

The background of the slide is a black and white aerial photograph. The top half shows a dense city skyline with numerous skyscrapers along a waterfront. A large bridge, likely the Manhattan Bridge, spans the water in the middle ground. The bottom half of the image shows a closer view of the bridge's structure and the water below. A semi-transparent grey band is overlaid across the middle of the image, containing the title text.

Middle-Market Private Equity

The Role of PE Funds

MMPE: Definition, Market and Key Strategies

Understanding Middle Market PE

Middle Market Private Equity (MMPE) focuses on investments in companies with annual revenues typically between \$10 million and \$1 billion. This segment represents a substantial portion of the economy, with approximately 200,000 middle-market businesses in the U.S. alone, collectively employing about 48 million people — nearly one-third of the U.S. workforce. MMPE firms target these companies due to their potential for growth and scalability, offering opportunities for significant value creation through strategic investments and operational enhancements.

Why is this market relevant

Middle-market companies are pivotal to economic vitality, contributing over one-third of the private sector Gross Domestic Product (GDP) annually. They often seek capital for expansion, succession planning, or operational improvements. Private equity firms provide the necessary resources and expertise to facilitate these objectives, driving innovation and competitiveness within this sector. For investors, MMPE offers a balanced risk-return profile, with opportunities for substantial returns through active management and strategic growth initiatives.

Key Strategies

- ✓ **Buy-and-Build:** Acquiring smaller companies to integrate into a larger platform, enhancing market share and operational efficiency.
- ✓ **Founder Transitions:** Assisting in succession planning by providing liquidity options and strategic guidance for founder-led businesses.
- ✓ **Operational Improvements:** Implementing best practices to boost efficiency, reduce costs, and drive revenue growth.
- ✓ **Growth Capital:** Supplying funds to support expansion into new markets, product development, or scaling operations.

Investment Thesis: Typical Investment Strategies

1 Operational Improvements

Middle-market companies often present opportunities for significant operational improvement, leading to increased efficiency and profitability. Private equity firms can bring expertise to streamline processes, optimize supply chains, and enhance cost management.

3 Growth Strategies

Many middle-market companies possess strong growth potential but lack access to capital or strategic guidance. Private equity firms can provide resources and support to accelerate growth through expansion, acquisitions, or product development.

2 Management Buyouts

Management buyouts (MBOs) are prevalent in the middle market. These transactions allow experienced management teams to acquire their companies, ensuring continuity and aligning incentives with growth strategies. PE firms can provide the required capital and support for successful MBOs.

4 Industry Consolidation

Consolidation is a common theme in the middle market. Private equity firms can facilitate serial acquisitions (e.g. roll-ups), creating larger, more competitive businesses with greater market share and economies of scale, which can eventually exit at higher multiples.

Value Creation Levers: Operational Improvements

Cost Optimization

Private equity firms can identify and implement cost-saving measures through process analysis, supply chain optimization, and negotiating favorable contracts. This can significantly increase profitability and enhance shareholder value.

Sales and Marketing Enhancements

By leveraging data-driven insights and implementing targeted marketing campaigns, private equity firms can boost sales, expand market reach, and drive revenue growth for portfolio companies.

Technology Adoption

Investing in technology solutions can automate processes, enhance productivity, and improve customer service. PE firms often guide companies in adopting relevant technology to gain a competitive edge and sustain long-term growth.

Talent Management

Recruiting and retaining top talent is crucial for growth. Private equity firms can assist companies in implementing robust talent development programs, creating a positive work environment, and fostering employee engagement.

Value Creation Levers: Professionalization and Scaling



Organizational Structure

Private equity firms often implement efficient organizational structures, streamline reporting lines, and establish clear roles and responsibilities, enabling effective decision-making and faster execution.



Strategic Planning

Developing a comprehensive strategic plan, aligned with industry trends and market opportunities, is essential for sustainable growth.



Leadership Development

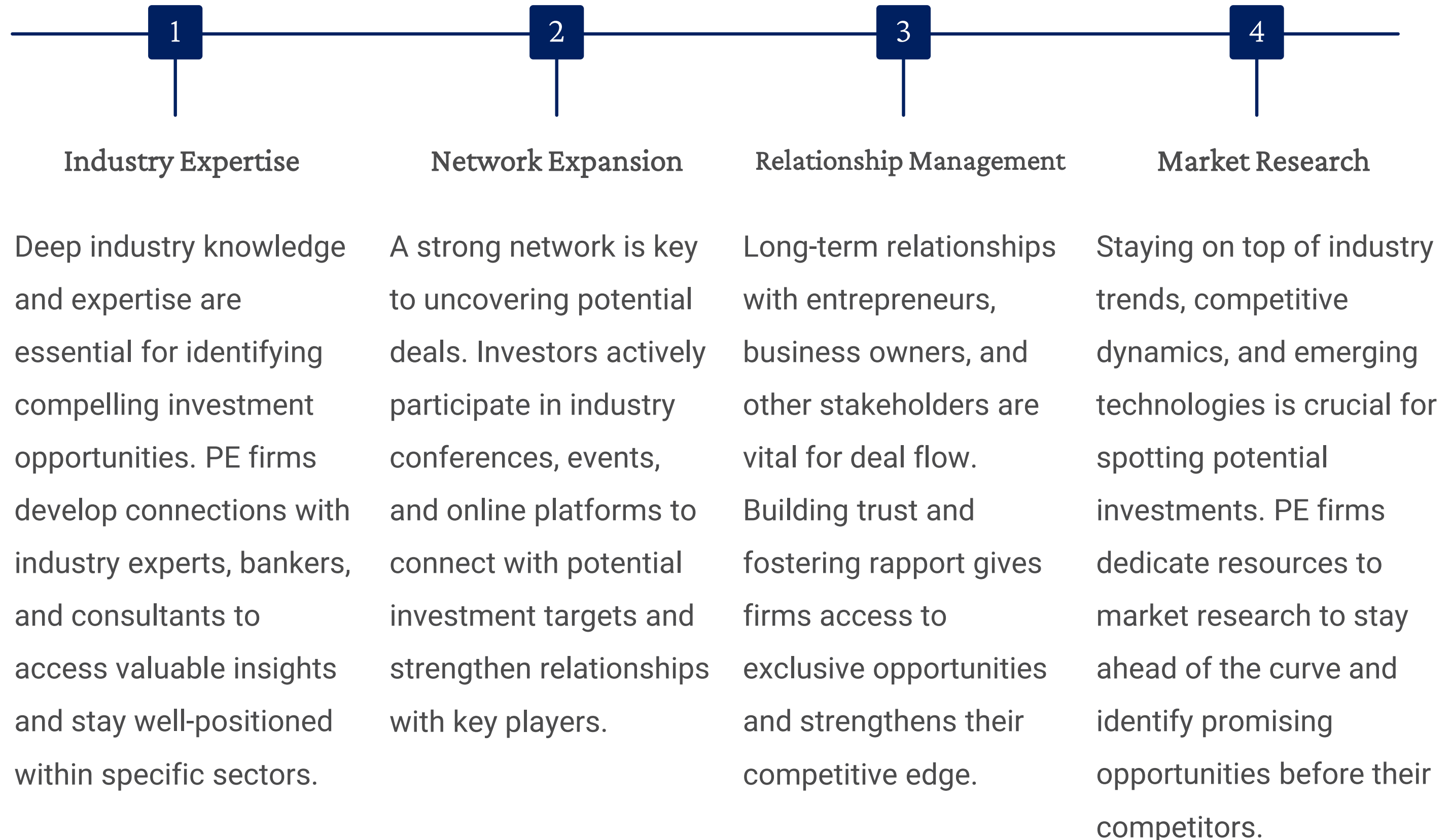
Investing in leadership development programs can enhance the skills and capabilities of key executives, fostering a strong leadership team capable of navigating challenges and driving company performance.



Financial Management

Investors usually bring expertise in financial management, improving budgeting, forecasting and capital allocation. They can also guide companies in implementing strong financial controls and reporting mechanisms.

Deal Sourcing: Leveraging Relationships and Networks



Transaction Process: Key Considerations and Milestones



Structuring the Deal: Aligning Incentives



Driving Portfolio Company Performance

1

Performance Monitoring

Regularly monitoring key performance indicators (KPIs) is critical to track progress and identify areas for improvement. Private equity firms often implement rigorous reporting systems and performance analysis to ensure that portfolio companies are on track.

2

Operational Support

Providing ongoing operational support is essential for achieving growth objectives. Private equity firms leverage their expertise and network to connect portfolio companies with resources and professionals who can enhance efficiency and profitability.

3

Strategic Guidance

Providing strategic guidance helps companies navigate challenges, capitalize on opportunities, and achieve sustainable growth. PE firms offer insights on market trends, competitive dynamics, and industry best practices.

4

Value Creation Initiatives

Implementing value creation initiatives, such as acquisitions, product launches, or cost reduction programs, can drive significant growth and enhance shareholder value. Private equity firms play an active role in developing and executing these initiatives.



Metrics for a Standard MM Investment

4-6

Years

Holding periods differ, but the typical holding period for middle-market private equity investments is 4-6 years, allowing for sufficient time to implement value creation strategies and achieve growth targets.

15%-25%

IRR

Generating attractive returns is a primary goal for investors. Middle-market investments often have the potential to deliver internal rates of return (IRRs) in the 15%-25% range, depending on the structure, performance of the deal, market and size.

8x-12x

EBITDA Multiples

Achieving a multiple of the initial investment at exit is a key objective, often targeting 8x-12x multiples. This reflects a well-executed investment strategy and significant value creation for both investors and the portfolio company.

Private Equity

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