

2023

BREAKING THROUGH THE DATA * BARRIER

In the world of private equity, data holds the key to transformative value creation. However, many firms remain bound by the status quo, hindering their ability to unleash the full potential of data-driven decision-making and operational efficiency. It's time to break free and embark on a transformative journey that redefines success in the industry.

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Introduction

The private equity industry has confronted significant challenges in the aftermath of the post-Covid era, including persistent inflation, geopolitical tensions such as the invasion of Ukraine and escalating disputes with China, and intensifying competition. Despite these obstacles, the sector maintained momentum with record-breaking deals in H1 2022. However, interest rate hikes prompted funding withdrawals, resulting in a decline in dealmaking with repercussions on exit deals and fundraising into 2023. Prevailing uncertainty dampens deal activity, especially for large transactions requiring leverage, impacting overall fundraising.

Consequently, the ominous specter of "**uncertainty**" emerged as a deal killer. Buyers, sellers, and lenders all await greater clarity on economic forces that may impact cash flows.

In this context, the focus shifts to driving value within existing portfolios. Rash decisions like asset liquidation and drastic cost-cutting may offer temporary relief but harm long-term performance. Combining cash preservation, credit line utilization, and resource fortification with proactive strategies is essential. To expedite recovery, assessing competitive positions and seizing market share from competitors during downturns become crucial. Companies excelling in shifting profit pools during recessions exhibit prudent aggression, recognizing opportunities and acting upon them with determination.

In response to the multifaceted challenges, our research delves into the potential of data analytics as a catalyst for enhanced value creation. By uncovering insights, identifying obstacles, and revealing untapped opportunities, we aim to illuminate the intersection of data utilization, technological advancements, and the expanding horizons of value creation.

Understanding current practices will shed light on the nuances of leveraging data analytics, enabling private equity firms to overcome obstacles and unlock untapped potentials. This exploration will provide actionable strategies for leveraging data-driven decision-making and technological advancements to achieve superior long-term performance in the face of industry challenges.

To gather the insights presented in this research, we conducted interviews with industry experts and surveyed 150 individuals working in private capital firms across the UK & USA. These findings, both from our survey and other aspects of our study, contribute to a deeper understanding of the opportunities and obstacles surrounding data-driven value creation in the private equity landscape.

Executive Summary

The private equity industry has recognized the potential of data analytics for value creation, yet the research findings reveal a widespread ineffective utilization of these tools. **Only 4% of respondents consider their firms to be very effective in leveraging data analytics**, indicating a significant gap that needs to be addressed.

Challenges such as accessing standardized data and suboptimal data collection and management processes hinder the effective use of data analytics, resulting in missed value-creation opportunities. Approximately 60% of respondents acknowledge that data-related challenges often or occasionally lead to missed opportunities, impacting portfolio performance and returns. Furthermore, the survey highlights that time-consuming and manual data analysis remains a significant factor contributing to data utilization inefficiency. Private equity firms must therefore prioritize streamlining data analysis processes to drive informed decision-making and unlock untapped value.

Despite the recognition of the potential benefits, private equity firms have been slow to adopt data analytics or business intelligence tools. Only 35% of respondents have utilized such tools, highlighting resistance to change within the industry. Challenges related to implementation, integration, and concerns about return on investment contribute to this hesitation. However, the research underscores the opportunity for firms to gain a competitive advantage by embracing data analytics. Overcoming implementation challenges and demonstrating a positive return on investment can position firms for improved decision-making, operational efficiencies, and enhanced value-creation outcomes.

The research also presents an optimistic outlook for the future of data analytics in private equity

with respondents acknowledging the significant value that data analytics can provide, particularly in strategic decision-making and operational efficiency. The majority (87%) agree that data analytics will positively impact strategic decision-making for managing portfolio companies. This finding emphasizes the potential for informed and data-driven decision-making processes within the industry.

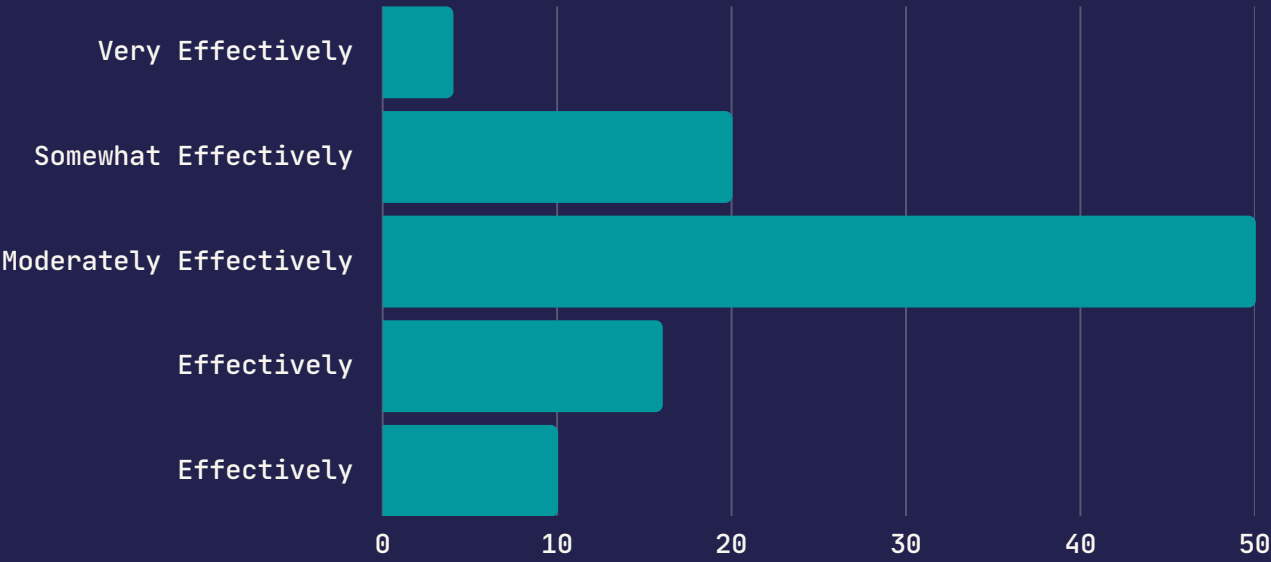
To seize the potential offered by data analytics, private equity firms must invest in technology, talent, and data-driven processes. Accessing standardized, accurate, and complete data will allow firms to derive actionable insights, optimize operational efficiencies, drive cost optimization, and make informed investment decisions. By doing so, firms can unlock the untapped potential of data analytics and gain a competitive edge in the industry.

In light of the challenges and slow adoption, there is an opportunity for firms to enhance their data analytics capabilities, embrace technological advancements, and drive informed decision-making processes. By doing so, firms can position themselves for improved performance, operational efficiency, and value creation within their portfolio companies. Embracing a data-first approach will empower private equity firms to stay competitive, adapt to market dynamics, and achieve sustained success in the ever-evolving landscape.

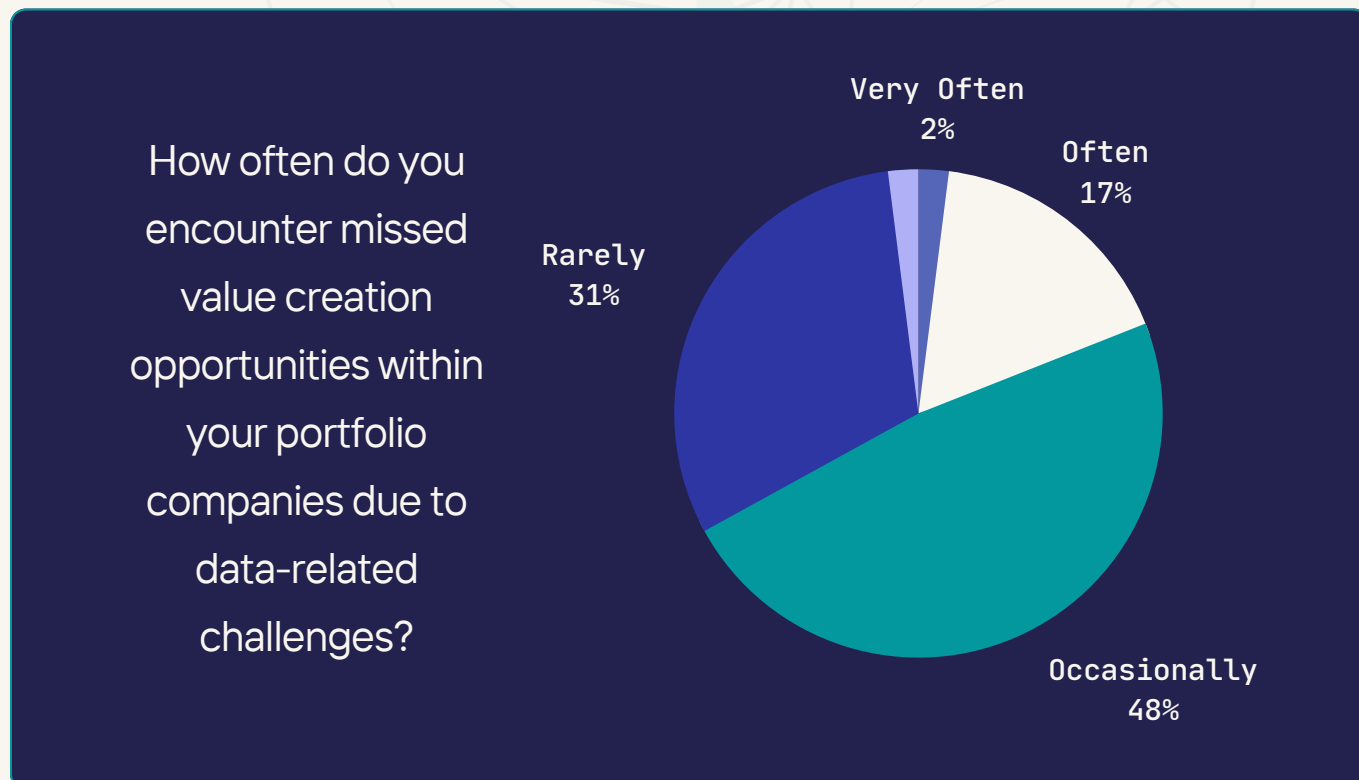
The Landscape of Data Analytics in Private Equity

The suboptimal utilization of data, coupled with difficulties in accessing standardized data and limited visibility into key value drivers, highlights the need for enhanced data analytics capabilities and advanced portfolio management solutions.

The survey findings indicate that the current state of data analytics adoption and utilization in the private equity industry is suboptimal. Only 4% of respondents consider their organizations to be very effective in leveraging data analytics for value creation within portfolio companies. This suggests a significant gap between the potential of data analytics and its actual implementation in the industry.



An overwhelming 65% of respondents acknowledge that data-related challenges frequently or occasionally lead to missed opportunities, significantly impacting portfolio performance and returns. This staggering statistic serves as a wake-up call to the private equity industry, highlighting the critical importance of effectively harnessing the power of data analytics. The suboptimal utilization of data, coupled with difficulties in accessing standardized data, for value analysis, and limited visibility into key value drivers through data, create significant barriers that hinder value creation within portfolio companies.



This finding underscores the urgent need for private equity firms to address these challenges and enhance their data management and analysis processes. By embracing data analytics as a strategic tool, firms can unlock hidden value, drive better decision-making, and gain a competitive edge in today's highly competitive landscape. The potential benefits are vast, ranging from improved operational efficiency and cost optimization to revenue growth, risk management, and strategic decision-making.

Private capital is in need of a significant paradigm shift, to reframe its perspective on data. Instead of treating data as a mere by-product, it should be recognized as a valuable asset. This fundamental change in thinking is crucial for unlocking the true potential of data within the industry.

Head of Fund Operations
Middle Market PE Firm US\$150 billion in AUM

Trends & Challenges Related To Data-driven Decision-making

Addressing issues related to data access, utilization, and alignment with strategic goals is essential for unlocking the full potential of data-driven decision-making and gaining a competitive edge.

The research reveals several industry trends and challenges related to data-driven decision-making and value creation. The main challenges reported by respondents include inefficiencies relating to manual and time-consuming data analysis, difficulty accessing standardized data, inadequate utilization of operational data for value analysis, and limited visibility into key value drivers through data. These barriers underscore the need for improved data management and analysis processes, as well as the adoption of advanced portfolio management solutions that leverage data analytics to enhance value creation within portfolio companies.

83%

Difficulty Accessing Standardized Data

The survey found that 82.98% of respondents face difficulty accessing standardized data. This lack of consistency in data formats and sources makes it challenging for firms to obtain a comprehensive view of their portfolio companies and derive meaningful insights.

85%

Manual & Time-consuming Data Analysis

Manual and time-consuming data analysis and reporting processes are the main challenge leading to inefficiency of data utilization for value creation. This finding has a profound impact on a firm's ability to drive value creation effectively.

While nearly half of the respondents believe their organizations effectively leverage data for value creation, challenges persist. Difficulty accessing standardized data, manual and time-consuming analysis, and limited visibility into key value drivers are among the prominent obstacles hindering data-driven value creation.

39%

Limited Visibility into Key Value Drivers Through Data

38.30% of respondents mentioned limited visibility into key value drivers through data analytics. Without clear visibility into these key value drivers, firms may miss out on potential opportunities and face difficulties in optimizing their investments.

64%

Difficulty Identifying Value Creation Opportunities

63.83% of respondents reported facing challenges in identifying value creation opportunities from data. This highlights the need for improved data-driven insights aligned with strategic goals to pinpoint and capitalize on value creation opportunities effectively

47%

Insufficient Alignment Between Insights & Goals

Even when data-driven insights are available, 46.81% of respondents cited a lack of alignment between data analytics and strategic goals. Establishing clear communication channels between data analysts and decision-makers ensure that data is utilized to support value creation.

Dealing with manual data analysis can be tough. It's not just about the hassle it brings; it's about the potential threats we might miss. Delayed insights mean we might not catch risks or emerging threats in time. It's risky because these missed threats impact our portfolio's performance and returns, and that's the last thing we want.

Director, Portfolio Management
PE Firm US\$40 billion in AUM

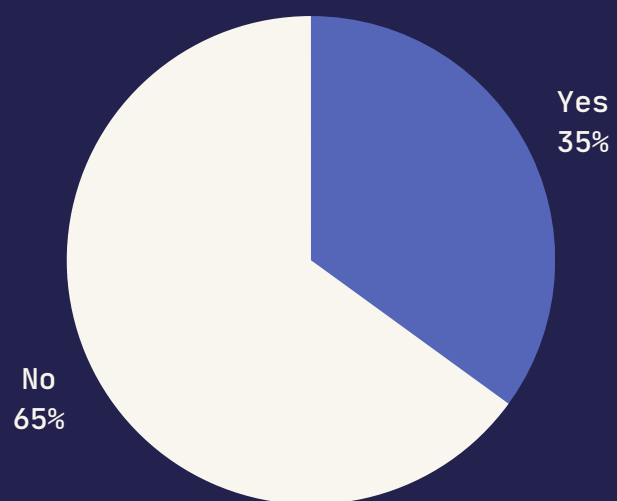
Additionally, the struggle to identify value-creation opportunities and align data-driven insights with strategic goals further adds to the complexity. To overcome these challenges, private equity firms must invest in advanced data analytics technologies, promote a data-driven culture, and ensure seamless collaboration between data analysts and decision-makers. By adopting these measures, firms can thrive in a dynamic market, driving superior returns and fostering sustainable value creation for all stakeholders.

The Competitive Landscape & the Need for Advanced Portfolio Management

To remain competitive in a rapidly evolving landscape, firms must overcome barriers that hinder the industry's progress toward data-driven value creation.

The research provided valuable insights into the current state of data utilization and the challenges faced by private equity firms in driving value creation within their portfolio companies. The below findings emphasize **an urgent need for advanced portfolio management solutions** that leverage data analytics effectively. However, slow adoption of data analytics technologies, with only 35% of respondents utilizing such tools, reveals the presence of barriers that hinder the industry's progress towards data-driven value creation.

Have you utilized data analytics or business intelligence technologies within your portfolio companies to drive value creation?



Slow Adoption of Analytics

A considerable majority, 65%, of respondents acknowledge the potential of data-driven insights to positively impact value creation within portfolio companies. Despite this recognition, **only 35% of respondents have implemented data analytics or business intelligence technologies** in their portfolio companies. This slow adoption can be attributed to various factors, including challenges in implementation and integration of these technologies, as well as concerns about return on investment.

Missed Opportunities

Incomplete or inaccurate data for value analysis, **suboptimal data collection and management processes, and insufficient data analytics capabilities and tools** are among the primary factors contributing to missed value creation opportunities within portfolio companies.

Optimism for Insights:

Despite the challenges, there is an overwhelming sense of optimism about the potential of data-driven insights to drive value creation within the private equity industry. An impressive **87.23% of respondents believe that data analytics can have a significant impact on strategic decision-making and investment analysis**, indicating a strong belief in the power of data to enhance portfolio performance.

Challenges Hindering Adoption

Among the respondents who have not adopted data analytics, **74.07% identified challenges in implementation and integration as a primary reason**. This finding underscores the difficulties faced by firms in seamlessly integrating data analytics tools into their existing business processes. Such challenges may include complex data infrastructure, data security concerns, and the need for comprehensive training and support to empower teams to effectively utilize data analytics tools.

Confidence in Data Utilization

Regarding the current utilization of data for value creation, 85.11% said they were satisfied with current data utilization. However, the survey also highlights inefficiencies in data utilization, with **48.94% of respondents expressing concerns about the availability of actionable insights** from data for effective value creation.

Willing To Adopt AI

Although slow to adopt new technologies, **73.96% of respondents expressed willingness to adopt AI tools specifically designed to enhance data-driven value creation within their portfolio companies**. This willingness to embrace advanced technologies underscores the growing recognition of the importance of data analytics in driving value creation.

Unleashing the Power in Data

Data analytics has become a transformative force in the private equity industry, holding the key to unlocking untapped potential and driving competitive advantage. As the landscape continues to evolve, firms must recognize that data analytics is not just a useful tool but a strategic imperative.

Overcoming challenges related to manual data analysis and investing in advanced portfolio management solutions are vital steps to harnessing the full power of data for value creation.

By transitioning from time-consuming, manual data analysis to more automated and real-time insights, firms can improve their agility and responsiveness in identifying threats and opportunities. This agility is critical in an environment where market dynamics can change rapidly, and missing out on identifying threats could result in significant losses.

Investing in advanced portfolio management solutions that prioritize data analytics enables firms to optimize their investments, improve operational efficiency, and make informed decisions.

Embracing a data-driven culture and integrating data analytics into all aspects of their operations will empower firms to gain a deeper understanding of their portfolio companies, their market position, and the potential risks they face. This comprehensive understanding will enable them to drive value creation at every stage of the investment lifecycle.

Moreover, the future of data analytics in private equity is promising. Advancements in technology, such as artificial intelligence and machine learning, will continue to enhance the capabilities of data analytics tools. Predictive analytics will enable firms to forecast market trends and identify growth opportunities more accurately, further bolstering their ability to drive value creation.

Ultimately, the firms that embrace data-driven decision-making and continually invest in improving their data analytics capabilities will be positioned at the forefront of value creation. They will drive superior returns for their investors, build lasting competitive advantages, and achieve sustained success in an increasingly dynamic and competitive industry.



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