The Complex Journey of a Private Equity Fund

A guide to understanding the decade long investment journey from identifying targets to crafting successful exit strategies.

Private Equity is an intricate world where fund managers embark on a journey that spans a decade. While the typical Private Equity fund lifecycle is around ten years, it can extend as long as 15 years due to overlapping stages and funds. The process is marked by a series of carefully orchestrated steps, each demanding unwavering attention to detail, strategic acumen, and relentless commitment to maximizing returns.

Invest and Acquire

Target Identification and Screening

Potential target companies can come from many different sources such as in-house research, company presentations at conferences, sell-side investment banks, M&A attorneys, direct pitches from the target, sourcing platforms, existing portfolio companies, and even other private equity firms. Regardless of the source, the importance of securing strategically best-fit investments is critical.

Due Diligence

Once a promising target is identified, the fund's investment team must ensure that it truly is the right strategic fit and value proposition for the fund. This is accomplished through the due diligence process, which effectively quantifies the risks, costs, and opportunities associated with a business transition. Financial due diligence, or quality of earnings, and tax due diligence are the most commonly performed analyses. While theree's no doubt that a clear understandnding of the targett's financials is vital to a successful investment, human capital due diligence and IT or cyber due diligence are also crucial for maximizing value because the most thoughtful projections are meaningless if the target lacks the personnel, systems, technology, and security to implement them. It is important to identify and mitigate risks, accelerate transition timelines, and minimize cost variability to ensure the transaction priorities and investment thesis are achieved.

Deal Structuring

The time and resources invested In due diligence can be to no avail if the transaction isn't structured correctly. Deal structure will determine how the transaction generates value for all stakeholders and should consider the risks that could affect the closing of the deal as well as issues that may arise in the future.

Closing

Signing the final agreement is the start of the closing process. In addition to addressing any human capital and IT needs/issues identified in due diligence, the acquirer begins the sometimes-lengthy purchase accounting process. Although the depth and complexity will vary based on the legal structure and size of the transaction, every transaction will have immediate financial statement implications that need to be properly accounted for and documented.

How BUCS Supports:

Once the letter of intent is executed, BUCS establishes connections to support a consistent flow of data to all parties involved in the buy side. Knowing what data you will receive and the format you will receive it in, helps expedite the confirmatory procedures that support the due diligence and quality of earnings procedures, allowing teams to spend more time understanding risks and identifying opportunities post close. When the right information is at the acquirer's fingertips, it reduces the burden on the sell side team and allows the buy side team to be more efficient, minimizing deal fatigue. The BUCS data management platform can also be used to calculate metrics defined in the close, such as a PEG ratio, to make measurement clear and visible to all parties post close with minimal effort.

Build, Manage and Grow

Once an investment is made, the clock starts ticking. A private equity team must work swiftly to establish a track record of exceptional performance. Waiting until just before an exit to make improvements is not an option, as potential buyers consider medium-term historical performance when conducting valuations.

During the hold period, which typically lasts 3-7 years, the acquirer creates value by driving process transformation, optimizing operations, and maximizing the financial performance of the portfolio company before positioning the business for an exit. In this stage, PE firms leverage their experience and networks to refine the acquired company's strategy and grow EBITDA through improved risk controls, functional processes, operational infrastructure, and human capital development.

How BUCS Supports:

When a company brings on institutional capital, the burden to provide information to the new stakeholders increases significantly. Post close companies use the BUCS data management platform to help automate this flow of information, building investor confidence and eliminating the need for additional FP&A resources. Additionally, the valuable information created during the due diligence process is automated and the information surrounding risks and opportunities is leveraged to support post-acquisition efforts. If the company continues to grow through acquisition, consolidation of datasets becomes simple. Leadership can clearly see performance across the growing entities in one location. The BUCS data management platform provides a near real-time data flow, so the analysis is always current. Whether you're evaluating working capital, labor efficiency, pricing strategy or another complex area of your business, the BUCS data management platform allows for clearer articulation of the situation and the ability to better manage and measure performance.

Exit

Whether it be through a trade sale or IPO, the exit is where most of the investment return is generated. The proper timing and structure for the exit are vital to maximizing the return. Success is formed from target identification and refined throughout the life cycle of the investment. Every stage of the investment should build toward a well-developed, well-supported narrative of why the company represents a value proposition to its next owners. Similar to the invest/acquire stage, due diligence is strongly recommended in order to properly prepare for an exit. Performing sell-side financial due diligence allows the seller to identify potential issues ahead of a buyer and set the narrative while also establishing a view of adjusted EBITDA for the most recent twelve-month period. This puts the seller in a stronger position when it comes to setting the enterprise value.

The longer an investment remains in a portfolio, the higher the required exit price to meet target Internal Rate of Return (IRR) goals. When investments linger beyond the fund's official ten-year term, several options arise. The investment may be sold to a secondary fund, the fund's term may be extended for one to three or more years, or a fire sale may occur. Private equity professionals prefer exits with multiple potential buyers and avoid forced fire sales. Fund extensions can hinder the operations of a new fund, creating additional complexities.

How BUCS Supports:

The BUCS data management platform helps articulate the story of the company going to market with automated information for CIMs and other key deliverables. The number of people involved in the process and the time required from them can be reduced since data is readily available. Data can be easily blinded to limit visibility to a buyer. By leveraging the BUCS data management platform throughout the lifecycle of the investment, you can proactively tell the story you want and build confidence in a buyer that ownership can be easily transferable without a steep learning curve and disruption of day-to-day operations.

Conclusion

The private equity fund lifecycle is a demanding, protracted journey that mandates resilience, expertise, and strategic thinking. Success in this domain hinges on a fund manager's adept navigation of each stage, commencing with meticulous target identification, comprehensive due diligence, and astute deal structuring. The endless focus on value creation, management, and growth reinforces the belief that waiting for the exit is not an option. Ultimately, the strategic exit marks the realization of the investment's full potential, where the seeds sown in the early stages of the journey come to fruition, maximizing returns for investors and stakeholders alike. In the world of private equity, each stage bears significance, every decision carries weight, and the journey itself possesses intrinsic value equal to its destination.

How BUCS Adds Value in the PE Fund Lifecycle