McKinsey and Bain Research affirm the equity-creating practices of EGI's innovative Fortune 500 battle-tested model to maximize private mid-market and private equity's exit.

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Two major reports have been published by McKinsey and Bain regarding the impact of pricing as one element of enterprise valuation creation. McKinsey surveyed more than 100 senior leaders from PE firms and their portfolio companies across Europe and the United States; while Bain's 2020 Global Equity Report surveyed more than 1,700 B2B business leaders, and they both found out the same thing: Private equity (PE) firms may have mastered the art of creating value for their portfolio companies through their traditional cost reduction, talent upgrades, financial engineering, and roll-ups, but most PE owners do not display the same level of fluency or confidence in commercial productivity improvements hitting EBITDA extracted from customer and product mix, better sales, market share growth, and pricing tied directly to extract trapped equity. These enhancements, when combined, create maximized valuation for both the portfolio company and the PE owner by direct and rapid margin expansion. In addition to benefiting investors, private equity's carried interest is optimized, at no risk.

Yet, Private Equity owners continue to be recalcitrant about onboarding all these skills to elevate EBITDA, market share and growth rates as roots for equity creation. For example, according to Bain just on pricing alone, 85% of management teams believe their pricing decisions need improvement, and only 15% have effective tools and dashboards to set and monitor prices. The McKinsey Report reveals that a whopping 94% of over 100 firms surveyed found their top obstacles to expanding margins included:

- Are not very prepared to capture profit enhancements with tools, processes and capabilities
- They isolated weak commercial capabilities in programs & analytics
- Found lack of visibility into the opportunity
- Had weak supporting systems in sales governance, data and frontline tools; and
- Have low priority of the management team

This reveals that they have scant scientific idea about how to optimize EBITDA improvement across the customer and product mix; or how to motivate the many hundreds or thousands of direct sales and sales distribution channels to achieve greatest profitable sales to defeat valuation under strain. Yet, it is these blind spots which make private equity owners timid about unlocking potent and exponential value from equity-creating platforms of which they are unfamiliar.

Both McKinsey's and Bain's research confirm Equity Growth International's (EGI) core competency in creating equity by delivering gross revenues, EBITDA, market share and growth rates.

The profit enhancements provided by EGI - a breakthrough company in Investment Banking & Equity Creating Growth - related to customer and product mix, sales volume growth and pricing produce huge margin expansions and allow PE firms to be more confident in potential upside and strengthen themselves in competitive deals. "If you build it they will come".

McKinsey's article states that pricing transformation alone can create value for PEs during the holding period, typically seeing margin expansion of 3-7% within one year. Similarly, Bain's research shows that building new capabilities and improving leadership around pricing can add 200-600 basis points to a company's bottom line. It also reflected that 7-12% uplift in EBITDA was achievable from enhanced sales revenues. While these studies were based on just one aspect: pricing, buried in each report are all the elements which reinforce the comprehensive EBITDA growth model of EGI to exit at maximum TEV. It cannot be all or just about pricing. Optimized profits and margins are achieved when driven by full force training and motivation of the direct sales and distribution channel sales - the people.

While Bain's report isolates this as "an investment required" to achieve these results, what EGI delivers to clients is a full audit trail to ensure that all program costs have a payoff analysis and an ROI to reveal that these programs are - in effect – self-funding, paid for from net new profits. And EGI has six decades of successful track record in Fortune 500 to prove it – now scaled to the private mid-market.

Whether in a private equity portfolio, private family office or privately held company, what neither McKinsey nor Bain identifies is the significance of stimulating all of the human capital for maximized equity creation. In order to execute any operational, sales, pricing or market share enhancements, it is necessary to motivate the human beings. Further, while pricing itself is more of a tactical adjustment after a strategic evaluation, that is to say it does not require large human capital, how pricing gets cascaded out into the direct sales and the (very difficult to control or motivate) indirect sales distribution channels IS a matter of scientific human capital management - to be trained and motivated to bring the sales individuals and the corporate strategy into alignment. It is the people-centered approach which drives profits from increased sales, higher productivity, improved customer satisfaction, deeper employee engagement, reduced risk and by extension perfected EBITDA and equity creation therefrom.

The innovation to private equity is that EGI fully leverages behavioral science to assess and achieve scientifically sound client loyalty, employee experience, sales and channel motivation to achieve highest EBITDA for optimized, equity-created exit. EGI drives all the features mentioned in the Bain and McKinsey reports through fulcrum-leveraging of the human capital through positive behavior modification.

Private Equity owners (and private mid-market company owners) are desperate to extract trapped equity. A historical reason for reluctance of the management is their belief that proven, strategic processes are presumed to be too time-consuming and risky. This is why EGI was invented in the first place: To deliver to private equity firms and private mid-market owners their maximum EBITDA and TEV potential. EGI has over 6 decades of experience in doing so and have already helped earn over $50B profits in Fortune 500s. EGI earns high priority from management teams because it provides the strongest proprietary tools, programs, systems, data, capabilities, sales governance, and analytics to provide clear visibility and achievability into the equity lift opportunity.

EGI is not a vendor of off-the-shelf programs; their highly-prescriptive and comprehensive platform isn't available elsewhere. EGI vets the client – to determine successability. Why? Because EGI is contractually responsible for achieving targets & drives all the various equity creating programs for that achievement. EGI only deploys its 6 decades of successful Fortune 500 systems in private mid-market after they assay the present state, then the upside opportunity – the rich financial future state – they can achieve. EGI assess equity creation successability systemwide, determines the hard wiring to EBITDA lift, then drives these platforms to achieve that target. One major value of EGI beyond their skill is their independence from any influence by controlling group, company directors or staff. They don't accept being directed to operate in a select slice or slices of the company or P&L, but because they are responsible for achieving future targeted equity, EGI must assay company-wide to isolate the maximum achievable. And they don't advise or consult; they drive their proprietary system to achieve that target. The challenge to private equity is that once they know of this skillful ability to achieve out-of-reach innovation to extract equity-creating profits from out-of-reach places, they have to question their own historical reluctance, and simply trust the masterful innovation. Their company name says it all: Equity Growth.
Their model is peerless.

EGI operates in revenue and deal valuation from $100M to $1B+ and has global investment banking and profit-creating systems in every sector capable of managing multiple currencies and cross-boarder issues.

Sources:

Bain's 2020 Global Private Equity Report, Section 2.4 By Hugh MacArthur, David Burns, Mark Burton, Wade Cruse and Ron Kermisch, Feb 24, 2020; and McKinsey article of Oct. 23, 2019 by Walter Baker, Manish Chopra, Alexandra Nee, and Shivanand Sinha titled Pricing: The next frontier of value creation in private equity.