

VALUE CREATION

Critical mass

Adding operational focus to the deal team is an essential part of designing a value creation plan, explain Permira's **Oliver Steil**, **Christian Paul** and **Riccardo Basile**

How should a fund manager collaborate with management to fuel growth? That's a question that Permira has considered carefully over the last few years, leading to the formation of its Portfolio Group to apply its operational expertise throughout the investment cycle, from pre-deal operational due diligence to exit planning

With 10 dedicated Portfolio Group members now on board, including the firm's first head of ESG (environmental, social and governance), the group has doubled in size in just 18 months.

Portfolio Group head Oliver Steil, with principals Christian Paul and Riccardo Basile, explain why the team is integral to the firm's execution of a global growth strategy.

Q How significant is the role of the Portfolio Group pre-deal?

OS: Ideally, someone joins the deal team on an almost full-time basis. It's important that the entire team operates in a very integrated fashion to form a view on the company to present to the investment committee.

Our team member assesses the target company's operational readiness to carry out the Value Creation Plan (VCP), including systems, processes, business practices and the quality of the management team – as well as future investment required. We want to know how much the business could achieve, in either cost down or revenue up, during the hold period.

Working on the content of the VCP, our team member endeavours to make it as concrete as possible; right down to operational initiatives that can be executed pretty much



Steil: big data and pricing is a common theme



Paul: a flexible approach is key



Basile: management sees us as part of the package

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Riccardo Basile

right after the deal is signed and closed. By engaging with the company pre-deal we form a view on who could lead each growth initiative and devise the right KPIs.

Q And post-close?

OS: We work with management to embed the Value Creation Plan, making sure we've found the right project owners and have detailed implementation plan for every single initiative – actions to take over a 24-month period. We try to quantify progress as much as possible, and so we develop a scorecard and reporting mechanism for each initiative that rolls into the overall VCP reporting. It's important that the CFO or finance function translates the impact of different initiatives into the overall P&L or financial model. Our team member is very instrumental in ensuring that happens.

CP: We are very collaborative with management. Throughout the investment period, we are there to support the CEO and senior team. In many cases, we've hired a new CEO and that's a lonely job at first. We expect great things and a big transformation. For

the CEO it's a big help to have one of us spend a significant part of the week helping them with certain projects.

Q At exit, do you get involved?

OS: Quite often, yes. We review initiatives to see what's left to do of the VCP and try to intensify that work. Sometimes, like in the case of Japanese sushi restaurant chain Akindo Sushiro – where there were some projects that didn't deliver – we help management to re-strategise.

Q Why do you do that if you're exiting?

OS: A strong exit for growth businesses is very often about being acquired by a strategic buyer. It's very important to show prospective strategic owners what was done, and what else could be done. This increases the value of the asset at exit and it increases the value for the next owner; they know exactly where to start and what initiatives to focus on. It also helps determine who is the best next owner, what synergies they bring and what could be important future value creation levers.

Q Are there any common themes the team has been working on across the portfolio?

OS: One is big data and pricing. These are very much at the core of how the Permira funds invest. In whatever sector you're operating in today, if you're not collecting transactional data and analysing it on a regular basis, you will fall short of the competition very quickly.

In the case of remote access software company TeamViewer, the company is gathering data as it moves from a perpetual licence model to a subscription model, which is a significant theme in the software industry. It's vital for them to understand the exact pattern of customer behaviour and how that might evolve over time. There's also a regional component as the

RAW COURAGE

Pushing operational change was critical to the expansion of Akindo Sushiro

Japanese sushi restaurant chain Akindo Sushiro operated 335 outlets when Permira backed the chain in 2012. By the time the company listed in March, the business had expanded into city centres in Japan and Korea and upped its outlets to 460.

Q Growth was significant under Permira's watch. Where did you start and what challenges did you encounter?

CP: At the time of acquisition, the Portfolio Group was very small and my involvement in the due diligence was limited to focusing on the procurement opportunity. The company didn't have a very structured approach even though it was already the largest sushi restaurant chain in the world. It had massive procurement power, but didn't leverage it.

Once Permira IV invested, I spent about 50 percent of my time for the first two years in Japan working with management to set up the VCP and to

help on various cost and growth initiatives. I spoke with management every day. They questioned initially why we were so involved but then saw the value. We worked a lot with the company on growth in Japan, as they opened new stores and developed a new city-centre concept and expanded internationally.

Initially, Sushiro operated four stores in Korea. They closed one and then expanded to seven. Their US expansion wasn't successful. It was too hard for the Japanese management team to operate in a market they didn't know. While western management teams are bullish, even if they don't speak the language, Sushiro's management lacked confidence that they could operate outside of Japan because of language and cultural barriers. And there were enough opportunities in Japan and Korea for the management team to focus on Asia. Our role was to push them to find their own courage to do new things. ■

company sells software globally; buying software in Brazil or China is very different from doing it in the US or Europe.

Q Permira's acquisition of California-based Magento in 2015 from eBay was an extremely complex deal. How did the team help?

JB: Permira does a lot of carve-outs. The team liked Magento because it was the

market leader in its segment of e-commerce website software. It was being sold as part of eBay Enterprise, so we partnered with Sterling Partners, who acquired the logistics business.

The challenge was finding a home for the marketing solution company [in the group], which was part of the transaction. We had two weeks in which to do the due diligence and understand what »

SUSTAINED VALUE

Drip irrigation expert Netafim's ESG initiatives supported its products and the brand

In August, Permira IV sold market leading Israeli irrigation specialist Netafim to Mexichem for an enterprise value of \$1.9 billion.

Q How did ESG initiatives contribute to value creation?

RB: Netafim produces drip irrigation pipes made of polyethylene that reduce water consumption and increase yields, which clearly has great ESG benefits. Over the last three years we backed investment in technology, automation and remote sensing that also reduces the amount of fertiliser used. They also introduced a recycling process. The business pays customers for old pipes that are recycled, and sells them new ones. That has driven cost reduction and allowed the company to communicate positively to the market, particularly those ones where environmental concerns are important; for instance, Californian wine producers, which are very interested in bio-wines and low environmental impact.

The business also works with farmers, cocoa growers, plantations in India that are certified for low water use and with

banks across Southeast Asia and Africa, to help small farmers get financing for the equipment they need.

In Netafim, Mexichem recognised an opportunity to acquire expertise they didn't have. Smart irrigation is a growing area. The world has more people and needs to produce more with less land and water. Netafim is exactly in that space.

CP: When Permira IV acquired Netafim it was a kibbutz-led company and still very entrepreneurial, even though it generated \$800 million in sales. The local management were unsophisticated in terms of global expansion. They saw the opportunity in China but struggled to operate there. The managers that we helped hire [in China] executed the growth strategy within very careful ESG guidelines. It is clear that if the business had expanded in China without clear procedures in place, a listed company would not have been interested in owning it because it would have been too risky from an ESG standpoint. ■

» we liked of Magento, how much we were keen to maintain of the marketing business and how to split that business. Permira V sold 75 percent of it between signing and closing, added two businesses to the remaining 25 percent and rebranded it as Pepperjam.

The majority of the work was done between signing and closing. We spent four months in four-way negotiations with Sterling, Magento and eBay. Magento was reliant on some services from eBay and the Sterling-owned business so we had to sort out a way for them to continue to collaborate.

We used consultants, including PwC and an IT firm for the detailed work, and our internal legal team. Magento management spent perhaps 10 percent of their time on the transaction. With them and our colleague in the Menlo Park office we put together a high-level Value Creation Plan

covering pricing, packaging, growth in certain countries and investment, in data for example. This was very successful and they delivered a lot in the first year.

Q The team works across a range of sectors in detail. How do you manage to do that?

OS: We've just increased the size of the team significantly to 10 people globally and we're always looking for specialist consultants for particular projects. It's important to link the shape of the team to Permira's strategy, and understand what functional skills in which geographies we need. We undertook an exercise 18 months ago to pin this down, which led to very specific hires. For instance, we recruited someone based in Menlo Park, who is very experienced with enterprise software, and within that sales and marketing, go-to-market and commercial excellence.

Permira has global funds and the Portfolio Group needs to be in a position to share knowledge and best practice globally. For instance, what we learn from a Menlo Park software company is also critical for our software investments in Europe or Asia.

Q How has the role of the group changed over time?

RB: The big difference is we are now involved from the very beginning of an investment and get to know management together with the deal team. Management sees us as part of the package. Before, people assumed there must be a bit of a problem if the portfolio team got involved. There was a stigma and that's gone. We are flexible in how much we lean in or lean back. If the company is doing well, we're happy to catch up with them once a month on the phone. If there are problems, the CEO often asks for our support to help fix it. ■