

INDUSTRY VOICES

Commentary: With more companies privately owned, capital and operational excellence will define PE success

By MARC NACHMANN

Since 2000, U.S. private equity-backed companies have increased five-fold. They are meaningful contributors to the global economy, and many are expected to remain private — driven by advantages of greater control and flexibility, lower regulatory reporting requirements and better access to capital.

Yet we believe it is a complex time for private equity and portfolio companies. Capital comes at a real cost and the macro environment is changing rapidly: deglobalization effects, supply chain reshoring and artificial intelligence-led digital transformation are creating opportunities, but also complexities and business risks.

Goldman Sachs has been part of the private investment landscape for decades — investing alongside our clients through times of growth, contraction, and disruption. We also finance a wide range of sponsor-backed businesses.



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Private equity value creation models have evolved, and more than ever, we believe success in private market investments means differentiating with operating capabilities. With a decrease in inexpensive leverage and unpredictable exit multiples, PE sponsors increasingly provide operating experience and network access to their portfolio companies to generate better resilience and performance.

We believe patient, long-term, private market owners can supercharge the capabilities of their portfolio companies' management teams, with strong, consistent execution defining success. The best managers deliver more than investment capital — they also help uplift the company's operations, accelerate growth goals, and unlock their full potential.

The gap between top, median and bottom quartile performance will likely widen. For years, the industry has invested — and achieved solid returns — through astute financial modeling, a strong risk culture, and understanding sector themes. That is no longer sufficient. As rates normalize, sponsors must not only source and structure the right transactions but also expand their operational tool kits.

Historically, PE value creation models relied on generalists, consultants, and company boards pop-

ulated with loose federations of expert advisers. We believe this is changing in favor of proactively identifying ways to deliver operating expertise.

We believe successful operating partner platforms share four key attributes:

They have experienced operating executives who are unafraid to roll up their sleeves. The best PE sponsor advisers are tenured senior operators with experience through market cycles. They thrive in digging deep and partnering with management and deal teams, helping companies grow revenues, enter new markets, optimize talent, and leverage technological innovations. Executives who truly understand an industry or function can ensure that target company valuations are realistic, and growth plans attainable.

Operating advisers engage early. To optimize returns and partnerships with management teams, value creation conversations should start early and be “underwritten” in investment committee discussions to align on clear impacts and priorities. Operating advisers can play pivotal roles, contributing to diligence, shaping value creation plans, and helping to drive execution

throughout the ownership. This early alignment can not only compound benefits over the life of the investment but foster collaborative and cohesive approaches with management teams.

They adjust as markets change. Excellent operating platforms have diverse skill sets that can flex to meet market changes. Today’s focus on AI requires digital-savvy advisers who can identify real, actionable use cases that impact the results of their business. These operating executives can recognize patterns across the portfolio and help a company accelerate AI deployment — from content generation to customer experience to developer productivity.

Operating advisers were instrumental in securing top-tier talent during the recent “war on talent,” while during the COVID-19 pandemic, many played pivotal roles in helping to navigate supply chain disruptions and cost management. A sponsor’s ability to dynamically bring the right skills in and out of situations can create differentiation.

They foster excellent team chemistry and trust. Close collaboration between operating advisers, deals teams, and portfolio company

management is fundamental to achieving success. It necessitates a high degree of maturity and, ultimately, trust. Team chemistry is intangible, yet critical. We seek portfolio company CEOs who are open to learning and reinvention, for themselves and their companies. Likewise, we evaluate advisers not only on deep substance but also on a partnership mindset.

The complexity of the macro environment is unlikely to abate anytime soon. Managing through it effectively requires an expanded view of how PE firms can drive value creation. Deep expertise, early engagement, agility and trust are cornerstones of successful value creation models. Private equity managers must optimize operational execution to deliver attractive client returns, and in the process positively impact the broader economy during a dynamic time

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