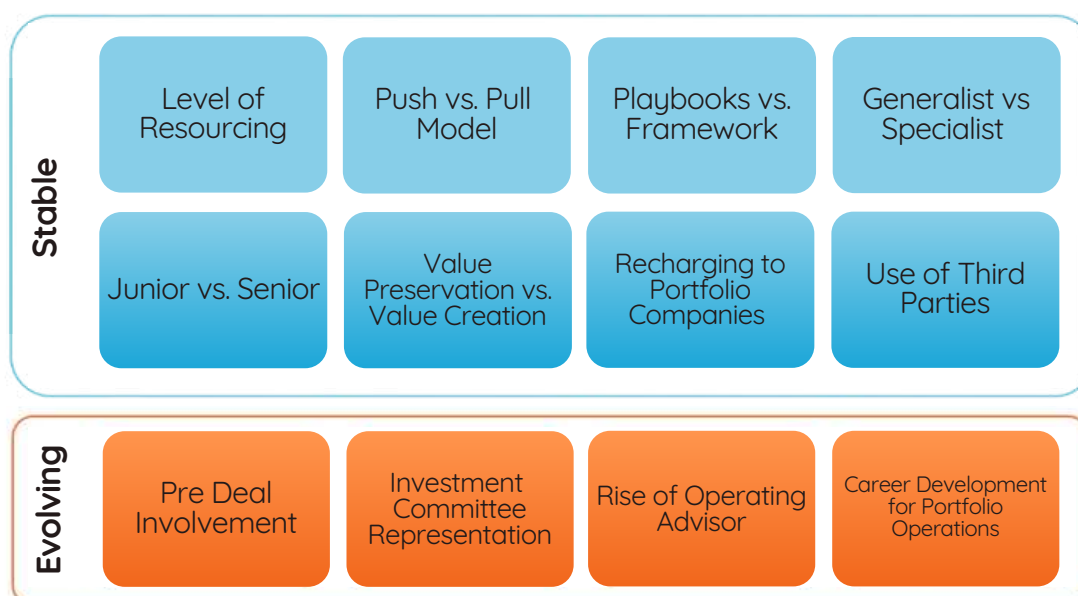


Figure 1: We have identified 12 key themes in our work in relation to Value Creation teams. 8 of them stable, with 4 of them continually evolving

Introduction & Approach

We have created a dataset of the investment teams of 161 Private Equity firms with a UK presence, including detailed breakdowns of their Investment and Value Creation team composition in terms of roles, tenure and seniority. We have overlayed this with third-party data on AUM and size of portfolio.

To complement this quantitative dataset, we have conducted deep-dive interviews with 20+ Value Creation leaders representing a cross-section of the mid-market and large cap firms, discussing their current models, future plans and views on the market.

From our research, we've identified 12 characteristics that we believe can be used to categorise the Value Creation model of a Private Equity firm – and highlight 4 of these characteristics that we expect to evolve materially over the next 12 months.

Value Creation Model Characteristics

- Stable

1. Level of Resourcing

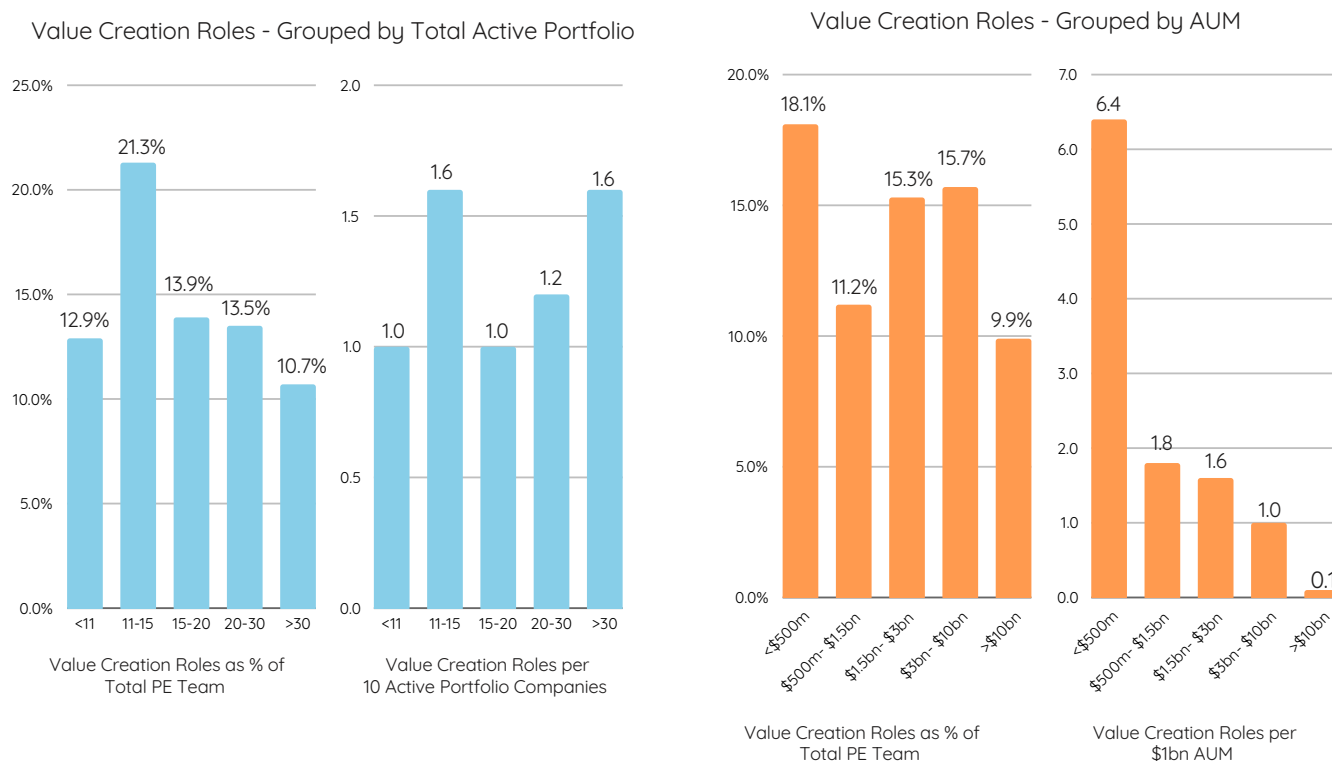


Figure 2 & 3: PE firms with larger portfolios typically have a higher number of Value Creation roles on a like-for-like basis

As would be expected, portfolio size has some correlation with the number of Value Creation roles - the largest portfolios have more Value Creation resources. However, the number of roles does not scale up proportionately with AUM - in fact, the largest proportion of Value Creation roles as a share of total team size can be found within funds firms with <\$500m AUM. This may in part be explained by some firms having a VCT which enables further hiring.

The portfolio companies of firms with higher AUM will typically be larger and therefore typically have some level of specialist Value Creation capabilities (e.g. M&A, data, customer acquisition) within their full-time employee base.

2. Push Versus Pull Model

 *Interestingly there are still very few “push” models.*

Only in certain turnaround funds do you see it mandated from the fund that the new portfolio company will work with a Value Creation team from the get-go. For the majority of investors, no matter the size or the investment focus, the model is still “pull” in nature (i.e. Management teams have to want to work with you).

However, as we will discuss later, the fact that more and more models involve the portfolio operations team working pre-deal, assessing capabilities, means that we expect this distinction to become less and less relevant. We hope that though in theory, Management teams will have the option to decline Value Creation support, that in practice, Value Creation professionals, who have helped to argue for a deal at Investment Committee will have built strong relationships with their Management counterparts to the point that it will be assumed that there will be a partnership post-deal.

3. Playbooks vs Frameworks

 *Almost no firms say they are extensive users of playbooks.*

Even in firms with a higher proportion of specialists as part of their operating model, we found that there was limited use of codified “playbooks”. Though the chance to create repeatable and programmatic value is attractive to many funds, the term “playbook” carries some stigma. When asked around these topics, Value Creation leaders stressed the individuality of each asset in their portfolio, even when investing with a tight sector/situation focus. Furthermore, mid-market investors suggested that the variance in the capabilities and situations of their assets meant that a playbook model was even less applicable to them. The implication of this is that there could be more space for playbooks in the large cap deal market, however from our conversations this did not appear to translate - there was little discussion of systematic playbooks being implemented by large cap Value Creation teams.

However, investors in larger assets were more likely to admit to wanting to move more towards a playbook model - cautiously, in some areas and only where appropriate. Where we saw the most interest in moving more towards this model was with firms that already have a high number of specialists within their Value Creation team as this playbook creation has formed part of the remit of the functional specialist over the years - perhaps referred to as guiding principles or “frameworks” which suggest more latitude for how they can be deployed than “playbooks”.

Overall, there appears a slight tension between words and actions, which is not that surprising - funds want to make sure that all Management teams feel unique and recognise that in reality all businesses have their specific opportunities and challenges. However, the tension between this realisation and the fact that having proven, repeatable approaches to Value Creation helps to underwrite each investment case was front of mind for many of the practitioners we interviewed.

4. Generalist vs. Specialist

Here we could see some clear trends in the difference between large cap & mid-market investors. Though the majority of those analysed and almost all of those surveyed have a hybrid model with a blend of generalist “quarterbacks” and functional specialists,

“...we saw specialist models more prevalent in the large cap space, with some of the largest funds active in the UK, saying that they intend to move more towards a specialist only model.

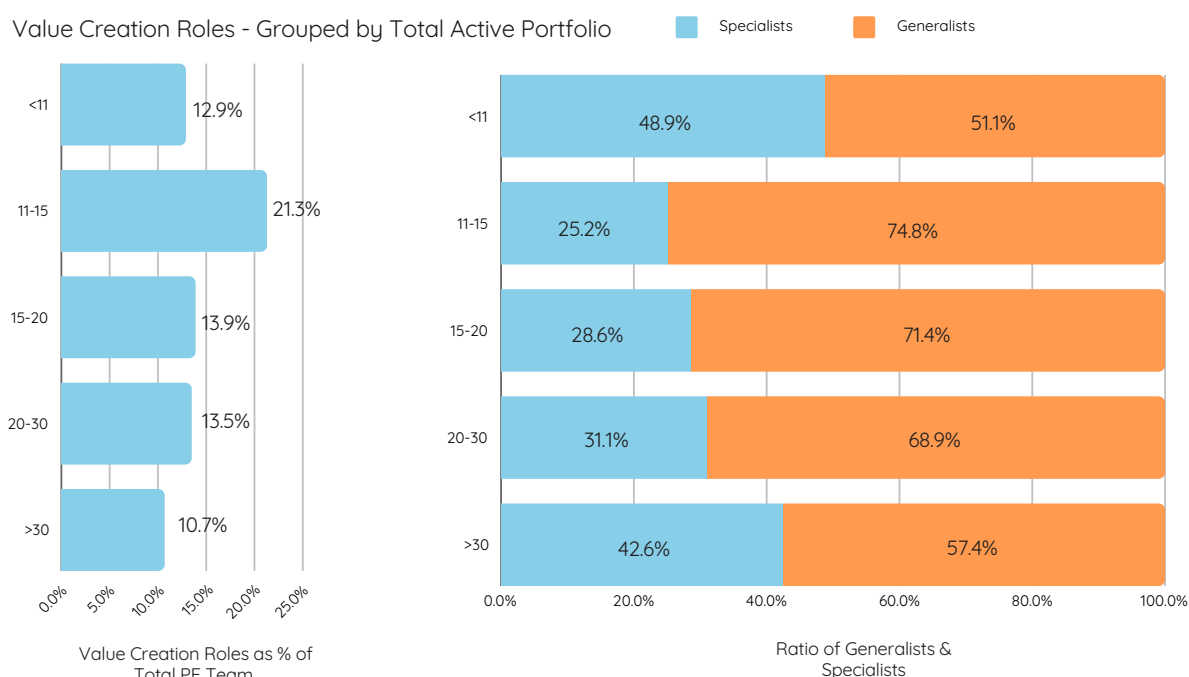


Figure 4: While all sizes of PE firm have more Generalists than Specialists, larger portfolios typically have a higher mix of Specialists

As one would imagine, those committed to one model or the other (i.e not a hybrid) had the most fervent views on the topic. Those in favour of a purely generalist model would argue that if you are investing in different industries or business models, it is hard to get maximum utility out of a highly specialised skillset. They may perhaps have a smaller number of portfolio companies and would therefore not see how their specialists would be fully utilised. Others would say that one of the drawbacks of having specialists is that their view of how to create value can be distorted by their expertise and end up a little myopic. They argue that being able to have a “business” conversation to a CEO and properly spar with them across a wide range of topics, is where much of the key value is created, and that if you need deep expertise you can rely on your advisor ecosystem to supplement your initial scoping of the problem.

Those in favour of the specialist model would say that their feedback from Management teams is that they want to work with real experts on topics, who can truly teach them something that they did not already know, and that the credibility you get from being a real expert on something means that Management teams will sit up and take notice more quickly than in a generalist set up. Others say that having specialists work on portfolio companies around a discrete problem set, means that you give Management teams more space to breathe, and you can create a more harmonious relationship with the GP in these circumstances. In a world where most GPs are initially backing Management teams to deliver a business plan, they would argue that specialists effectively enhance a Management team’s impact, with a degree of separation from other members of the GP’s team.

Value Creation Roles - Grouped by Total Active Portfolio



Figure 5: Technology specialists make up the largest specialist category. This becomes more prevalent at large cap firms.

5. Junior vs. Senior Model

There was a clear split between firms on the efficacy of a model that hires more junior Value Creation team members vs those that hire more experienced professionals. Whilst those that hire junior professionals (defined as less than 10 years' experience) are in the minority, those that have this model are only doubling down on this strategy.

Average Tenure & Work Experience - grouped by total active portfolio

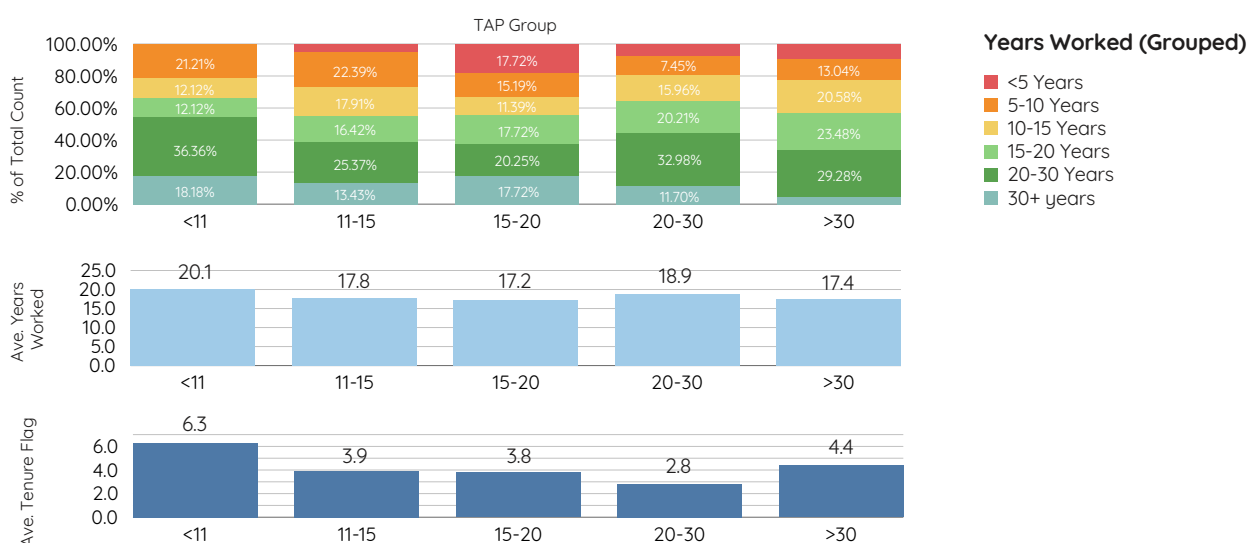


Figure 6: Firms with smaller portfolios typically have a larger share of more experienced (20+ years worked) resources

Firms with mid-sized portfolios have the highest proportion of junior Value Creation experts. Our interviews have told us that there are a very limited number of firms that employ junior “specialists”, and where they do, they are almost always in the fields of data, talent or ESG – disciplines that are more nascent in nature. Junior team members are more typically “doers” where funds have IP to leverage, or where deal size limits appetite for third party consultants.

What is clear though, is that

“...almost every model hires the “mid-career” professional – someone with around 12-15 years of professional experience...”

suggesting that for those people considering a career switch into Value Creation, this is the best time to do so.

6. Value Preservation vs. Value Creation

An interesting theme from all of our discussions was the split between value preservation and Value Creation. Our interviewees were kind enough to be open with us – a good proportion of their and their teams’ work is more “value preservation” work – i.e. working with assets that are perhaps underperforming or looking to shore up investments with downside protection focused initiatives. This is hardly surprising given the macro-headwinds that have faced private equity in the past 2 years. However, what was clear was that in some models, this is the norm, and that the Value Creation team is brought in mainly to right the ship rather than to help supercharge the growth of a potential superstar business.

7. Recharging to Portfolio Companies

One question we were keen to ask our interviewees was if they charged back their services to Management teams. Like the generalist vs specialist debate, this topic invoked some of the strongest for & against reactions, however what was clear is that

“...there is a growing trend to moving towards charging back some services to portfolio companies...”

Setting aside the fact that funds must change their structures in order to do this, the arguments for and against were interesting.

In the “pro” camp those that we interviewed had several points to make. Firstly, that they didn’t see there being too much push back from Management teams on this topic, so long as it was upfront and transparent in the deal negotiations. Secondly, there were some that said that although it did sometimes change the relationship between themselves and Management teams, the pros outweighed the cons, because for funds of a certain size, being able to pay out of management fees for high quality experts in the number that they would want to be effective, just wasn’t an option. Their argument was simply that this model allowed them to have more Value Creation resource, and that more Value Creation resource created more value than the cost (both financial and relational).

There were several people interviewed that would charge back some services to portfolio companies. In these models, the generalist quarterbacks would be free, but the deep functional experts would be charged back. These professionals would either be full time employees of the fund or would be “operating advisors” on a retainer with the fund. With this strategy the argument is that an asset would expect to pay for interim functional support if they were not owned by PE, and so why should it be any different under PE ownership? Even if the asset gets less choice over the exact functional professional that they work with.

Those that were in the against camp (and these were more numerous among the sample of people we interviewed) would say that charging for their services was not on the table. They all said that it would fundamentally change the relationship between themselves and Management teams and hamper their ability to really get into all facets of the businesses that they were supporting. Most of those in this camp were also on team “generalist” in the generalist vs specialist debate. They would also point to the fact that when their Management teams had been asked, they were all extremely against this idea, which is hardly surprising.

8. Use of Third Parties

Without exception, the

Value Creation leaders we interviewed considered the curation and management of a group of third-party advisors was a core part of their role.

Based on the functional levers that are most relevant to their investment strategy, they have a small number of consultancies and individuals that they repeatedly deploy into projects. There are differences in preferences for large consultancies vs boutiques, and whether this remit extends to due diligence providers (given many providers will work both pre- and post-deal). The extent to which these providers are ‘managed’ by the Value Creation team vs simply introduced to a Management Team is also a function of each fund’s resourcing model.

Our interviewees felt that this aspect of their model is generally working well with little expectation of change. When asked which functional areas presented a challenge to source credible providers, the most common answers were technology and go-to-market, perhaps reflecting the importance of sector or business model experience for each portfolio company making it harder to use a small-ish panel of providers for some funds.

▶ Value Creation Model Characteristics - evolving over the next 12 months

1. Pre-deal Involvement

One clear and unanimous direction of travel from everyone that we spoke with was

...that the Value Creation team is being used more and more on pre-deal activities.

In some cases that is to support an investment hypothesis with some targeted diligence support. In others, it is underwriting Value Creation initiatives pre-deal, designing Value Creation plans, or even going to Investment Committee (IC) as a member of the investment team on that particular deal and arguing for it. Some heads of teams have even mentioned that the Value Creation team has been key in winning deals against their competitors.

In any set up, it is good to see this is the direction of travel, as we see that more pre-deal involvement (so long as it’s not a huge overall % of the Value Creation professional’s time) creates greater alignment between investment team and Value Creation team. This increased collaboration should in the future lead to less concerns over Value Creation teams being “second class citizens” - a concern that we have heard a lot over the years. This direction of travel should only make it easier to continue to attract top talent into these roles, no matter your model.

2. Investment Committee Representation

Another positive trend we have witnessed (albeit still only for a minority of the funds we interviewed) is increasing direct IC representation for Value Creation teams. As Value Creation teams are increasingly important both for investment judgments and fund returns, it surely makes sense to have the experts have more of a say in which deals the fund should be pursuing.

Whilst the number of firms with the Head of Value Creation sat themselves on the IC is still very low, we have seen a clear trend of movement towards these teams reporting into an existing IC member (or often a founder/managing partner) and away from a more junior partner. Again, this suggests to us that Value Creation is a topic of increasing importance in investment decision making.

“We expect that Value Creation teams having IC representation (either through Head of, or reporting into an IC member) will soon become the norm.”

3. Rise of “Operating Advisors”

Almost every fund we spoke with used at least one operating advisor to support their full-time Value Creation team. The most common archetype for these profiles is a highly experienced professional, often having been through at least one Private Equity exit (sometimes in an asset owned by the fund they now advise).

When discussing the backgrounds of these advisors, most firms seemed happiest with the advisors that were deployed into the portfolio because of their functional spike, rather than their industry knowledge. These advisors are used more on an ad-hoc basis working on discrete projects in portfolio companies, and very commonly, are pulled into diligences of new platform deals, where their deep functional experience can help round out the investment case.

When asked why firms used these professionals and liked this model they cited the following reasons:

1. They want the functional depth in their Value Creation team, but they can't guarantee that a full-time employee will remain fully utilized across their portfolio, so having more flexible support seems the way to go.
2. Interestingly, even those that were extremely against charging portfolio companies for their services, had no problem charging back advisors (even if badged up with a company email address, etc), saying that it was a good way of increasing the coverage and scope of the team, without eating into management fees.

With fundraising challenges across the Private Equity industry, we expect that firms will continue to rely on a network of operating advisors to help the team scale, without the need to eat into (the potentially more constrained) management fees.

Firms were quick to point out that though this model is generally very helpful, there were some real frustrations felt when relied on too heavily. Namely:

1. Finding someone who has created wealth through a successful exit but still wants to get hands-on with portfolio companies and grind on a diligence, is a difficult task and therefore firms sometimes feel as though the value of these advisors can be more limited than they would like.
2. On the flip side, once a great advisor is found, firms also find it difficult to retain this talent, either because they struggle to fully utilise the person, so they move on to other things (given the relationship is often rather informal) or because the economic model of a “day rate/retainer” is often not attractive enough to keep these advisors fully engaged.

With almost every fund expressing an interest in continuing to use advisors or to increase the advisor pool over the next 12 months,

“...we expect a movement towards offering advisors more fund level economics over the next year...”

as we see this model used more and more successfully.

4. Career Development for Portfolio Operations

The Value Creation ecosystem has matured substantially in the past 5 years to a community of over 750 people in the UK alone. These professionals are ambitious, intelligent and driven, and almost always have come from a training ground where clear progression targets were a part of the job (such as management consulting, Big 4 advisory or investment banking). As such career development is fast becoming the number one challenge for those leading Value Creation teams.

Five years previously, when teams were smaller or just getting off the ground, the request when hiring was always “we want someone who wants to do this job for the rest of their career”, with hiring managers valuing stability and consistency. However, as these teams have grown,

“...it will clearly not be possible to build out a team and keep every employee happy...”

these ambitious professionals cannot all make Partner, especially in an environment where fund sizes are not growing.

With these issues in mind, we expect that firms will need to face up to the challenge of career development over the next 12 months or risk losing members of their team. By far the most common strategy discussed to address career development is to create a more permeable membrane between the Value Creation team and its portfolio companies, allowing fund employees to join assets and potentially even return to the fund in the future. The benefits of this approach are clear: the Value Creation professional can develop their skills in a portfolio company leadership position (often at a much earlier career stage than their Non-value Creation team peer group), and the fund can get a “person on the inside” who understands how the fund thinks and will bring drive and energy to the business’s transformation agenda.

However, though the talk is positive, the actions are less so, with only a very small number of firms actually able to point to this happening successfully, and with a much greater number having lost employees to other opportunities outside of their ecosystem. Turnover in an organization like a Private Equity fund is expected and even baked in, but without a more clear and transparent career development plan for the Value Creation ecosystem, we may see more people eschew the role for portfolio company leadership positions in the future.

We hope that these 12 characteristics can provide a framework for Value Creation leaders to evaluate their own models, and prompt discussion around future plans for hiring & working with advisors. If you would like to discuss any of these points or the supporting data, please contact the authors.

About the Authors:



Coppett Hill is a technology-enabled consultancy working with investor backed businesses to understand and transform Go-To-Market performance. We combine our senior team's experience as both operators and investors with proprietary technology to find insights and inspire change for our clients. We are privileged to work with some of the UK's most exciting and impressive companies across a range of B2B and B2C industry sectors.



Greco Advisors is a specialist Value Creation search firm. Greco was created to build a unified and consistent offering with our Private Equity clients - the pace and dexterity of interim management solutions, with the precision, rigour and expertise of boutique search. Our focus is on building Portfolio Operations teams within PE funds and then supporting those teams by providing access to a network of permanent senior executives and an ecosystem of interim managers and independent consultants.