

How to Stand Out in a Crowded Field

In an increasingly competitive acquisitions market, it's more important than ever to have a sound value-creation plan. EY's Michael Rogers explains.



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Privcap: The PE world is becoming more and more crowded with firms vying for assets. How is that changing the deal environment, and the importance of a firm's ability to create value?

Michael Rogers, EY: It's more important than ever to have a value-creation plan in place going into these deals. Competition from corporate buyers is increasing. And in very strong M&A in 2015—near record—interestingly, private equity was [mostly] flat. That's a function of two things: valuations got really expensive in 2015, and a lot of PE firms exhibited some discipline. So corporates now have a pricing advantage—they can use synergies to create value. PE doesn't have that unless it's an add-on. Ultimately, you have to have a sound value-creation plan to compete in bidding the deal, but [also in] earning returns.

Have you seen any changes going into 2016?

Rogers: Valuations are coming down a bit; it's a soft beginning to 2016.

PE will be more aggressive in 2016. Also, the LP is putting more pressure on funds. They are asking in advance to see the value-creation plan, and to see the strategy for the funds they invest.

Has the focus of the typical value-creation strategy changed?

Rogers: Historically, the effort has been around trying to make sure there are process improvements, synergies and cost savings—it's been focused primarily on cost. The newest trend is a focus on revenue generation. More value-creation teams are looking at ways to find growth, not just focusing on the cost side. That can come in the form of helping these entities keep the business footprint they have, [find] new revenue sources, and add product capability to an existing business. In some cases, you're expanding the geographical footprint, expanding an existing business, or expanding the distribution network.

Are there key value-creation strategies that a potential portfolio company would be looking for?

Rogers: People now see that operating partners or outside talent are there to help everyone succeed. There needs to be proper alignment between a fund and a company. That's the beauty of making these models work—creating alignment so the fund is positioned to add value and support folks in these businesses. This model is becoming more common in the market. ■