APEX GROWTH STRATEGIES LLC
Management Consulting

Strategies for Profitable Growth

Thoughts on Value Creation

Strategic Planning

The Typical Five-Year Hold Period Always Goes Faster Than You Think

Highlights

#1: Real value is created by achieving scalable growth during the hold period – and – building a model such that the next investor can clearly see significant growth during their investment

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#2: Understanding your private equity investor is an important key to success … seems obvious enough

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#3: To achieve meaningful growth, look five years out and work back to today … working from today forward will yield incremental thinking

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#4: Ideas are usually not the problem … determining what will NOT be pursued can create as much value as those strategies you WILL execute

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#5: Ensuring the back-end of the business efficiently and effectively scales with the projected growth can be the difference between a good exit and a great one

Concepts for Your Consideration

Strategic planning. In the case of private equity ownership, I would argue the need for a clear, actionable plan is a key success factor. At the risk of appearing self-serving, I will offer insights which just might help you think differently about strategic planning in a private equity environment.

As we all know, the typical hold period for a private equity firm is five years; sometimes, it can be shorter or longer, but let's use five years as our starting point. When the goal is to more than 2X revenue and grow EBITDA and EBITDA Margin even faster in a five-year period, time matters. Here's a simple construct … one year equals 20% of the hold period, two years is 40%, etc. So, the faster you can identify and align your organization and Board against the drivers of value creation, the better. Five years will go by very quickly.

Consideration #1: The key to real value creation is building and executing a plan that supports long-term growth. Yes, doubling revenue and EBITDA during the hold period will result in strong returns for all key stakeholders. However, the truly excellent returns come when the next investor can see their way to doubling the business under their ownership. The world of private equity means there is going to be an event, but those companies that build their models to achieve both intermediate and longer term objectives realize the greatest returns.

Consideration #2: With a wink to all my private equity friends, here is a summary of their outlook for their portfolio companies … *"We love your business you have achieved so much there is so much potential ahead we are prepared to invest to support growth over time will you make the month?"* Yes, this is purposefully stated in one sentence without punctuation, but there is truth here. Within private equity ownership, it is important for management teams to deliver immediate-term targets as the foundation for earning the investment and confidence to take on longer term value creating initiatives. Said differently, the private equity game is always easier played from in front (of budget) than behind. Yet, the longer term is critical, too. This takes planning that strikes the right balance.

Consideration #3: In this macro environment, where many markets are mature and/or feature multiple competitors, delivering in-year targets is no small achievement. However, when it comes to strategic planning, the greatest success comes from putting aside today's view of the business, envisioning the next management presentations and outlining the story to be told that demonstrates how the past years' results were generated and scaled and how the path to future growth is clear. Simply stated, look five years out and work back to today to generate growth and operational strategies that will lead to significant value creation. Working from today forward will yield positive but more incremental approaches and results.

Consideration #4: For private equity firms which invest in companies with solid track records of revenue and EBITDA, generating ideas to drive growth is not usually the problem. With certain analysis and planning exercises, the ideas are most often abundant. The challenge is to size and prioritize those ideas. Then, decisions to *not* pursue certain strategies are the hardest yet most important to make. Building the discipline to invest in and execute fewer ideas while saying no to others always leads to better value creation results.

Consideration #5: Developing the growth strategies is the fun part of planning. However, if growth gets too far out in front of the company's ability to effectively support that growth, the business can be compromised. PE firms have invested in their companies because they have realized strong results by delivering on their customer promise better than the competition. Yet, as the growth strategies generate increased top line, realizing increased scale and therefore leverage throughout the P&L is necessary. Maintaining and enhancing high customer satisfaction as the business grows requires an equally thoughtful approach to scaling the operating infrastructure. Identifying profit improvement, IT/systems and human resources strategies that build on historical success but recognize the need for new approaches cannot be underestimated.

Summary

The old axiom that quality execution of a mediocre plan beats a superior plan executed poorly is indeed true. However, the right forward-looking plan, when combined with excellence in execution, is sure to lead to value creation and the results desired by all stakeholders.

About Eddie Binder Eddie operates Apex Growth Strategies (www.apexgrowth.com), a consulting firm which provides strategic planning to the portfolio companies of private equity firms. In addition to completing strategic plans for more than 100 companies, he sits on the Board of two PE-owned companies.

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