PE Value Creation Benchmark Survey 2025

Presentation to the Institute for Private Capital – June 2025

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Contents

About the study

The rise of operational value creation and the Operating Partner role has been one of the defining evolutions of the past 20 years in private equity.

With rising financing costs and fewer opportunities for multiple expansion, these roles are now crucial. Their efforts can not only drive ROI, but also uncover unforeseen risks that threaten to derail a deal.

Firms have invested in various models, from in-house generalist advisors to specialized teams and external advisors.

The EY Private Equity Value Creation Benchmark Survey analyzes industry practices in diligence, value creation initiatives and the staffing and deployment of operating resources. It examines the types employed, their allocation, and the merits of different approaches.

About the study

Survey brief

The EY Private Equity Value Creation survey covers responses from PE firms on advisor selection, due diligence process, value creation approach, and operating resource strategy.

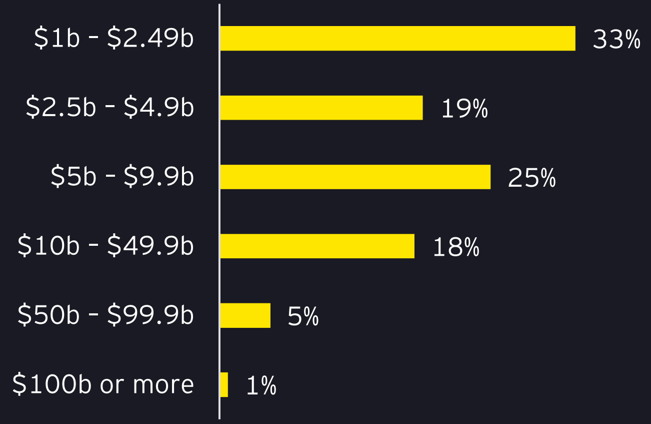
The telephonic survey was conducted during 5th August to 20th September 2024.

The respondents consist of 128 executives from PE firms with $1 billion or more in assets under management (AUM), with

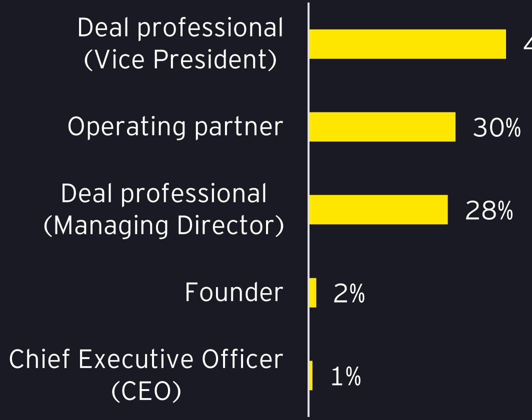
- 77% of the respondents from North America and Europe, and
- 68% of the respondents being deal professionals (VP/MD)

Demographics

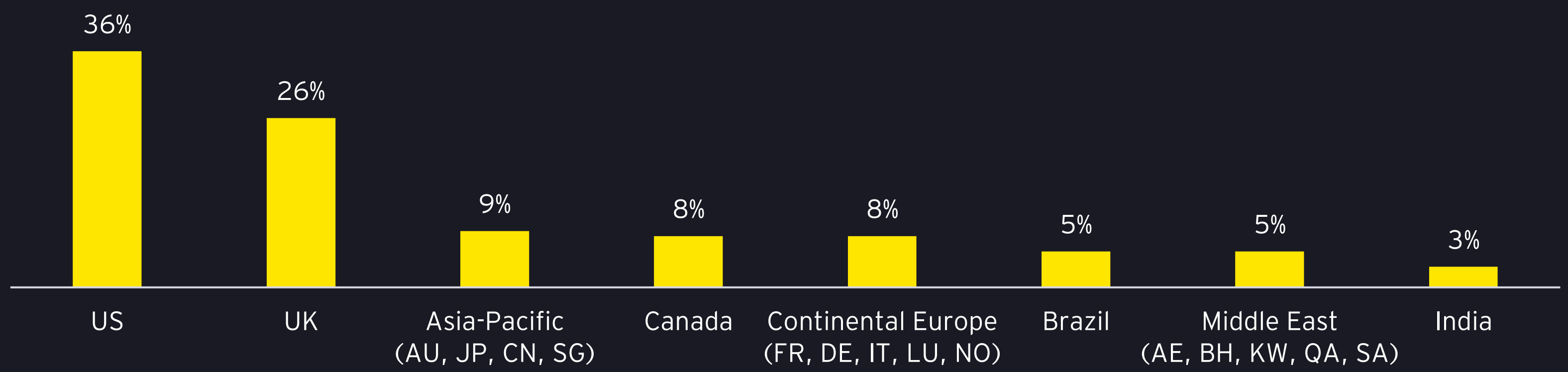
Asset under management LFY (USD)



Primary role of respondent



Organization HQ country

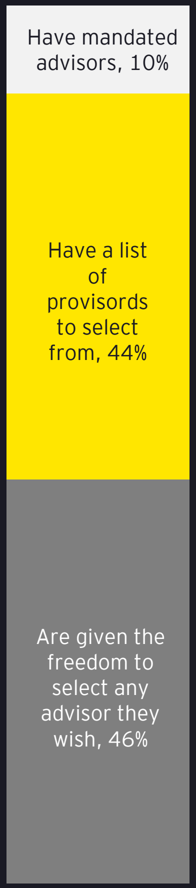


01

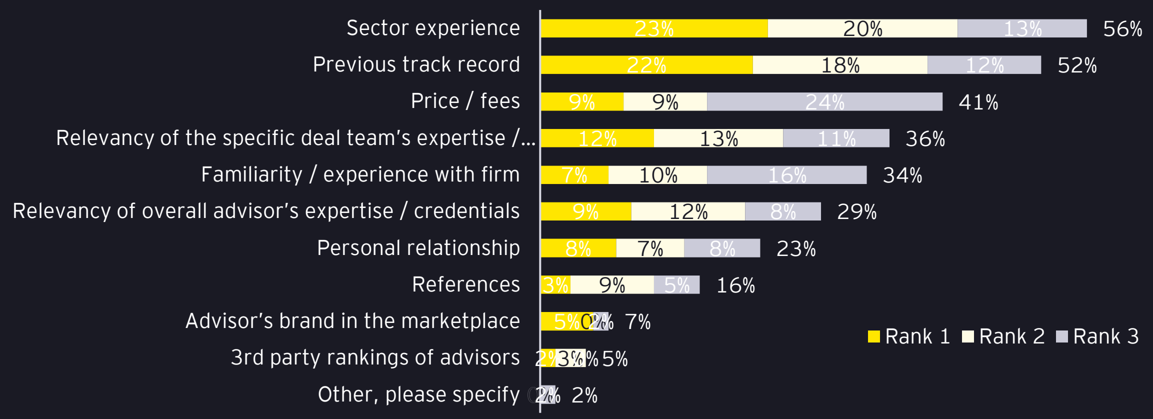
Pre-deal and value creation areas of focus

While universal priorities exist, firms take different approaches to diligence

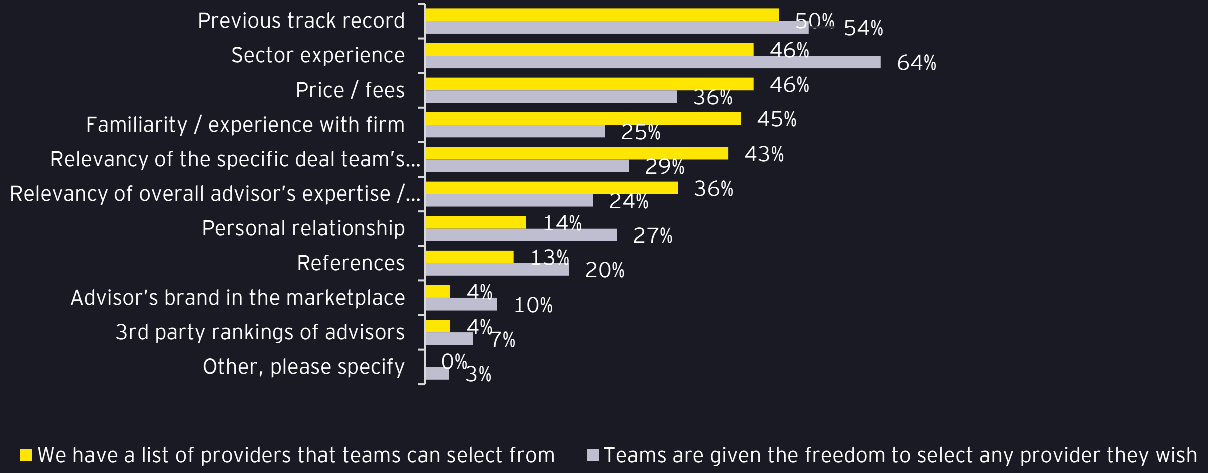
Sourcing diligence providors



Sector experience, track record, and price are the most important selection criteria



When teams are given complete freedom, they tend to go for specialized sector experts or boutiques



Universal priorities

Sector experience, track record, and value provided are far and away the most important selection criteria all firms use when selecting advisors.

Two approaches

Firms are equally split between those with the freedom to select any advisor they wish and those with a short list of preferred relationships. Both models see the same level of unforeseen risks and similar value creation outcomes (relative to plan).

1 Loyalists - firms with a short list

Loyalists use the same firm repeatedly and value the relevancy of the specific deal team's expertise. They're also more price sensitive.

2 Specialty Seekers - firms with freedom to select anyone

Specialty Seekers value deep sector experience above all else. They hire people, not firms. They're less likely to use the same providors for the diligence and the post-close work (often/always – 56% vs 79%). They're less price sensitive and more likely to be satisfied with the value they receive (49% vs 34%).

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Are MDs and Ops Partners happy with their firms' approach?

Overall, most firms are satisfied with the quality of the team and the level of engagement they receive.

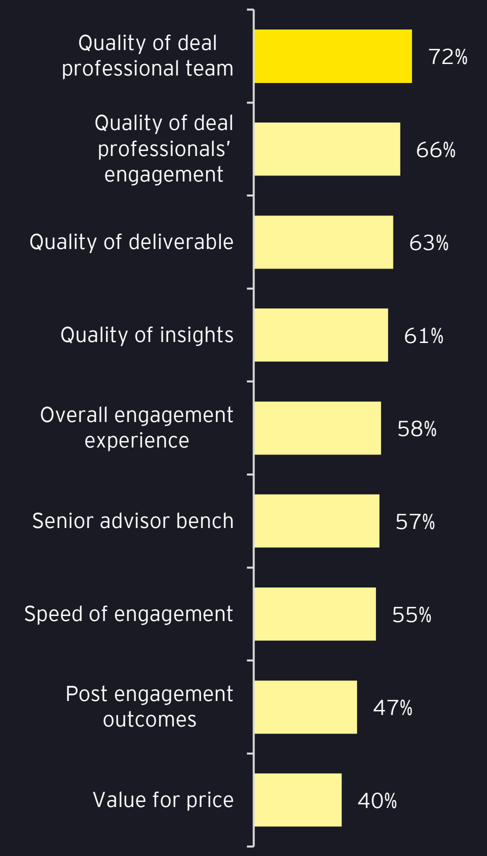
They're less enthusiastic about the speed of the engagement, the post-engagement outcomes, and the value they're receiving.

Differences exist, however, between firms with full freedom and those selecting from a list (Loyalists versus Specialty Seekers)

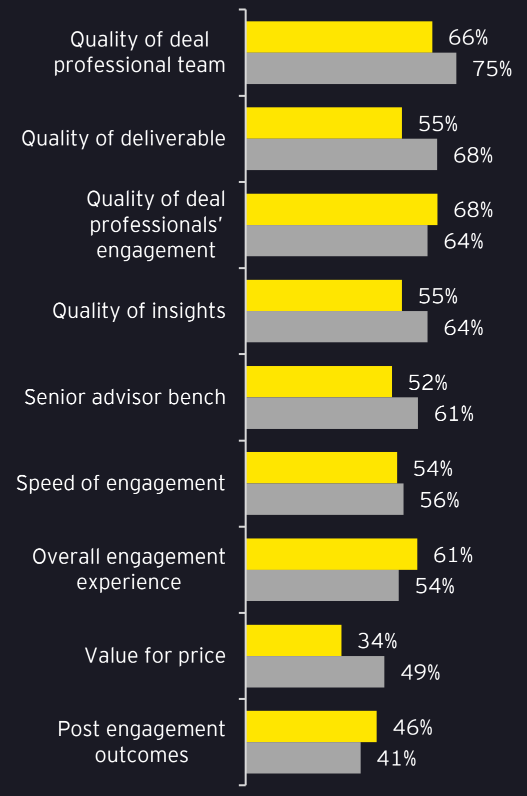
Loyalists tend to be slightly more satisfied with the overall engagement experience.

Specialty Seekers are generally more satisfied with the quality of the team and the deliverable; and the quality of the insights they receive. They're also more satisfied with respect to value for price.

Overall levels of advisor satisfaction



Satisfaction levels by advisor selection process

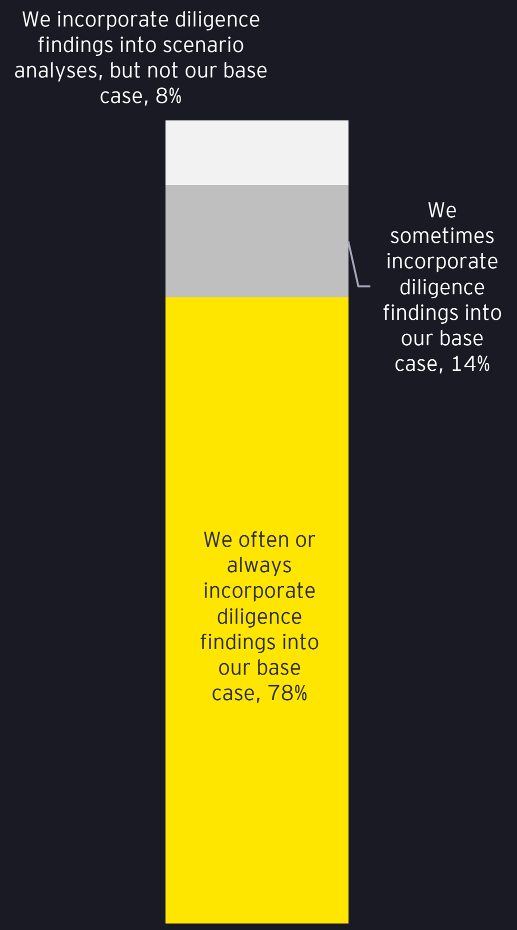


Selection criteria for post-close work

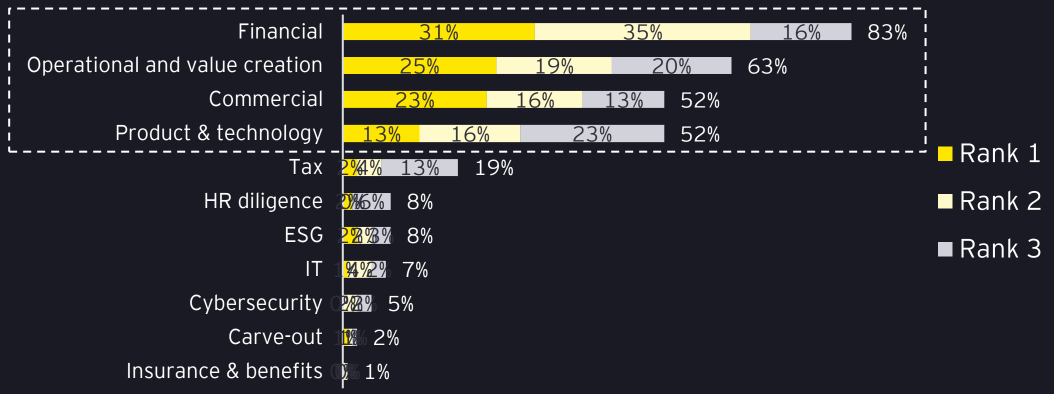
We have a list of diligence providers we can select from

Teams are given the freedom to select any advisor they wish

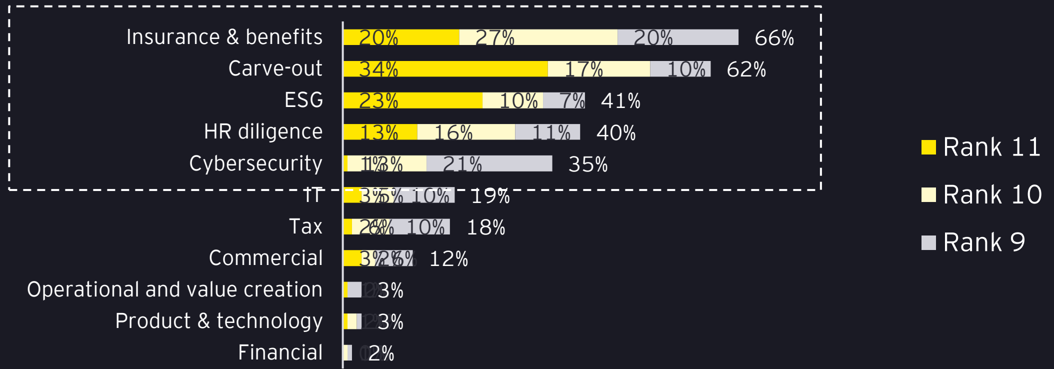
The most significant changes are in Cyber, ESG, and IT



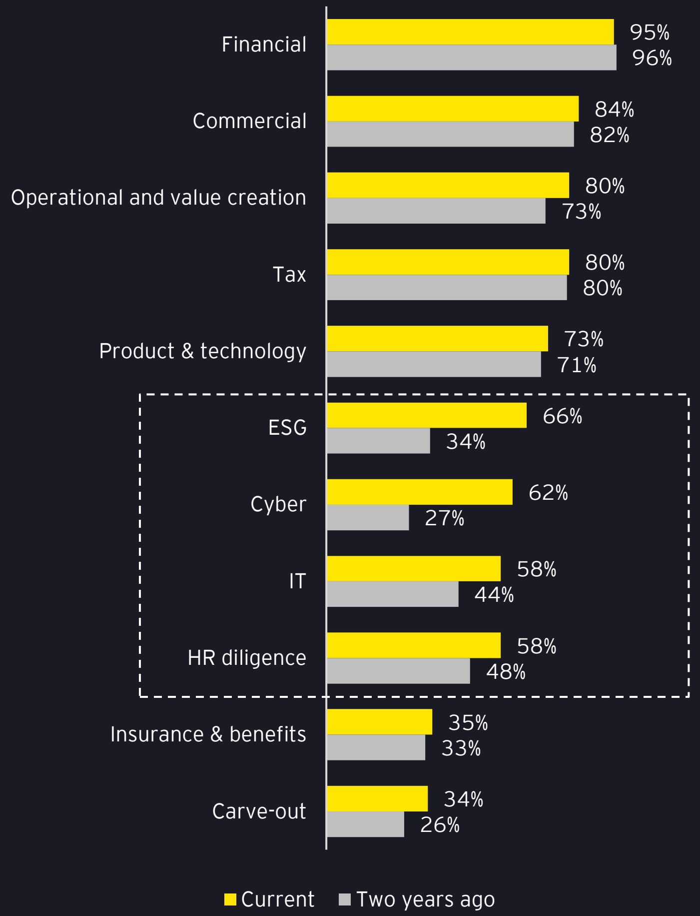
Diligence areas for deal underwriting – most important



Diligence areas for deal underwriting – least important



Change in diligence focus areas across years

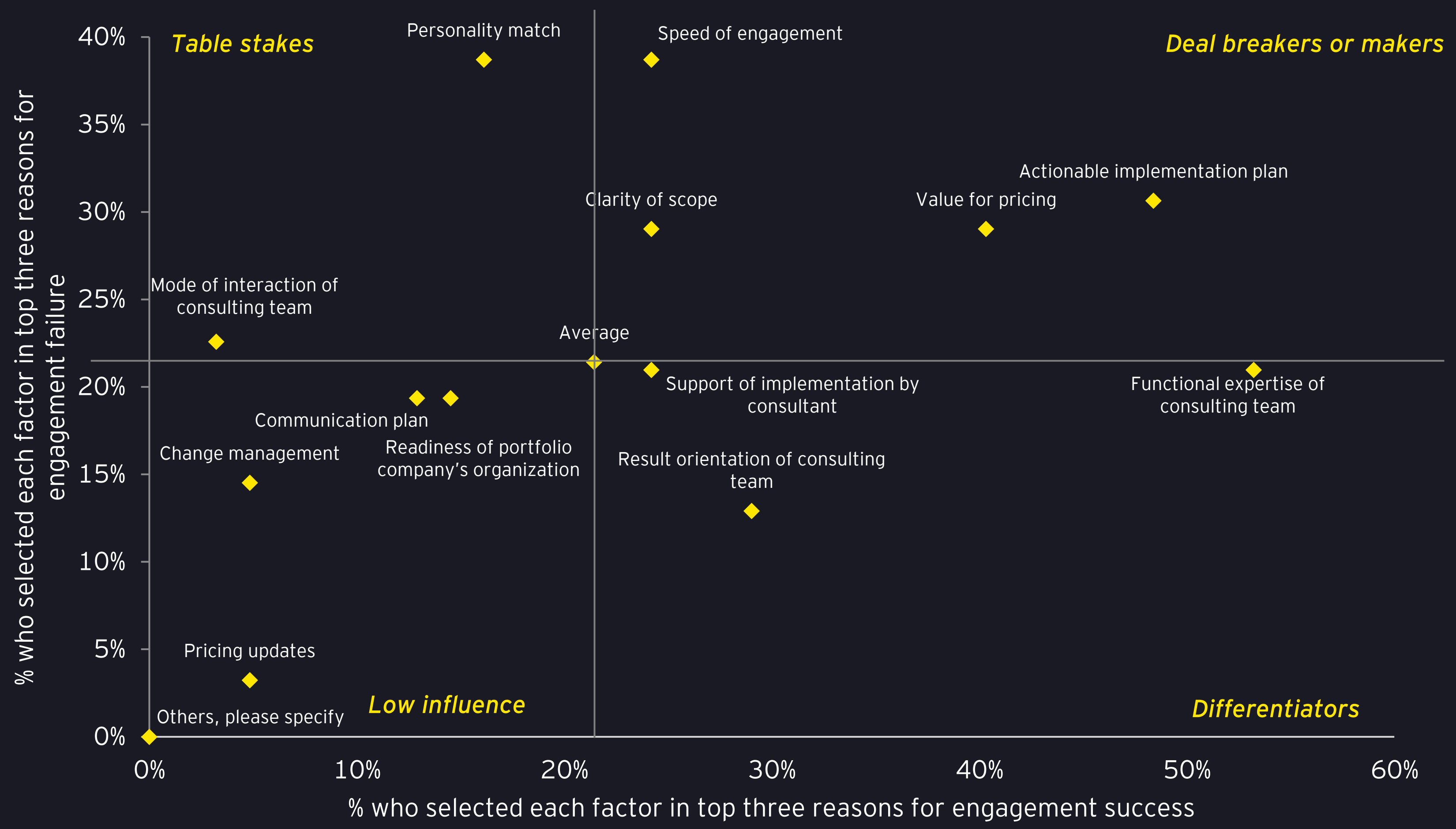


What makes engagements go well? What makes them go poorly?

When things go wrong, it's most commonly a function of a personality mismatch, timelines not meeting expectations, or to a lesser degree lack of an actionable implementation plan, limited clarity in scope, or a perceived lack of value.

When things go well, it's most commonly teams that brings the right skills to the table, and the ability to construct an actionable implementation plan.

Reasons engagements go well or poorly (ranked in top three)



24% of deals experience unforeseen risks - how can you minimize?

24% of deals

encounter unforeseen risks, not identified during the due diligence phase

10% the 'least

exposed' quartile of PE firms encounter unforeseen risks in 10% transactions; the 'most exposed, 45%

76% Reducing your

unforeseen risks leads to hitting your ROI targets more consistently – firms that do this achieve target ROI for 76% of transactions vs 68% for others.

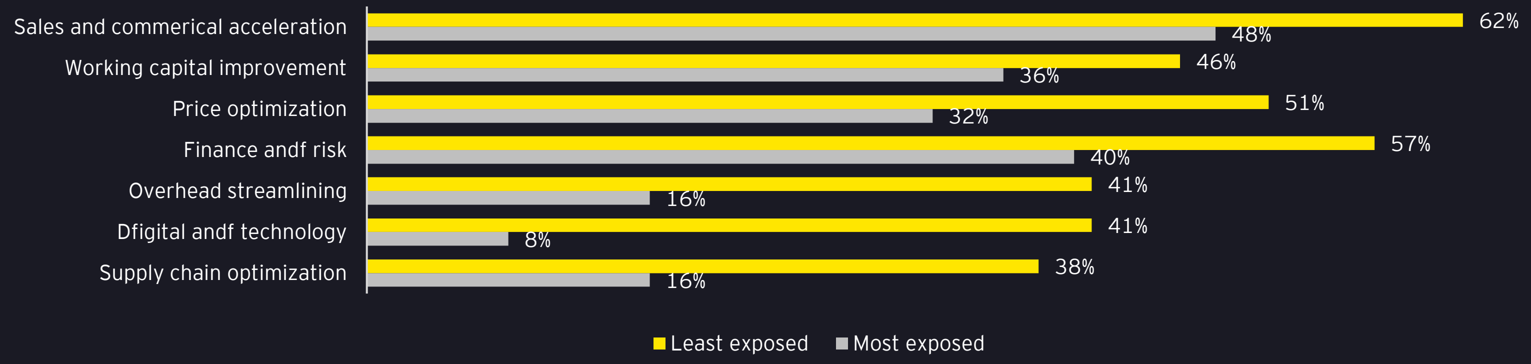
Best-in-class firms tend to explore a broader array of value creation levers as part of the diligence process. In particular, **capital efficiency, pricing and supply chain.**

Capital efficiency and working capital: The best risk managers spent time and resources on capex efficiency and allocation - 57% of the time, vs 42% for the worst risk managers. They focused on working capital improvement 57% of the time, vs 38% for the worst risk managers.

Pricing: The best risk managers looked at pricing 55% of the time, versus 35% for the worst

Supply chain: The best risk managers looked at supply chain 38% of the time, versus 15% for the worst

Better information leads to increased confidence: How often do firms underwrite their value creation diligence into their VC plans? 'Least exposed' quartile vs. 'Most exposed'



Finance optimization and topline growth provide surest path to ROI

On average, PE firms said their **overall value creation thesis**

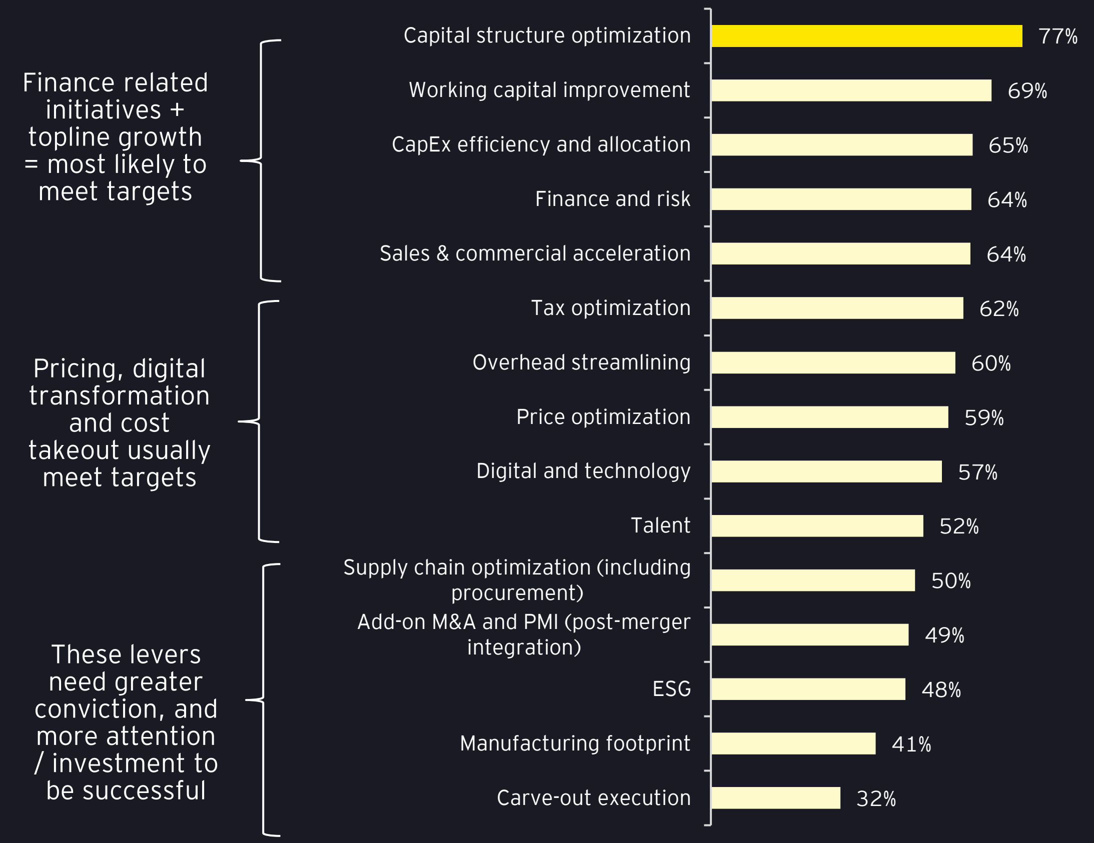
achieved its target ROI 73%

of the time.

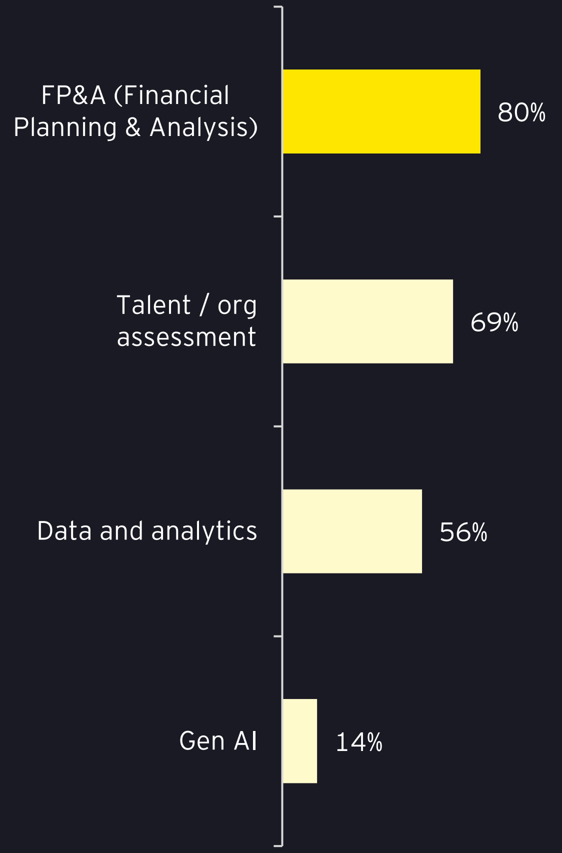
Firms spent an average **7.9%**

of planned annual EBITDA lift (excluding market-growth) on advisors for value creation initiatives.

How often does each value creation focus area, at a minimum, achieve its target ROI? (Often or always)



Other areas of post-close focus



02

Operating team archetypes

Firms deploy a wide range of resourcing models to support their portcos: five operational archetypes

Narrowly Specialized

Internal Ops Team Makeup

Generalist

E — Specialist

Fund mandate is heavily striated toward a specific sector, deal type or functional transformation (e.g. Tech / software). Ops team is aligned to investment strategy

B — Growth Investors

Acquires high potential businesses with a major focus on market competition and pricing. Strong commercial skew

A — Traditional

Pursues mainstream LBOs, with senior generalist operations resources coordinating external advisors throughout the deal lifecycle

C — Interventionist

Transformational investment thesis. Full suite of senior operating team resources (i.e. sector, functional and generalists) with execution bandwidth. Comfortable investing in businesses with significant execution challenges e.g. operating performance improvement / complex carve out. Comfortable enacting Management change

D — Senior External

Maintains a network of highly experienced former C-Suite with strong sector specialisations. These are placed on PortCo boards

Management-led

Operating approach

Fund driven

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There is no one "correct" approach, but GPs will/should have a resource structure aligned to their archetype

	Traditional	Senior External	Growth-oriented	Interventionist	Specialist
Definitions	Operating team is relatively small and skewed toward senior generalist resources who coordinate with external advisors throughout the deal lifecycle.	Similar to the Traditional model, but leverages a network of senior specialized operating advisors, especially former C-Suite executives with strong sector specialisations who are placed on portfolio company boards and will often support in coordinating external advisors.	Invest in earlier-stage businesses with deal hypotheses focused on significant topline expansion and operational maturity. Operating team is skewed to commercial functional capability, and relatively small with respect to back-end management.	Full suite of senior operating team resources (i.e. sector, functional and generalists) with execution bandwidth. Comfortable investing in businesses with significant execution challenges (for example, operating performance improvement, or complex carve-outs).	Fund has a highly specific mandate in the market (e.g. tech investor) and therefore operating team skewed to specialized sector/functional teams

From survey	*Traditional (33%)*	*Senior External (14%)*	*Growth-oriented (24%)*	*Interventionist (12%)*	*Specialist (17%)*
Average advisor spend (as a % of Ebitda lift)	8.3%	7.9%	8.9%	4.8%	8.0%
Ratio of portcos to Ops Partners	4.2	2.8	5.0	2.4	3.7
Playbook?	No	No	Yes	Sometimes	Yes
#1 Due diligence (Always %)	Capital structure optimization (64%)	Capital structure optimization (78%)	Finance and risk (52%)	Sales & commercial acceleration Working capital improvement (67%)	Finance and risk (64%)
#1 Underwriting (Always %)	Sales & commercial acceleration (58%)	Sales & commercial acceleration Capital structure optimization (53%)	Sales & commercial acceleration Finance and risk (42%)	Sales & commercial acceleration (57%)	Finance and risk (52%)
#1 Post value creation plan (Always %)	Sales & commercial acceleration (57%)	Capital structure optimization Working capital improvement (72%)	Sales & commercial acceleration (71%)	Sales & commercial acceleration (73%)	Sales & commercial acceleration (68%)
Additional comments	Same advisor for due diligence and post-deal	NA	Least satisfied with advisors	Picks familiar advisors and prioritises SC/Manufacturing	Sector experience for advisor, Talent/HR diligence

Impact of the Operating Partner

PE firms with a higher ratio of Ops Partners to Deal Professionals tend to have higher satisfaction with deal professionals, and a better overall engagement experience with due diligence advisors.

Firms with more Ops Partners also tend to hit value creation targets more consistently, with fewer unforeseen risks along the way.

Ops Partners/Deal Professionals	Quartile	Number of deal professionals to Ops Partners	Frequency of VC thesis hitting its target ROI over last 2 years	Percentage of transactions that encounter unforeseen risks
More	1	1.5	76.5%	21.5%
	2	2.4	70.2%	20.6%
	3	3.4	70.9%	22.3%
Fewer	4	8.1	70.7%	30.5%

Comp models need alignment with business outcomes, but this isn't always the case

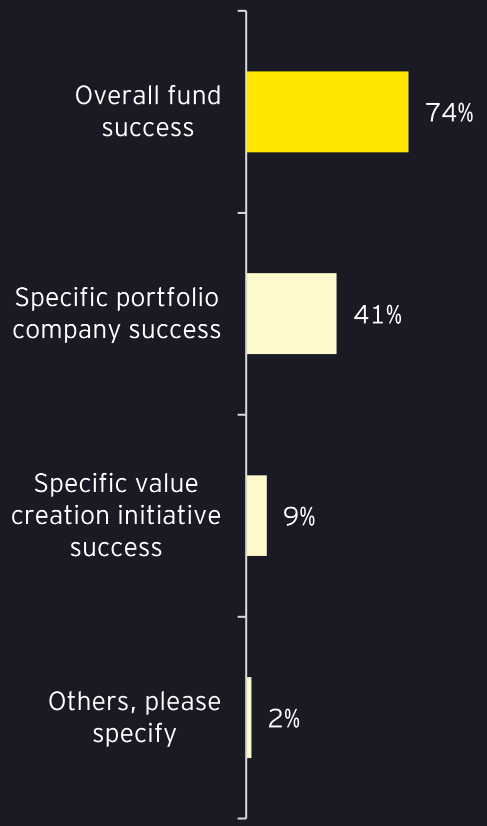
Most in-house Ops Partners are incentivized based on the success of the overall fund; and a significant minority have economics tied to the outcome of specific portcos. Very few are compensated on specific initiatives.

External resources are largely compensated on the fixed fee arrangement, with a little more than half also including success fees that are linked to quantifiable KPIs. Qualitative interviews confirm that the more senior the external resources are, the more likely they are to want compensation tied directly to outcome economics.

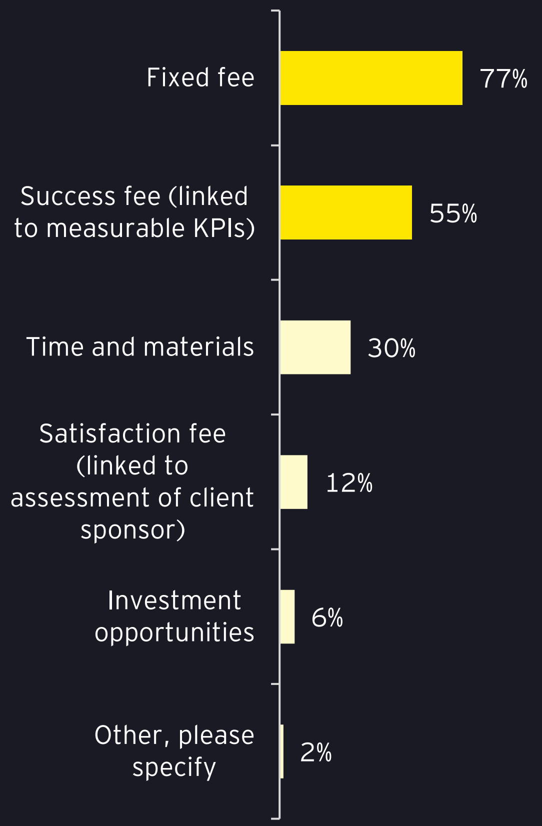
We see some dissatisfaction with the way that Ops Partners are compensated:

1) It's not always aligned to business outcomes – composed of base level of annual compensation, paid additional for board seats, and then some sort of LTIP. But mix can vary.
2) There's a lack of uniformity, especially with more senior professionals – depending on when someone cut their deal, they could have a dramatically different comp arrangement than the next person.
3) There is a desire to move toward a standardized pay-for-performance model.

On what basis are in-house operating partners incentivized in their compensation?



How are external operating resources compensated?



"I'd like to change the way they're compensated for more pay-for-performance. We're moving in that direction, toward a model where folks that are on more boards or have more day-to-day responsibility are compensated appropriately. Something that better aligns their incentives with ours as a fund."

-MD, US$200b aum

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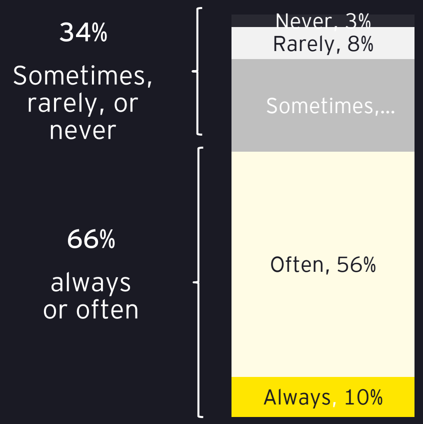
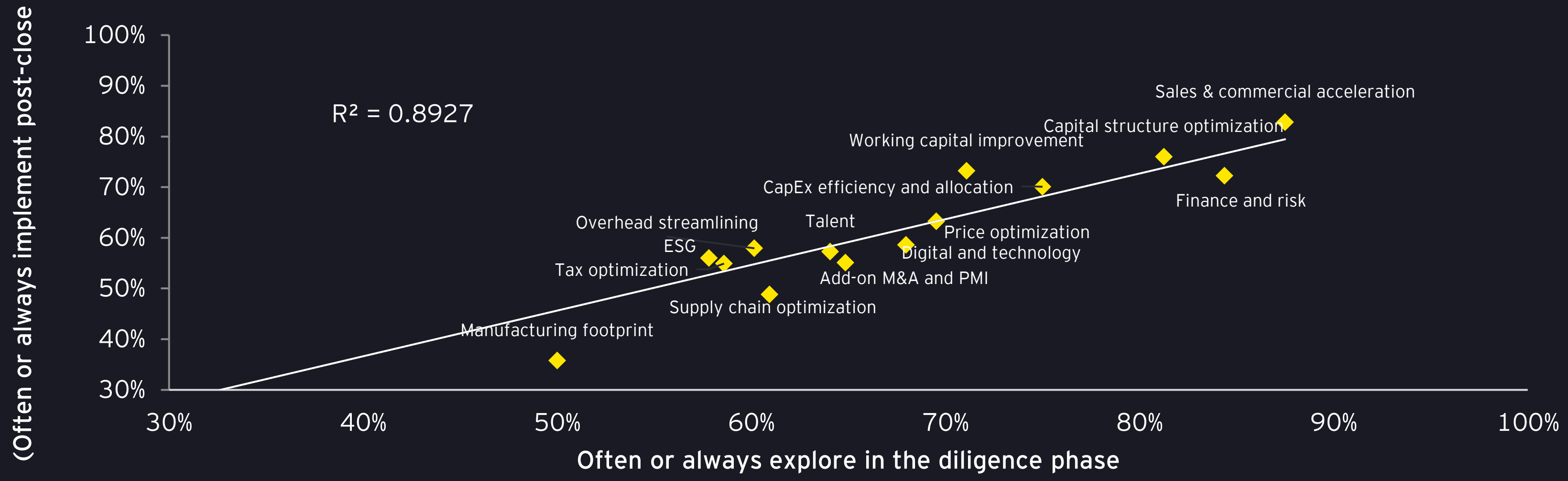
Appendix

Firms underwrite diligence findings in value creation areas to varying degrees based on the lever

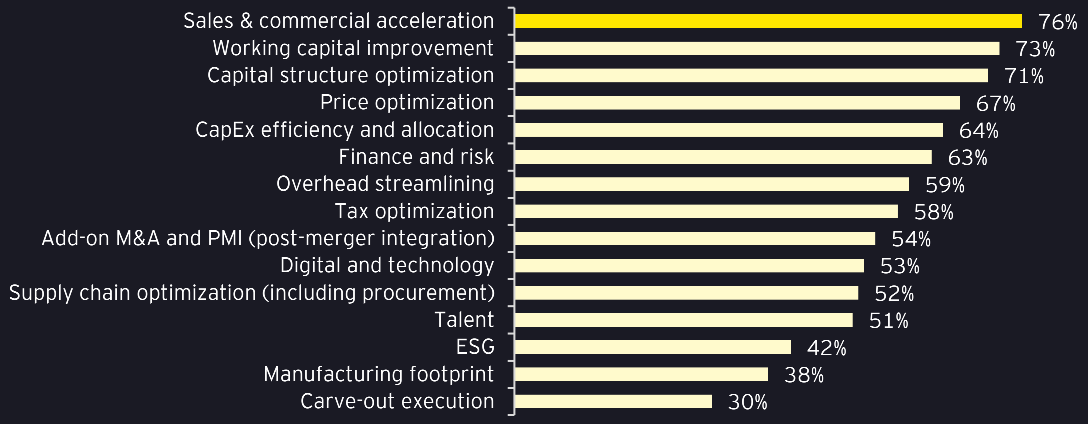
How often are you using the same advisors to support post-close implementation work that you used for diligence?



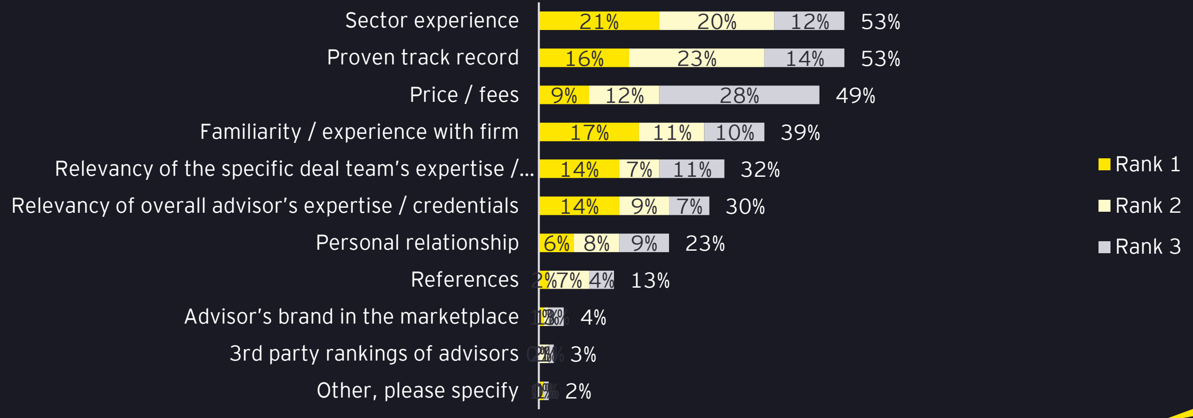
How often do firms explore vs implement VC areas?



How often are diligence findings included in base case underwriting? **(Often/Always)**



Which of the following are the most important criteria for selecting advisors for post-close work?



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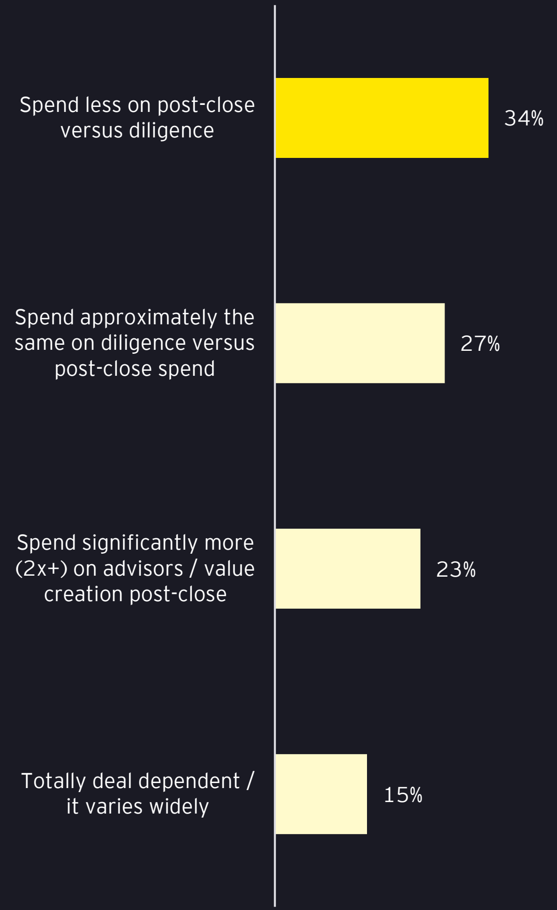
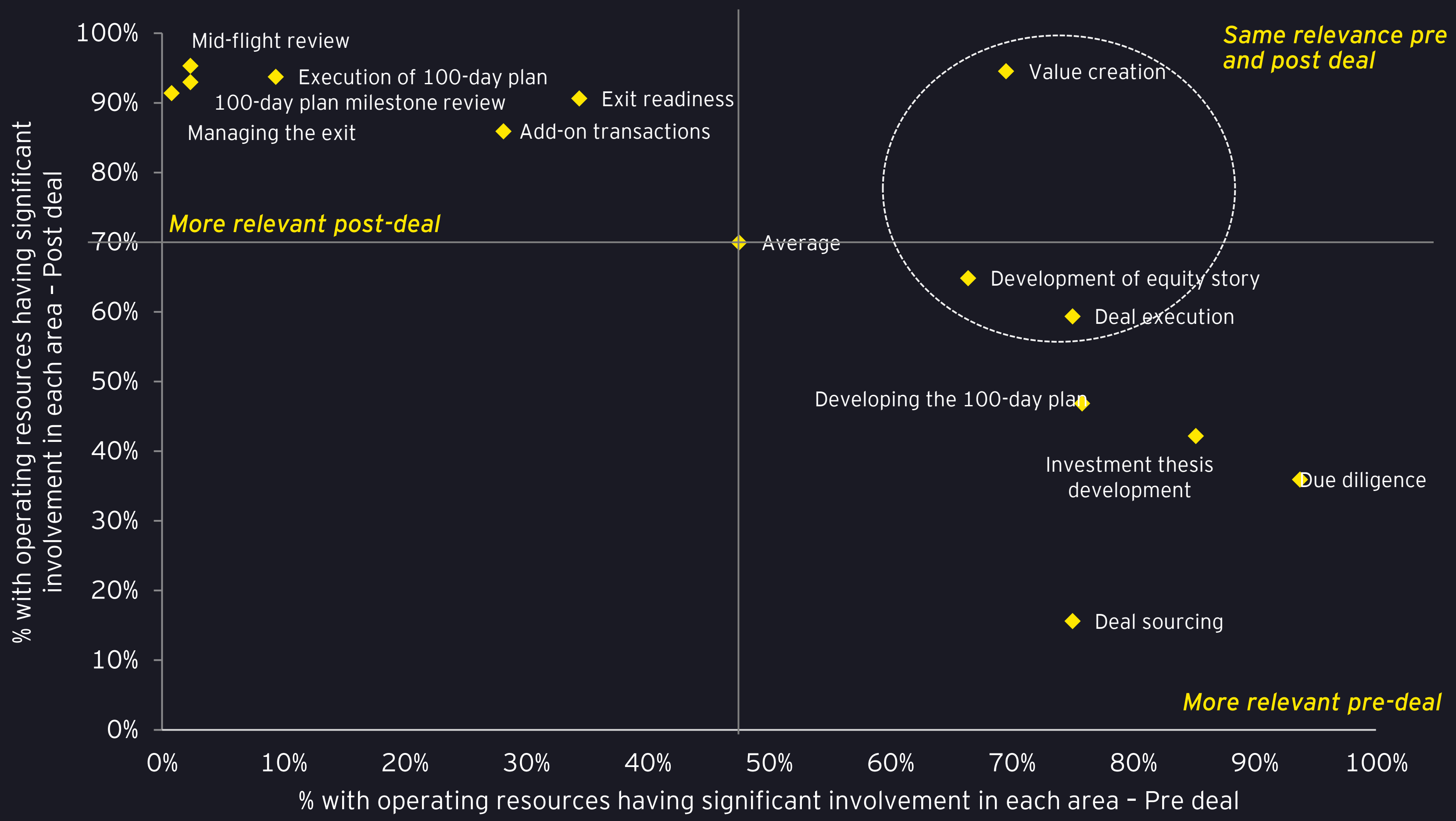
Where and when do ops resources get involved?

How do firms' diligence spends typically compare to post-close spend?

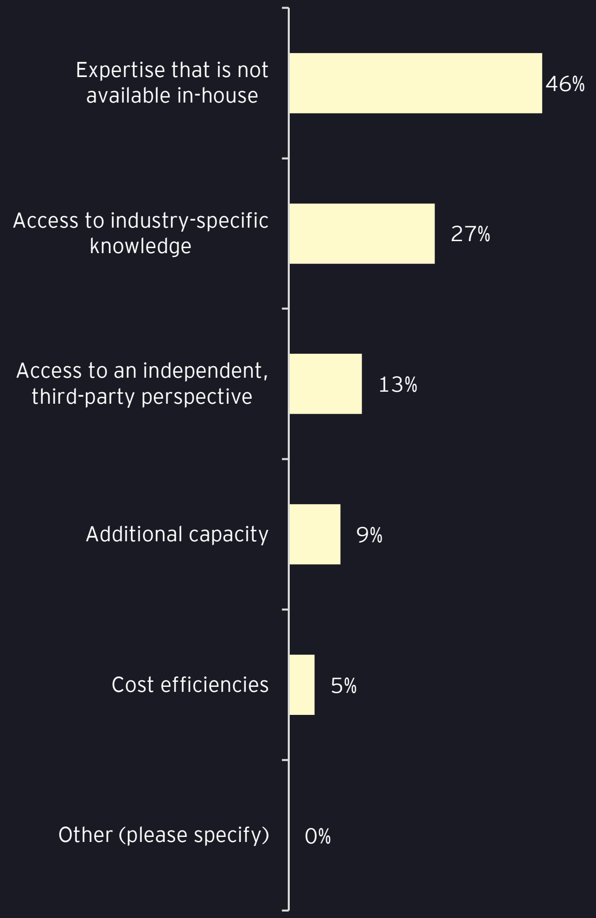


During the pre-deal and post-deal phases, what areas do operating resources (whether in-house or hired) typically have significant involvement?

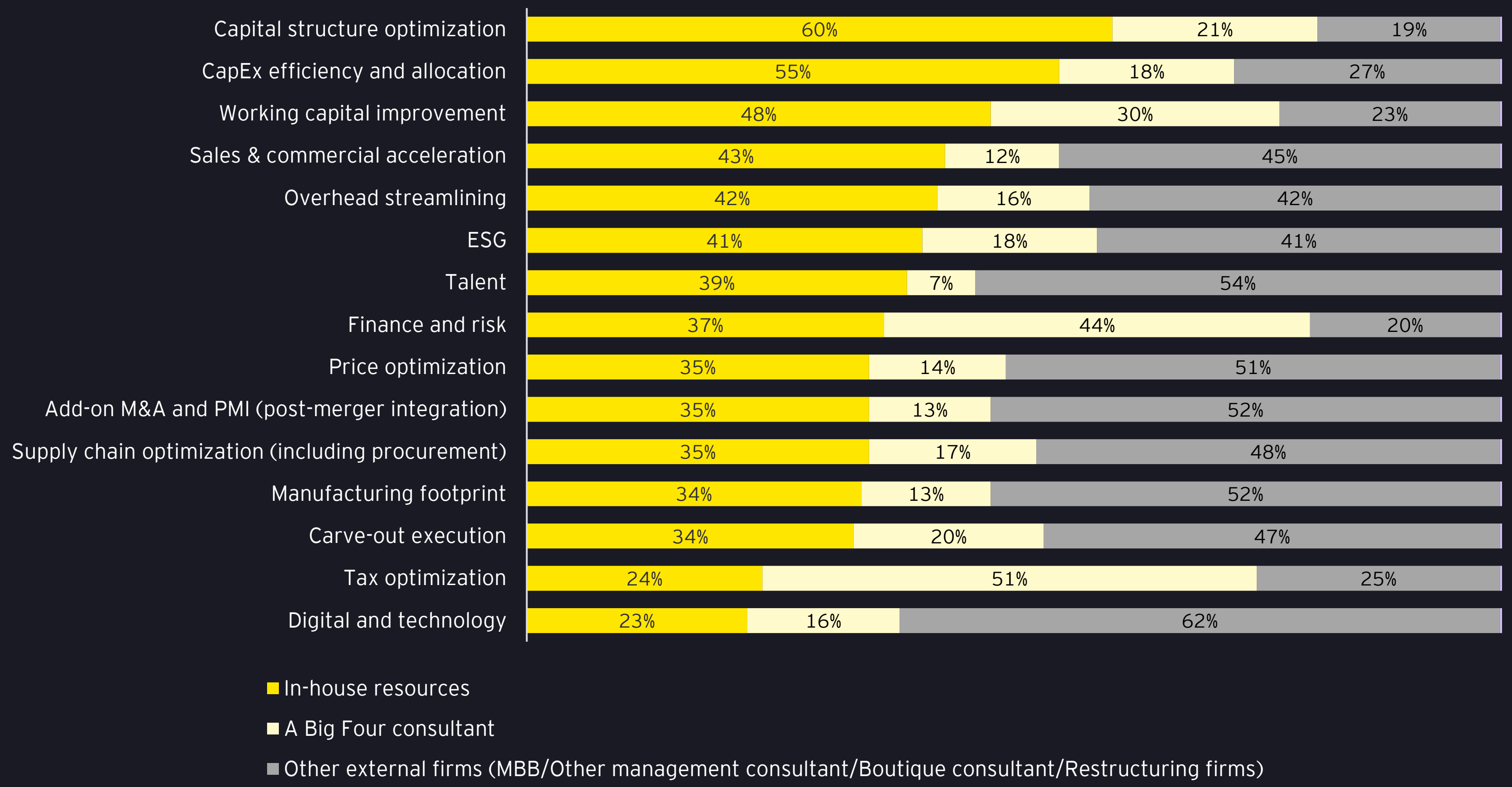


Digital transformation, tax, carve-outs, and supply chain are all areas where firms rely more heavily on third-parties

Why do firms seek external advisors?



Which value creation expertise resources do you most commonly use for each of the following areas? (In-house resources vs Big 4 vs Other external firms)



Who do firms use to implement various value creation levers?

When they have them, firms utilize in-house resources across most value creation areas. The exceptions? Tax Optimization and Digital and Technology

Big4 most preferred for:

- Tax optimization
- Finance and risk
- Working capital improvement
- Capital structure optimization
- CapEx efficiency and allocation
- Supply chain optimization
- Manufacturing footprint

Boutique consultant/Restructuring firms for:

- ESG
- Add-on M&A and PMI (post-merger integration)
- Talent

Other management consultant (e.g. OY, ATK)

- Overhead streamlining

MBB most preferred for:

- Sales & commercial acceleration
- Price optimization

Big4 vs Boutique consultant/Restructuring firms

- Carve-out execution
- Digital and Technology

Firms working with a list of preferred advisors

Row %	In-house resources	Big Four	MBB	Other management consultant (e.g. OY, ATK)	Boutique consultant + Restructuring firms (e.g., A&M, Alix)
Tax optimization	27%	50%	4%	4%	16%
Finance and risk	39%	43%	7%	4%	7%
Working capital improvement	54%	25%	4%	11%	7%
Capital structure optimization	66%	18%	4%	4%	9%
CapEx efficiency and allocation	54%	16%	11%	7%	13%
ESG	36%	18%	2%	18%	27%
Carve-out execution	27%	23%	11%	16%	23%
Add-on M&A and PMI (post-merger integration)	34%	13%	14%	14%	25%
Overhead streamlining	34%	18%	14%	23%	11%
Supply chain optimization (including procurement)	27%	25%	11%	20%	18%
Sales & commercial acceleration	46%	13%	27%	9%	5%
Price optimization	30%	16%	23%	14%	16%
Digital and technology	16%	27%	11%	20%	27%
Talent	43%	7%	7%	16%	27%
Manufacturing footprint	25%	23%	14%	20%	18%

Firms with freedom to select any advisor

Row %	In-house resources	Big Four	MBB	Other management consultant (e.g. OY, ATK)	Boutique consultant + Restructuring firms (e.g., A&M, Alix)
Tax optimization	19%	56%	2%	5%	19%
Finance and risk	34%	46%	0%	12%	8%
Working capital improvement	46%	34%	3%	10%	7%
Capital structure optimization	58%	24%	5%	5%	8%
CapEx efficiency and allocation	54%	19%	10%	3%	14%
ESG	42%	20%	0%	15%	22%
Carve-out execution	36%	17%	7%	8%	32%
Add-on M&A and PMI (post-merger integration)	37%	14%	12%	10%	27%
Overhead streamlining	49%	14%	10%	15%	12%
Supply chain optimization (including procurement)	39%	12%	19%	14%	17%
Sales & commercial acceleration	36%	10%	31%	12%	12%
Price optimization	37%	8%	24%	10%	20%
Digital and technology	27%	7%	5%	20%	41%
Talent	34%	7%	2%	29%	29%
Manufacturing footprint	42%	3%	17%	14%	24%

Big4 most preferred for:

- Tax optimization
- Finance and risk
- Working capital improvement
- Capital structure optimization
- CapEx efficiency and allocation

MBB most preferred for:

- Supply chain optimization including procurement)
- Sales & commercial acceleration
- Price optimization

Boutique consultant/Restructuring firms for:

- ESG
- Carve-out execution
- Add-on M&A and PMI (post-merger integration)
- Digital and technology
- Talent
- Manufacturing footprint

Other management consultant (e.g. OY, ATK)

- Overhead streamlining
- Talent

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