

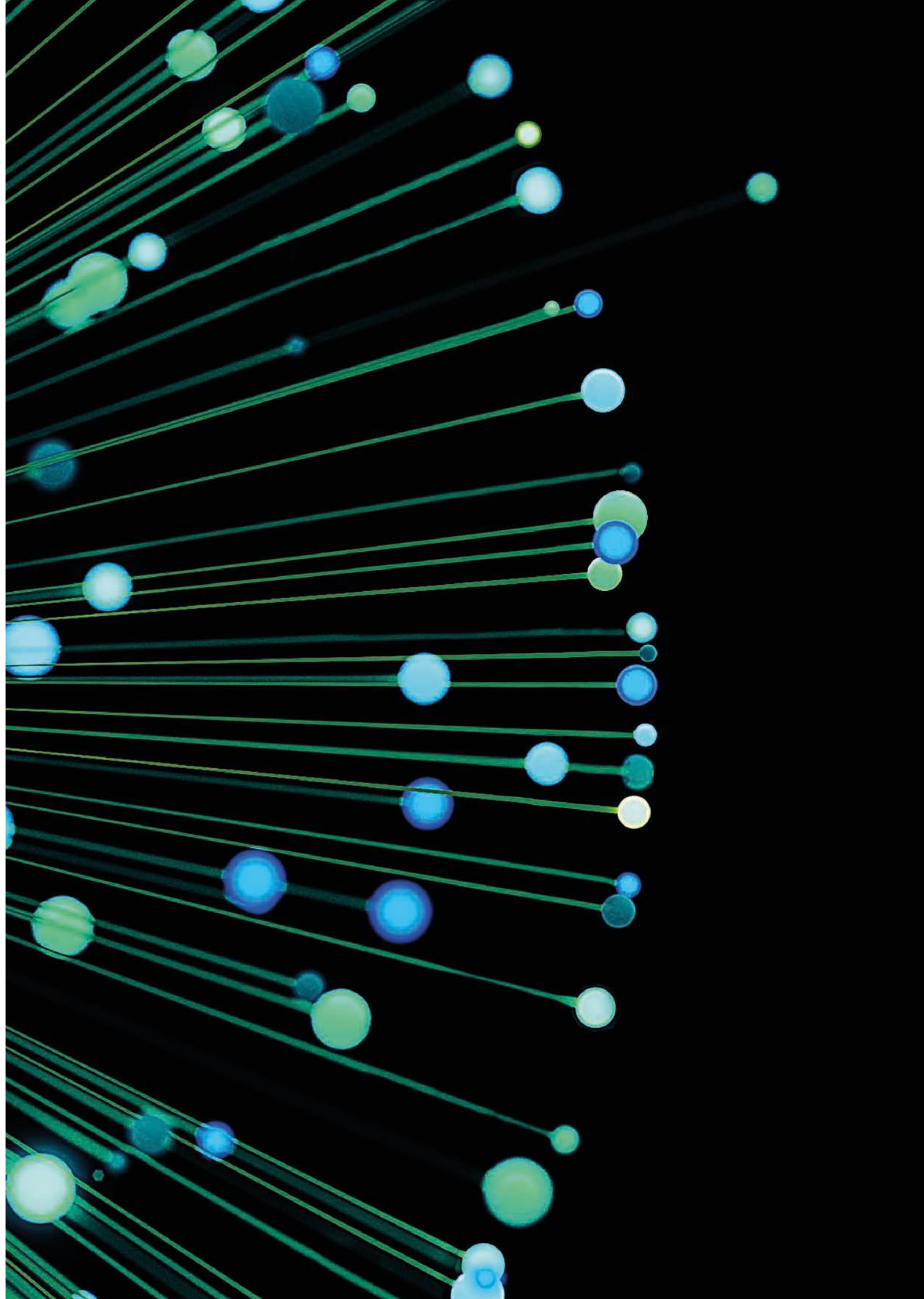
The background image shows three professionals (two men and one woman) in a dark office setting, looking at a computer monitor. The woman is pointing at the screen. Overlaid on the scene is a complex data visualization consisting of a central white sphere with numerous thin yellow lines radiating outwards to various colored dots (yellow, green, blue, white) scattered across the upper half of the frame. The monitor displays some data charts and graphs.

Deloitte.

Data-driven strategies:
The winning edge in private equity

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June 2024



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Deloitte Private Equity **A greater return on ideas**

www.deloitte.com/privateequity

Our Private Equity Leaders



Global

Emma Cox
ejcox@deloitte.co.uk



EMEA

Karsten Hollasch
khollasch@deloitte.de



Asia Pacific

Satoshi Sekine
satoshi1.sekine@tohmatu.co.jp



United States

Bryant Huber
mehuber@deloitte.com



United Kingdom

James Clare
jclare@deloitte.co.uk



Asia Pacific

Dwight Hooper
dwhooper@deloitte.com.hk



Canada

Mark Jamrozinski
mjamrozinski@deloitte.ca



Data-driven strategies: The winning edge in private equity

After 30+ years of leading performance, a combination of factors including macroeconomic headwinds, high financing costs, an uncertain growth outlook, and increased competition have put private equity (PE) returns (and PE firms themselves) under pressure.

Data, more specifically insights generated through synthesizing data, have emerged as a critical factor in a PE firm's quest to reinvent and differentiate across multiple aspects of its business – starting with the investment playbook and deal sourcing all the way across to value creation and investor relations.

“Based on our experience working with many firms over the last few years, several PE firms have invested in and are scaling data management and analytics capabilities internally, however, only a handful of firms have truly harnessed the power of data.”

Many firms seem to be slowed down by their vision, or find themselves overwhelmed by the amount of data, the process of collecting this data, and—perhaps most importantly—the challenges of curating this data in an efficient fashion.

In this article, we focus on some of these issues, highlight leading practices from leading PE firms in the space, and cover some trends related to data management and analytics.

01

Portfolio
Company Data

In an environment where deal sourcing is increasingly becoming cumbersome and time consuming, where longer hold times (combined with broader geopolitical and macroeconomic factors) typically require a refresh of growth and risk considerations, portfolio company (PortCo) data offers numerous possibilities for a PE firm – from uncovering hidden gems (deal sourcing/ due diligence) to uncovering risks (due diligence/ portfolio) to helping unlock value (individual PortCos/ across PortCos) – and also differentiating via improved experience (deal sourcing/investor relations).

Data Collection Challenge

A logical question to ask is if there is actually so much value in this data, then what has prevented a larger set of PE firms from tapping into its potential?

We believe that it comes down to a combination of factors:

- Many firms do not have the resources (the capacity) needed to understand the data available within the PortCos, the value these datasets represent (in isolation as well as when combined with other datasets), or how to prioritize such efforts.
- Collecting, curating, analyzing, and managing these datasets can be challenging – in part because of diversity of sources (applications and processes where these originate), and also because of the nature of the data itself (a lot of this data is semi-structured and unstructured).
- Data management and data governance capabilities within most firms are nascent and evolving, and are often decentralized.

From a tooling and process standpoint, it's not unusual for PE firms with a relatively small number of PortCos to rely on manual outreach to collect required data (via emails, spreadsheets, and standard data templates). But this is not a scalable approach, especially as the number of PortCos and types of datasets grow.

Certain innovative PE firms are starting to implement and automate via portfolio monitoring software that integrates into a PortCo's ERP, CRM applications, analytics databases, workflow management, and reporting solutions.



The table below shows the typical data collection process for many PE firms today.

Fund-level data monitoring

1. Set up PortCo and fund-level data.
2. Establish financial and sector-specific key performance indicators.
3. Build a data intake calendar and collect data at defined periods (monthly, quarterly, annually, or ad hoc).
4. Review and validate data received against prior data submissions for variance, and against a data intake controls framework.

Reporting and central data management

1. Monitor data collection progress with the PortCo.
2. Develop baseline reports and integrate with workflow planning tools to simplify the process.
3. Publish validated reports at the fund and PortCo levels.

“PE firms typically have not had an executive role responsible for data, governance, and analytics; historically, this responsibility typically fell on Operations, Technology and Reporting teams.”

It is also common for PE firms to have a decentralized approach to data ownership, with each team focusing on datasets that they need (e.g., investor reporting), often separated by sector, geography, and function.

In situations where PE firms have enterprise data management teams looking at data validation and quality, the absence of a data controls framework would make it difficult for them to understand the context and the reasons for changes in metrics like EBITDA, expenses, or enterprise value from prior submissions.

This fragmentation and lack of controls and standards makes it challenging to operate and scale an effective governance and data operating model – one that enables high quality data along with real-time validation and error spotting during data submission.

At the system level, some PE firms tend to underinvest in several areas:

- Business metadata glossaries – which allow data to be efficiently combined.

- Data quality tools – which allow validation with prior submitted data and to manage exception to the rule-based triggers and notifications to data submitters and the fund teams.

- Data aggregation and insights platform – which allows PortCo data to be combined with other datasets (deal data, reference data, risk and workplace safety data, and cross-sector normalized comparative analytics).

Under these circumstances, data can be challenging to collect and use consistently to surface business insights, drive actions, or identify trends. The challenge is compounded when PortCos (large and small) fail to close the books in time to meet the fund’s data submission deadlines.

Having covered some of the challenges, let’s turn to the type of datasets that many leading firms are beginning to collect.

Data Categories & Domains

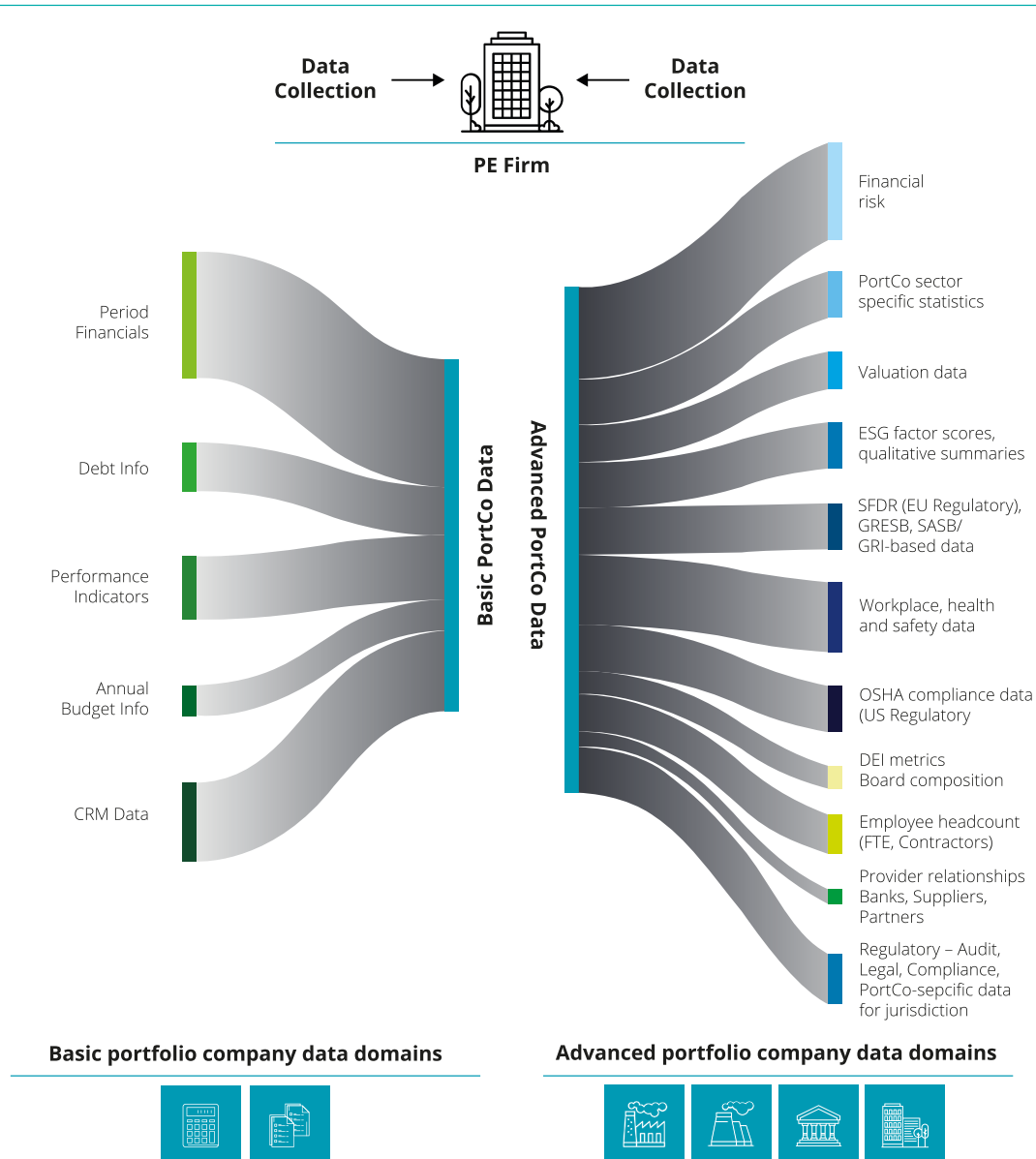
Fund and portfolio management teams have historically requested PortCos to submit data about the company’s financial performance, financial and operational risk, and debt, along with information about capital and operating expenses. In some instances, they capture PortCo sector-specific performance indicators, balance sheet data, and other relevant valuation data as well.

Leading PE firms are beginning to collect customer as well as supplier and counterparty data—think suppliers, financial relationships, auditors, and lawyers.

“With an eye on maintaining competitive positioning for fundraising and investor reporting, a number of PE firms have also started collecting workforce data such as headcount; workplace health and safety (critical for industrial or manufacturing companies); and metrics related to diversity, equity, and inclusion (DEI). Additionally, PortCos may share data on environmental, social, and governance (ESG) goals.”

especially if they do business in jurisdictions with ESG regulations. The following illustration shows the types of data, from basic to advanced, that can provide

meaningful insights and enable use cases. The thickness of each line approximately relates to our perceived importance of that data domain.



PE firms use the basic information they typically collect to support management and Limited Partnership (LP) reporting. The following table breaks it down:

Data category	Data domain
PortCo performance, risk, and financial data	Period financials (revenue; earnings before interest, taxes, depreciation, and amortization; cash interest and balance; enterprise value) Debt information Performance indicators Annual budget information (capital expenses, operating expenses)
Sales and marketing	Customer relationship management data from PortCos that track qualified leads, prospects, and pipeline information to create visibility of future revenue potential

As PE firms mature their data capabilities, the additional data domains in the following table typically become relevant:

Data category	Data domain
PortCo performance, risk, and financial data	Financial risk PortCo sector-specific statistics Valuation data
ESG	ESG factor scores, qualitative summaries European Union Sustainable Finance Disclosure Regulation (EU SFDR), Global Real Estate Sustainability Benchmark (GRESB), Sustainability Accounting Standards Board (SASB) / Global Reporting Initiative-based data, or other jurisdictional-relevant data
Workplace health and safety	Workplace health and safety data United States' Occupational Safety and Health Administration compliance data, or other equivalent country-specific data
Employees and human resources	DEI metrics; board composition Employee headcount (full-time employees, contractors)
Counterparties and others	Provider relationships (banks, suppliers, partners) Regulatory matters (audit, legal, compliance, and PortCo-specific data for each jurisdiction)

02

Enabling Insights
and Value Creation

This brings us to the question of what PE firms could do with this data if they had modern data management and governance processes, data operating models with defined roles, and cloud-native data aggregation platforms.

Let's look at some insights and use cases aligned with the typical deal lifecycle.

Fundraising and LP/co-investor onboarding

- Use data aggregated from similar historical deals to summarize market conditions and valuations during diligence versus exits, and as PE firms aggregate better and higher quality data, Generative AI language models can be deployed rapidly to summarize insights from multi-modal data types.
- Use the same data to provide management teams with insights while generating investor communications, value add commentary, and investment hypotheses to support fundraising activities.

Deal sourcing and strategy

- Derive similarity scores based on multiple sources of aggregated PortCo data to evaluate fitment of new opportunities with existing PortCos.
- Improve the sourcing or marketing team's productivity by using better data to target and support new opportunities based on a select set of criteria and sources.
- Validate investment hypotheses by correlating with the documents and data available for due diligence.

- Recommend valuations for companies based on human and Generative AI insights derived from data with value propositions that may not be directly evident from standard comparison metrics or ratios from private markets data.
- Review contractual terms (e.g., financial terms, vendor relationships) to identify potential opportunities to optimize cost compared to easily referenceable, certified data from prior deals and existing investments.
- Advance toward using large language models to rapidly scan and systematize contract terms for reporting and cross comparison.



Due diligence

- Use historical sales data and external datasets (e.g., customer demographics, macro-economic data, and seasonality) to forecast PortCo cash flow, profit, and loss.
- Track and calculate revenue retention rate, which can drive valuation for many businesses (particularly in the software industry).
- Understand and benchmark operating cost trends to assess synergy opportunities or additional investments required to scale the business.
- Gather ESG data from internal (PortCo) and external (third-party) sources to fulfill reporting requirements like those under California's Climate Corporate Data Accountability Act or the EU's Sustainable Finance Disclosure Regulation.
- Identify areas for improvement in a company's working capital management by analyzing financial data, sales trends, and inventory levels. This may translate to reduced cash holdings, improved liquidity, and ultimately higher returns for PE firms as they manage investments toward successful exits.

Growth & Investment Exit

- Forecast fund performance, project cash flows, and track PortCo performance relative to peers in the same sector and geography.
- Explore supplier data for areas of purchasing or concentration risk, facts to use in negotiations, and events that could materially impact performance or increase cost.
- Report revenue retention rates to support valuation and buyer diligence.



PE firms can gain even more insight into company performance by examining data from alternative sources. For instance:

- Earnings call transcripts, online job postings, and employee review platforms may all hold clues about a company's financial future.
- Satellite imagery may produce information about current performance, such as a manufacturer's production level or a retailer's store traffic.
- News about major events—such as product launches, lawsuits, or changes in leadership—may point to a company's financial stability.
- Proprietary data (from the PE firm or PortCo) and third-party data (from data marketplaces, conferences, or industry expert network discussions) can be used to generate ideas and augment management decisions on risks and opportunities.
- Geospatial data and construction permits may give investors a sense of how the local real estate market is faring.

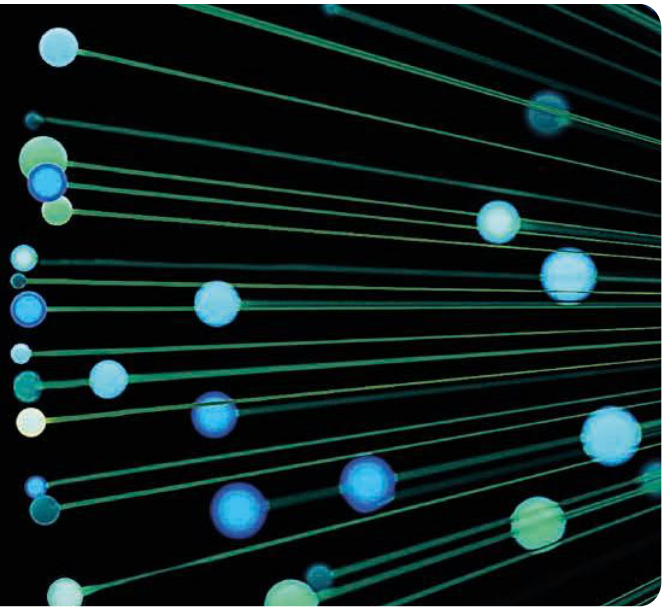
- Weather and climate data may help investors and firms understand the viability and effectiveness of a solar or wind power project.

- Credit card transactions may provide insight about a subscription service's revenue and cash flows.
- Patent filings can narrow the search for innovative companies that require funding to commercialize their inventions.

This is on top of the day-to-day benefits of effective data collection to support the PortCo. Fund managers and PortCo teams can more effectively address valuations, investor questions, management reporting, and other information demands—not to mention build data products and services—when they have certified and reliable PortCo data at their fingertips.

03

Unlocking Value Throughout the Lifecycle



Internal data created by the PE firm's deal sourcing teams, external data from third-party providers, and proprietary PortCo data are important in the context of deal sourcing and due diligence.

If a PE firm sets out to integrate this data in its sourcing, diligence, and investment reviews, their activities might include the following:

- As part of deal sourcing, conduct market research via market trends, competitor analysis, third-party dataset acquisition, and PortCo data collection relevant to the target sector. Use this data to generate a short list of targets with robust deal flow data. From there, identify high potential companies and augment with future trend and predictive modeling.
- During due diligence, analyze patterns of years' worth of financial data (balance sheets, income statements, cash flow statements, annual recurring revenue snowballs). Similarly, review operational data such as production volumes, customer satisfaction ratings, supply chain metrics and risks, and workforce personnel efficiency. Then, augment with regulatory, legal, and reputational risk assessments; company or sector-specific risks based on public data; court filings; and data from reputational risk providers.
- Finally, as part of ongoing portfolio management, collect, clean, and integrate data across the categories mentioned earlier for derived analytics and insights via a data ingestion and collection platform, which can drive revenue for the PE firm and its funds via monetization of derived data products. At an aggregated non-proprietary level, these analytics and insights might also be useful to other firms, investors, and clients.

By broadening the scope of relevant data and streamlining collection across the investment life cycle, PE firms can meaningfully improve their ability to identify potential opportunities. At the same time, they can provide current PortCos with strategic and tactical actions to improve both top-line and bottom-line results.

04

Making Data Fit for Purpose

Data, analytics, and AI capabilities with recent technology-supported enhancements can accelerate the creation of strategies and insights using the untapped data described in this article.

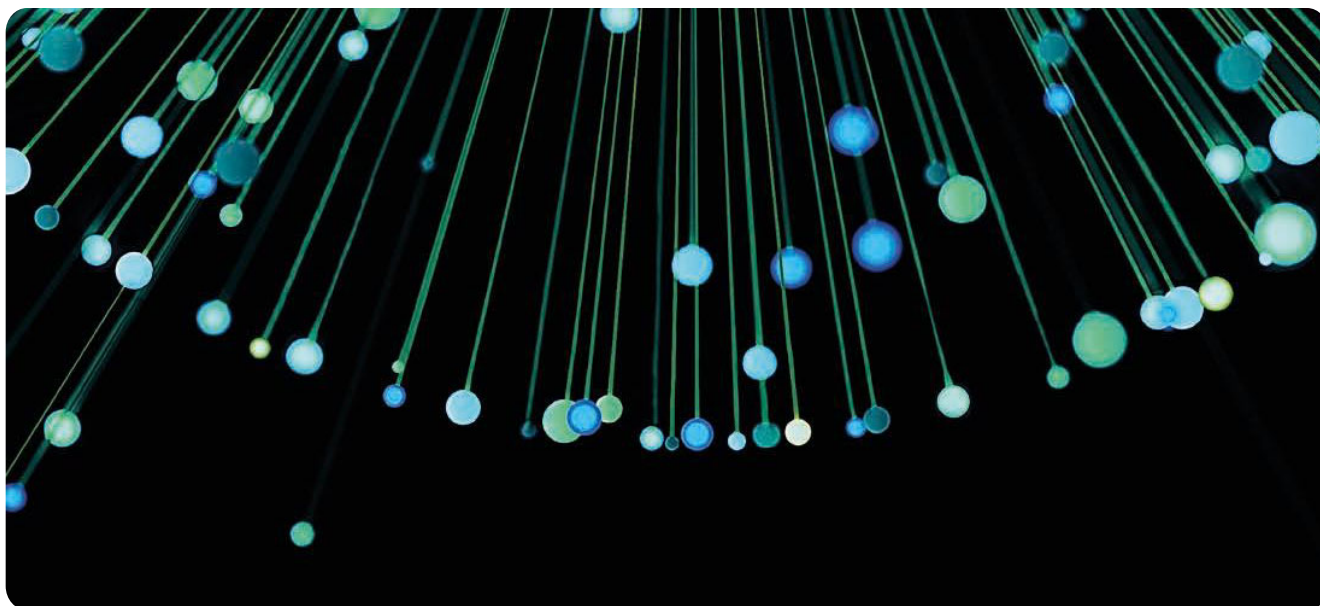
From modern data collection and aggregation platforms—the kind with Generative AI and large language model capabilities on modern cloud architectures—to tools that improve governance and data certification, there are practical and affordable investments that PE firms of any size can make to get clear insights and make progress against value creation goals.



Seven practical tips to get started on this journey:

1. Rapid discovery across data, operating model, and technology gaps & capabilities.
2. Design enterprise data strategy with a benefits led-approach.
3. Develop execution roadmap and operating model with proof points to showcase tangible value along the journey.
4. Develop data intake processes, workflows, and data controls aligned to strategy and PE firm & PortCo needs.
5. Establish unified data and engineering foundation augmented with high quality data, capabilities and tooling.
6. Enable value creation via use cases, analytics related to growth goals, process improvements and augmenting with governed AI where permissible.
7. Optimize governance of this ecosystem via managed services, cost takeout, and spend optimization.

We believe that PE firms that harness data to make informed decisions at the fund and PortCo levels will be better positioned to win in today's competitive market.



Authors

Aditya Ganti

Senior Manager
Private Equity Strategy,
Analytics & AI
Deloitte Consulting LLP

aganti@deloitte.com

Manish Motiani

Managing Director
Private Equity Data & Analytics
Deloitte Consulting LLP

mmotiani@deloitte.com

Anthony V. Scalese

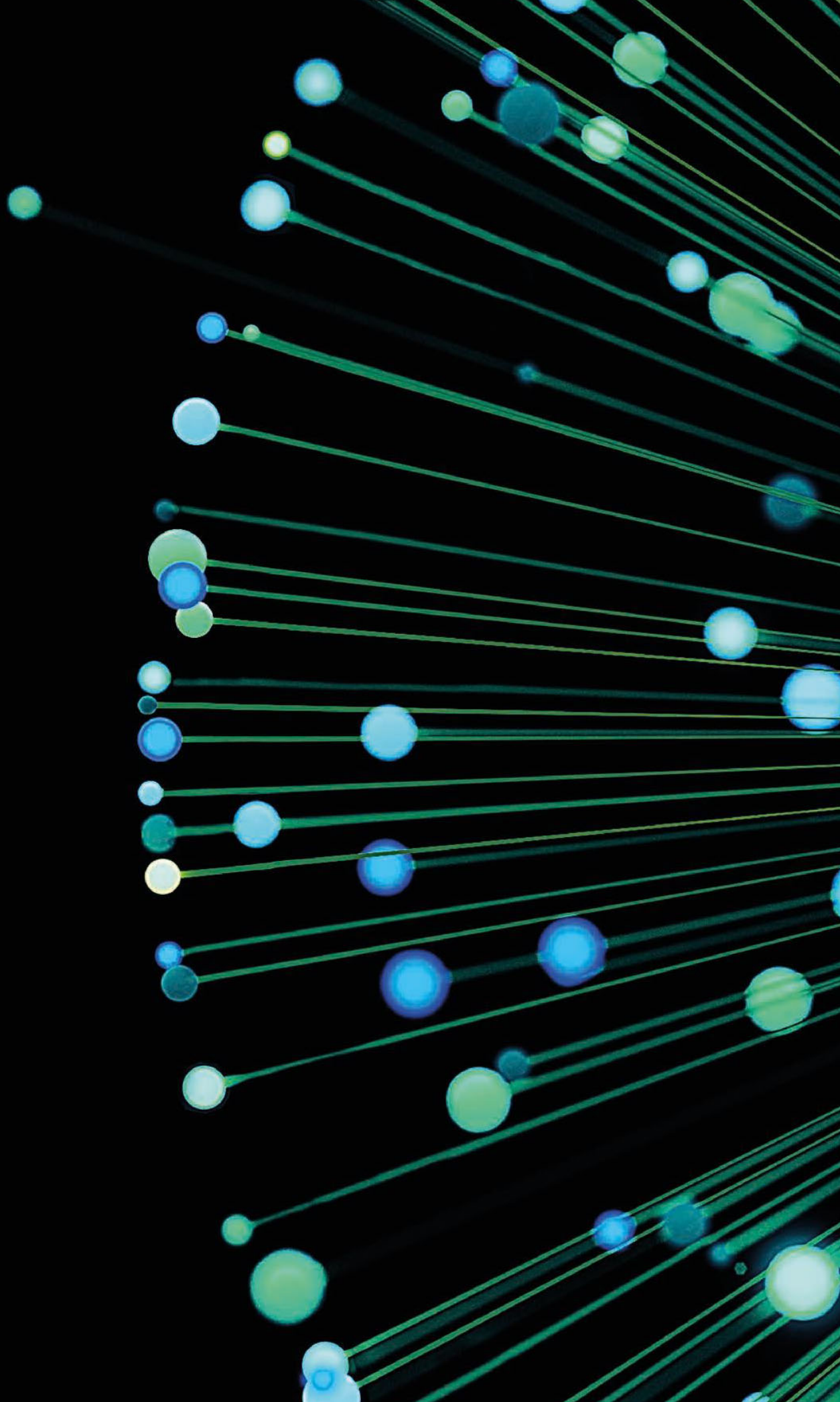
Partner
Private Equity M&A
Deloitte & Touche LLP

ascalese@deloitte.com

Vinayak Viswanathan

Senior Manager
Private Equity M&A
Deloitte Consulting LLP

vviswanathan@deloitte.com





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