



**The importance, techniques and value
derived from Operational Due Diligence**

Snap Shot Survey 2016

Foreword

Operational Due Diligence can deliver many benefits for Private Equity firms ranging from enhancing bid confidence & competitiveness and helping develop a 90-180-day improvement plan, to accelerating time-to-value creation. It helps provide answers to key questions surrounding the size, feasibility and timing for the creation of alpha returns.

As allocations to Private Equity funds continue to increase, so do the premiums that have to be paid for key assets. As a result, the level of scrutiny investors incorporate into this process goes up which accounts for the increasing focus on operational due diligence during the pre-acquisition stage.

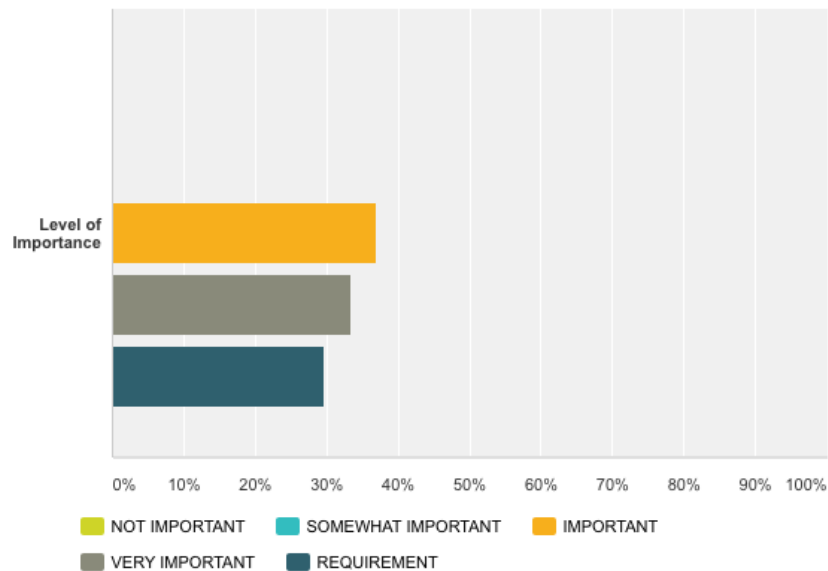
This year we conducted a snap shot survey, supported by a set of face-to-face interviews with Private Equity Managing Partners, Partners and Senior Directors in both North America and Europe. The purpose was to ascertain Private Equity partner attitudes and trends in performing Operational Due Diligence on their investments. We asked how they viewed the importance of ODD in their decision-making process, the frequency and depth with which they carried out ODD on potential investments and the value they derived from it. We then dug deeper to discover to what extent they anticipated performing such operational value creation activities on potential investments in the next 2 years.

For the purpose of the study, we defined Operational Due Diligence as *"The assessment of the operational value creation opportunities of a potential acquisition target."*

Key Findings

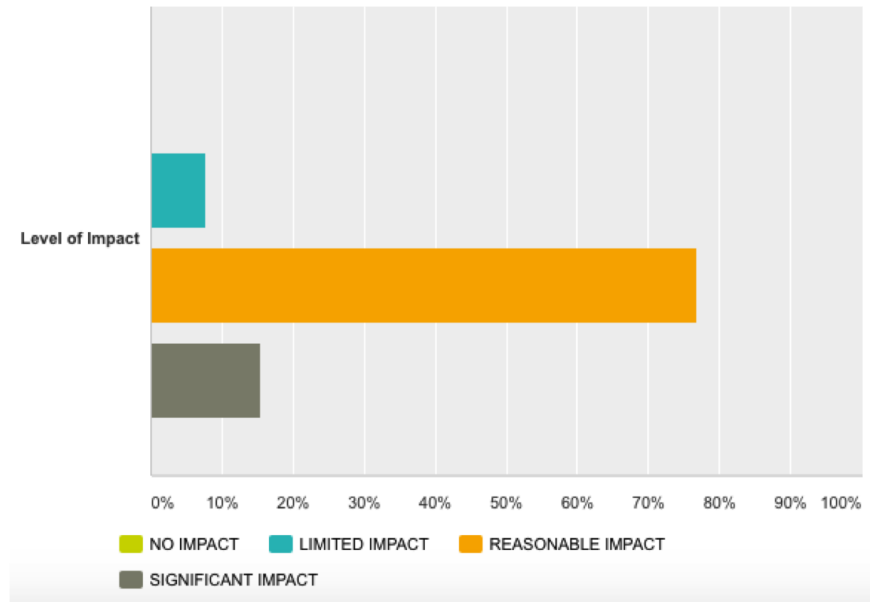
- All respondents agreed that ODD plays an important or very important part in their overall decision to invest, with nearly a third of them stating that it is an absolute requirement.
- Over 80% of respondents believe that there will be an increase in the importance of ODD in the next 2 years.
- Approximately three quarters of respondents state that they have carried out some form of ODD on half or more of their investments in the last 2 years.
- The depth of ODD varies greatly between companies and between investments.
- More than half of respondents currently utilize an outside consulting firm to conduct ODD, often in conjunction with internal resource.
- Functional specialization in relevant operational areas is seen as the most important characteristic when utilizing outside expertise to conduct ODD.
- Embedding a reliable approach to ODD will ensure firms consistently identify supply chain savings & improvements, increase bidding competitiveness, reduce acquisition risks, and accelerate time-to-value creation.

1. How important is Operational Due Diligence in the overall decision to invest in a specific target account?



Respondents were first asked to evaluate the importance of Operational Due Diligence. The result was that 100% of our respondents agree that due diligence plays an important or very important role in their decision making process, with nearly a third of them stating that it is an absolute requirement.

2. To what extent does Operational Due Diligence impact the valuation or bid price of a target acquisition?



Our findings confirm that Private Equity professionals seeking out new acquisition opportunities respect the need for ODD to provide them with a realistic measure of the risk involved. More than 90% of respondents state that ODD has a reasonable or significant impact on the valuation or bid price of a target acquisition.

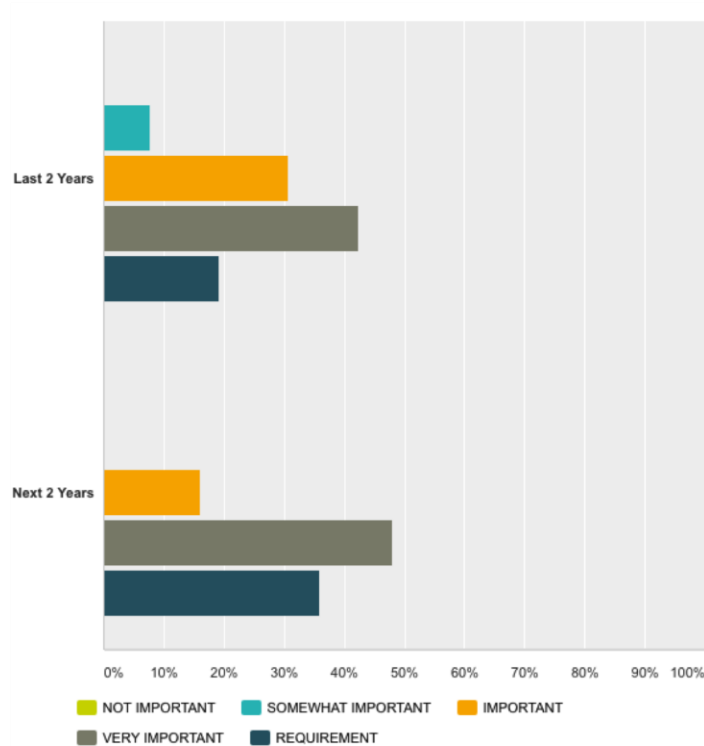
"Operational due diligence was a requirement for determining to what extent we could increase our bid for a potential acquisition during a competitive process."

– Managing Director, Connecticut-based Private Equity Firm

"Our operational due diligence efforts will be used to sharpen the pencil in terms of asset valuation. It will also be used for our value creation efforts."

– Senior Director, Operating Team of an EU-based Private Equity Firm

3. How would you rank the past and future importance of Operational Due Diligence in helping you make decisions and create a viable value creation plan?

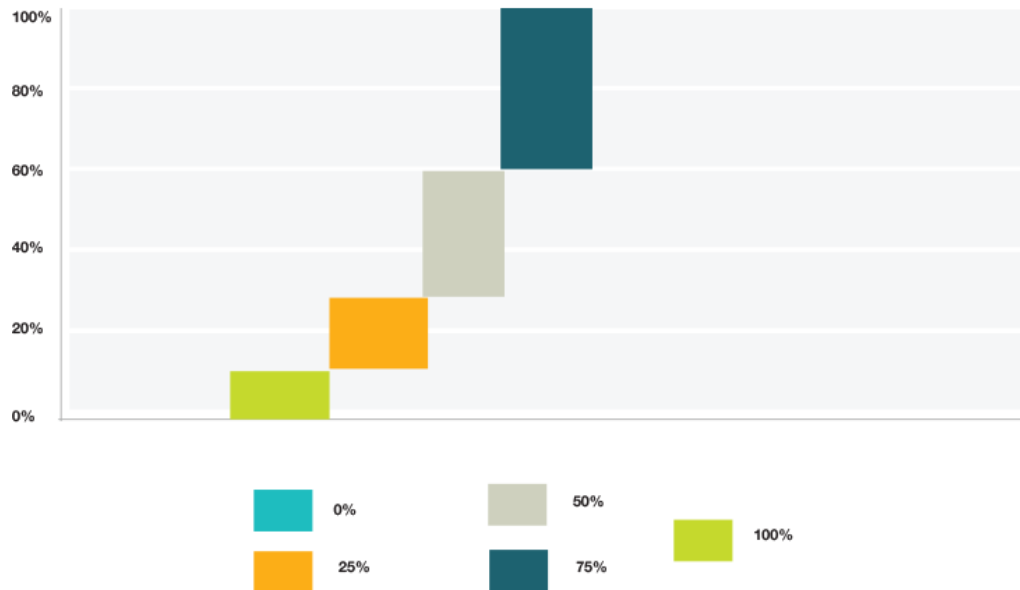


Our findings show that the majority of PE Executives already take ODD seriously and suggest that its importance will increase in the very near future. Interestingly, while only 22% indicate that ODD has been a requirement for their firm in the last 2 years, almost 40% state that it will become a requirement in the next 2 years. It is likely that this shift in thinking will continue with an increasing number of PE firms including ODD prior to making an investment decision or creating a value creation plan.

"It is becoming increasingly difficult to find new assets at a reasonable investment level, without paying a significant premium. Our firm is becoming more conservative in its go-to-market approach with investment opportunities being scrutinized with more diligence."

– Managing Partner, EU-based PE firm

4. For the investments you made over the last 2 years, how many did you perform Operational Due Diligence (in % terms)?

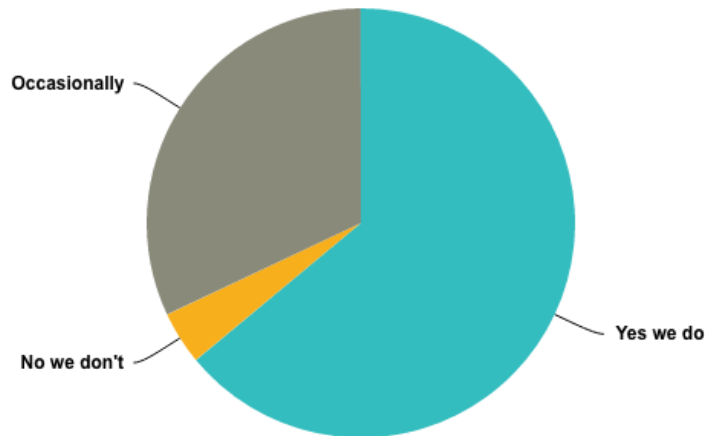


Approximately three quarters of respondents state that they have carried out some form of ODD on half or more of their investments in the last 2 years. This indicates that ODD is used when the private equity firm deems that there is a potential to improve operational performance but that the opportunity has not been investigated.

"We perform ODD when the value from improving operations of a potential acquisition target is present, but not well-defined."

– Managing Director, Boston-based Private Equity Firm

5. During Due Diligence, do you develop a 90- to 180-day post-acquisition improvement plan and incorporate this into your investment thesis?



Only 4% of respondents provided a negative answer to this question. This indicates that, where ODD is executed, firms widely recognize its value to their investment thesis to minimize risk and identify growth opportunities and cost reduction potential. Operational Due Diligence is also critical in identifying and sizing priorities for performance improvements during the first 90-180 days and beyond, thus helping accelerate time-to-value creation. The 32% of respondents that only occasionally develop a 90-180-day plan are therefore missing out on the opportunities to accelerate value creation across the new asset's supply chain and operations.

6. How deep is your typical Operational Due Diligence?
Multiple selections can be made.

Answer Choice	Response Percentage
Analysis of key information available via the data room	64.0%
Single-Day site visit including interviews with operational leadership and/or on-site tour	72.0%
Multiple days or weeks on-site conducting detailed operational studies	28.0%
All of the above	40.0%

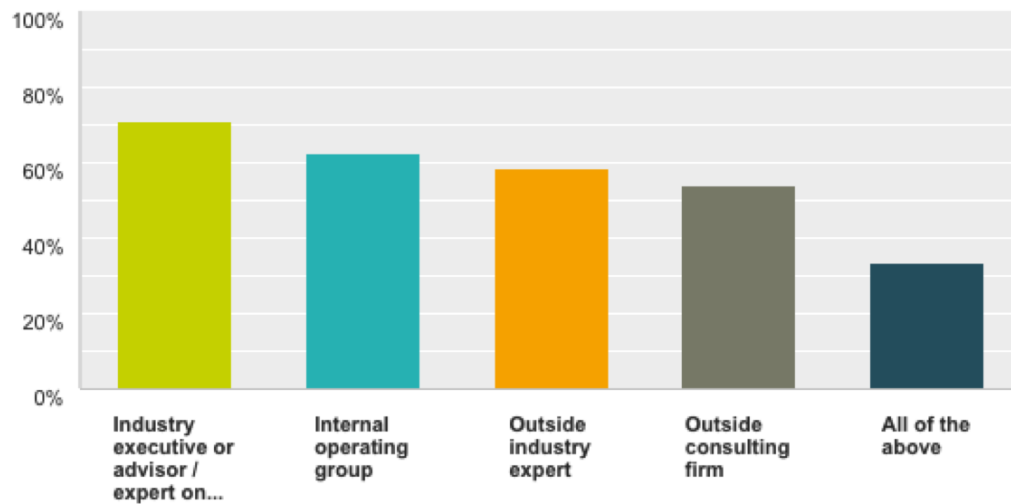
Forty percent of firms deploy multiple methods of ODD ranging from rapid analyses through to more in-depth studies that can take multiple days or weeks. Performing a single-day site visit is the most popular approach concentrating on data analysis with limited interaction with management. About 1/3 of respondents are going deeper by spending multiple days on-site conducting operational studies, however this will be dependent upon access and the situation.

With the importance of operational due diligence likely to rise in the coming years, we can see that the depth and intensity of due diligence execution will likely increase.

"We perform ODD when the value from improving operations of a potential acquisition target is present, but not well-defined."

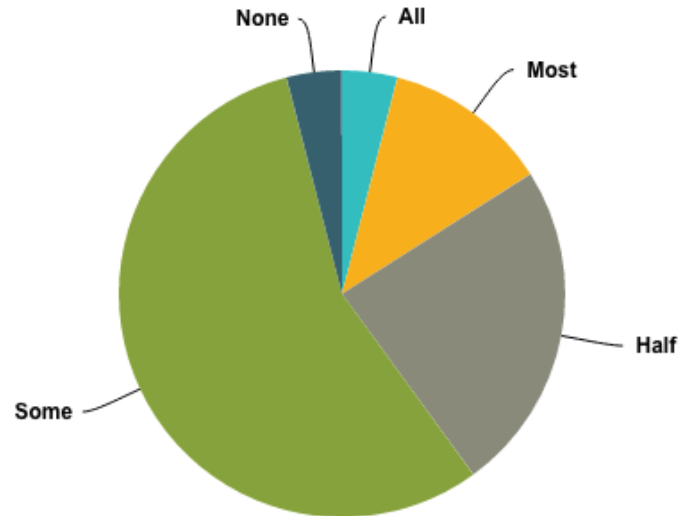
– Managing Director, Boston-based Private Equity Firm

7. When conducting Operational Due Diligence, which of the following resources do you draw upon? Multiple selections can be made.



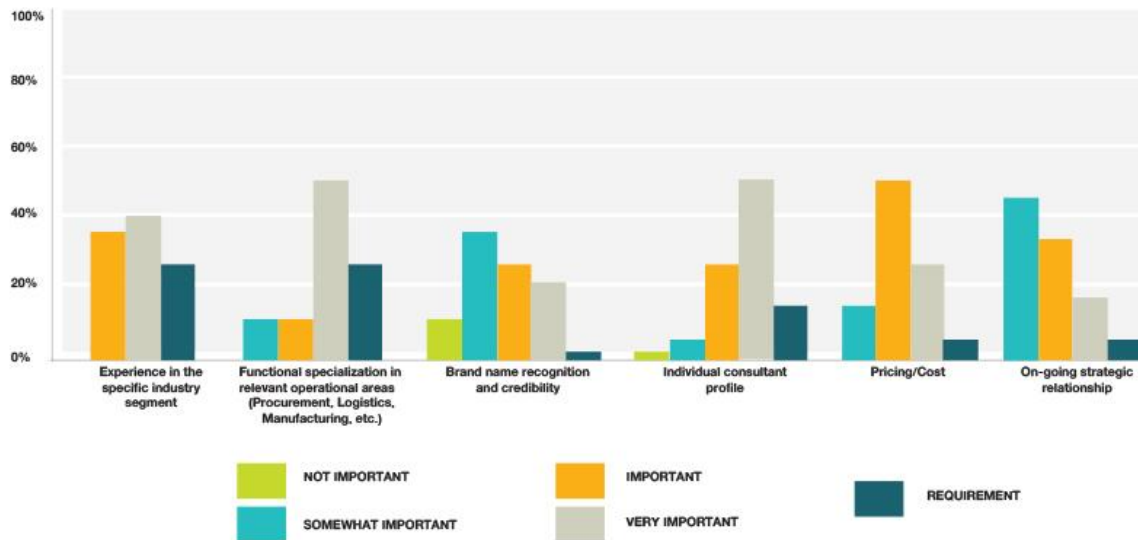
Over two-thirds of respondents leverage industry executives or internal operating teams, rather than relying entirely on the deal team or an external consultant. However, 48% of European firms and 52% of US firms report that they have used an external consulting firm to help them to navigate the path of ODD.

8. What portion of the investment thesis is typically related to Operational Due Diligence when you conduct it?



Encouragingly, most firms recognize that operational improvements do form some part of the investment thesis, however firms that do not focus on the value creation potential for operational improvements across the [Six key timing drivers across the investment lifecycle](#) will be missing a trick.

9. When utilizing outside experts to conduct Operational Due Diligence, how important are the following characteristics?



We asked respondents to rank the importance of a range of characteristics when utilizing outside experts. Unsurprisingly, cost is an important consideration. However, across the board, respondents rank the functional specialization and industry experience in relevant operational areas highly. This supports the findings of our [2015 Operating Partner's survey](#) in which 90% of respondents indicated that they utilized external expertise on an as-needed basis and which clearly highlighted the on-going trend of increasing importance that both Private Equity firms and their LPs place on operating capabilities.

"We selected Maine Pointe as our partner in operational due diligence because of their deep food industry expertise and specialization in food-related procurement, logistics and operations. Their subject matter expertise complemented our deal team's understanding of the industry and highlighted operational value creation opportunities that would have otherwise gone unnoticed."

– Senior Vice President, Global Private Equity Firm

Conclusion

Operational Due Diligence, which is the assessment of the potential operational value creation opportunities of a potential acquisition target, is the necessary first step towards understanding underlying opportunities in growing EBITDA and cash flows through operational improvements.

This snap shot survey, supported by a set of face-to-face interviews in both North America and Europe provides valuable insight into investor attitudes and trends in performing Operational Due Diligence on their Private Equity investments.

The results reveal that most PE firms in both Europe and the US recognize the value of due diligence services for M&A. 90% state that it has an impact on the eventual bid price or valuation of a target acquisition and all respondents agree that it plays an important or very important role in their decision making process. However, only 29% of firms indicate that this is currently a requirement. This indicates that ODD is not yet fully embedded within the investment cycle. Embedding a reliable approach will ensure firms consistently identify supply chain savings & improvements, increase bidding competitiveness, reduce acquisition risks, and are on the front foot to accelerate time-to-value creation.

It is apparent that Operational Due Diligence will play an increasingly important role in future investment decisions. 40% of respondents state that ODD will become a requirement for their firm within the next 2 years. However, there is a lack of consensus regarding the depth of Operational Due Diligence and the level of influence it has on the investment thesis.

To find out how Maine Pointe defines Operational Due Diligence and helps Private Equity firms improve insight pre-acquisition and accelerate value post-acquisition, [click here](#).

About the Survey

This snap shot survey was conducted online and through confidential direct conversations with 35 Private Equity executives across the United States and Europe during July and August 2016. A majority of respondents were Managing Partners/Founders and Partners based in countries including the United States, German, France and Great Britain. The executives represented a wide variety of industry sectors and companies ranging in size from small to large, with an average of US\$11 billion in assets.

About Maine Pointe

Maine Pointe's Private Equity engagements have collectively delivered a ROI in excess of 4:1 for more than 45 global PE firms and over 100 portfolio companies.

Maine Pointe is an operational, implementation-focused consulting firm that works with Private Equity firms and their portfolio company executives around the world to rapidly increase EBITDA and cash flow.

Private Equity Snap Shot Survey 2016

Our teams of industry specialists deliver implementation services that drive sustainable benefits across the areas of procurement, logistics and operations in both asset intensive and asset light businesses.

We work with Private Equity firms during pre and post-acquisition Operational Due Diligence to uncover supply chain and operations-oriented value creation opportunities. The insights from our diligence findings arm our Private Equity partners with the facts, figures and confidence levels needed to raise their competitiveness when bidding for acquisition targets and lower their risks of acquiring unwanted assets with limited upside potential. Operational Due Diligence is also critical in identifying and sizing priorities for performance improvements during the first 90-180 days and beyond, thus helping accelerate your time-to-value creation.

Our Private Equity Experts



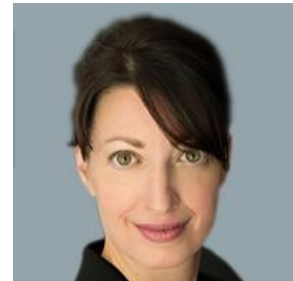
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Have a particular due diligence challenge you would like to discuss? Want to find out more? Talk it through in a no obligation phone call or meeting with one of our executives.

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