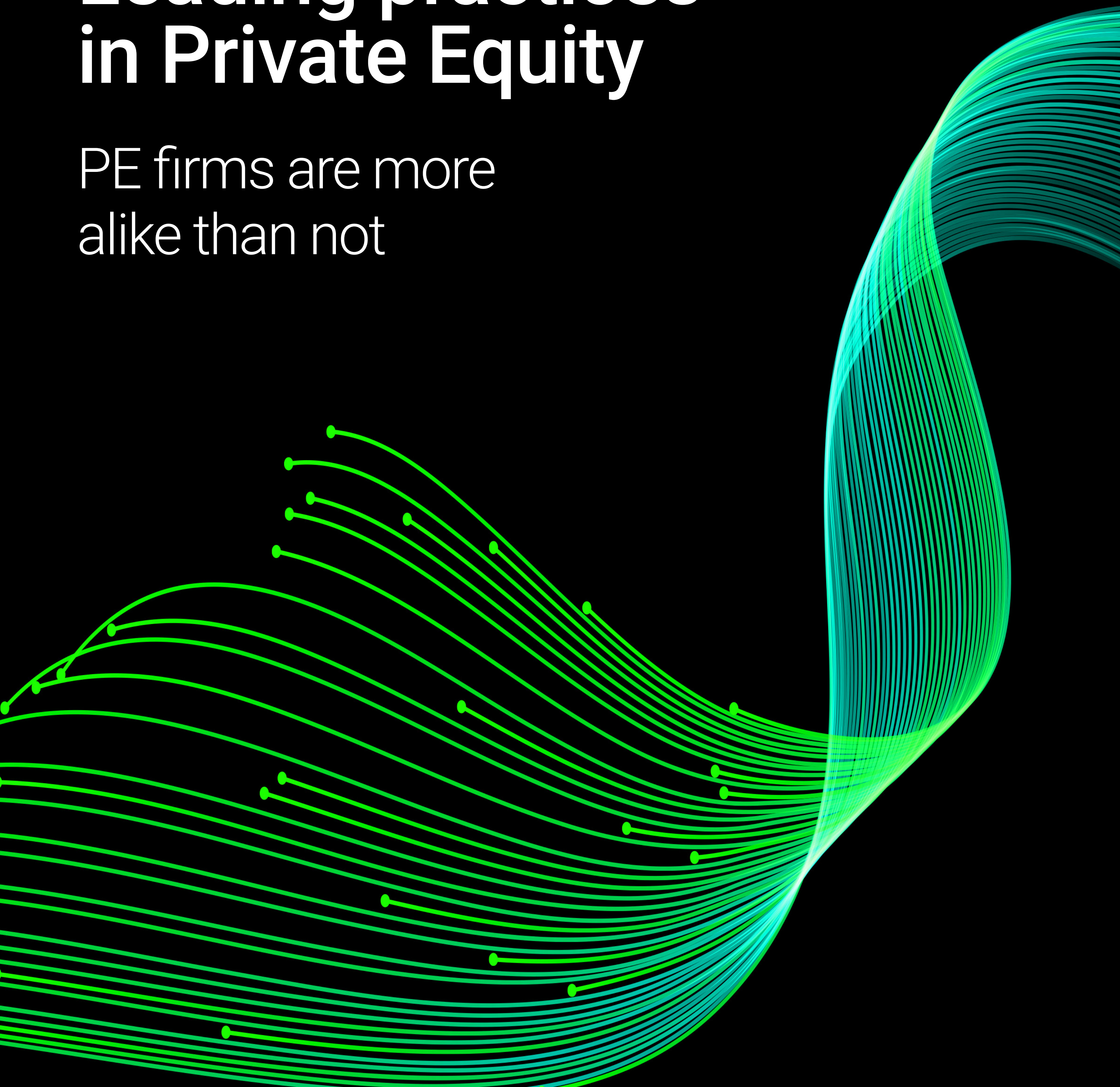
Leading practices in Private Equity

PE firms are more alike than not



AlixPartners research into leading practices in private equity (PE) firms demonstrates that for the most part, general partners (GPs) agree on best practices that produce superior returns for investors. But there is wide divergence on whether and how well GPs implement the practices, and differences in strategy and management appear to lead to differences in performance. Our research has identified 57 leading practices across all stages of the fund life cycle—from raising money to finding targets and from due diligence to operations, to exit. This is the first in a series of articles that will share insights resulting from the research and our own practical experience.

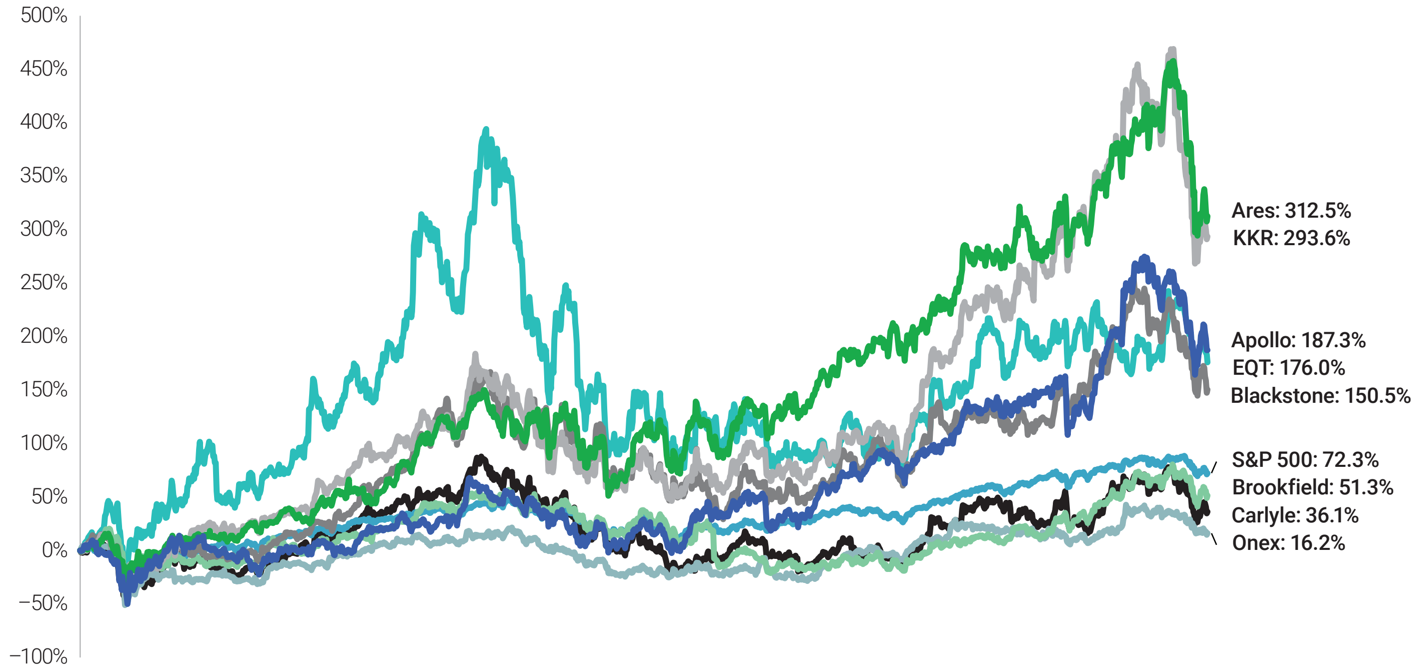
Looks can be deceiving

Even though PE firms may look alike, some such firms outperform others—and they do so by a large margin and consistently. The following exhibit, for example, shows the five-year stock market performance of eight large publicly traded asset-management firms, all of which are major players in the PE industry. Five of them outperformed the S&P by as much as four to one, and three significantly underperformed it. Clearly, the five outperforming companies are doing something different, something better.

The consistency—the fact that the same winners outperformed throughout the whole period and the same laggards trailed—indicates that more than good fortune was involved. The successful firms are managing differently.

But how? That's what we set out to discover. Although lots of research is available about PE and portfolio company (portco) performance, there's relatively little about the strategic and management practices that lead to superior—differentiated—performance from one firm to another.

STOCK PERFORMANCE VERSUS MAJOR COMPETITORS (JANUARY 1, 2020–MARCH 31, 2025)



Source: CapIQ (S&P Capital IQ)

What are those practices? What can generate better fund performance that can lead eventually to better firm performance and to better stock performance for publicly traded companies? If companies are alike in agreeing on the set of best practices overall, why do some fall short, while others surge ahead?

The business environment makes it incumbent on GPs to identify which of these leading practices will be most valuable for them to adopt and decide where to invest, where to make changes to differentiate, and how to move toward superior firm performance.

Challenges confront PE and Portco leaders alike

AlixPartners' recently released **10th Annual PE Leadership Survey**, the **AlixPartners Disruption Index**, and other research begin to illuminate the answers. For example:

- **PE firms and portco executives have the same goals, but they are not well aligned on the best means to achieve those goals because investors focus much more narrowly on financial results and are relatively uninterested in key management and leadership challenges.**
- **Portcos that embrace disruption and seek to drive it in their industry generally outperform companies that react to disruption.**
- **Due diligence that thoroughly investigates not only legal and financial issues but also technology, operations, and talent generally produces a better deal thesis and generates a better outcome.**

To go deeper, we began to identify leading practices across the entire PE value chain.

AlixPartners' research into best practices that drive performance is grounded in the views of expert industry practitioners who are members of deal teams, who function in operations, and who are involved in investor relations.

Product (fund) development → **Fundraising** → **Deal sourcing** → **Due diligence** → **Onboarding** → **Value creation** → **Portfolio monitoring** → **Exit**

There are no silver bullets for improving the overall performance of a PE business; there never are. However, within each of the areas in the preceding graphic, certain advanced practices appear to drive superior performance by funds and by portcos. Companies can choose which practices to change or invest in, with the end goal of becoming strategically differentiated, high-performing firms.

The research itself was based on interviews with industry experts both from within our own firm and through interviews with qualified practitioners such as general partners (GPs) and limited partners as well as across functions such as the deal team, operations, and investor relations.

Upcoming articles in the series will present the details and insights of the research, but across the value chain, we were looking to identify leading practices involving the dimensions of:

Talent/people
including incentives and compensation

Process
meaning, the things that companies are doing differently at each phase of the life cycle

Technology
for value creation, as an investment, and within the general partnership

Structure
meaning, the organizational structures that govern the three other dimensions

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ABOUT US

For more than forty years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges—circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line—a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA—so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.