

Transaction Planning and Execution

NAVIGATING THE NEXT WAVE OF PE GROUP EXITS



MARKET DYNAMICS

Longer hold periods attributable to higher interest rates and lower achievable valuations have created a significant transaction backlog for private equity groups. This backlog is expected to drive increased deal activity in 2024.

7 year

Average hold period for buyouts in North American PE funds¹

26%

Decrease in aggregate value derived from U.S. PE exits in 2023 versus 2022²

18%

Decline in U.S. PE multiples in 2023 versus 2021 peak²

The average hold period for buyouts in North American PE funds hit 7.1 years in 2023, the industry's longest since 2000. Contributing to this have been higher interest rates which, with inflation still above target levels, the Fed is reluctant to cut too quickly.

At the same time, strong fundraising in recent years has left PE groups with plenty of dry powder to put to work. Sponsors have been doing so with bolt-on acquisitions where financing is feasible and opportunistic carve-outs where they can take advantage of corporates' renewed focus on core competencies.

These market dynamics resulted in tempered portco valuations and fewer exits in 2023 but signal a potential increase in transaction activity in 2024 as PE groups harvest gains.

THE CRITICAL ROLE OF INTEGRATION/SEPARATION MANAGEMENT



In the coming wave of PE group transaction activity, differentiated strategies and investment themes will often win the day and potentially offer the highest returns. Successful transaction planning and post-transaction integration/ separation will be key to realizing targeted returns.

ELEMENTS OF SUCCESSFUL INTEGRATION/SEPARATION

Successful companies will anticipate challenges, drive toward completion, and establish robust governance.



Build a Transition Services Agreement

- Design and negotiate services, and report to leadership and sponsors
- Mitigate unexpected or stranded costs
- Reduce the risk of overextending people and resources

Evaluate Processes and Technology

- Inventory and automate manual activities across back-office
- Select technologies that best serve the organization
- Ensure quality and accuracy of financial and operational data

Establish a Finance-Centric Management Office

- Act as a central mechanism to drive change and prevent disruptions
- Provide oversight, visibility, and guidance for all initiatives
- Ensure continuity in forecasting, AP, AR, and treasury processes

Align Performance Metrics, Reporting Mechanisms, and Stated Goals

- Bring together the PMO, leadership team, and sponsors
- Ensure performance metrics address integration/separation budget
- Incorporate synergy tracking into ongoing financial reporting

Develop Operating Model and Engage Team

- Standup an operating model that aligns with company strategy
- Communicate and engage in change management
- Train the go-forward team and transition responsibilities

1. Source: Preqin 2. Source: PitchBook