



Enacting Change in Portfolio Companies With Mauro Bonugli of RSM

How are operating partners involved in driving change in a new portfolio company?

Mauro Bonugli, RSM:

So post-due diligence, we defined an evaluation plan, we agreed on initiatives that need to be executed and we agreed on the priority and possibly we agree on who is going to be running and executing those initiatives. So post that phase, the role of the operating partner is to really facilitate and really in many case, what we say is the operating partner is really working for the CEO with a set of stakeholders, including the board, the GP's, the private equity fund. But it's really working for the CEO and making sure that hey, we're executing those initiatives.

And if the value creation plan was defined in a systematic way with a clear set of initiatives, a clear set of goals, and a clear set of operating metrics, it becomes easier to follow and measure it over the years that process. Obviously when you talk about private equity returns, time is always of essence. And when you talk about operating initiatives, time becomes even more critical because it takes time to execute a lot of those initiatives.

So what I've seen that it works the best is really when you're talking about 12 to 18 to max 24 months initiatives because you really have two years to deploy an initiative, another two years to realize the value and then another two years to sell the company. So the earlier in the process, I think the operating partner gets more involved than actually later in the process.

Is a different set of skills used to prepare for the exit of a company?

Bonugli: If all goes well when your investment thesis is realized through the process, during the divestiture phase, the role of the operating partner becomes more as, more of a coach to the management team in preparing them for the sales process. So either if you are planning to sell to another private equity fund, it's very important that you work with the management team because the operating partner will know

what they're going to require from a due diligence perspective and working with them to prepare for that phase.

It's also important that the operating partner works closely with the investment banks. They'll be representing the company to make sure that the future story for that business makes sense. Again, you're selling the business that has a perhaps growth outlook in the future, in order to make sure that this story is always compelling and always aligned across the management team. And in many cases, there might be some initiatives that were started during the investment in one private equity and will continue through the rest. So making sure that they understand why that initiative was started, what's the goal and what the value that will bring to the future owner is very important.