WHITEPAPER

Exit Planning in the New Reality: A Structured Approach to Maximize Value

The current market presents a unique set of challenges for private equity firms seeking successful exits. Economic uncertainty, shifting buyer expectations, and longer hold periods necessitate a more strategic and structured approach to exit planning. A formalized, ongoing process can help PE firms and their portfolio companies optimize outcomes and adapt to an ever-changing landscape.

TABLE OF CONTENTS

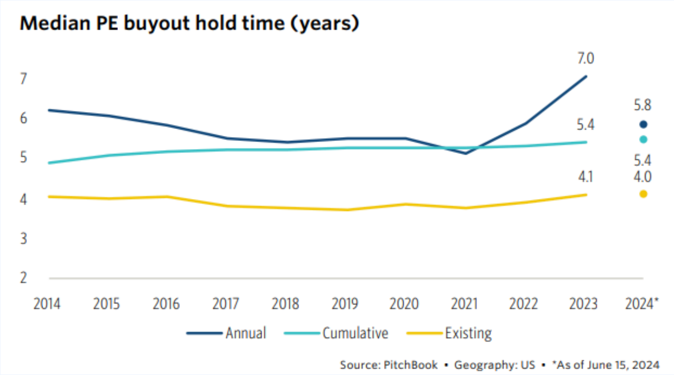
The Headwinds Facing Private Equity are Threatening Successful Exits

Private equity firms face significant challenges in achieving successful exits in the current market environment. Deal timelines, valuations, and ROI are negatively impacted by several ongoing trends, making it difficult to drive higher exit values.

- **Longer Hold Cycles:** Economic volatility and a more selective buyer pool have contributed to extended hold periods. While median hold times have slightly improved in the first half of 2024, PE firms still face pressure to exit and need to find ways to enhance their portfolio company value to drive higher exit values.

> "36% of 11k PE inventory is 5 years or older; 33% is 6 years or older."

Tim Clarke, Lead Analyst, Private Equity, PitchBook



PitchBook: 2024 US Private Equity Outlook - Midyear Update

> "The median hold time of companies exited in 2023 has since been pushed up to a new record of 7.0 years. For YTD 2024, the median holding period of completed or announced exits has contracted meaningfully, dropping to 5.8 years. This is in line with the previous five-year average, and it demonstrates that GPs have successfully alleviated some of the mounting pressure from a backlog of exits."

PitchBook: 2024 US Private Equity Outlook - Midyear Update

- **Valuation Gap:** There is a disconnect between seller expectations and buyer valuations. There are several factors causing buyers to be increasingly risk-averse and skeptical of future growth projections, including:
  - Market uncertainty from economic and political factors
  - Lack of a clear market benchmark
  - Lack of conviction on sustainability of revenue and margin performance
  - Inability to without-a-doubt prove historical value creation and create reason to believe in future upside

"Private equity exit value is on track to decline to its lowest annual total in at least five years… Global private equity exits totaled $155.3 billion between Jan. 1 and June 30, down 26% from $209.4 billion in the first six months of 2023, according to Preqin data. Annual exit value is on track to fall annually by roughly one-third from 2023's $460.3 billion full-year total."

S&P Global: Private Equity Exits Pacing for 5-Year Low After Slow H1

- **Interest Rates:** Higher cost of capital is another element causing buyers to be more selective and impacting deal valuations. In order to ensure returns that can justify increased borrowing costs, buyers are more cautious with investment decisions. Therefore sellers face higher scrutiny as buyers are no longer willing to risk the viability of sustained growth and upside scenarios. Multiple expansion must come from revenue and margin growth and development of sustainable capabilities.
- **Inflation:** Inflation is driving a focus on price sustainability and cost control. Historical transactions may become a less reliable predictor of the future in an inflationary environment. Buyers want assurance that revenue growth is driven by volume, account expansion, and not just price increases from inflationary conditions.

"An exit logjam continues to plague the PE industry, as GPs hold out for better market conditions instead of being forced sellers. US PE exit activity slid for two consecutive quarters in 2024 so far despite growing pressure from LPs to distribute capital by way of realizations. Persistent buyer-seller valuation gaps have been the main culprit behind the muted exit activity…"

PitchBook: 2024 US Private Equity Outlook - Midyear Update

PE firms are facing pressure to exit longstanding investments in order to return cash to investors and raise new capital.

Exit Planning Challenges: Limitations in the Current Approach and the Need for a More Strategic Process

Traditional exit planning strategies (or lack thereof) are falling short in today's climate. Common pitfalls are starting the planning process too late, insufficient time allocation, focusing on risk mitigation over value creation, and inconsistent processes, hindering success. This can result in missed opportunities to maximize value, inadequate preparation for market fluctuations, and misalignment between buyers and sellers.

Area of Exit Planning	Typical Exit Planning Approach	Challenges & Limitations to the Typical Approach
Process & Planning Framework		
Time Allocated to Exit Planning	Typically initiated ~3-4 years into hold, or 6 to 24 months prior to the expected time of sale	Capacity constraints over dedicated, high-stakes time periods Limited time to remedy risks and adjust for market shifts
Exit Planning Strategy & Processes	May or may not be a formalized process, depending on sponsor	Stakeholders may view priorities and needs differently across varying timelines Gaps in risk evaluation
Data Integration & Segmentation	May or may not be a formalized process done <6 months prior to exit Data cleanup priorities may be influenced by specific needs of certain users or growth initiatives	Resource drain to create one-off analytics views Slow decision-making and subpar responses to potential investors Inability to tell the full value story
Key Objectives & Action Areas		
Commercial Foundation (Data, Systems and People)	Prioritize addressing most significant gaps in operations Integrations of systems and technology across recent add-ons	Often focused on risk mitigation vs. operational capabilities to ensure readiness to support future value creation upside for buyer
Historical Business Performance Analysis & Measurement	Compile existing analysis and reporting across sales, pricing and finance teams Prepare data for the Quality of Earnings	Data pack analysis is often not sufficient or detailed enough, causing delays in the diligence process, lower ROIs, or lost deals Analysis does not tie value creation initiatives to quantified impact
Pre-Exit Growth Initiatives	Approached with caution and may not be executed due to reticence to make commercial changes and constrained capacity leading up to sale	Missed opportunity to generate revenue and margin growth and increase transaction value Prospective buyers may have less conviction in go-forward opportunities without recent evidence of teams' ability to implement and sustain initiatives
Go-Forward Value Creation Opportunities	Identify and bridge to pro forma EBITDA from incremental growth levers Unsubstantiated future growth projections	No substantial playbook underpinning the means to execution Gaps in analysis and commercial foundations may cast doubt on the bridge between historical to pro forma profitability

"I can sell momentum; I cannot sell hope."

PE Operating Partner

The Clear Path Forward: Exit Planning as an Extension of the Value Creation Roadmap

In today's unsteady market, achieving successful exits requires a proactive and strategic approach that goes beyond simply reacting to market conditions and showing speculative upside cases. A formalized and structured exit planning process is essential for maximizing value for portfolio companies. This approach offers the necessary framework, flexibility, and agility to navigate market complexities and position investments for optimal outcomes. There are 3 key components to this adjusted exit planning process.

1. **Approach Exit Planning Early and In-Parallel with Near-Term Growth Priorities:**
   Adopt a consistent playbook and process vs. a one-time initiative
2. **Invest in Foundational Success Factors:**
   Consider the importance of quality data and other core elements in achieving exit planning outcomes
3. **Structure the Opportunity Roadmap to Prioritize and Substantiate Incremental Gains:**
   Develop a smart framework to ensure both pre-exit and next-buyer objectives are accounted for

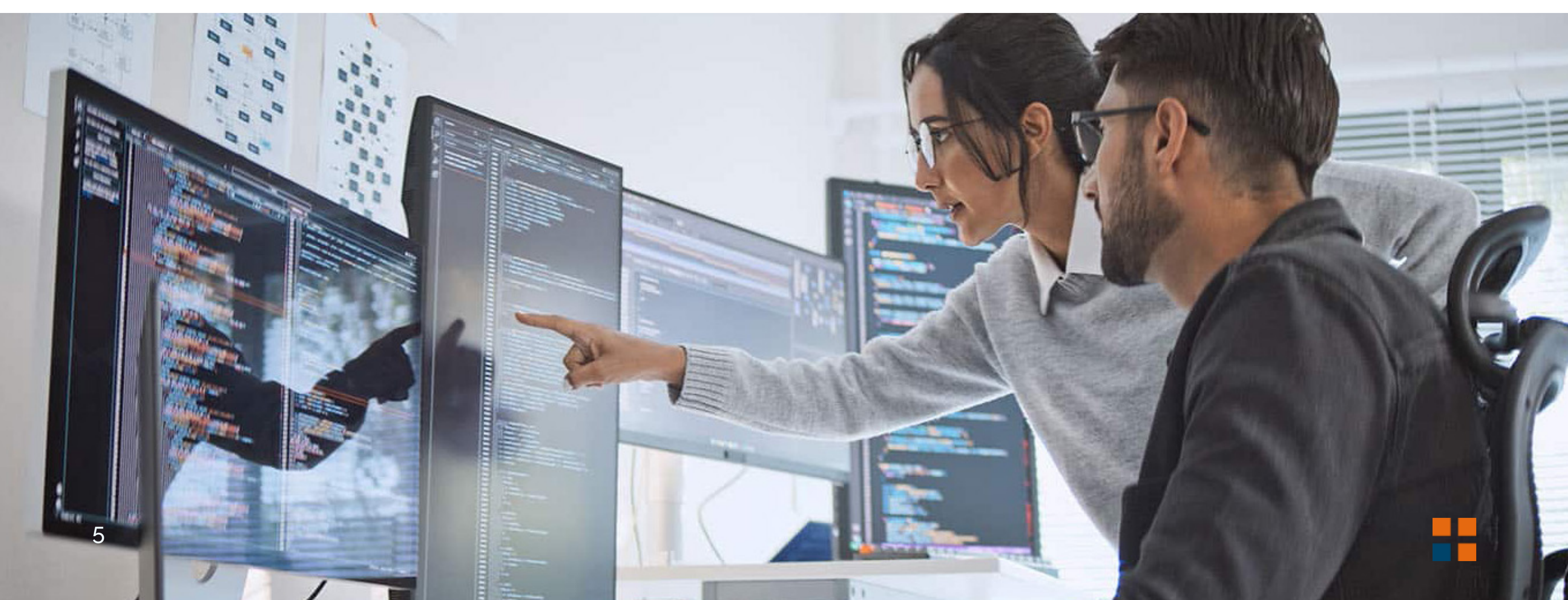
"Exit planning is an under-indexed phase of value creation."

Andy Fauver, SVP Transaction Services, INSIGHT2PROFIT

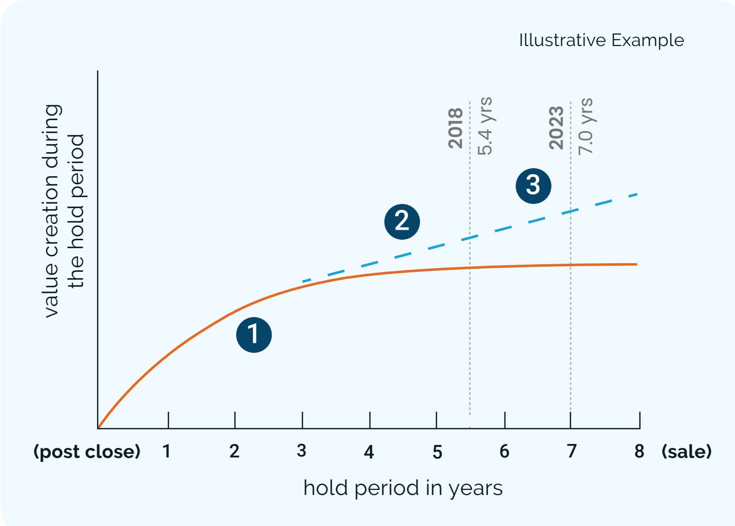
1. Approach Exit Planning Early and In-Parallel with Near-Term Growth Priorities

Accelerate Timing: Initiate exit planning early in the investment lifecycle. Ideally, PE firms should consider their exit planning strategy as soon as the company is acquired and embed it within the investment thesis and value creation plan.

Annual Review: Conduct an annual review of the value creation plan and measurement of progress, including updates to the opportunity roadmap, risks and mitigation plan, resource plan, and timeline. Make adjustments to the value creation plan that reflect market changes and company performance.



Value Creation During the Hold Period



...... Median Exit Hold Time, PitchBook

1 Early Stage

Execute top value creation initiatives identified during the diligence process

2 Mid-Hold

- Slowdown in momentum risks tapering of gains
- Ongoing measurement and value creation roadmap reassessment supports profit sustainability and can identify ways to adapt growth strategies as market conditions change

3 Late Stage **(Especially in Extended Hold Periods)**

- Growth has flattened and value creation has stagnated
- Execution of quick wins identified through second "push" of growth initiatives

CASE STUDY

Have You Built Your Exit Plan as a Continuation of Value Creation?

Delivered 200 bps EBITDA growth pre-sale and identified an additional 400 bps of growth opportunities that were implemented post-transaction with the acquiring investors.

During the exit planning process, we generated financial value by developing strong strategic pricing foundations and implementing a value-based pricing framework and formal sales processes, including workflows, trainings, KPIs, and operational improvements.

We showcased positive financial impact of pricing in external sell-side diligence materials (CIM and management presentations) to demonstrate successful execution of previous initiatives, and the roadmap of additional value creation opportunities to drive value for the prospective buyer.

"We need to drive short-term financial benefit for the positioning of the company, followed by a sustainable pricing structure."

Managing Director, PE Firm, Agricultural Products Distributor

2. Invest in Foundational Success Factors

Quality Data: The data is typically the biggest and most often overlooked challenge. Quality data enables ro-bust and granular data analytics that prepare sellers to respond with the clarity and confidence buyers expect. However, getting a company's data in a sale-ready state typically becomes more complicated than expected. Failure to do so means you can expect a much larger diligence request list from buyers and a slow turnaround from the seller creates skepticism from buyers on the strength of the target's commercial foundation. Selling companies risk undermining valuation objectives if they can't prove what they believe to be true.

Accountability: Ensure management teams are aligned with the exit plan and held accountable for achieving the milestones that will drive value. Develop key performance indicators tied to exit readiness and aligned with buyer expectations, alongside performance-based compensation. Have clearly defined roles and responsi-bilities for exit planning activities such as data collection and stakeholder communication. Ensure there is a system of communication and documentation to support accountability.

CASE STUDY

Do You Have Real Answers for Why Your Margin Is Improving?

Quality data enabled granular, complex analysis across multiple ERPs and surfaced detailed facts behind the business's margin shifts to support exit planning goals.

A packaging manufacturer needed to understand where and how mix shifts were occurring over a multi-year time period to demonstrate where, when, and how price and volume changes contributed to profitability.

Other multi-year trends, such as customer churn, cost fluctuations, and product profitability, helped this packaging manufacturer comprehensively prove the impact and sustainability of their pricing strategy through isolating pricing as a key profit lever.

This analysis would have been impossible without quality, accessible data.

3. Structure the Opportunity Roadmap to Prioritize and Substantiate Incremental Gains

Assess: Evaluate, quantify, and prioritize financial opportunities that remain in the business. Generate an opportunity roadmap alongside a clear implementation plan that is utilized to execute against opportunities that drive value creation. A trusted blueprint for implementing value creation opportunities enables smarter execution, faster results that com-pound impact, and increased sale readiness.

Measure: Establish systems of measurement that bring granular visibility to key metrics that contribute to growth goals, including historical price vs. cost change, margin indices, price realization, price adherence, mix shifts, price vs. volume change, win rate, customer churn, customer & product tiering, and price leaks. Having quality data that clearly proves historical performance and future potential gives companies a considerable advantage in the exit planning process. Embracing advanced systems of measurement and analysis earlier in the hold cycle will allow for accurate performance tracking and improvement, earlier identification of risks and opportunities, and greater sale readiness when market conditions are favorable.

Create Value: Execute your implementation plan to create value. Opportunities may fall into these categories:

Foundational	Critical initiatives or investments required to maximize value creation, such as: • Systems & infrastructure • People & organizational structure
Value Creation	Pricing and profitability initiatives that drive both short-term lifts and sustainable profit growth, such as: • Price adjustments & pricing structure changes • AI/ML price models • Price leak management • Commercial enablement
Future Opportunities	Growth opportunities that remain in the business but have not yet been implemented. The value of these opportunities can be clearly proven.

CASE STUDY

Can You Prove Your Business Can Generate Real Dollars?

By prioritizing initiatives that generate EBITDA growth, this packaging equipment manufacturer was able to prove growth capabilities and yield impact before going to market.

A packaging equipment manufacturer conducted a 2-month pricing pilot with select locations to generate growth from price in a short amount of time.

Significant impact led to an accelerated roll-out of strategic pricing across most locations to demonstrate and realize additional meaningful impact ahead of exit.

The organization was able to concretely show financial impact delivered as well as projected remaining impact.

Example High-Level Opportunity Roadmap

Opportunity	Evidence of opportunity	How to unlock	Impact, $M	Effort	Timing
Dynamic Price Setting Process	• [#]M prices to manage manually; 1 FTE for Pricing today • Price guidance quality is bimodal (either good or bad) • Cost volatility is a significant opportunity	• Enhance current price setting process to be more dynamic • Utilize model / engine to help find opportunities to correct price guidance; develop rules to manage prices as costs move	$4.0	Low	Q3
Exception Price Management	• [#]% of exception prices go unused after first entry • Exception prices for small customers are 20-40% below target range on average	• Release / retire unused exception prices & let flow through price guidance (which should be continuously improving) • Target long-tail items first	$1.5	Low	Q3
Enhanced Measurement & Compliance	• Unwarranted rep-level variation exists; up to [$]M in price variation • Visibility to thematic pricing opportunities does not exist	• Pilot enhanced dashboards for 2 sites • Roll-out regionally, then nationally • Utilize feedback loop to correct pricing guidance	$1.0	Med	Q4
Customer Share of Wallet	• Distinct buying profiles for customer segments exist • Within segments, purchasing gaps exist at the customer account level; not all similar-segment customers buying same items	• Utilize measurement methods to identify top 10 product specific gaps for each account; feed into sales effectiveness solution • Track and measure success of tactical business agenda	$10+	High	TBD
Product Positioning	• Product positioning strategy does not exist today • Current pricing structure foundation in place to execute • Premier brands priced at or below other value items	• Develop pricing engine that position products to drive selling strategy, product roles, and margin strategies • Optimize cost-volume-profit by product strategic roles	$2+	Med	TBD
Quoting Tools	• "Strategic" customers of similar size to other customers get better pricing • Margin inversion by customer revenue and product tiering	• Create pricing model & tool to quote new business and "wedge"" existing accounts to proper margin profile • Aggressively price long-tail items; harvest margin	$2+	Med	TBD
Price Leakage & Cost to Serve	• Significant price leakages identified in discovery and no process to manage; death by a thousand cuts • Many accounts unprofitable after cost-to-serve allocations	• Build detailed cost to serve waterfall and identify biggest leak areas • Implement controls, policies, and incentives	$2+	Low	TBD
Other Divisions	• ~[$]M in annual revenue that has unwarranted price variation and margin inversion based on customer size and product velocity • Customers are competitors; margins and pricing not aligned	• Leverage product velocity model from Division 1 and apply to list-discount structure • Compare customer value across channels • Build and deploy engine and tool to win more and grow margins	$2+	Low	TBD

"We have been very diligent around pricing and pushing on pricing massively. We have done a lot to grow the profitability of the business, but we struggle to understand if there is an opportunity to do more or grow more in this area. We want to make sure the buyer sees our growth as well as untapped opportunities that still exist."

CEO, Industrial Manufacturer, PE Sponsored

Redefining Exit Planning to Maximize Exit Value

In today's challenging market, a formalized and proactive exit planning strategy is critical for maximizing returns. By implementing a cyclical, adaptable process, PE firms can enhance their portfolio companies' attractiveness to buyers, bridge the valuation gap, and achieve successful exits in today's demanding environment.

Summary

1. **The Exit Landscape is Challenging:** Private equity firms face a difficult exit environment due to extended hold periods, valuation gaps, rising interest rates, and inflation. These factors create pressure to sell at lower valuations or hold onto companies longer.

2. **Traditional Exit Planning Falls Short:** Traditional approaches to exit planning often start too late, lack dedicated time and resources, and focus more on risk mitigation than value creation. This leads to missed opportunities and inadequate preparation.

3. **A Formalized, Structured Approach is Essential:** Adopt a formalized, cyclical exit planning strategy that begins early in the investment lifecycle, is considered a part of value creation, and is continuously updated and adjusted. This process should include:
   - Identify and quantify value creation opportunities with clear implementation plans and data-driven evidence.
   - Accelerate timing, ensure accountability through KPIs and performance-based metrics, and conduct annual reviews of the exit plan.
   - Continuously measure performance, assess opportunities, and create value through a structured process.

4. **Data and Measurement are Crucial:** Data-driven decision-making throughout the exit planning process is critical. This includes collecting granular data on financial performance, customer behavior, pricing strategies, and market trends.

5. **Proactive, Adaptable Approach:** Utilize a proactive, adaptable exit planning approach that can respond to changes in market conditions and company performance. This requires ongoing monitoring, adjustments to the exit plan, and a willingness to consider alternative exit strategies based on readiness and market favorability.

Contact us to better understand your exit readiness.

Meet INSIGHT2PROFIT

INSIGHT2PROFIT, a DFW Capital Partners portfolio company, is a leader in driving pricing and profitability excellence, helping businesses accelerate growth and optimize financial outcomes. By integrating cutting-edge intelligence, strategy, and technology, we transform big insights into real-world solutions that drive revenue, grow EBITDA, and maximize ROI.

We've spent nearly two decades helping private equity leaders and company executives achieve EBITDA growth. We understand the urgency required for high-quality investment decisions and offer proven strategies to maximize enterprise value at every stage—buy, hold, or exit. By leveraging data-backed insights, we quickly identify and validate growth opportunities that drive both immediate and sustainable profit increases. Let us help you uncover hidden value and maximize your exit potential.

Headquartered in Cleveland, with regional offices in Chicago and Columbus, INSIGHT2PROFIT continues to be a trusted partner for companies looking to unlock their profit potential.

For more information, visit www.insight2profit.com.

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Andy Fauver is the Senior Vice President of Transaction Services at INSIGHT2PROFIT, where he leads the Transaction Services Practice. There, he partners with private equity firms, their portfolio companies, and other transaction advisors to add significant value to the mergers & acquisition process by developing the data foundation and analytics, identifying enterprise value creation opportunities and risks, and developing the growth roadmap and strategy.

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