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# *Five key benefits of building a value creation plan early in the deal lifecycle*

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As high valuations and competitive pricing continue to dominate the deals landscape, private equity (PE) firms are looking for more—and more effective—ways to create value. In this climate, the importance of developing a differentiated value creation plan reflecting the full potential of the business early in the deal lifecycle cannot be overstated. A value creation plan is an enterprise-wide look at how the target business can be improved, quantified in terms both of potential value creation upside, as well as over time, and of the cost to realize that value. Value creation plans reflect a holistic view of the specific and prioritized set of initiatives or key actions—the capabilities, gaps, internal and external resources, clearly defined accountabilities, operating and financial metrics, and the governance framework—that will be required to make the necessary improvements to realize the asset’s full potential.

It seems like a simple enough idea. After all, who would construct a building without a blueprint? Whatever the asset size, industry, or sector, there is no substitute for evolving a 360-degree view well before the closing the deal, with Day 1—however close or distant—on the horizon in order to put together a winning bid.

***There are at least five key benefits to be derived from developing a value creation plan early in the lifecycle of a deal. Early planning around potential sources of value can help you to:***

- 1. *Proceed with confidence*** – Developing an investment thesis with a clear and comprehensive understanding of the value creation drivers helps PE sponsors arrive with greater confidence at a decision about what they can realistically pay for an asset. A good understanding of how to allocate capital and resources to create sustainable value can be an important factor in determining the upper limit of what an investor can bid. Moreover, basing this figure on a thorough, detailed assessment of what will be required to improve performance may help with financing. Lenders appreciate a thoughtful, meticulous approach to investing, including third-party validation of the potential value drivers of operational performance improvement.
- 2. *Establish a strong foundation*** – Early involvement helps set the foundation for building strong relationships with the management team is critical to long-term value creation. Developing a value creation plan early in the deals process can help to clarify the potential challenges and the complexities around organizational structure and help investors begin to build trust with the existing management team, or, as may be necessary, with a new one. Laying the groundwork for effective relationships early in the process may pave the way for navigating the nuances and intricacies of change management down the road. Additionally, a detailed value creation blueprint, coupled with key operational and financial metrics for periodic reporting, helps the portfolio company’s management and staff facilitate successful execution.
- 3. *Ask the right questions*** – One of the most significant aspects of developing a value creation plan early in the process is the impact such a plan can have while in development on the process itself. Due diligence is, arguably, one of the most complex and challenging steps in the deals process. PE investors who have an initial investment thesis about the target asset before embarking on the diligence journey may have a clearer view of the specific information they will need from the seller in order to understand and assess the potential levers and opportunities for value creation and the associated investment. During the due diligence process, sellers may limit the amount or types of information provided to investors. While working with an experienced and trusted advisor can certainly be beneficial at any and every point in the deal lifecycle, having professional advice and assistance here may be especially useful. An experienced advisor can drive the conversation forward aggressively with sharp attention on the specific issues that contribute to development of a strategic, informed value creation plan, including identification of key low-hanging, the near-term improvements that can fund a portion of longer-term transformation initiatives. At the same time, an investor the seller perceives to be serious and methodical may help in obtaining the most relevant information.
- 4. *Move ahead to create value starting on Day One*** - Investors who excel at value creation never want to lose a single day. They’re in value creation mode long before the deal is signed and the funds cross the wire, and on Day 1, with a plan in place, they’re prepared to begin creating value from the get-go with relentless focus on execution, which can include:
  - *Negotiating contracts with suppliers* – A PE firm could begin on Day 1 to take costs out of the business by renegotiating contracts for materials, supplies, and services. They may be able to leverage existing relationships with vendors with potential for impact across their portfolio companies. It may be possible to take advantage of economies of scale around technology contracts, for example, or with the providers of employee benefits, as well as with other types of contracts.

- *Implementing changes to organizational design* – To whatever degree restructuring will be necessary, PE sponsors can begin to implement changes more assertively on Day 1, mitigating some of the challenges associated with a protracted period of transition in leadership.
- *Optimizing the product portfolio* – Investors may be able to announce their plans on Day 1 for discontinuing a product that is underperforming or the decision not to pursue an opportunity no longer aligned with the core business. The ability to implement these strategies on Day 1 can have a significant impact on performance, as well as on evolving product and go-to-market strategies.

Evaluating strategic add-on acquisition targets, improving working capital efficiency and cash flow management, driving salesforce and service operations, key technology upgrades to enable operational efficiency, and manufacturing and facilities footprint optimization planning are other significant areas for short-term action that can benefit from Day-1 readiness.

**5. *Map a Realistic Exit Strategy*** - Developing a value creation plan early in the deal lifecycle helps investors map an exit strategy in any time frame—short or long— to realize an asset’s full potential. A value creation plan sharpens the PE investor’s viewpoint of the path to exit and the steps it will take to get there.

Developed early in the lifecycle of a deal, a value creation plan serves as a strategic blueprint to guide everything from diligence, to Day 1, to exit. A holistic view of the levers, both strategic and operational, with the potential to create value can help set, and maintain, the course for success.

***For a deeper conversation, please contact:***

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