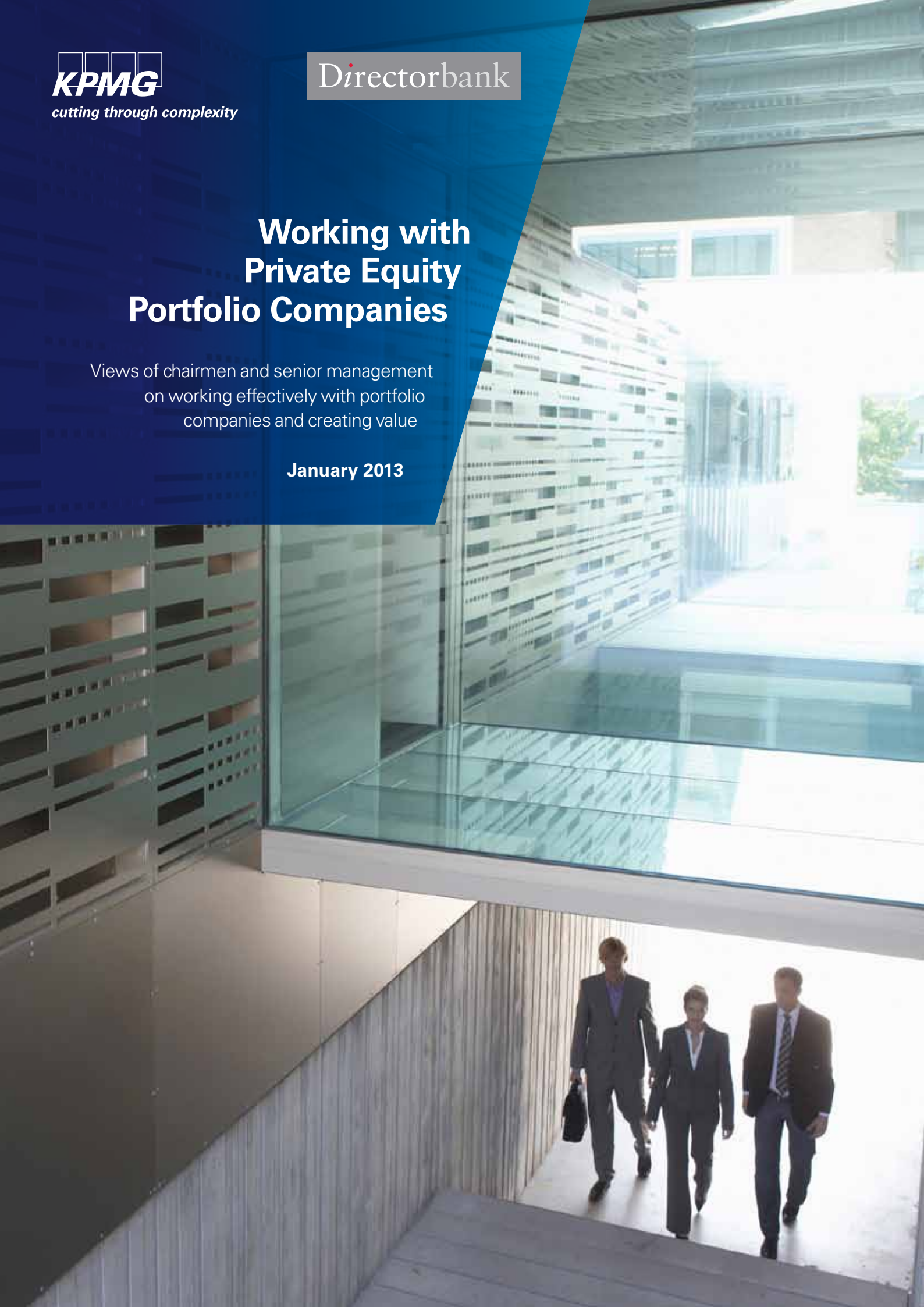


Working with Private Equity Portfolio Companies

Views of chairmen and senior management
on working effectively with portfolio
companies and creating value

January 2013



About the survey

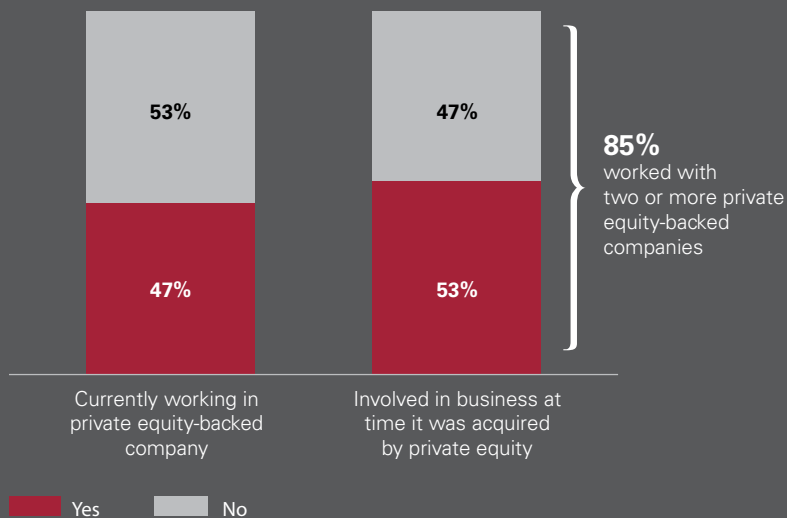
The survey was carried out in two phases:

- An online survey of more than 300 senior executive and non-executive directors from the Directorbank network. The respondents came from a wide variety of sectors covering all deal sizes, but were concentrated in the European mid-market.
- Confidential, in-depth interviews with a further 23 directors sourced from both KPMG and Directorbank's contacts – all of whom had experience

working with several private equity-backed businesses over a number of years. The executives represented a wide variety of industry sectors and were based in Europe, Asia and the US, with a higher proportion working in the larger buyout space.

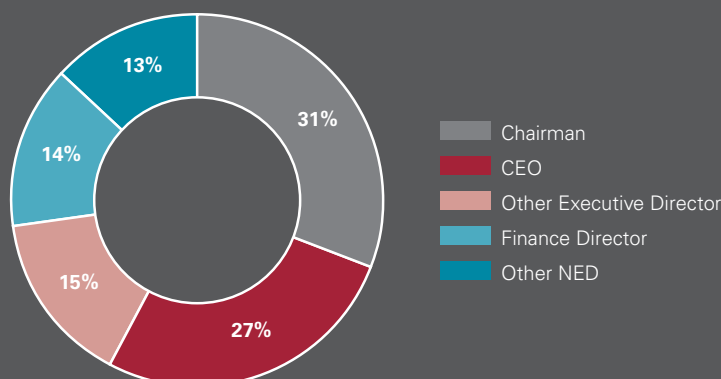
More than 85 percent of the participants in this survey worked for more than one private equity house, providing a credible basis for comparing different approaches.

The sample



Source: Directorbank and KPMG, 2012

Most recent role in private equity-backed company



Source: Directorbank and KPMG, 2012

Contents



Introduction	02
Results at a glance	04



Managing portfolio companies most effectively	06
What makes an outstanding private equity board director?	07
Use of operating partners and industry advisers	10
The role of operating partners in private equity-backed companies	12
The seven deadly sins of portfolio management	13
When the going gets tough: Managing underperforming investments	14
The role of the chairman in private equity-backed companies	16
Ways private equity firms can genuinely add value	18
Conclusion	20
Acknowledgements	21



Introduction

Globally, private equity remains an attractive asset class, outperforming public markets over medium to long-term investment periods. However, exactly how these alpha returns are generated remains less well understood. Furthermore, analysing private equity returns by performance quartiles reveals a great deal of variation; from the top quartile funds which produce significant alpha to the fourth quartile funds which actually lose shareholder value. Given this, we can see that the use of 'value levers' such as leverage, multiple arbitrage, operational and profit improvement is far from formulaic.

We believe that as private equity finds itself in a more difficult economic environment, it will have to evolve further to meet the challenge of the slowdown of growth in developed economies. This is likely to lead to an increasing role for effective portfolio management, as the value levers of operational and profit improvement become more important. It therefore seems an opportune time to explore how private equity managers add value to their portfolio companies and what characterises the most effective, in comparison with those that are less so. Asking those who have worked closely with private equity, namely senior executives and non-executive directors of private equity-owned portfolio companies, many of whom have worked with more than one private equity investor, seems a good place to start.

We hope you find this research interesting and constructive. The results revealed the many benefits of the private equity model and a variety of approaches to working with portfolio companies. We will leave you with the thought that although some of the findings may seem self-evident, sometimes private equity firms do not always get the basics right when interacting with management and the board. This research should give food for thought and some guidance on what the 300-plus senior managers who took part in our survey believe constitutes best practice in portfolio management.



“

The results revealed the many benefits of the private equity model and a variety of approaches to working with portfolio companies.

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Robert Ohrenstein
Partner, KPMG in the UK



Ken Brotherston
Executive Chairman, Directorbank

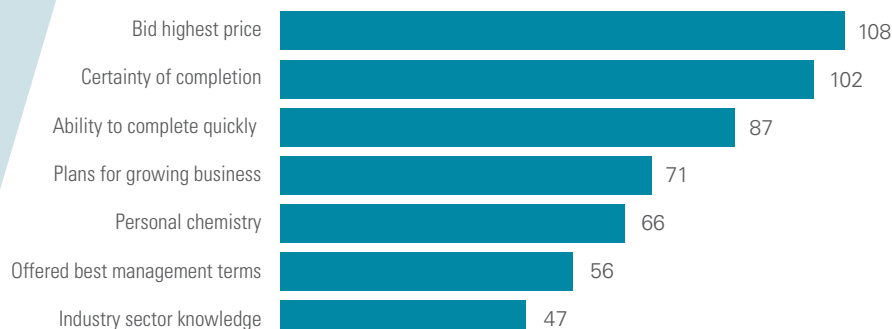
Results at a glance



In mid-2012, KPMG and Directorbank commissioned independent research consultancy Private Equity Research Limited to undertake a comprehensive survey of more than 300 non-executive directors and senior management who had experience of working with private equity firms. The purpose was to look in depth at how private equity executives interact with their portfolio companies and reveal the strengths of the private equity approach, as well as the weaknesses. Our aim in carrying out this research is to contribute to the development of best practice in this key area, through increasing our private equity clients' understanding of the issues that arise when working with senior management and the board.

The research reveals that private equity directors are generally highly regarded for their deal-making and financing skills. However, according to participants in the survey, their effectiveness when interacting with portfolio companies is more variable. The most effective make a real effort to build a relationship of trust with management and actively use their skills, knowledge and network of contacts. The least effective are perceived to add more limited value, apart from providing capital.

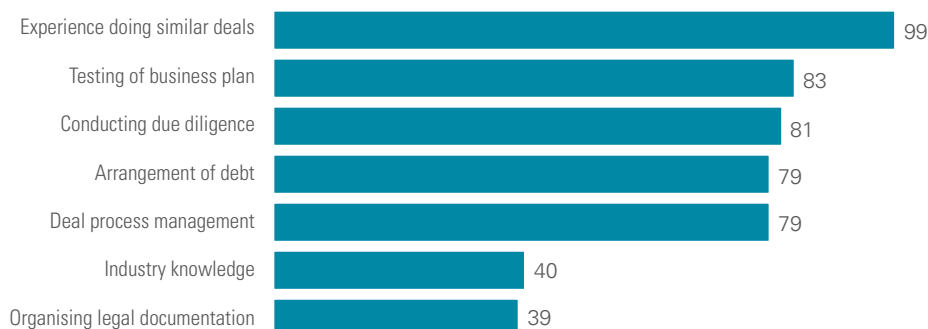
Main reasons private equity firm won the deal were:



Number of respondents 358

While bidding the highest price was mentioned most often, a wide variety of softer factors are important; providing an opportunity for PE firms to differentiate their propositions.

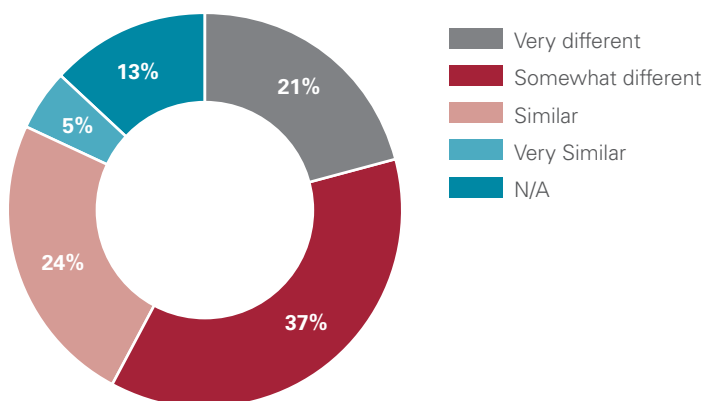
Most valued contributions to deal process were:



Number of respondents 358

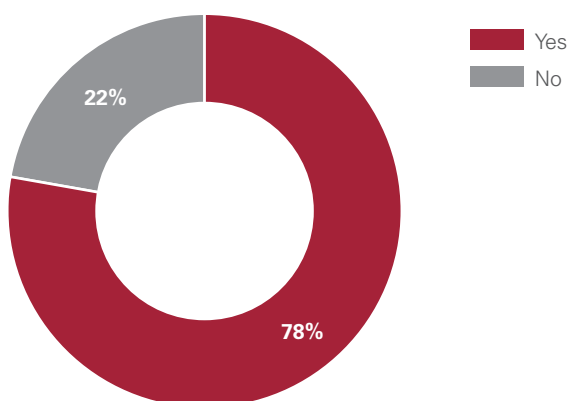
Ways private equity firms contribute to the deal process go well beyond simply arranging the financing.

How different are private equity firms' approaches?



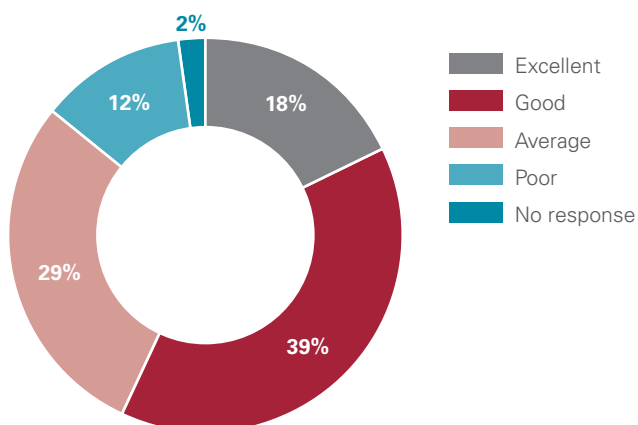
Private equity houses adopt different styles and approaches to managing their investments; adapting their approach to the circumstances.

Was there an appropriate level of involvement by the private equity backers?



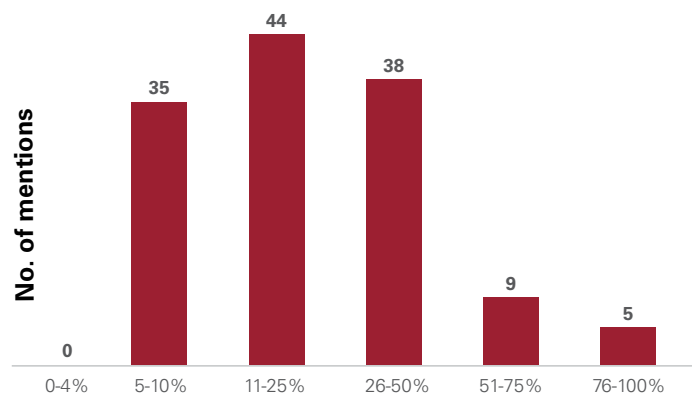
The vast majority said that the level of input they received from private equity backers was appropriate for the needs of the business.

Ratings of private equity input:



Over half rated PE input as good or excellent and less than an eighth poor.

Private equity's contribution to value uplift:



40 percent of respondents gave the private equity house credit for generating more than a quarter of the value uplift on exit.

Managing portfolio companies most effectively

“

The amount of involvement by private equity firms varies and the appropriate level depends on the needs of the business working to agreed benchmarks. Private equity should be relatively hands-off if the business is performing on plan but if not, greater involvement is needed and should be welcomed.”

Chairman, Retail sector

“

The private equity firm had operational experience so they were able to help solve problems, support management and were a bit like a personal coach. It was a fine example of how private equity can work.”

CEO, Packaging sector

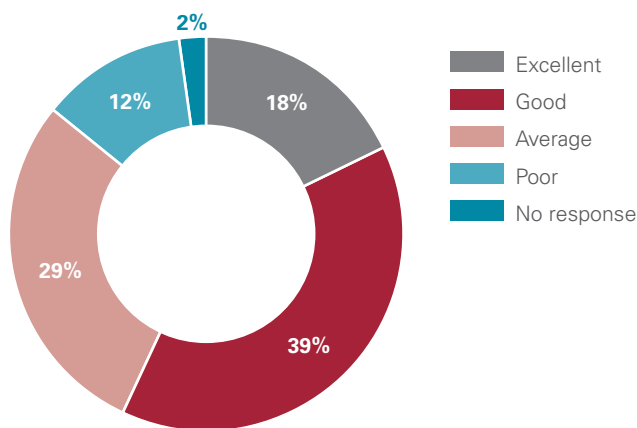
“

It's easy to sit on a board and ask the right questions – the hard part is knowing how to find solutions and execute a plan.”

**NED,
Pharmaceutical sector**

The majority of those surveyed rated the quality of the private equity director's involvement in the business as good or excellent.

Ratings of quality of private equity input:



Source: Directorbank and KPMG, 2012

However, with 41 percent rating the quality of private equity input as average or poor, there is clearly room for improvement and the respondents had a number of suggestions on how it could be done better.

Effective ways of working

- Have a very open and honest dialogue – especially with regard to exit strategy.
- Have either operational understanding or access to advisers with relevant experience.
- Allocate sufficient time and input to the strategic planning process.
- Spend more time on the business, not just at board meetings.
- Truly understand the business, the competitive landscape and influences – not just the numbers.
- Cut back on the number of performance indicators requested and quickly identify the key levers.
- Have fewer private equity professionals and more independent directors on the board.

KPMG's view

Marc Moyers,
Head of Private Equity Americas Region,
KPMG in the US

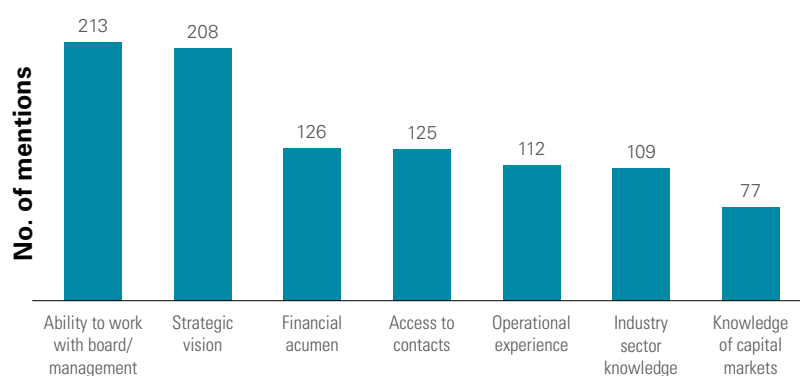
Our respondents consistently rated the input they got from private equity firms very highly during the pre-deal and completion phases and on the exit. During the period of ownership, however, the quality of input was more variable and it appears to us that this is the main area where some firms and individuals are differentiating themselves.

What makes an outstanding private equity board director?

Respondents were asked to rank the top three qualities that a private equity director should have:

1. Ability to work with the board and management
2. Strategic vision
3. Financial acumen

Other abilities mentioned as being important, but less so, were being able to introduce the company to contacts who could be useful to the business and having operational or sector expertise.



Source: Directorbank and KPMG, 2012

“

Private equity people are better deal makers than operators given that their backgrounds are mainly in M&A. Some tend to be deal junkies and get bored when there's not much happening with a business, but the most successful PE people are good at deal making and working with companies.”

Chairman, Several sectors

Quality	Examples
Ability to work with board/management	<ul style="list-style-type: none"> • Able to assess whether management are capable of delivering the plan. • Builds a relationship based on openness and trust. • Can focus on the needs of the business and not get distracted by the next deal. • If things go wrong, works with management constructively to find solutions.
Strategic vision	<ul style="list-style-type: none"> • Good knowledge of the industry and understands market context and trends. • Ideally has had some business experience outside private equity or finance. • Acts as a sounding board; gives a well-considered different perspective on issues. • Intellectual flexibility as no two businesses are the same.
Financial acumen	<ul style="list-style-type: none"> • Good understanding of debt structures and contacts with financial institutions. • Spends the time to really understand what is happening in the business; behind the headline numbers. • Experience assessing acquisition opportunities and focusing management on ROI.

“

Operational experience gives them more empathy with management and understanding of the challenges and pitfalls of achieving the strategy. Having operational experience means that their input is practical rather than theoretical.”

FD, Software sector

“

All private equity executives should, during the first 5 years of their career, be seconded to a portfolio company. This would make them far more effective portfolio directors.”

**CEO/Operating Partner,
Industrial sector**

“

The best combination is a PE director who has both sector and operational experience as well as internal credibility.”

NED, IT sector

Should private equity executives have operational or industry sector experience?

The results of our research show a high degree of consensus on this topic, with private equity directors' lack of operational or management experience seen as a weakness in the way they interact with portfolio companies. Over 70 percent of those interviewed said that having managerial, operational or sector experience would give private equity executives more insight into the reality of running a business and a greater empathy with management.

Those respondents who had worked with private equity firms over a number of years were sceptical that firms will change their recruitment policies and seek to hire more investment executives with operating expertise. However, private equity firms do seem to be aware of their limitations in this area and have sought to complement the skills of their team through the increasing use of operating partners or industry advisers.

KPMG's view

Honson To,
Head of Private Equity Asia
Pacific Region, KPMG China

The debate on whether it is necessary to have operational experience continues. Our view is that a one-size-solution does not fit all. The key point is for firms to be aware of what their investment professionals are good and not so good at and make sure that they have the correct blend of skills within their teams. Additionally, secondments to portfolio companies could provide very useful training experiences.



The best private equity directors...

“Offer advice and external insight without trying to decide strategy or run the business.”

CEO, Industrials sector

“Are able to engage with employees at all levels, not be the mysterious people from a private equity house.”

CEO, Industrials sector

“Are willing to ‘walk the floor’ with the management team.”

CEO, Chemicals sector

“Stay interested and involved with the business throughout the time of ownership.”

Chairman, Media sector

“Look for opportunities to use the firm’s network of contacts with suppliers, customers, other portfolio companies to benefit the business.”

Chairman, Automotive sector

“Don’t panic when things aren’t going according to plan, but work with management to really understand what is going wrong and constructively to find solutions.”

COO, Food & Drink sector

“Are experienced – age and maturity play a part with private equity executives getting better over time.”

Chairman, Leisure sector



Use of operating partners and industry advisers

Directorbank's view

Ken Brotherston,
Executive Chairman

This is an area where private equity firms do add enormous value but are often not given credit for being the catalyst that enables access to this expertise. We are also seeing, to some extent, a partial in-sourcing of operational expertise by private equity firms as they bolster their internal capabilities. This is more prevalent at the top end of the market, but we expect to see more of this in the mid-market.

As noted earlier in this report, private equity executives continue to come mainly from financial, M&A and management consulting backgrounds, and private equity firms have recognised that they need to bring in outside expertise to drive operational improvements. They hire in this expertise at the outset when assessing an opportunity and for help in carrying out commercial diligence, as well as after the deal has been completed to assist management in achieving the business plan. Our survey found that in 60 percent of cases, businesses had 100-day plans or similar which mapped out the actions to be taken by management, together with timescales. While the majority of private equity firms made significant contributions to developing the plan, only about one-third were said to be actively involved in its implementation. Several respondents observed that private equity firms need to work more closely with smaller firms than larger businesses which tend to have greater management resources. With the latter, they can afford to be more hands off.

Large private equity houses tend to make greater use of operating partners and industry advisers. These senior executives are employed to bring strategic insight or help within functional areas, ranging from IT, marketing, and purchasing to human resources. Our respondents commented that although some smaller and mid-market firms do this too, it tends to be larger firms that have better networks and greater financial resources that enable them to hire the very best industry experts.

Certain pitfalls can arise, however, in using operating partners who:

- Have ambitions to run rather than just advise the company.
- Are not insiders in the private equity firm so do not understand the management structure and where the decision-making power lies.
- Defer to the private equity firm rather than acting as an independent adviser.
- Do not appreciate that all companies are different and what worked before might not be applicable in this situation.

“

Most PE houses do not have operational guys in their team – they bring them in on a deal-by-deal basis. That is a weakness because these guys do not understand how the PE team ticks. If you had operational people on the deal team, you’d shortcut a lot of processes.

”

NED, Telecommunication sector

“

In today’s climate, the model where there is greater operational input is best suited – management needs help to go through difficult times.

”

**CEO/Operating Partner,
Packaging sector**

“

Private equity is such a closed industry club that they don’t know many people outside their own pool. Firms shouldn’t hire people with operational background as investment managers, but search out the best in the business in particular functional areas (sales, marketing, finance, etc) and bring them into their fund as roving operating partners.

”

CFO, Business Services sector

The role of operating partners in private equity-backed companies

A chairman's view

David Williams, Serial Chairman and Chair of Operating Partners at Duke Street

What qualities should operating partners have?

As you would expect, operating partners need to have relevant senior managerial and sector expertise as well as strong interpersonal skills. Further, if they are really plugged into the private equity firm and have built up a mutual understanding through working together over time, this can make a real difference in the efficiency of how decisions are made.

Even people with stellar business backgrounds do not always work successfully in a private equity environment. They need a certain amount of confidence and emotional intelligence to cope with being challenged by the bright, young, driven individuals who work in private equity. Being an ex-chairman of a FTSE 100 company does not count for that much – they have to earn the respect of management and private equity backers.

In your opinion, what is the ideal make up of the board?

- A chairman with relevant sector experience, preferably one who works as an operating partner for private equity backers.

- A senior director from the private equity firm and usually a more junior colleague for back-up cover.
- Key executive management.
- An independent NED with sector-specific knowledge.

The board needs a balance of skills; for instance, it can sometimes become overweight in financial skills and this needs reining back. We consider that executive management is much more important than the rest of the board – they are fundamental to the success of the business.

What are the pitfalls to avoid when using operating partners or non-executives?

They may become too engaged and think they are supposed to be running the business. It is up to private equity backers to make this clear at the outset so that management do not think they are being superseded.

Do you think private equity executives should have operational experience?

In my experience, some do have operational or managerial experience and can bring a lot to the boardroom table. I have seen private equity executives really develop their skills in this area during their time in the industry. As a result, they can make a real contribution to the people issues and challenges of running a business.

The seven deadly sins of portfolio management

“

Private equity firms' core competency is doing deals, so their skill levels for the deal process are high. But their real understanding of, and strategy for, the businesses they acquire, is usually much weaker. ”

Chairman, Electronics sector

Our research reveals that private equity directors vary widely in the way they interact with portfolio companies; some actions are helpful while others not. Respondents were very clear on the latter and from their experience gave advice on how to avoid common pitfalls.

- 1. Fail to win hearts and minds of management;** taking the attitude of “we own the business therefore you'll do as we say.”
- 2. Overwhelm management with interference which is not helpful or constructive;** especially when the business is performing on plan.
- 3. Lose focus after the deal is done** as shown by missing board meetings or being distracted during meetings.
- 4. Manage by spreadsheet** so focus only on historic numbers without understanding KPIs and what is really happening with the business.
- 5. Turn the deal over to a portfolio management department** so that management has to try to establish a relationship with an executive new to the deal who may see it in a different light.
- 6. Be a frustrated CEO** who thinks he or she can run the company but in fact has no relevant management experience.
- 7. Have an unclear internal decision-making process** or lack support from senior colleagues so that management does not know who can speak for the firm.

Directorbank's view

Ken Brotherston, Executive Chairman

Although it would be easy to dismiss avoiding these pitfalls as 'just common sense', senior executive respondents remarked that investment professionals are not always getting the basics right. Some private equity firms may benefit from taking a critical look at themselves and asking how they can improve the way they interact with portfolio companies.

“

They will charm the birds out of the trees to get the deals, but most have never worked in industry and so have no real experience of running a company. ”

NED, Several sectors

“

Although private equity people I've worked with are extremely clever and analytical, their inter-personal skills are not as strong. ”

Chairman/CEO, Technology sector

“

It is unhelpful when they ask for loads of data but don't focus properly on where the business is going and how it's going to get there. ”

CFO, Business Services sector

“

As an NED I have had to try to find a solution for a private equity director who was constantly on his Blackberry during the board meeting. Management took a lot of trouble with preparing the board papers and they got really upset about this behaviour. ”

NED, Logistics sector

“

They brought me in to drive change but failed to back me when I had to confront the CEO and majority shareholder. ”

NED, Telecoms sector

When the going gets tough: Managing underperforming investments

“

Management were open and took a 'no surprises' approach to dealing with the private equity firm. The private equity director didn't try to push the bad news under the carpet but discussed with them what to do about it and gave constructive advice and suggestions. The management team responded very well to this approach.

”

COO, IT sector



Most of the seasoned executives and non-executives we interviewed had experienced situations where a business underperformed against plan. When the going gets tough, the relationship between management and private equity backers can come under strain. When this happens, private equity directors naturally become concerned at the potential threat to the value of their investment and need to be very aware of how their skills can help, rather than make things worse. The non-executives and executives interviewed for this research suggested constructive actions that private equity directors could take to help address underperformance.

Actions that help

- **Really understanding the business;** get beyond the spreadsheets.
- **Working with management collaboratively** to find solutions to business problems.
- **Staying calm**, being aware that all parties come under pressure during difficult times.
- **Refinancing** and restructuring the balance sheet to give the company breathing room.
- **Bringing in operational expertise** from a network of experts.

Actions that hinder

- **Being indecisive.**
- **Getting too much into the detail** so that the big picture is lost.
- **Lacking empathy with management;** often they are doing the best they can.
- **Failing to stay around to clean up the mess** once the equity value is gone.

KPMG's view

Onno Sloterdijk,
Head of Private Equity
EMA Region,
KPMG in the Netherlands

Underperformance may move the relationship between the private equity firm and management from one of alignment to possibly a more combative one, especially if the private equity house perceives that management is underperforming. If action is required to supplement or change management, then shareholders need to act decisively to avoid the risk of further damage to the business. Unsurprisingly, the survey revealed more negative comments on the behaviour of private equity firms when businesses underperformed, but also gave useful pointers on which actions help and which actions hinder. The key takeaway is to recognise the changing nature of the relationship and if management are to be retained, then working collaboratively becomes key.

“

When things go wrong, private equity directors tend to start trying to manage the investment more closely. However, unless they really understand the business then their input isn't usually very helpful. The better a private equity director understands the business, the easier it is to identify issues at an early stage so they can be dealt with before becoming nasty surprises.”

NED, FMCG sector

“

When an investment underperforms, there is a tendency for them to want to run around and do things; demanding regular updates and conference calls. This is all about being seen to be taking action rather than really contributing to finding a solution.”

CEO, Chemicals sector

“

There are bound to be some ups and downs in the relationship if the business isn't performing according to plan, but the important thing is whether or not management and investor can work together and keep focused on the main goal of achieving a good exit in due course.”

Chairman, Business Services sector



The role of the chairman in private equity-backed companies

Our research suggests the appointment of an effective chairman can make a significant contribution to the business through, among other things, ensuring the relationship between private equity and management remains collaborative. Our research revealed that 78 percent of respondents felt that the aim of private equity backers and management was well aligned at the start, but for close to one-third of our sample, the relationship worsened over time. Reasons given were usually related to private equity backers

being unclear or changing their minds about the strategy for the business. Conflicts over the timing and type of exit were also not uncommon and often arose through lack of understanding by private equity backers that management's motivations may not be solely financial. Respondents of all types – both executive and non-executive directors – said that an independent chairman has a vital role to play as an interface between management and its backers.

An effective non-executive chairman can:

- Translate and navigate the unfamiliar world of private equity for management.
- Filter the private equity firm's demands which may be unnecessary and a distraction to management.
- Advise management on exit options, apart from outright sale, which can meet both parties' objectives.
- Ensure there is a good complement of skills on the board.
- Help renegotiate incentive plans if things work out differently from the original plan.
- Ensure fair value when the private equity firm is looking to sell on but management is staying in with another backer.
- Add value through their operational knowledge and industry expertise.



Directorbank's view

Ken Brotherston, Executive Chairman

In a recent study conducted by Directorbank, 430 chairmen and NEDs considered the qualities differentiating a good and an outstanding chairman.

The key findings highlighted a combination of personality traits and skills that make the difference: they are good listeners, effective communicators, have gravitas and often a degree of charisma. The key skill set includes an ability to see the big picture; good at managing meetings; striking the right balance between effective governance and effective outcomes; broad market experience and good business acumen and, most important of all, allowing the CEO and the executive team to run the business. In short, not necessarily making decisions, but ensuring good decisions get made. The chairman must also, of course, ensure that investors and wider stakeholders have the best possible relationship with the business.

“

The chairman has a very difficult role to fill in dealing with the egos of private equity executives and management. If there's conflict the chairman needs to bring it out in the open and broker a compromise between them.”

Chairman, Several sectors

“

The biggest battle for the chairman is getting management onside. You are often viewed as the private equity firm's spy on the board and they're also afraid that you have plans to try to run the company yourself.”

Chairman, CEO, Leisure sector

“

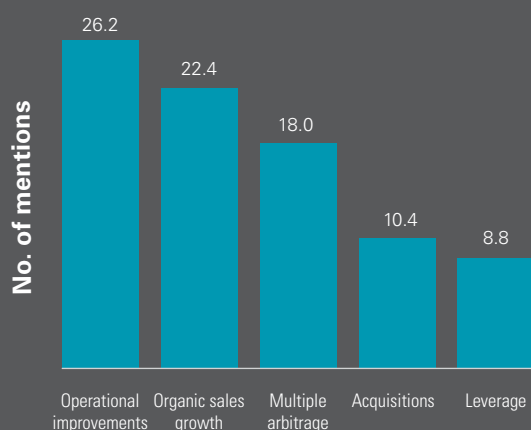
Private equity backers tend to take a shorter term view of the business than management, so it's up to the chairman to balance what's best for the business in the long run and bring all parties together.”

Chairman, Several sectors

Ways private equity firms can genuinely add value

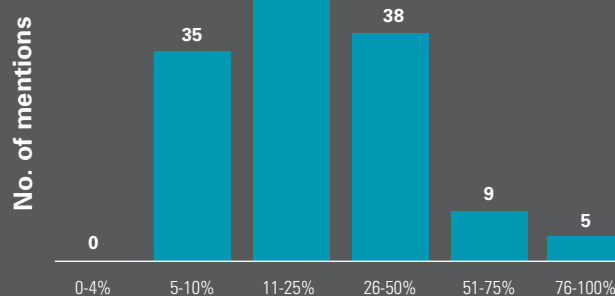
As previously highlighted, private equity returns continue to outstrip quoted shares and it is certain that operational improvement in portfolio companies is a key component of value creation. Of our sample, 63 percent had been involved with a private equity-backed business which was subsequently sold and, of these, 77 percent had been sold for a profit. According to the survey, the most important contributors to the value uplift were operational improvements and sales growth. Leverage and growth through acquisitions were much less important; highlighting perhaps the reality of the more difficult funding climate.

Contribution by importance to value uplift



Source: Directorbank and KPMG, 2012

Private equity's contribution to value uplift



Source: Directorbank and KPMG, 2012

Approximately 40 percent of the respondents credited private equity with contributing more than a quarter of the value uplift achieved on exit. This is a clear indication that private equity is capable of generating a significant amount of value. For the rest of respondents who estimated the value uplift at 25 percent or less, this still represents material incremental value which contributes to private equity's ability to outperform public markets.

Where private equity made a significant contribution to the value uplift, it was said to be through the following means, in rank order:

- 1. Provided capital to grow business**
- 2. Optimised business plan**
- 3. Removed constraints on management**
- 4. Brought in operational expertise**
- 5. Other (including dealing with banks)**

The finding that the majority of our sample ascribed a moderate figure to private equity's contribution to value uplift may surprise private equity executives – but not management. In their eyes, private equity backers are viewed as enablers; meaning

that their ability to contribute value is focused on areas such as providing access to capital and bringing a greater focus to achieving an exit. Management, and for that matter non-executive chairmen, tend to believe that real value creation comes from growing the business and improving profitability – and this is down to the executive team.

However, respondents acknowledged that in some cases, private equity directors are able to make much greater contributions – in the range of 30–50 percent of the uplift in value.

We should point out that respondents' views on the contribution private equity firms make to value uplift were estimates and not usually based on detailed analysis.

Ways to add more value

- Giving access to the firm's network of contacts.
- Making sure acquisitions/projects make an acceptable ROI.
- Identifying acquisitions.
- Focusing attention on cash flow management.
- Optimising the balance sheet through re-leveraging.
- Accelerating process of good financial reporting/governance standards.
- Grooming company for sale, finding potential buyers, structuring the sale.

KPMG's view

Robert Ohrenstein,
Global Head of Private Equity,
KPMG in the UK

It is difficult to quantify private equity's role as enabler – especially in 'soft' areas like making sure the right management team is in place and supporting it to achieve the business plan. However, most respondents recognised that private equity made a real contribution to the business and many ascribed a significant proportion of the value uplift to their input. Even at levels of 5–25 percent of the uplift, we suspect that most limited partners would be happy if their private equity managers contributed incremental value over public markets at these sorts of levels.

“

Private equity firms can add value through their knowledge of financing and contacts with banks, even very senior CEOs don't usually have this knowledge.”

CEO, Financial sector

“

If a firm has chosen a good management team and is able to manage them well, are the good results down to management or the PE house? Hard to determine, but I'd put the figure more at 30 percent.”

**CEO/Operating
Partner, Packaging sector**

“

I think they can contribute more than a quarter of the value uplift – this usually happens at the beginning and end of the deal. Often the sale would not have happened or on such good terms if not for them.”

**CEO, Support
services sector**

Conclusion

Directorbank's view

Ken Brotherston, Executive Chairman

We believe that having the right blend of skills, from a variety of internal and external sources, means that private equity's input is likely to be more effective which, in turn, drives higher investment returns. Those firms that get the balance right and interact most effectively with management are likely to increase their chances of outperforming the industry average.

This survey has produced a lot of useful feedback on the ways that private equity executives add value and interact with portfolio companies. The findings are especially credible, given the number and quality of the respondents who took part in the research and their willingness to give insiders' views on what really goes on in private equity-backed businesses. The positive feedback relating to private equity's added value in the entry, financing and exit phases should be no surprise to those within the industry.

However, the feedback on the contribution made by private equity houses to businesses under their ownership was more mixed. While many respondents were happy to give private equity firms significant credit for the value they bring to their investments, it would be fair to say that a small number questioned the quality of private equity's input and the effectiveness of how they work with management.

The industry is adapting to the harsher economic environment and there appears to be a general recognition that generating value within the portfolio will increase in importance as a source of returns as leverage, arbitrage and 'asset trading' opportunities become less prevalent. As a result, we have seen some evidence of a shift in skill sets within firms; notably through in-sourcing operational and sector expertise. This has been the case for larger firms, and this trend is also being seen in the mid-market.

KPMG's view

Robert Ohrenstein, Global Head of Private Equity, KPMG in the UK

This research adds a different perspective to the debate over the ability of private equity firms to add value within their portfolio companies. With the challenging current economic circumstances likely to persist for some time, private equity is refining its model and some firms are already at the forefront of this evolution. Given the more difficult fund-raising environment, portfolio value creation will increasingly be seen by limited partners as a point of differentiation. Even firms with above average investment performance are being challenged to demonstrate how they will add value to their investments in the future. Our long involvement with private equity tells us that this is a very adaptable industry with an extraordinarily high proportion of talented individuals. No doubt many are already focusing on some of the issues discussed in this report.

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