

KEYNOTE INTERVIEW

Value creation in good times and bad



Private equity has moved beyond a purely transactional culture, delivering added value and instilling resilience no matter the economic climate, says Nordic Capital's Peter Thorning

Q Why is it so important for PE firms to pursue operational excellence these days?

In the old days, private equity was focused on buying a company and exploring how much you could achieve through consolidation. That's still there, but to achieve genuine value creation in recent years it has been important to drive the operational agenda and really understand what you own.

Understanding what you own means understanding not just the company or the industry as a whole. You need to bring much more profound knowledge at the subsector level to contribute and

create genuine value, and this is even more important in challenging market conditions.

This deep level of understanding empowers portfolio companies to preempt shifts and trends and truly shape their industries, ultimately fuelling transformative growth and ambitious value creation.

Operational capability and subsector understanding are also key to attracting the best management teams. Processes and best practices are important, but at

the end of the day you need to have the best management team in place in order to successfully drive the operational agenda forwards.

Q What has driven this change?

Firstly, private equity has become a much more competitive space. There are now many more firms than there were 15 years or so ago. Money has also become more expensive, which affects leverage levels. Finding 15-20 percent growth every year is not easy.

The underlying business must be able to navigate all kinds of challenges, and that takes good management

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teams. Furthermore, as an investor, you need to show you can consistently own and operate in the subsectors in which you choose to invest, while also providing the right support for the right management.

Q What does instilling operational excellence look like on a day-to-day basis?

“Owning well” means combining investment, sector and function-focused experience to deliver high-intensity, hands-on operational improvements to portfolio companies. In our case, we have both operational experts with deep subsector knowledge, and functional experts, all of whom work closely with the management teams.

On a day-to-day basis during the investment and ownership period, this hands-on approach translates into a high level of operational focus. Right at the outset, for instance, we make an early assessment of a target company’s market, products and future potential. We will ask if this is a business that the current management team can take to where we want it to reach, or do they need to be further supported and strengthened?

The onboarding process after any investment has to be detailed and thorough, and we work hard to create a joint value creation plan and vision. Often, our operational advisory team will work alongside the existing management team, providing extra support and ensuring full engagement and buy-in on the value creation plan.

Alongside that, a detailed management assessment is vital. It’s not enough to rely only on information from a third party – you need to form your own view as well.

Finally, it’s a question of contributing functional expertise to support the portfolio. In addition to our own team’s skill base, we have more than 30 operating chairpersons, a strong network of sector-focused industrial advisers, and over 120 black belts, who are sector or functional experts in particular areas.



Q Are there any sectors that you refrain from getting involved in due to concerns around resilience?

The investment focus is now in four core sectors: healthcare, technology and payments, financial services, and services and industrial tech. Nordic Capital used to invest in retail too, and has had great investments there in the past, but over the last 10 years or so a decision was taken to pull back due to the greater unknowns in the space.

Generally speaking, we like business-to-business companies in subsectors with less cyclicity, operating in niches with strong underlying growth, such as pharma and healthtech. We have a very carefully selected investment strategy for each subsector, developed over 35 years. This involves creating a portfolio of similar types of companies, with shared trends, where we can continue to develop our understanding of the key segments and the best operating practices. This has led to an expansive network – providing access to companies, founders and experts – and a proven operating playbook that drives value creation and boosts resilience.

“Resilience is about being able to adapt when a tailwind turns into a headwind”

We constantly monitor their results to ensure those resources are making a difference.

Effective operating chairs are crucial because they come with that operational experience, speak the language of management and secure the right focus; they are the gearbox optimising the collaboration between owner and management.

Across the portfolio, we carry out more than 300 operational projects yearly, generating more than €100 million EBITDA in tangible effects, via everything from performance management to sourcing optimisation.

Q What is needed from the PE firm's side to make a value creation strategy work?

As mentioned, successful value creation requires investment, sector and function-focused experience, as well as operational talent and close interaction with management. Understanding and knowledge is crucial, and we have built up a diverse skill base within our organisation, with senior levels of experience in the chosen subsectors. This best practice and expertise from previous investments is broad and varied, covering people and performance. That's essential for understanding and driving leadership development and strategic IT resources, as there can be a lot of scaling required in the types of companies Nordic Capital owns.

When operational managers join us from the big consulting firms, we have a programme for onboarding them. It's a career path where they learn first-hand about private equity for a period of two years, working alongside the portfolio companies' management teams. As the next step, each of these managers will go into one portfolio company and work on a particular value creation initiative. It's a way to add operational talent to portfolio companies that may not historically have been able to attract it on their own.

It has been proven – and we have the data to back it up – that having the right management team in place from day one is a major driver of returns. That also means having a good operating chair from the start.

Finally, there's an important question around whether a company has access to, and control of, its data. Does it have a 'cockpit' with easy access to all of its operational data, or does it spend a disproportionate amount of time on simple tasks? Having an accurate and complete view of the situation is vital to the successful operational management of a fast-growing business. Having access to facts at your fingertips is a real value driver.

"You need to bring profound knowledge at the subsector level to create genuine value"

Q What's so important about instilling resilience in portfolio companies in today's climate?

To me, resilience is about being able to withstand cyclicalities or adapt when a tailwind turns into a headwind. As an investor and active owner, in these situations, you really need to understand what you own in a very deep and detailed way. That control makes for a greater level of resilience, even if the market changes.

Nordic Capital invests repeatedly in the same subsectors, which not only means that we have in-depth knowledge about specific segments – and what it takes to be resilient there – but also that we have access to experienced management, chairpersons and industry experts who can draw on many years

of experience to support portfolio companies. It is not unusual for us to reintroduce this talent to different portfolio companies, bringing all the benefits of their past experience and replicable success. This helps to insulate portfolio companies from the different kinds of shocks that might hit portfolio companies in different economic cycles, and it has also helped the portfolio display strong resilience in the face of macro impact, with strong top-line growth achieved.

Q Given the onus on integration and working alongside management teams, to what extent do you view exit strategies differently now?

Private equity has always taken a longer-term view than the public market. It is more a marathon than a sprint, and sometimes the best long-term potential derives from holding a company for a longer timeframe. For us, the priority is always on maximising value creation. Our goal is to help create better, stronger companies that are well positioned to thrive in the next phase of their development.

We start the process of exit planning very early on, in order to explore in detail all the various possibilities and consider how the best outcome can be achieved for the long-term benefit of the company in question. We also make sure management is on board, and that they are properly incentivised. It is important to prioritise a close partnership with management, and this extends to all parts of the ownership process, from acquisition through to exit.

Since inception 35 years ago, Nordic Capital has exited nearly 100 companies. The operations team is able to bring to bear this considerable experience when supporting management teams through the process and leaving companies in the strongest possible shape for ongoing success. ■

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