

IDENTIFYING OBJECTIVE, TANGIBLE OPPORTUNITIES FOR GROWTH (PRE-SALE)

A typical private equity fund has at least one company in the portfolio that it is preparing for sale at any given point in time. And part of that sale preparation should involve a thorough strategic plan review, complete with a thorough analysis of future growth options for the Company. While the investment banks always include a list of strategic growth opportunities in their CIMs, they are often boiler-plate, abstract growth options. Clearly, there is value in creating a credible, tangible set of options for growth that a potential buyer can review in the data room. If this objective list of growth options is created by a third-party consulting firm, it presumably carries more weight and substance than a generic list of growth options in a bank book. Potential buyers are more likely to become excited about growing the business if they see a timely, relevant consulting study outlining real opportunities.

Timing

The timing of a sale, is difficult to get right. Selling at a point when the owner has created healthy returns for its investors, yet

leaves plenty of upside for a prospective buyer can be tricky. Owners should

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recognize that the ideal time to sell is a period when the external market environment is favorable (market trends are good, competitive pressure is low, acquisition multiples are high, customer needs are significant) and the internal capabilities of the Company are relatively strong. Moreover, the Company is able to communicate/promote that ability to customers. A determination that those conditions are present could be the result of a growth opportunity assessment by a consulting firm.

Sellers will want to conduct a growth opportunity assessment roughly one year before they expect to pull the trigger on a sale process. Why the long gestation period? There is a chance that the study will illuminate some growth opportunities that warrant/demand positioning adjustments so

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that the Company appears legitimately capable of taking advantage of

these opportunities. On the negative side, there may be some external “skeletons in the closet” that need to be resolved (disappointed customers contemplating a switch, new competitive threats, challenging market trends on the horizon). In the remaining eleven months or so since the study, the Company could make adjustments to accentuate the upside and reduce or eliminate the downside risks. And the consulting firm that conducted the original study could easily update its work product to reflect the upside opportunities closer to the time of the sale process.

The content of the study

The pre-sale growth opportunity assessment includes Market elements, Customer elements, and Competitor elements.

The Market research typically results in the following analyses:

- Market definition and size
- Market segmentation percentages
- Market share breakdown
- Market growth rate
- Drivers of growth
- Trends and dynamics impacting growth
- Growth opportunities for the Company by channel, segment,

geography, customer, product type, etc.

- Identification of the best fit, by segment, for growth -- based on the Company's competencies
- General description of market opportunities and threats
- Identification of “wildcard” opportunities that competitors are not yet aware of
- Leadership position of the Company

The Customer research typically results in the following analyses:

- Customers' and prospects' purchase decision criteria
- Ratings and rankings of the Company and other suppliers against the purchase decision criteria
- Customer and prospect loyalty and ease of switching
- Unmet customer needs

The Competitor research typically results in the following analyses:

- Identification of known and unknown/indirect competitors
- Strengths and weaknesses of competitors
- Strategic opportunities being pursued by competitors

The methodology

The most effective methodology for growth opportunity assessments in the obscure, niche segments of middle market portfolio companies is qualitative primary research. For Acclaro Growth Partners, qualitative primary research means candid, direct, person-to-person telephone conversations with a wide range of industry experts in four components of the industry: suppliers, competitors, third party experts (associations and industry expert consultants, for example), and customers. Acclaro conducts these conversations blindly, without revealing the identity of its PE client or the portfolio company -- or the ultimate purpose of the conversations.

The best primary researchers are "Renaissance" men and women. They are knowledgeable about a wide range of subjects and are able to carry on conversations fluently, with interest, and in a way that generates enthusiasm from the conversational participant. Analysts build rapport with phone contacts and develop meaningful, interesting, two-sided, dynamic, and mutually useful conversations with their contacts.

Conclusion

Maximizing returns for investors is the primary purpose of a private equity acquisition. And doing so often hinges on the timing of the sale. Identifying when a prospective buyer will value the Company the most, in the shortest possible period of time, is difficult. But the struggle can be aided by a Pre-Sale Growth Opportunity Assessment. This consulting study will allay concerns of buyers about market conditions, competitive positioning, and customer relationships. And it provides tangible, objective and credible options for the buyer to grow the business, post-close. The result is increased confidence in a higher offer by a prospective buyer.

Christopher "Kit" Lisle is Managing Partner with Acclaro Growth Partners, a research-based consulting firm for private equity groups. He can be reached on 703.434.3597 or by emailing kit@acclaropartners.com