

Enhancing Portfolio Monitoring and Value Creation in Private Equity Through Reporting

December 2023



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Introduction

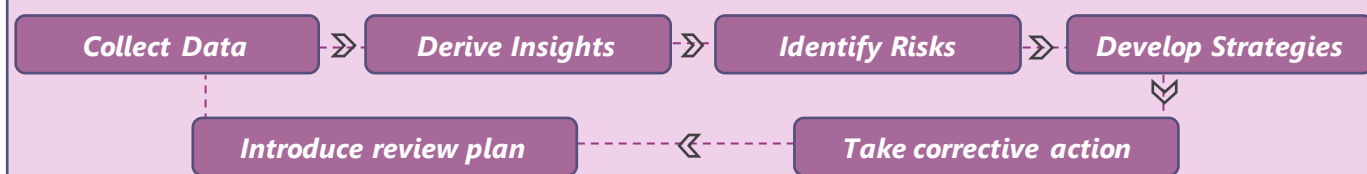
Acquiring or investing in a company is merely the initial stride toward realizing the full potential of that investment. The goal of a Private Equity firm is value creation, and this aspiration hinges significantly on effective portfolio monitoring and management.

Throughout the lifecycle of an investment, portfolio management aim to accomplishing specific objectives, such as



To attain these objectives, a meticulous process unfolds. It commences with the rigorous assessment of financial and operational performance, facilitated through the generation of numerous reports spanning various periods. Key performance indicators (KPIs) tailored to both the industry and the specific company underpin this analysis, permitting an insightful benchmarking exercise against historical and industry-wide performance metrics. Identifying areas of disparity or inefficiency is integral, as these insights enable portfolio managers and analysts to enact corrective measures throughout the investment's holding period, all the while continually assessing the overall portfolio's health and devising a detailed value creation plan.

Portfolio monitoring is a structured and methodical approach, characterized by several key components. It commences with the systematic collection and compilation of asset's data, followed by a rigorous analysis of this data to extract actionable insights and identify potential risk areas and their probable impact.



This comprehensive framework ensures that the portfolio remains agile, responsive, and poised for value creation at every juncture. It comprises of multiple quantitative and qualitative reports to proficiently manage the portfolio companies.



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Key Management reports prepared on regular basis to enhance Portfolio Monitoring



Month end reporting

- Month-end reporting is a systematic process of summarizing and presenting key financial and operational data for the investments within a private equity portfolio at the conclusion of each month
- The latest month's actual financials or key performance indicators (KPIs) are compared with the budgeted figures, followed by variance analysis, commentary, and business recommendations



Quarterly Business Review

- Quarterly reviews are a crucial management for performance evaluation, strategic alignment, goal setting, communication, and making informed decisions to drive the organization forward
- Top and senior management conduct comprehensive reviews, and examines progress metrics, identifies adjustments that can be made based on previous quarter's performance



Plan Deck/ Budget Deck

- The Operating budget is prepared in advance of reporting period as a goal or a plan that the business expects to achieve in next financial year



Outlook Deck

- The latest period forecast is updated and compared against previous outlook and comments are made on what has changed from previous outlook



Flash Reporting

- It is a periodic snapshot of key financial and operational data. It is often a one-pager report that help the management assess the KPI of the company
- These reports may include daily banking reconciliation with disbursements and receipts from different banks and aligning it with bank balances



Balance Scorecards

- Assesses the performance of senior management by considering not only financial metrics but also evaluating their impact on customers, internal processes, and employee development and learning



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Key Management reports prepared on regular basis to enhance Portfolio Monitoring – cont.



Risk and Opportunities

- Risks can potentially exert a detrimental effect, while opportunities can contribute positively to profitability and the financial position. This report comprehensively enumerates all identified risks and opportunities, along with their associated probabilities of occurrence



Headcount reporting

- This dataset encompasses employee information presented in various dimensions, including employment contract types (permanent, fixed-term, or temporary), job titles and positions, full-time or part-time status, geographical locations, age demographics, gender distribution, and tenure within the organization, among other factors



Sales pipeline Analysis

- Pipeline revenue is forecasted on basis the of the stage of the business and probability of conversion and its usually tracked with the help of CRM tool
- This is usually tracked based on historical trends, seasonality, current market situations, among others



Ad-hoc Reporting

- These are ad-hoc reports designed to empower senior management with prompt answers to crucial business inquiries, effortlessly generating autonomous and instant insights
- For instance, short company profiling, benchmarking, peer to peer comparison etc.



Investor presentation

- These presentations are crafted for earnings calls, providing analysts, current investors, and prospective investors with an in-depth exploration of company results, strategy, and corporate culture



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Key Management reports prepared on regular basis to enhance Portfolio Monitoring – cont.



**KPI/OKR
Reviews**

- KPIs constitute a measurable metrics employed to assess a company's enduring performance. On the other hand, Objectives and Key Results (OKR) serves as a goal-setting framework aimed at articulating, monitoring, and achieving objectives and their associated outcomes
- Revenue Growth Rate, Customer Satisfaction Score, Employee Turnover among others are examples of KPI
- Increase Customer Engagement, Expand Market Presence, Improve Product Performance, etc. are key OKRs

Benefits of Management Reporting

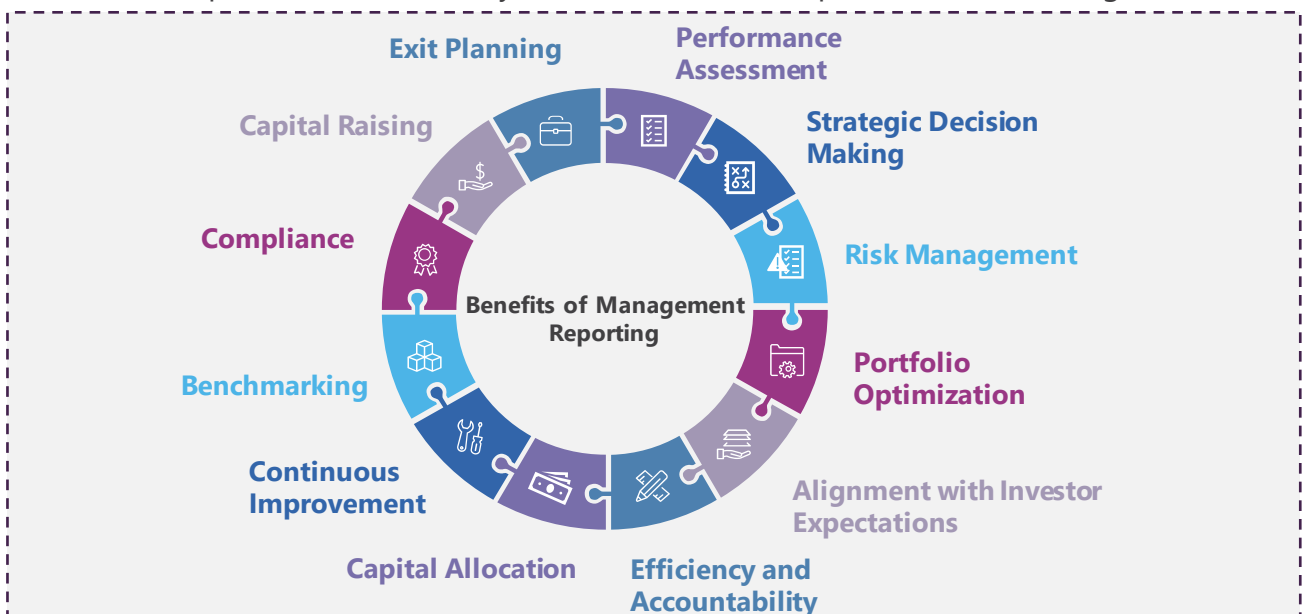
Management reporting is done to provide stakeholders, including fund managers, investors, and other relevant parties, with a detailed overview of the portfolio company's performance and its status. This reporting system is established because of its nature as it provides critical communication and act as a decision-making tool, offering insights into the performance, risk, and overall update of the portfolio companies. Below mentioned are some of the key benefits that are derived from the reports prepared:

- **Performance Assessment:** It offers a 360-degree view of the financial and operational metrics of the portfolio companies, allowing the PE firms to understand the performance
- **Strategic Decision-Making:** Post acquisition, PE firms are required take a lot of informed decision-making and these reports help them gain insights. They support strategic decisions, such additional investment required, whether to divest, or implement any structural changes.
- **Risk Management:** Identification of potential risks and issues in portfolio companies is another actionable insight offered by management reporting, which ultimately helps in acting proactively on problems identified by taking corrective measures and mitigate potential losses.
- **Portfolio Optimization:** Aligning firm's investment strategy to portfolio company's growth plans is a key decision that PE firm wants to take using reports. This helps in assessing the composition of their portfolio and optimize it based on performance, risk, and return.
- **Alignment with Investor Expectations:** Company's performance is often shared with investors in PE funds through these management reports. Comprehensive, transparent and regular reporting ensures well-informed decision making and builds trust among the investor community.



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- **Efficiency and Accountability:** Regular reporting establishes a practice of accountability within portfolio companies. It also assists in driving efficiency and adherence to strategic objectives of the company as the team is involved at various levels of report preparation.
- **Capital Allocation:** Post acquisition, decisions related to capital infusion plays a crucial role and these reports helps in taking those effectively. Private equity firms hold multiple investments and based on these reports they decide capital requirement for performing well and underperforming entities
- **Continuous Improvement:** Management reporting promotes a culture of continuous improvement within portfolio companies. This helps the companies to make efforts towards continuous improvement when they aware of continuous performance tracking.



- **Benchmarking:** Keeping a track of the portfolio company against its industry peers or competitors, assists in providing insights into how portfolio companies performs up against their counterparts.
- **Compliance:** Monthly/ Weekly reports ensures adherence to regulatory and compliance requirements. Regular reporting helps in monitoring if the compliance requirements are being fulfilled and taking corrective actions whenever needed.
- **Capital Raising:** Management reports act as an indication of strong historical performance of the company and growth path. This helps the Private Equity firms to raise additional capital on that basis and fulfil the capital requirements timely.
- **Exit Planning:** Private Equity firms typically hold an asset ~7 years, over the years these reports help in preparing the portfolio companies for sale. These reports distinctly highlight the performance data which help in enhancing the attractiveness of the companies to potential sale.



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How Evalueserve plays a vital role in supporting their client?

Evalueserve assists its client on regular basis for Portfolio monitoring and management. This is done through detailed performance tracking by preparation of management reports and updating them at regular intervals. For instance, one of a Private Equity client holding a portfolio company in Transportation and logistics sector, came with a requests mentioned below:

Case Study 1: Client requires regular assistance in understanding the KPI of the company. For this, Evalueserve tracks the below

- Revenue/ per total mile
- Revenue/ per loaded mile
- Miles driven
- No. of Drivers
- Revenue generated by drivers
- Revenue generated by each asset
- Total Assets (Seated/ Unseated)
- Total Assets (Tractors/ Trailers)



Case Study 2: Client requires regular assistance in preparing financials for the lenders every month

- Income statement
- Cash Flow Analysis
- Comparative analysis (Month Over Month)
- Balance Sheet
- Projections for the current financial year
- Fixed Charge Coverage Ratio for Lender



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Conclusion

In conclusion, management reporting in Private Equity is a vital tool that not only helps in assessing performance of the investments over time but also supports strategic decision-making, risk management, and the overall success. The measures taken underpins transparency, accountability, and the ability to adapt to changing market conditions.

Evalueserve has an extensive experience working with large, mid-market investment and boutique advisory firms providing Private Equity clients support in efficient portfolio management and maximize the value over the holding period.

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Thank You

