



How Operations Experts Impact Due Diligence With Mauro Bonugli of RSM

What is the ideal team at a private equity firm for conducting due diligence?

Mauro Bonugli, RSM:

During the diligence, the deal teams obviously own that investment. It's their responsibility to execute that investment. I believe that getting the operating partners engaged early in the process is critical, and the reason is that you're giving that opportunity to the operating partner to start building that relationship with the management team. And then, if the deal is completed, the operating department will be working very closely to the management team, so starting early to get that relationship and trust is critical for continuing post-investment.

In addition to that, bringing the operating partners into the investment process will facilitate the identification of potential areas that are more risky or concerning on that organization. And the operating partners, with their sector or functional expertise, can actually leverage specific third-party providers to execute the diligence on the areas that they feel to be of most concern for the investment.

Does bringing operating partners in early speed up due diligence?

Bonugli: Absolutely. So bringing operating partners early in the process, in addition to helping them build the relationship and trust with the management team, what I've seen is they drive that process much faster. And again, by identifying specific areas that need to be analyzed in more detail, it facilitates so we don't have to take a pretty broad approach in analyzing a company.

What are examples of operating partners being involved in the value---creation process?

Bonugli: One example of the role of the operating outcome which I was deeply involved in was during an investment data center business. So we're looking at this data center business, and I was working directly with the deal team to evaluate that company. And through my discussions with the organization, we were able to identify a specific consulting

firm that could actually help us to diligence the operations of that data center management company.

And without having that expertise and that knowledge of what was really needed, due diligence on that process, most probably we were taking a broad approach and bringing a large consulting firm to just take it as any other company—and then, post-investment, a lab company where the goal of the business was to obviously process the largest number of lab tests as possible.

And the initial metric was to increase that number of lab tests, And working with the team, we actually together figured out that the biggest constraint of that company was the logistics in terms of picking up samples and taking [them] to the lab. It wasn't really as much as increasing the number of tasks, but really how you optimize the logistics.