Maximizing exit value

How to create value through credible and accelerated plans

Building a confident exit plan

As private equity firms contemplate the divestment of portfolio companies, many face a risk: leaving money on the table by failing to produce and share a robust value creation plan for value yet to be unlocked. Ideas aren't enough. During the divestiture process, potential buyers want to see plans that are credible, mapped out from assumption to value and well told.

Creating value today is challenging. Inexpensive debt and ever expanding multiples are no longer there to drive returns. Valuations are not increasing as rapidly as in the past decade and hence, financial engineering can no longer obscure the reality of untapped value.

The average holding period for portfolio companies has extended to seven years, surpassing the historical average by one year

Despite improving financial conditions, exit values remain stagnant compared to five years ago

Recent reports indicate increasing pressure on private equity firms to deliver returns, with aging asset backlogs reaching a two-decade high. The average holding period for portfolio companies has extended to seven years, surpassing the historical average by one year.[1] Despite improving financing conditions, exit values remain stagnant compared to five years ago.[2]

The pursuit of maximizing value is a continuous endeavor for firms, whether at pre-acquisition, mid-cycle, or exit stages. This process is fraught with challenges but also presents opportunities if executed correctly. With limited holding period left during divestitures, companies and their financial sponsors benefit from a structured, strategic approach that enhances valuation and instills buyer confidence in future profitability and growth.

This confidence is built on the ability to develop comprehensive value creation plans, secure management commitment, initiate execution, and effectively communicate the narrative. What helps, is looking at the business from a buyer's perspective, extending beyond historical earnings quality to crafting a narrative on unlocking value and learning from past experiences in capturing purchase price upside. It's never too early or too late to begin.

1. Global Private Markets Report 2025: Private equity emerging from the fog, McKinsey

2. Global Private Equity Report 2025: Ready for what's next, Bain

The challenge

Thinking from the buyer's perspective

A compelling and defensible value narrative is crucial for a successful sale. Deloitte collaborates with clients on a rapid diagnostic to identify value creation opportunities and develop detailed, data-driven, management-committed improvement plans. These plans are supported by management and presented in a clear and objective format to aid buyers in their decision-making.

As noted in Deloitte's[3] publication, four value-creation levers stand out:

1. **Increase revenue:** Expand sales through cross-selling, entering new channels and markets, and creating new revenue streams from existing assets. Enhance revenue quality by developing long-term contracts and after-sale services. Optimize pricing efficiency by refining pricing structures and understanding customer/product/service profitability.

2. **Improve margins:** Reduce production costs by optimizing sourcing, procurement, logistics, conversion, merchandising, and service delivery. Lower operational costs by ensuring value from customer interaction expenses and enhancing back-office efficiencies.

3. **Improve capital efficiency:** Maximize ROI from property and equipment investments. Optimize inventory management for raw materials, work in progress, and finished goods. Accelerate cash collection and adhere to payment terms by monitoring receivables and payables compliance.

4. **Create the right capabilities:** Highlight company strengths by enhancing managerial and governance effectiveness in business planning, program delivery, and performance management.

While these levers are familiar, the key is to bolster buyer confidence in realizing the outlined benefits. Is the value creation plan credible and achievable?

Divestment readiness checklist

Begin with well-defined initiatives that have reasonable benefit estimates and ensure the following are addressed:

- Are initiatives based on sound analysis quantifying financial impact and timing?
- Are they primarily within the company's control to execute?
- Is there documented progress evidence?
- Have implementation costs and effort estimates been quantified?

Equally important, the implementation plan must be clear and ready for execution:

- Have future initiatives been mapped and sequenced, considering other projects or seasonality?
- Does each initiative outline sub-activities with assigned responsibilities?
- Is there a structure ensuring program accountability?
- Does supporting documentation detail operational controls to maintain savings and prevent cost resurgence?
- Are management incentives aligned with program delivery and savings?
- Does the company have experience and a track record in executing similar initiatives?

Being well-prepared for divestment involves optimizing prior financial and operational performance and documenting future potential for the next owner

3. How to unlock business value before you sell

The opportunity

Building a stronger value creation narrative

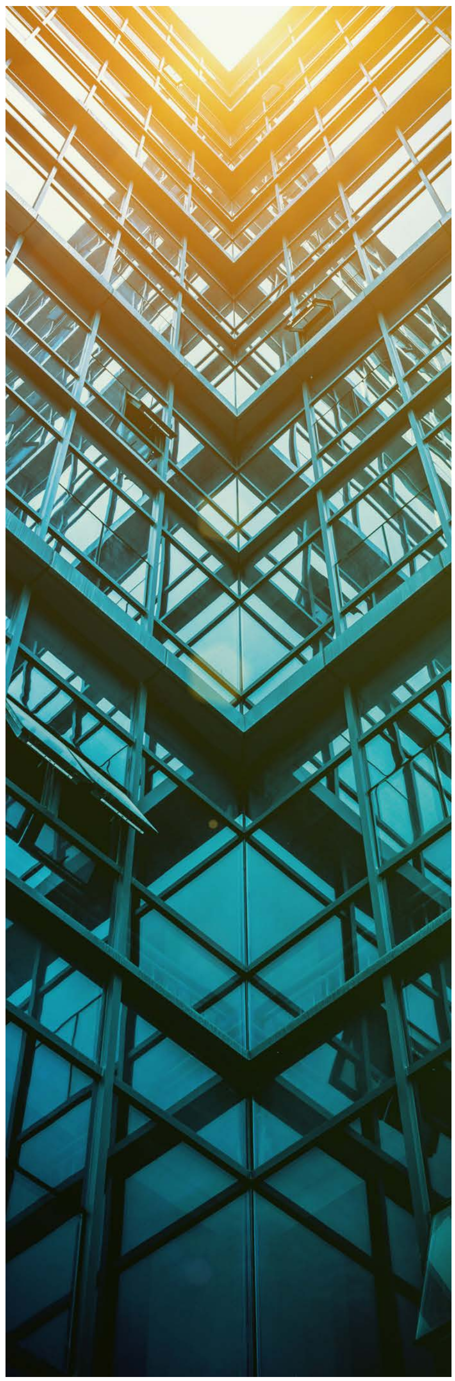
Deloitte's Value Creation Report focuses on the buyer's mindset and information requirements. It complements a Vendor Due Diligence (VDD) report and Quality of Earnings, emphasizing the quality and quantity of unrealized benefits. It explains how these benefits were quantified, why they are reasonable, and how they will materialize, enhancing buyer confidence in factoring the upside into their valuation.

The report also establishes a baseline for future reporting, with findings typically updated quarterly to track the transition from expected to realized benefits.

Our analysis of 50 sample transactions showed that one-third had established value creation plans, though some lacked thoroughness. The potential benefits are considerable, with most plans predicting EBITDA improvements of 10-60% over a 3–5-year period.

Starting implementation can demonstrate a track record and execution skills, but it is not essential. One-third of deals with value creation plans had begun implementation before being marketed or sale, but most plans outlined actions for management under new ownership of the buyer to execute. This suggests that plans do not need to be developed years before an exit. In our experience, they can be formulated within 3-6 months prior to divestiture.

The outcomes can be substantial. In one engagement, Deloitte advised two medical imaging multi-clinic operators considering a parallel and joint divestiture process. We assisted both with independent value



creation plans and a credible synergy plan, comprising 12 initiative categories with a feasible path to increase EBITDA by over 30%.

These plans were shared with bidders. Ultimately, the assets were sold separately, one to a financial buyer and one to a strategic buyer, each at a premium. Our work demonstrated a clear path to value creation, aiding both businesses in identifying how to unlock opportunities.

In another case, we advised a sponsor-owned business services company ahead of a dual-path exit. A pre-exit value creation report indicated the business was on track to achieve quarterly milestones and grow EBITDA by 54%.

Exit plans do not need to be developed years before an exit; instead they can be formulated within 3-6 months prior to divestiture

Supporting the CFO

Depending on the timeline, we collaborate with Financial Sponsors and PortCo CFOs to ensure a solid financial foundation before entering the market.

Portfolio company CFOs play a pivotal role in driving this process, as detailed in the Deloitte report[4]. Our approach merges technical financial rigor with operational insights, focusing on both protecting and creating value.

Protecting value

- Strengthen financial reporting and controls.Accelerate the month-end close process
- Provide enhanced technical accounting expertise
- Conduct early issue identification to preempt potential deal-breakers.

Creating value

- Enhance financial planning and analysis (FP&A)
- Improve working capital and cash flow management
- Develop a track record of successful operational improvements to present to buyers

Together, these efforts can enhance buyer confidence and conviction, thereby increasing enterprise value.

4. Catching the wave - The role of PE portfolio CFOs in maximizing value on exit

As exit activity intensifies, are you prepared?

As businesses focus more on hands-on operational value creation, consider these five lessons.

- **Preparation is key:** Some organizations have value creation ideas, but they are not clearly defined, quantified, or implemented. In a competitive exit environment, preparation is crucial. Deloitte's expertise in private equity value creation helps portfolio companies strengthen financial foundations, deliver operational improvements, and craft a compelling value narrative.

- **Translate strategy into action:** Strategies may originate with central leadership but cannot remain there. Engage the owners of affected sub-domains in refining strategies and translating them into actionable initiatives. Often, issues arise from a lack of clarity at the functional level about organizational goals.

- **Focus on realistic goals:** In attempting to add value, some initiatives, like entering a new market or launching a new product, are riskier. Concentrate on actions within your control and capabilities, such as optimizing operations rather than pursuing market growth.

- **Develop a clear transition plan:** Mapping and sequencing future initiatives is essential. Businesses need evidence of a structure that ensures accountability over the program.

- **Adopt an outside-in perspective:** Understand how a buyer might devalue your business and defend your case. Present your value narrative in a way that withstands buyer scrutiny, providing clarity and assurance on the changes being made and their potential to generate sustainable value.

Whether planning an exit within 3 months or 2 years, the goal remains the same: *embark on a journey to unlock value by crafting a credible and compelling narrative.* This approach significantly enhances the likelihood of a successful and valuable exit, increasing the business's appeal to potential buyers.

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