

Conquering the next value frontier in private equity

Find your path to future success

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Key takeaways

Competition is on the rise

3x

the number of private equity (PE) firms since 2010. PE firms will continue to raise and deploy larger amounts of capital, so we see increasing competition for assets and differentiation favoring firms that can handle more complex deal types.

Bigger interventions are needed

14%

increase in average hold time, requiring a longer runway to create and deliver more significant enterprise value that meets the return profile expected by investors.

Financial engineering isn't enough

75%

of efforts will focus on operational value creation according to PE leaders, including revenue, cost and cash, and other fundamental operating value creation levers.

Deal complexity is increasing

50%

of the PE leaders we surveyed say investing today is more complex than five years ago.

Portfolio companies have common challenges

Top 4

obstacles in driving value creation as reported by PE leaders are: agenda setting, broken operating models, effectively scaling operations and getting the talent aspects right.

Dive deeper or get left behind

3x

multiple on invested capital (MOIC) or beyond requires firms to start earlier and go deeper with: existing playbooks, additional operational interventions and new capabilities that accelerate paths to quicker exits and higher returns.

Diving deeper to find value

For private equity (PE), the world is arguably more volatile than ever before. An increase in buy-side competition, a finite supply of investible opportunities and an increase in cost of capital are all changing the investment calculus.

In this complex environment, PE leaders are finding that they must dive deeper to accelerate time to exit and deliver outsized returns. The days of “one-and-done” interventions are over. Firms are evaluating existing playbooks, and looking for new approaches and distinctive paths to deliver expected returns.

How exactly do they go about it? We asked 170 PE leaders what they see as the next value frontier.¹



An ever-shifting landscape

Despite global uncertainty, PE firms invested as actively as ever throughout the pandemic, completing more buyouts than they have at any other time in history. The past few quarters, however, delivered a new set of challenges.

Even with myriad disruptive forces, the industry did not slow down much. The PE space became more crowded, with a marked increase in both the number of active firms and assets under management (see Figure 1A).

Now, at nearly US\$1.3 trillion, dry powder for buyouts is still near its all-time high, making competition for assets fiercer than ever before (see Figure 1B). PE firms are competing for a smaller pool of targets that can be polished by conventional value creation levers like procurement, quick cost takeouts or other tried-and-true interventions.²

Over the past few months, however, the traditional investment model of debt-to-equity has been challenged by a rapid rise in the cost of capital. Last quarter saw under US\$20 billion in LBO-related debt issued, a total even lower than in the second quarter of 2020 when the pandemic struck the marketplace.³

This impacted not only new debt, but also the ability to refinance at close to the same rate as before and the ability to complete recapitalizations on favorable terms. PE firms have therefore recently been forced to rethink their mix of cash-to-debt. The implications of this, as well as the need to protect and drive fund performance, are forcing PE to look for new ways to create value in both existing and acquired assets.

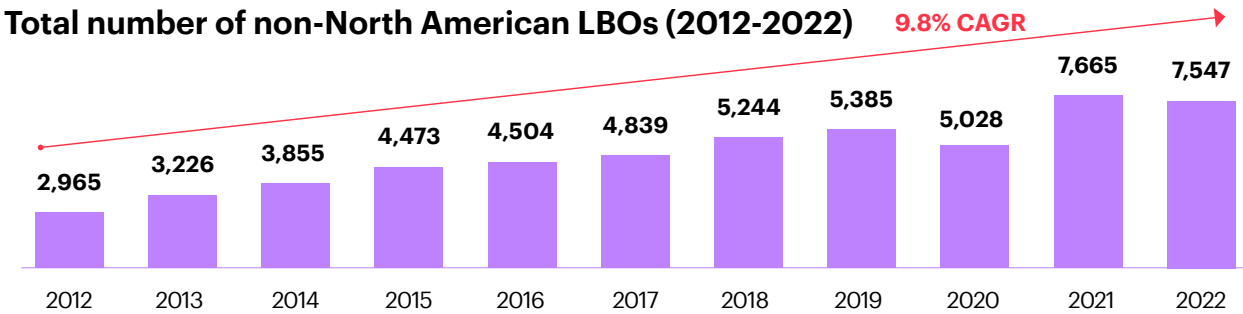
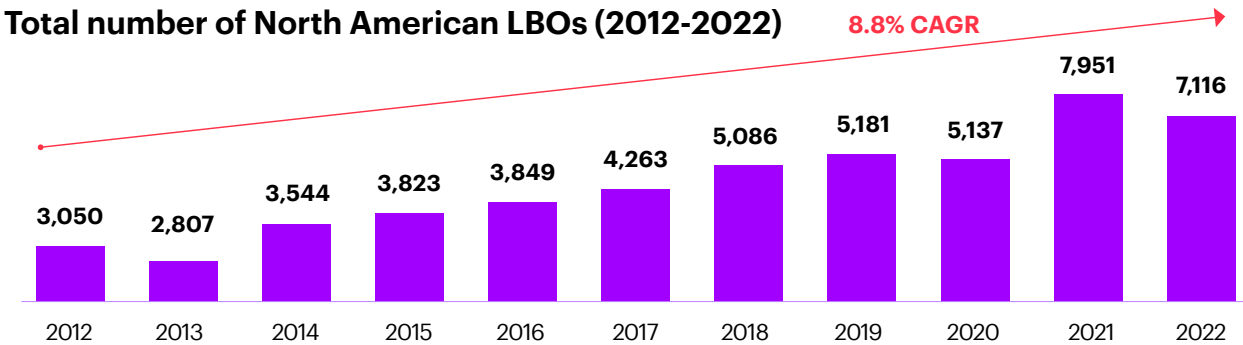
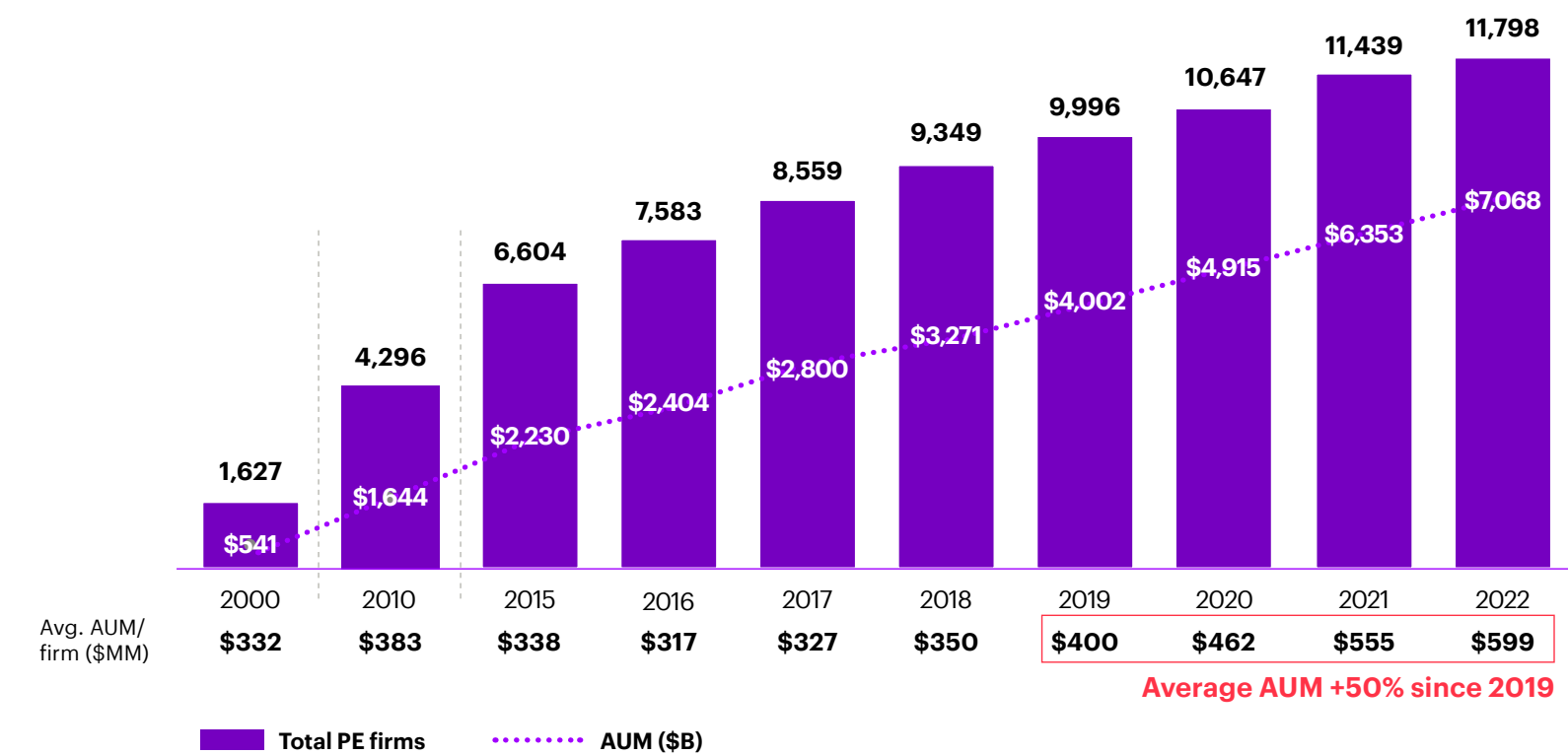
“The growth of investible assets has not increased at the rate of capital that’s in the market chasing those assets. This means there’s more competition to buy great targets and it’s harder to make returns on those targets.”

Operating partner, top 10 US-based PE firm.

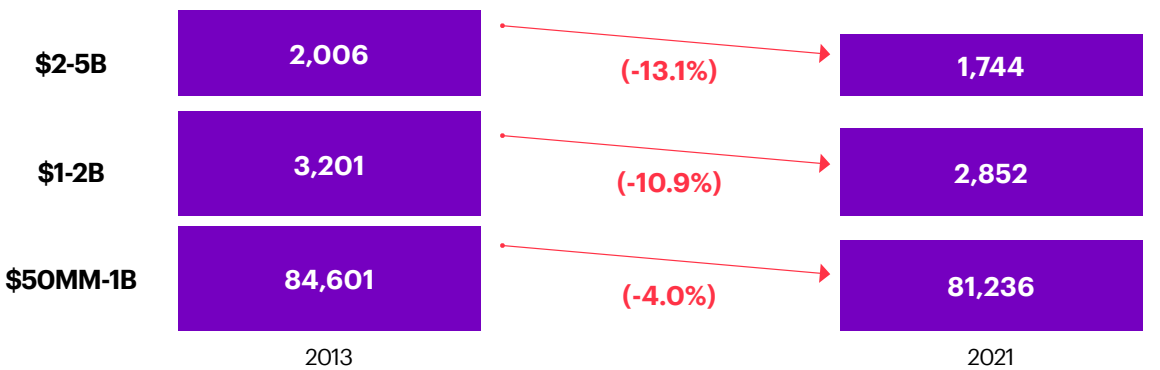
Figure 1A:

The PE industry is more crowded and competition for assets is fiercer than ever before. This is leading to higher prices, which results in a need for more operational value creation.

Total active PE firms and assets under management (\$B)



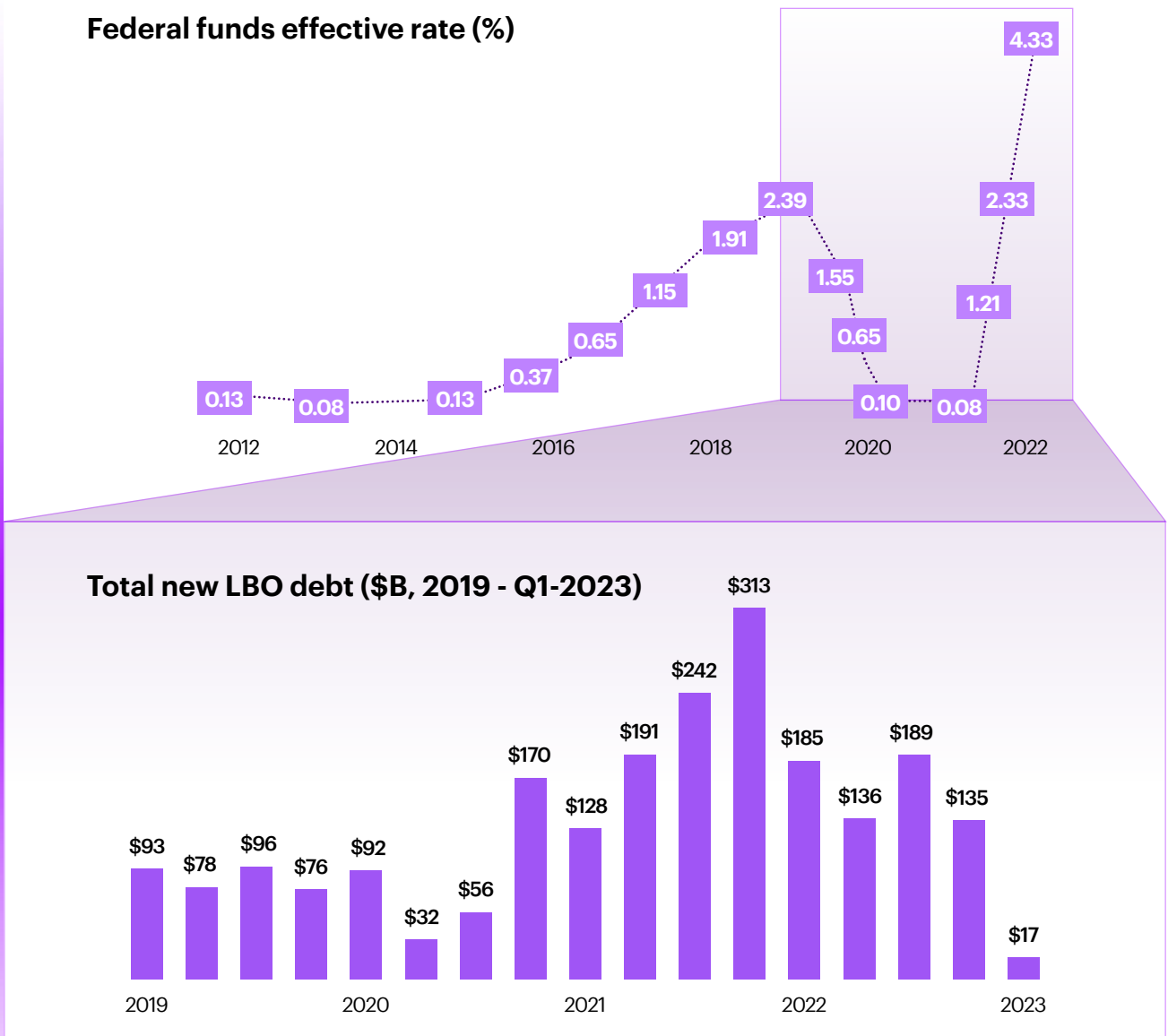
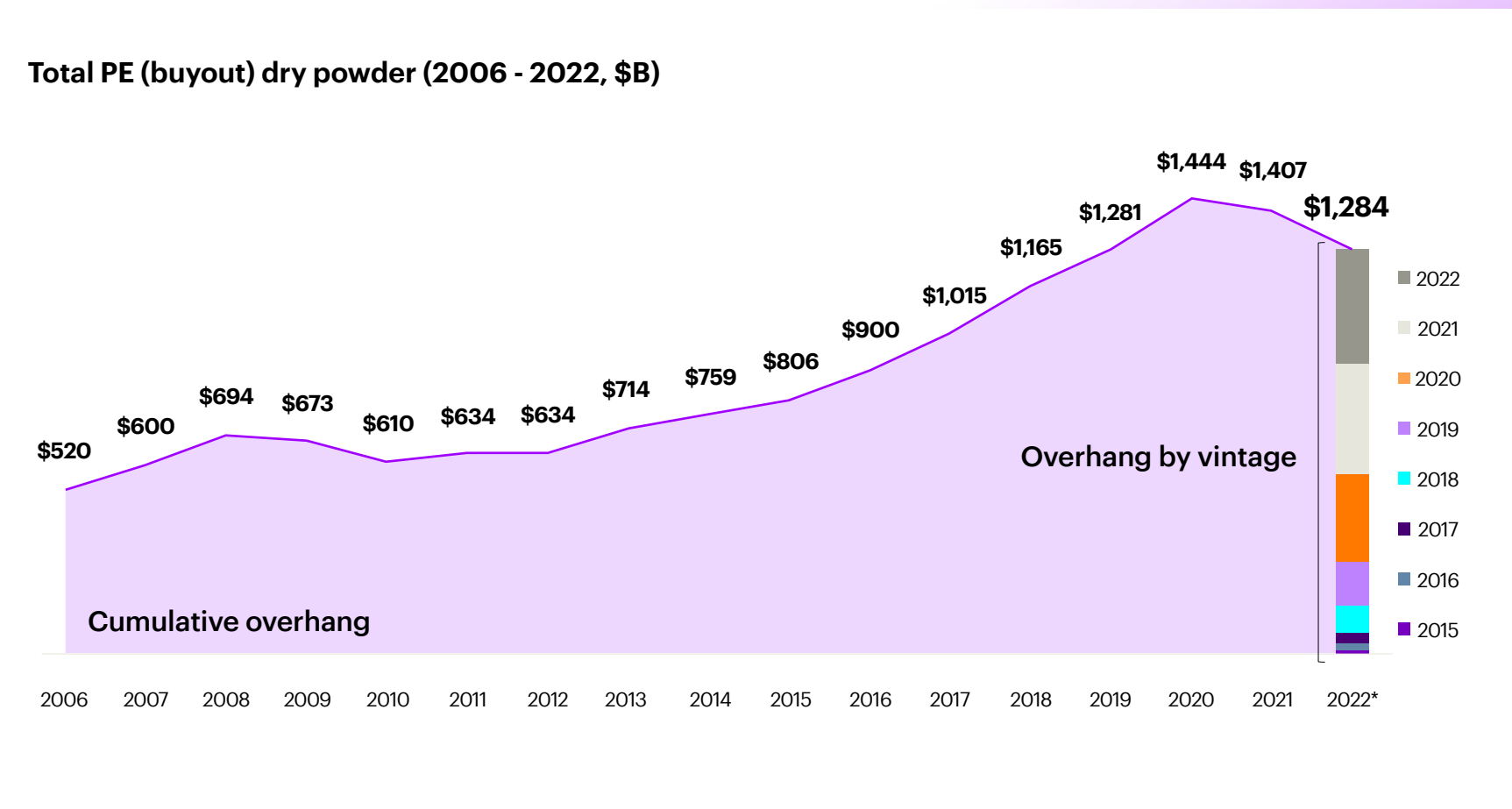
Number of non-North American private companies by revenue (2013-2021)



Sources: Preqin, PitchBook, S&P Capital IQ, 2023. Total number of private companies by revenue includes Europe, Asia Pacific and other markets where available.

Figure 1B:

PE firms need to drive outsized returns to meet their fiduciary responsibilities. The headwinds due to underwriting, cost of capital and availability of assets are making this harder.



Sources: PitchBook, FRED Federal Reserve of St. Louis, 2023. *Through Q3-2022.

We know PE firms can succeed in tough environments, but we have never had this many firms and this much dry powder navigating a period of heightened macroeconomic and competitive pressures.

Leaders acknowledge these difficulties. Half of those surveyed think PE investments have become more complex in the past five years.

In this environment, new mechanisms to drive value will be required to continue to deliver outpaced returns to limited partners and meet fiduciary responsibilities.

50%
of surveyed leaders say
PE investments have
become more complex





Moving into new territory

In a shifting landscape, successful outcomes require targeted and hands-on approaches. PE is evolving in response.

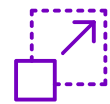
“Every deal I’ve been part of used to be all about synergies. Now, I’m increasingly focused on add-ons to drive top-line growth: products, experiences, new geographies and cross-selling.”

Partner, mid-market PE firm.

We see PE firms gravitating toward two main paths to investment value. Doing either successfully means adopting new strategies and driving operating model changes.

01. Driving scale:

Ignite new customers, products, geographies and capabilities



Hyper-growth scalers:

The value in these companies lies in continued growth expansion. Revenue is increasing well ahead of the competition, but can the operating economics and supporting operating platform sustain these growth rates?



Bolt-ons / tuck-ins:

The value stems from the acquisition of talent, technology, product features and other capabilities at a faster pace than building internally. They often accelerate go-to-market motions, yet can you find the right ones and integrate them effectively to maximize value?



Merger of equals:

With a merger of two companies of about the same size and operating in the same industry, abundant scale and synergy opportunities exist. But will the operating model, culture and talent evolve quickly enough?



Carve-outs:

These legacy business units often suffer from underinvestment, leaving operational and technological weaknesses. With the right approach, this can be an opportunity to unlock value trapped in their previous corporate owners. But can you disentangle and right-size the new operating model quickly enough to get to sustainable independence?



Multi-traded assets:

The easy operational value wins—from procurement and SG&A cost reduction programs—are likely already realized by prior sponsor owners. You're typically buying a successful business. Can you improve the deep fundamentals to drive further value?

02. Tackling complexity:

Take on what others won't

“Our firm views carve-outs as a means to find an undermanaged opportunity. The complexity of the carve-out reduces the competitive set of the deal, which should hopefully lead to better returns.”

Principal, large UK PE firm.

PE firms of all sizes expect an increase in volume for each of these deal types in the next five years. Consequently, as the deal mix skews to more complex transactions, PE firms are holding their assets longer, at an average of 6.6 years—a 14% increase compared to ten years ago.⁴ This creates a longer runway for more fundamental operating model interventions and greater value creation.

Such fundamental operating platform rewiring is new territory for many investment and operating professionals. Yet, they are critical for meeting investor expectations and continuing to generate outsized returns. Twice as many PE leaders (71% vs 35%) report that they will be looking to make deeper interventions in their portfolio companies in five years compared to today.

With deal complexity increasing, PE firms are holding their assets on average

14% longer

Greater speed through shared capabilities

Shared capabilities can increase the speed at which a firm can drive comprehensive value creation across the portfolio. We are helping one global PE firm build a portfolio cybersecurity function from the ground up, benefiting the companies it invests in.

Working together, we have created a strategy that helps its portfolio companies identify and protect against cyber risks, and detect, respond to and recover from cyber incidents. We provide 24/7 monitoring and incident response through our Security Operations Center for the portfolio companies, have defined and implemented security and privacy policies, and upskilled their teams. The firm and its portfolio companies now have the technology, skills and support to protect operations, sensitive data and intellectual property, today and in the future.

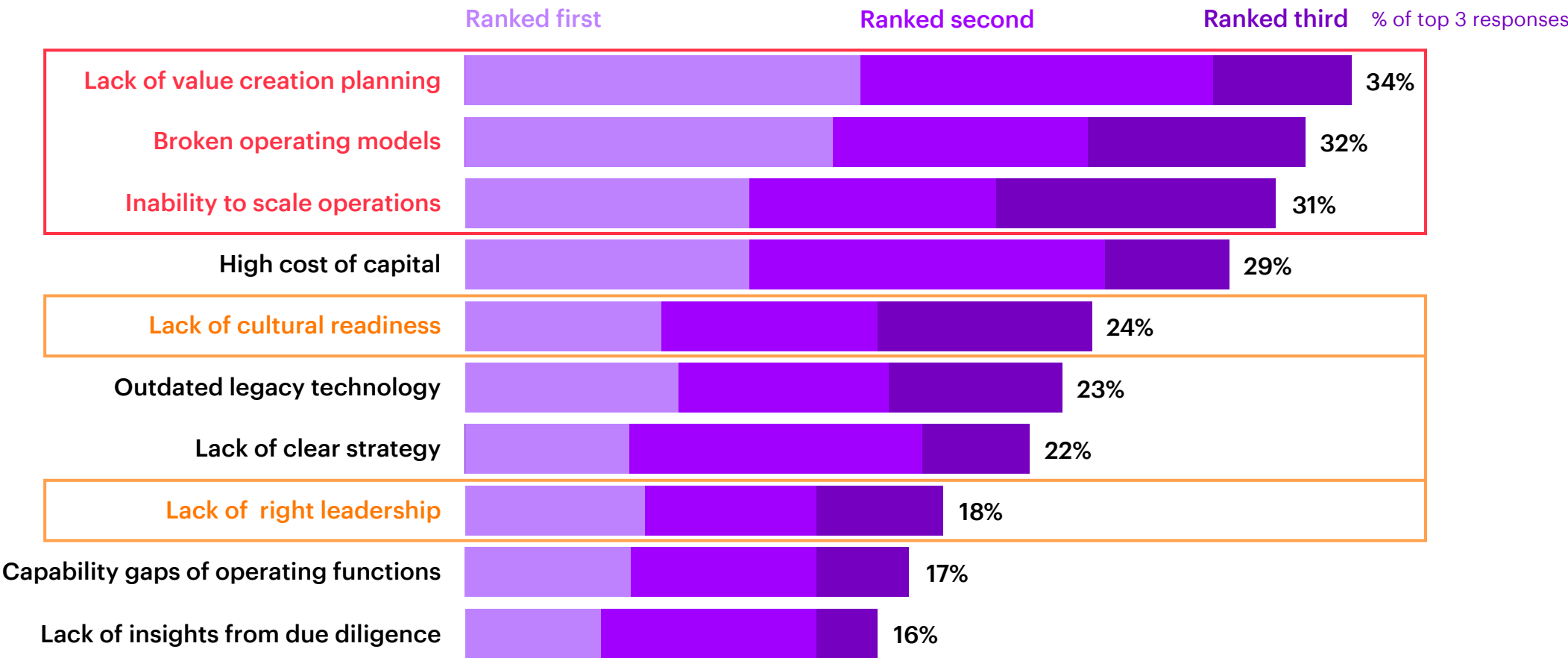


The obstacles ahead

PE leaders see a common set of challenges with their portfolio companies that require new models. The biggest obstacles? Setting the agenda and getting the operating model and platform to deliver against the higher performance ambitions of the deal thesis.

Figure 2:

Proper planning, operating models and scalability are the most common challenges to overcome in portfolio company value creation. Leaders also acknowledge the role of talent.



Source: Accenture Strategy, Private equity: next approach to value creation research, 2023.

When we surveyed PE leaders about the most difficult issues to overcome, clear themes emerged. The biggest challenges: a lack of value creation planning in their portfolio companies, broken operating models, an inability to scale operations and the high cost of capital (see Figure 2). PE leaders also acknowledge the significant role that people play in value creation, both in terms of cultural readiness and having the right leadership.

The challenges listed are significant and PE firms are unlikely to achieve the desired returns if they remain unsolved. That’s the downside. The upside? These problems are solvable with the right approaches.

Leaders recognize that financial engineering is only the first step toward generating value and will account for just 25% of their efforts. They believe the remaining 75% should focus on operational value creation.

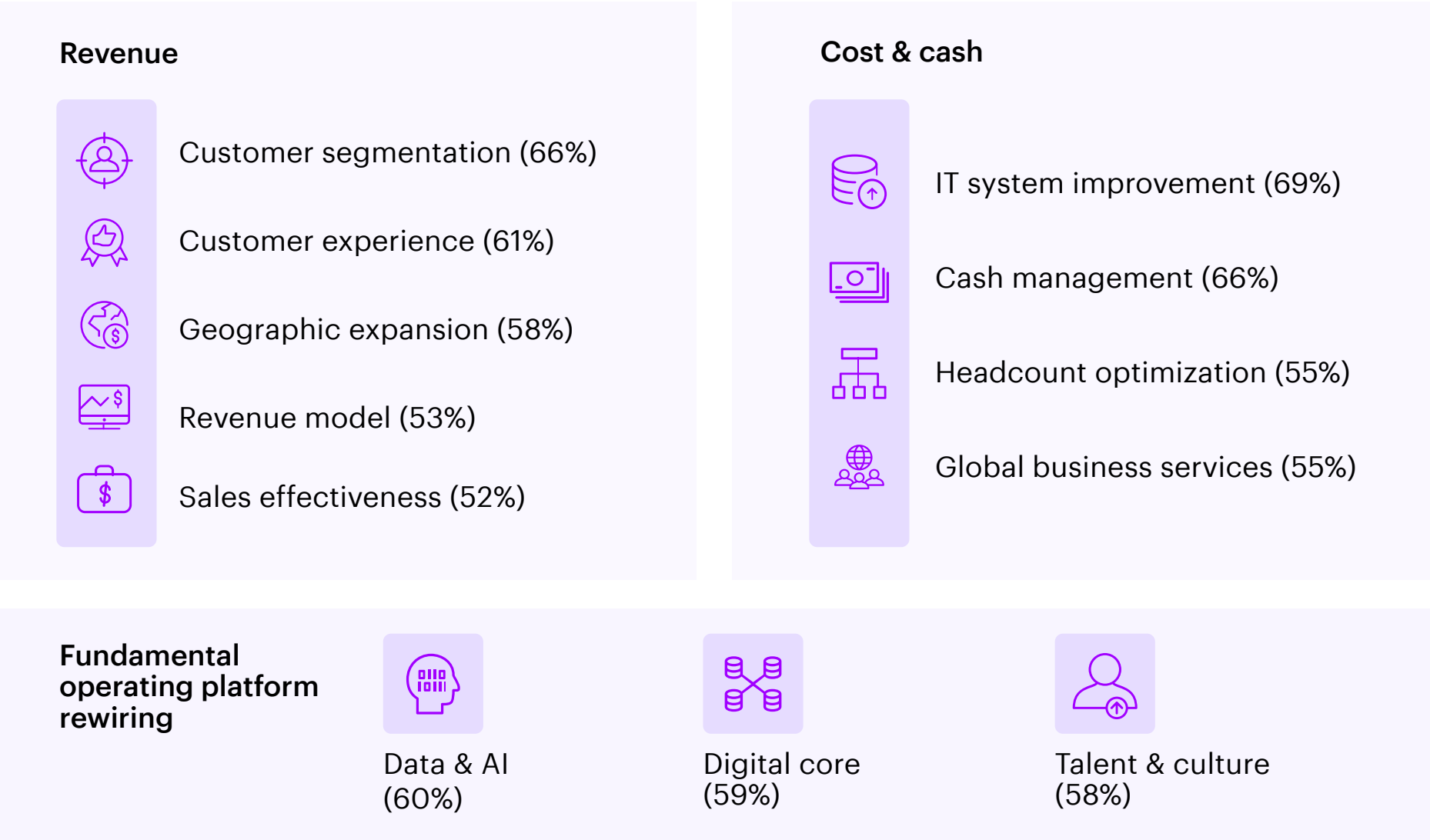
We tested 31 unique operational value creation levers and found that the more traditional cost, cash and revenue levers are still king, making up three-quarters of the most often used levers (see Figure 3). Meanwhile, the data suggests that more difficult and deeper fundamental operating platform levers are underutilized and make up the majority of the least frequently used drivers.

Investment and operating partners understandably tend to choose levers where their firms have track records of success and avoid ones they view as higher risk, more operationally difficult, slower to deliver or requiring competencies they don't yet have. We looked at both the frequency and difficulty of all levers and found a moderate correlation: levers used more often tend to be less difficult, and vice versa.


This makes sense in how firms develop their value creation toolkits and repeat these interventions over time. But while it is natural to lean toward proven measures, it also limits agility and the ability to branch out into new deal types and industries. In short, this approach leaves money on the table.

Figure 3:

Of the 12 value creation levers used most often by PE firms, just three drive toward fundamental operating platform rewiring.



Source: Accenture Strategy, Private equity: next approach to value creation research, 2023. Percentage of respondents using lever for most deals.

A group of five people are silhouetted against a vibrant night cityscape. They are standing on a high vantage point, looking out over a harbor filled with shipping containers and cranes, with a dense urban skyline in the background. The scene is illuminated by the warm lights of the city and the cool blues of the night sky.

“There are many ways to do this game. Digitization is relevant to lots of different companies. There’s also a lot to like with data. It’s getting more complex, but with the right tools it can be powerful.”

Principal, large UK PE firm

ESG: sustainable investments, sustainable returns?

Despite an increased focus on environmental, social and governance (ESG) in industries around the world, it is only now emerging in more standard toolkits for operational value creation. There is more attention today for ESG reporting and intervention, but the frequency of implementation of such interventions varies widely by geography. While ESG as a value creation lever ranked among the ten least used levers by PE firms globally, **when taken for EU respondents only, it ranked in the upper half.**

ESG is clearly a critical emerging theme for the PE sector. There has been more and more hiring of specialists and partners. Increasingly, limited partners are requiring disclosures and looking for ESG to be part of planning.






PE firms pushing for a multiple on invested capital (MOIC) beyond 3x likely will need to combine levers that have been historically proven with a wider range of operational approaches. Most leaders reported using modular operating platforms—independent, discrete capabilities or technologies that can be “plugged and played”—in some parts of their business. They believe such solutions create strong benefits for time to and value at exit (see Figure 4).

Shared capabilities at the PE firm level are also beginning to be embraced by many firms. What is somewhat surprising: only a minority of leaders employ other approaches they identify as delivering value creation at almost equal levels: pre-configured solutions, capabilities-as-a-service and the outsourcing of non-core functions. Incorporating these new approaches and executional paths more often can bring significant benefits to hold times and value at exit.

Figure 4:

Most firms report using modular operating platforms and shared capabilities for value creation.

Much fewer employ pre-configured solutions, capabilities-as-a-service, or the outsourcing of non-core functions. This is despite reporting material benefits to hold times and value at exit.

Approach		Firm usage	Exit time benefit	Exit value benefit
	Modular operating platforms: building blocks of technology and activities to achieve ops goals	67%	+10.0%	+10.0%
	Shared capabilities at firm level (e.g., financial reporting, cybersecurity operations, ESG tools)	58%	+9.1%	+10.1%
	Pre-configured solutions: turnkey, pre-packaged applications for company use	32%	+8.3%	+9.7%
	Capabilities-as-a-service: sourcing/management of specific capability or function (e.g., analytics)	19%	+6.6%	+8.9%
	Outsourcing non-core functions: majority of a function managed and staffed externally	14%	+8.6%	+10.0%

Source: Accenture Strategy, Private equity: next approach to value creation research, 2023.

Positioned for growth

We are working with a large global private equity firm to accelerate the growth strategy of one of its portfolio companies, a billion-dollar consumer goods brand.

Through our managed services capability, we will implement a scalable, agile and cost-effective management model for its hundreds of applications, from customer service to sales enablement. And design a new sales strategy and payment structure to expand the brand’s e-commerce and direct sales channels. Together, we will help improve total operational costs, positioning the brand for growth in both established and new markets.

The lessons from corporate reinventors

Through our work with global corporate clients, we see a handful of companies quietly and systematically changing the game. They are the “Reinventors,” embracing what we call Total Enterprise Reinvention as a deliberate strategy that aims to set a new performance frontier. Centered around a strong digital core, it helps drive growth and optimize operations (see Figure 5). The goal: to reinvent over time every part of the company, using ways of working that establish a culture and capability for continuous reinvention.

These Reinventors report higher incremental revenue growth, cost-reduction improvements and balance-sheet improvements. What is more, Reinventors report delivering 1.6x more financial value in the first six months of their transformation program compared to more traditional “Optimizers.”⁵

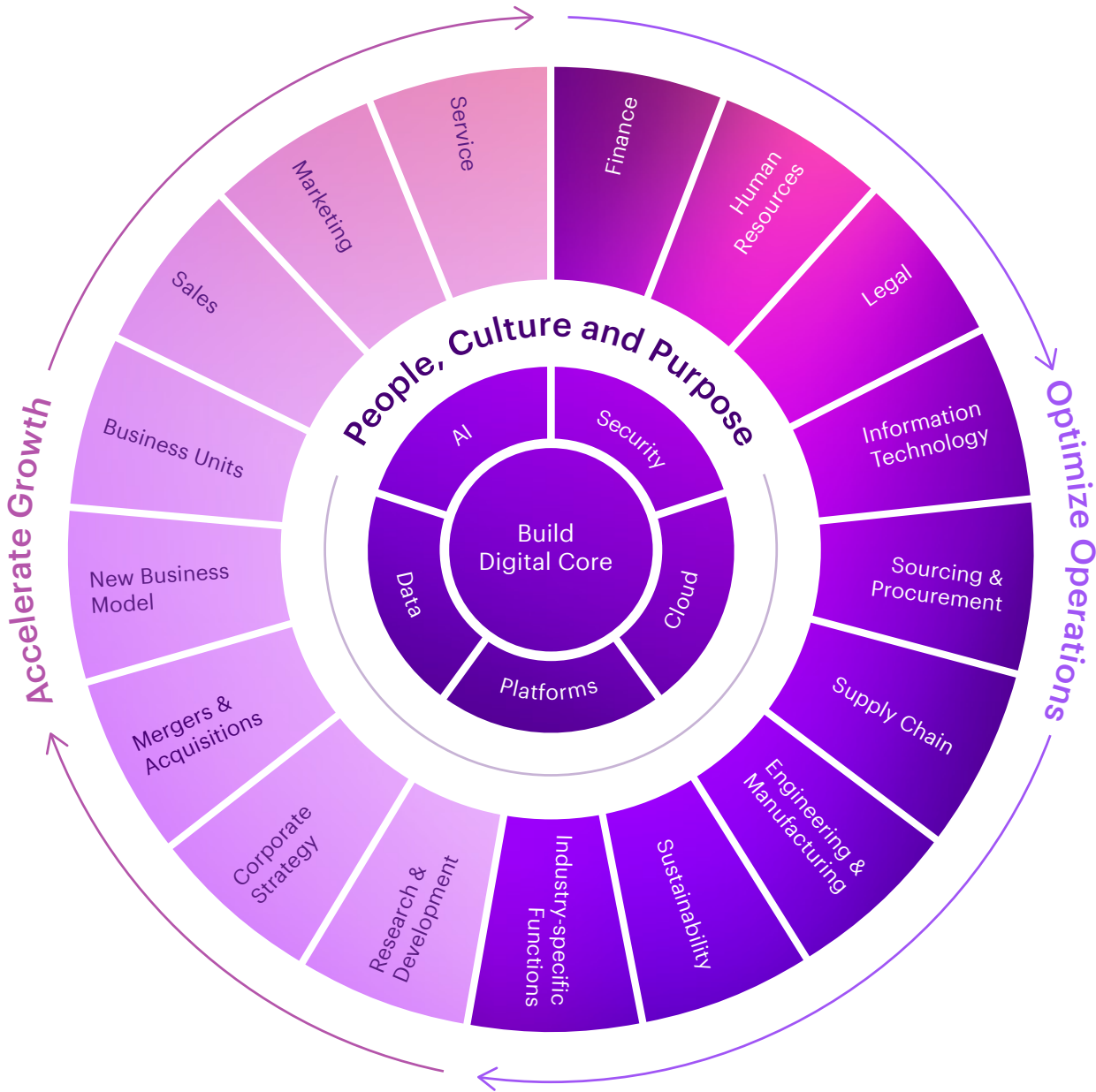
There is a subset of PE-backed transactions where owners aspire to realize end-to-end reinvention. These owners can learn from Total Enterprise Reinvention to drive comprehensive change in a compressed timeframe and accelerate value creation. Making portfolio companies more “reinvention-ready” can boost their resilience, potential for growth and value at exit.

Corporate Reinventors report delivering

1.6x

more financial value in the first six months of their program

Figure 5: **Total Enterprise Reinvention**



Source: Accenture, Total Enterprise Reinvention, 2023.

Value creation is a team sport

Firms that embrace concepts of reinvention—in terms of the types of playbooks that drive deeper and earlier intervention—will vie to be leaders in the race for outsized returns.

Deal partners and operating teams must work together to identify new interventions that impact ROI, time to and value at exit. They will require new operating model approaches and third-party partners to combine speed, knowhow and operating muscle across a variety of disciplines.



As an industry, private equity has always demonstrated an extraordinary ability to adapt, and that's what limited partners are looking for when choosing investment partners.

As part of our research, we looked to uncover commonalities leading to exceptional financial performance in PE-backed companies.

Since annual financials are not available publicly for most private-to-private transacted portfolio companies, we examined more than 800 PE-backed companies that went private-to-public from the start of 2017 to the end of 2022.

Across these IPO companies, we found 125 that **achieved above peer profitability and growth** both one year prior to listing, and the year of listing. They also outperformed the broader public equity markets (MSCI World Index) by 4.18x and other PE-backed companies that went public by 6.33x in their first six months of trading.⁶

From this cohort that led in performance, we saw four themes emerge:⁷

01. Moving out of the comfort zone

As deals become more complex, leaders are expanding their toolkits by embedding more fundamental operating platform rewiring and employing new value creation approaches. This doesn't necessitate discarding current tools. Those interventions help make the investment case. Rather, it is about expanding at speed by being eager to work in less insular ways.

Our survey revealed that a lack of open ecosystems and technology partners is the number one roadblock to value creation in technology, data and AI. Leading value creating firms are able to partner more, engaging in 1.40x more investment partnerships, 1.25x more research partnerships and 1.21x more competitor partnerships.⁸

02. Investing for future growth

To support innovation and growth, firms need to invest in building new capabilities and capacity. For asset-heavy industries, this means investing more in capex to augment capacity. For asset-light industries, it means investing more in intangibles like patents, trademarks and other intellectual property. The two years prior to listing and the year of IPO, leading value creating firms consistently invested more in these areas as a percentage of revenue, scaled growth and created new revenue streams.⁹

03. Putting technology at the core

Two fundamental operating platform rewiring levers that leading value creating firms put to use more regularly are the digital core and data/AI. This is indeed needed as 80% of corporate executives across industries say their organization is not fully leveraging data and technology in critical areas of the business.¹⁰

To unlock the full value of these levers at portfolio companies requires an operating model designed with data and technology at its core. Such tech-powered operating models support change that is broader and faster than ever before and enable continuous, dynamic reinvention. We see leading value creating portfolio companies grow their technology investments much faster than other PE-backed companies, increasing their tech spending even through their first year of public listing. Leaders also focus on hiring more technology talent in their first year of trading, increasing job postings in that area to support their initiatives in digital and data/AI.¹¹ Finally, leaders can help ensure cyber threats are not an impediment to value creation by improving the portfolio company's cybersecurity capabilities.

04. Doubling down on talent

Improving the operating model, change management and driving future growth demand strong leadership and talent at both the PE firm and portfolio company level. PE leaders cited lack of cultural readiness as the fifth largest obstacle to value creation. Operating teams can ask themselves: do we have the right people in place to manage bold moves? Is our culture adapting to meet the evolving needs of our workforce? And how can we create an environment that fosters employee productivity, effectiveness and well-being amid uncertainty? Emphasis should be placed on communicating the benefits and opportunities an acquisition—and further company reinvention—can bring to the workforce.

A reimagined IT landscape

We have been working with a global investment firm to design and implement a new IT landscape for a leading beauty company. In just 14 months, we helped untangle the brand's global platforms, operations, infrastructure and business practices from those of its former parent company.

Our work covered all global and local applications and all systems in factories and distribution centers. We de-duplicated processes and built APIs to connect the marketing and e-commerce solutions so the beauty company could gain real-time data for improved business insights and personalized customer interactions.

We are continuing our partnership with the brand to drive cross-functional business and operational improvements that deliver targeted outcomes for the company's new owners.

“Talent is a huge value creation lever. The simplest version of that is find-attract-incentivize, but there’s a lot that’s relevant now around managing the modern workforce. It’s a skillset that’s not well understood out there.”

Operating Partner, top-10 US PE firm



Conquering the next frontier

Our research shows how PE firms, grappling with unprecedented turmoil, are evolving their approaches to reshape their portfolio companies more profoundly than ever before.

As they apply proven interventions, they must also embrace new approaches and execute an expanded set of fundamental operating levers to generate outsized returns. Investing in future growth, leveraging ecosystems, and doubling down on technology and talent, have all shown to be signposts on the path to the next value frontier.



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1. Unless indicated otherwise, all data findings mentioned are based on our 'Private equity: next approach to value creation' survey.
2. Preqin, PitchBook, S&P Capital IQ.
3. PitchBook.
4. PitchBook. Average hold time for PE assets acquired via LBO and exited in 2012 vs. 2022.
5. Accenture, Total Enterprise Reinvention, 2023.
6. PitchBook and S&P Capital IQ, 2023.
7. For methodology details refer to "About the research: Analysis of outperforming PE-backed IPO companies" section.
8. Factset, 2023.
9. S&P Capital IQ, 2023.
10. Accenture, The tech-powered operating model, 2023.
11. IDC (tech spend), Lightcast (job postings), 2023.

About the research

The findings in this report are based on the following research streams:

Private equity leaders survey: Accenture surveyed 170 private equity leaders from North America (55%), Europe (34%) and Asia Pacific (11%) who engage in strategy and execution for portfolio companies between January and April of 2023. The sample covered PE firms of US\$100B+ (15%), of US\$50-99.9B (19%), of US\$25-49.9B (16%) and of US\$5-24.9B (50%).

Interviews and case studies: We conducted expert interviews with external private equity and internal Accenture specialists. This was complemented by desktop research for case studies.

Secondary research: Accenture analysis based on the following data sources: Factset, IDC, Lightcast, PitchBook, Preqin and S&P Capital IQ.

Analysis of outperforming PE-backed IPO

companies: We identified 808 companies (with consistent data sets) that were backed by PE and went private-to-public from the start of 2017 to the end of 2022 based on PitchBook data. Based on outperformance in revenue growth and EBITDA margin for t-1 (one year prior to listing) and t (the year of listing) period as compared to peer set average, we identified 125 leaders and 683 other companies. We also evaluated the market performance of the 808 companies comparing their rebased total returns to MSCI World Index performance sourced from S&P Capital IQ. We then compared those two groups along four dimensions using available 2023 data from external sources for periods t and t-1 (when applicable): 1. Partner ecosystems (Factset), 2. Technology spending (IDC), 3. Job posting data (Lightcast) and 4. Financial performance (S&P Capital IQ). This analysis provided distinctive characteristics of the leaders versus the other companies.

How we can help

Accenture Private Equity partners globally with PE clients across their investment life cycle. We provide end-to-end services that span due diligence and deal support, transition and transformation planning, as well as portfolio company value creation, using proven solutions underpinned by digital and technology. In addition to supporting the investment life cycle, we help PE firms reinvent the ways they create value through scaled portfolio capabilities, shared services and access to leading ecosystem partners.

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