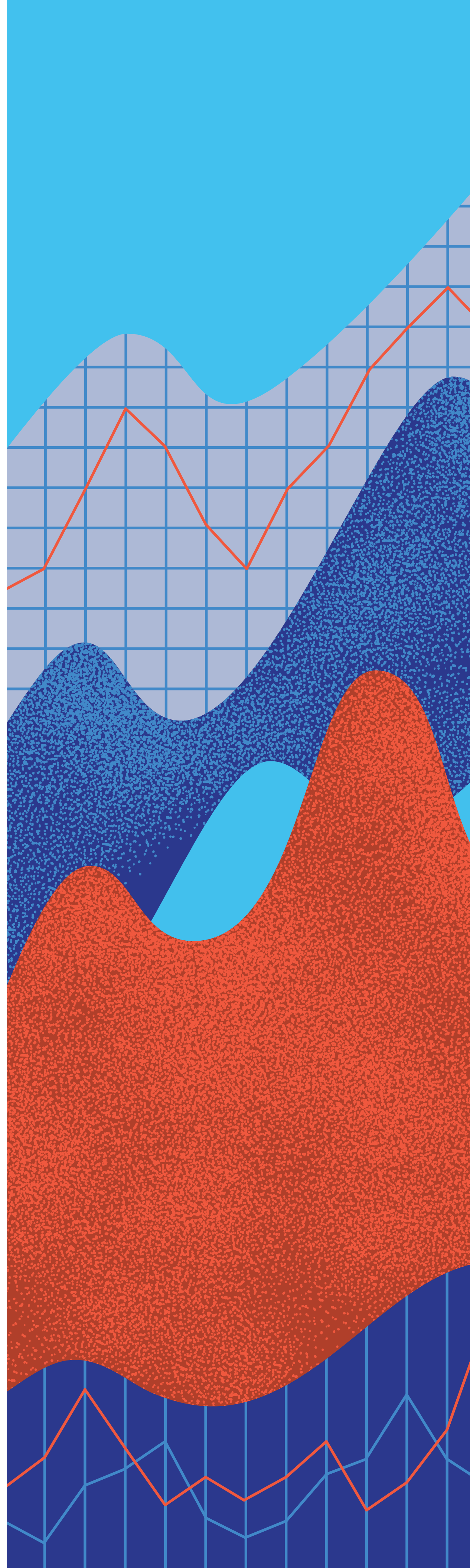
COUNCIL ADVISORS

POWERING PERFORMANCE

Growth Equity Today

Adapting Buyout Playbooks to Accelerate Performance



SSA & COMPANY

TMG THE MILES GROUP

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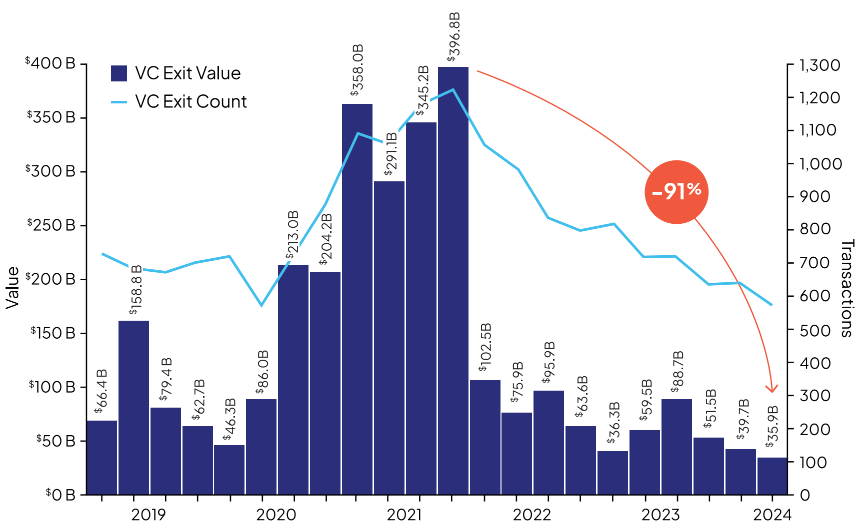
Introduction

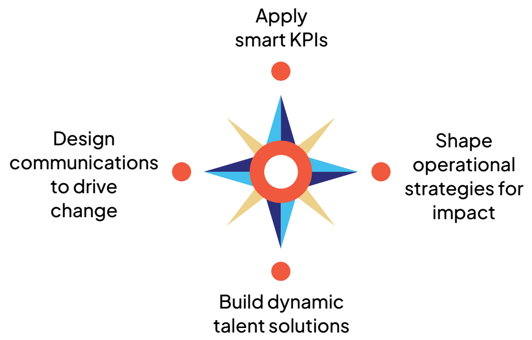
Growth equity firms today face extraordinary market characteristics. Hold periods have extended, many investments are 'upside down,' and fund IRRs, on average, have turned negative. Additionally, capital costs have increased, and raising capital has grown increasingly difficult.



Source: Q2 2024 PitchBook-NVCA Venture Monitor Summary

This evolving market requires growth equity firms to re-evaluate their approach. While rapid growth once reigned supreme, today's operating environment needs a renewed focus on discipline and efficiency. Strategic shifts, including prioritizing performance tracking, enhancing operational efficiency, and adopting new talent strategies, will be crucial to success as growth investors navigate this changing landscape.

We see four critical strategies growth equity firms can implement to meet this moment and effectively navigate change:



For growth equity firm partners, these new market characteristics bring a distinct set of challenges. Specifically, delayed exit opportunities will require owners to: (i) create value over a longer hold period and/or (ii) find ways to conserve cash in the face of a more difficult fundraising environment to avoid the risk of 'down rounds.'

Navigating these considerations requires a new set of capabilities for growth equity firms to prioritize. They have intentionally focused on hyper-growth and customer acquisition, yet today's market context calls for a greater emphasis on operational efficiency and cost discipline to accelerate performance.

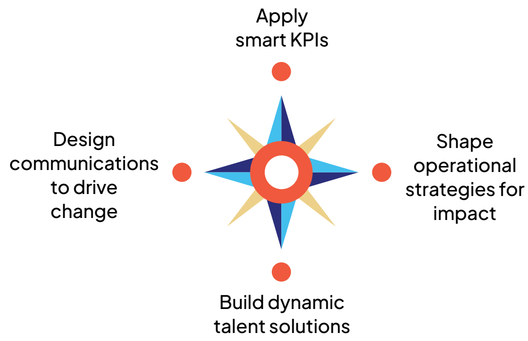
Growth firms have evolved from a "growth at all costs" mentality, but only to an extent: only 65% of venture capital investors report providing operational guidance to portfolio companies.[1] Meanwhile, many buyout firms facing comparable challenges have stood up in-house operating organizations over the past decade. In some cases, they partner with external firms with operational expertise to help build capabilities quickly and for the long-term.

For growth equity firm partners, these new market characteristics bring a distinct set of challenges that require owners to:

- Create value over a longer hold period
- Find ways to conserve cash in the face of a more difficult fundraising environment

What do growth and venture capital firms need to do?

In today's environment, optimizing portfolio companies—taking cost out, preparing for growth, and ultimately, completing a transaction—requires an increasingly disciplined approach. To get there, growth investors can benefit by taking a page out of the buyout firm's playbook. We see four critical strategies growth equity firms can implement to meet this moment to drive performance and effectively navigate change:



1) Harvard Business Review: How Venture Capitalists Make Decisions

1

Apply smart KPIs

In addition to common growth metrics, growth equity firms can introduce new operational effectiveness KPIs for portfolio companies, accompanied by near real-time tracking systems. This gives owners an early warning sign when issues arise, proactively enabling them to take corrective action in underperforming companies. They also help operators focus on what matters most for the businesses.

Case in point: When working with a maturing SaaS solution company, investors and management needed to ensure they had control over their technology investment spending. SSA & Company partnered with them to identify several key business drivers critical to managing capital expenditures and tracking customer acceptance. The original goal of a "zero defect rate" was unattainable for a business focused on innovation and did not provide an indication of customer stickiness or revenue retention. Some of the new metrics identified included ticket backlog over 30 days, platform migration success rates, and defect burndown. These metrics were generated from multiple sources, creating a Control Tower℠ for tracking and visibility. This approach allowed them to drive the business, proactively mitigate risks, and avoid cost overruns.

Depending on the sophistication of a portfolio company's reporting approaches, implementing new operational KPIs may require additional capabilities. This could include establishing a common data infrastructure, developing or leveraging existing reporting tools, and implementing master data governance.

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2

Shape operational strategies for impact

To optimize efficiencies, growth equity firms today have a timely opportunity to re-evaluate or refine their strategy and go-to-market approach. In particular, it is important to consider a downside investment thesis and strategy in the face of protracted market uncertainty or extended hold periods. With this in mind, today’s environment offers the opportunity to invest in portfolio company operations, strengthen processes, and re-orient businesses for profitable growth.

From that point, leadership teams can prioritize opportunities and challenges and deploy agile, cross-functional teams to match critical needs. The urgency of this focused improvement approach helps facilitate rapid change and lasting impact, ensuring the platform is ready for growth at scale.

Case in point: SSA was asked to evaluate the processes and supporting strategies to accelerate growth for a digital-based medical training business. The business opportunity centered around ‘leaning out’ their development processes and creating reusable content and technical building blocks. Through a combination of digital data mining, process re-work, and deploying agile techniques, we were able to reduce costs by 50%, providing runway for the business to scale. Creating a library of reusable elements and developing late-cycle dynamic editing capabilities reduced the number of early-stage approval bottlenecks.

Additionally, we worked with leadership to reconsider the sales process where it was determined that traditional buyers (e.g., training organizations) were targets of downsizing. In these cases, the business offering could be

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targeted to marketing organizations that were more likely to have budget and decision-making rights for similar end users during this economic cycle.

We have seen other businesses benefit in different ways using this type of operating approach, improving asset utilization by 26%, driving supply chain excellence to scale business for growth, reducing cost by 40% while doubling production capacity, and aligning labor to customer experience to drive 10% annualized cost reduction.

3

Build dynamic talent solutions

Growth equity investors focus on the strength of the business idea and the acumen of the founder. In some cases, founders have not experienced constrained market conditions, faced expectations to remove costs, or needed to make significant operational improvements. Yet today's changing markets offer a timely opportunity to identify, prioritize, and execute new organizational development and talent strategies.

To do this requires a direct focus on how top-team effectiveness, organization structure, and company culture impact core strategy. Assessing whether portfolio company management teams possess the necessary skills to execute the investment thesis is crucial for calibrating current talent and anticipating challenges.

Case in point: To illustrate this need in action, consider the experience of a founder-led technology company that faced significant scaling challenges. With a rapidly expanding management team struggling to integrate effectively, the company engaged TMG to address the shift from start-up to scale-up. We focused on defining cohesive leadership practices and establishing

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a consistent operating rhythm through one-on-one and group coaching. This approach facilitated team integration, empowering leaders to align with strategic goals.

Understanding the core competencies required to deliver value enables portfolio companies to evaluate their human capital and organizational frameworks. In the case of this specific technology company, the coaching program helped stabilize the leadership team during rapid changes, fostering trust and collaboration amid a shifting corporate culture. This structured support not only addressed development areas but also clarified decision-making rights, increasing speed to market and ultimately contributing to a threefold surge in the company's stock performance. By benchmarking talent and driving productive conversations between investors and management, companies can align development plans with the investment thesis, positioning themselves for sustained growth.

4

Design communications to drive change

As growth equity firms reset strategies and navigate change while building new capabilities, alignment and clarity are crucial. Clear and consistent communication from leaders to stakeholders ensures teams understand evolving organizational goals, roles, and expectations that will drive impact in today's evolving environment. A thoughtful communications approach that considers each stakeholder group in the context of what's changing for them can ultimately contribute to performance and reduce the risk of misalignment.

Case in point: An innovative technology company needed to build the case for a fundamental shift in strategy to drive the next phase of growth. While there was a practical vision, leaders quickly needed help articulating and

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communicating in a way that simplified the complex to the board, to employees, and to other stakeholders. With the company's leadership team, HLG designed a communications approach with a focus on transformation. This included developing a strategic and compelling case for decision-makers, a vision for employees to gain their support, and a new market narrative and key messaging.

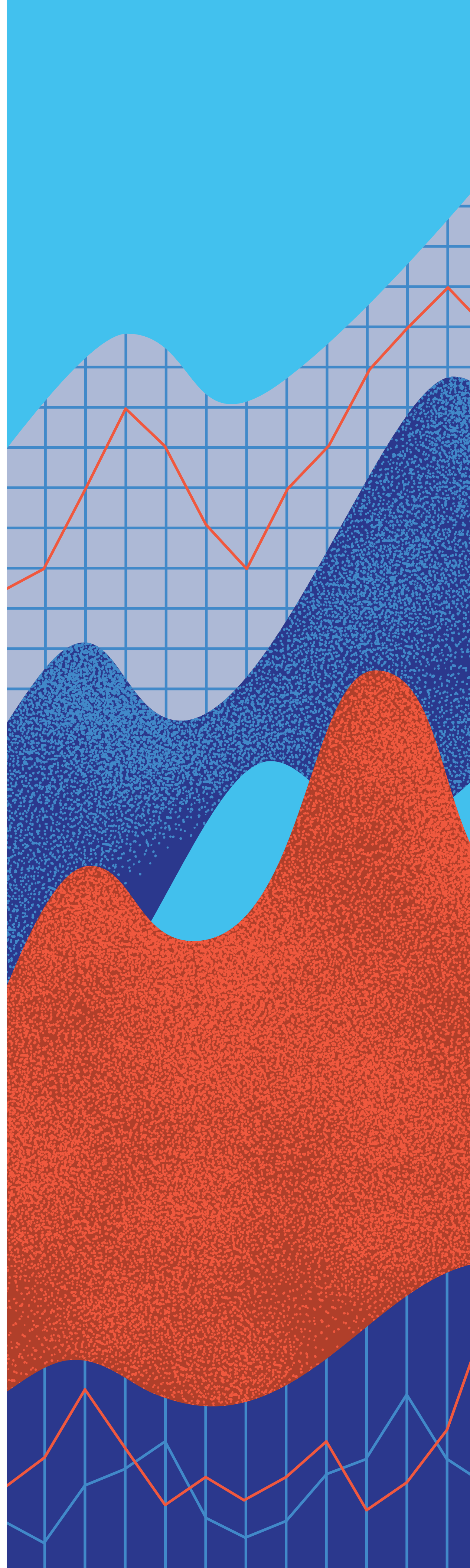
These four strategies represent an integrated approach for growth equity firms to consider in today's market context, to accelerate the long-term success of portfolio business growth. By taking a page out of buyout firm's playbooks, firms can proactively strengthen portfolio companies' operational discipline and leadership capability. Doing so offers the opportunity to position companies for sustained growth, help manage resources until exits are achieved, and build lasting capabilities.

About the Authors

Andrew Solar is a leader in the Private Equity Practice at SSA & Company. Courtney Hamilton is a Senior Managing Director at TMG. They are based out of the New York Office and work extensively with private equity firms and their portfolio companies.

About Council Advisors

Council Advisors is a leading advisor to the C-suite of high-performing companies, bringing together strategic counsel, operational performance improvement (SSA & Company), executive talent development (The Miles Group), and strategic communications (High Lantern Group). We work with top leaders from the largest public companies as well as some of the most vital mid-market and growth-investment backed companies.



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