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WHAT IS BUSINESS INTELLIGENCE AND

WHY SHOULD GPs CARE

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So much data - not enough information. For GPs that have been diligently building up their data stockpiles - in applications, spreadsheets and databases - two important questions come to mind: “How can GPs leverage all this data they have compiled?” And, more importantly, “How can they do it consistently, accurately and in a digestible format that is easily understood by everyone across the firm?”

Imagine the following information requests typical at any fund manager:

- *The partners want to understand projected fee revenue from various funds over different time periods.*
- *The investment team needs better tools to model and evaluate potential acquisitions.*
- *The operating partners want interactive dashboards to drill down into their portfolio company KPIs.*
- *IR wants to know what types of LPs are most likely to allocate to the latest fundraise.*

What is Business Intelligence and why should GPs care?, cont.

All reasonable and important information needs. For many GPs though, getting the answers to these questions is easier said than done.

"Business Intelligence" (BI) is a concept being embraced across a wide variety of industries - and with good reason. Centered around the use of digital visualization tools, business intelligence provides a powerful way to analyze different types of data sets. These tools aid in analysis and decision making by bringing out hidden trends that spreadsheets and static reports struggle to do. The central concept lies in the fact that spotting trends in data is easier when output is visual in nature. Humans can process visuals 60,000x faster in the brain than text-based information. In fact, studies have shown we can understand the context of a visual image in less than 1/10th of a second.[1]

Having the ability to synthesize and glean insights from vast (and growing) data sets can be very useful across many roles and functions in any organization. The investment management industry, whose business model is predicated on information discovery, has taken notice. BI tools are being deployed across the firm, from the back office to investment teams to client relations.

The private markets, for their part, have only just begun to realize these benefits. Being able to visualize information on investments (both pre and post-acquisition), the management company, capital raising, investors, etc. can add value when important decisions need to be made – and made quickly.

While the hedge fund and long-only community have seemingly embraced everything 'big data', the concept in utilizing these types of tools in private capital is embryonic.

Assuming one doesn't have to make decisions in 1/10th of a second (!), what advantages can business intelligence bring to private capital managers?

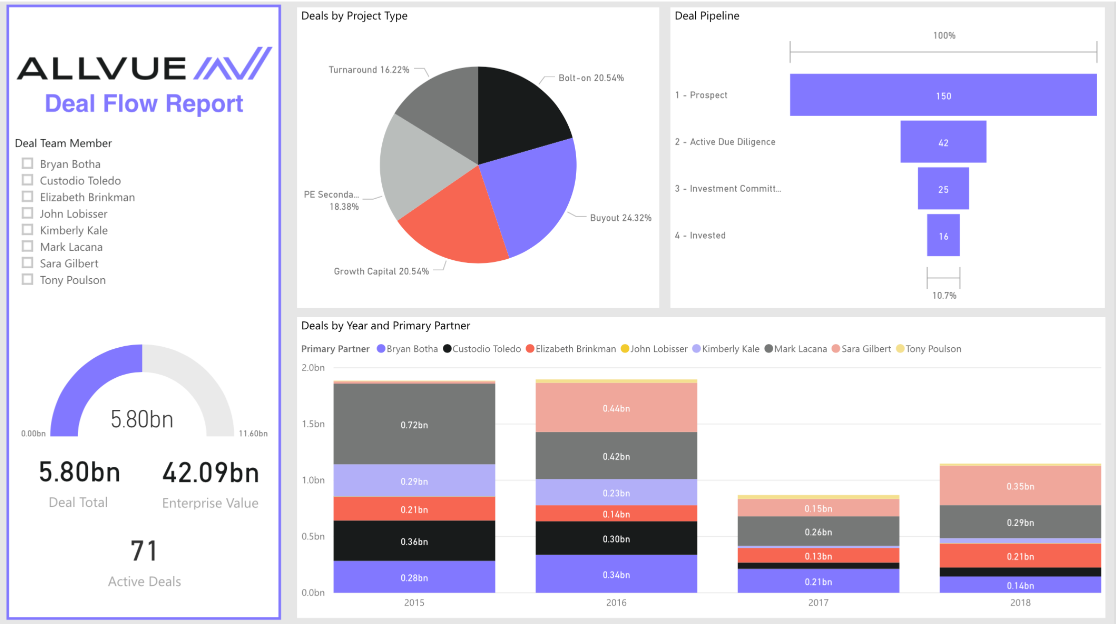
- *Spotting trends across any kind of data: LP/fundraising, deal pipeline, portfolio company KPIs and performance.*
- *Leveraging visuals and dashboards to report partner-level insight about the firm's progress.*
- *Efficiently collecting, organizing and analyzing information, thereby reducing the lag time between data acquisition to decision making.*
- Collaborating with colleagues when BI tools are deployed via a cloud-based platform, along with dedicated mobile apps.

This paper will look at four situations typical in a GP – managing the deal pipeline, monitoring portfolio company KPIs, fundraising and management/partner reporting – to see how these tools can be utilized to optimize decision making across the firm.

Deal Pipeline

Paul leads the team responsible for the deal pipeline. They are seeing purchase multiples for companies in their targeted industries much higher than historical averages. In fact, they've had a few deals slip right out from underneath them at the last minute to other GPs who were willing to 'pay up' given the need to put capital to work. The executive team, therefore, has made the decision to cast a much wider net in terms of the types of companies and industries that they have historically invested in. Because of the greater number of potential companies that Paul and his team must now track, they are finding it difficult to stay on top of new developments across a greater number of companies, industries and geographies in the deal pipeline. The timeline to conduct due diligence and model potential acquisitions has shortened significantly, posing new challenges.

With dry powder at an all-time high and facing increasing competition, the window to execute on new investments has been shortened considerably. Five or six years ago, coming off the heels of the financial crisis, there was ample opportunity to invest with many companies that were still smarting from a valuation point. As the industry re-found its legs and fundraising exploded, there has been a monumental amount of dry powder made available, making for fierce competition for deals. This also belies the fact that there are a number of new entrants to the private markets, as family offices, corporates and LPs ramp up their direct deal making. With available capital pushing valuations sky high, GPs are having to get creative in putting their capital to work. This means cultivation of the deal pipeline has never been more important, with time to execute at a premium.



Deal Pipeline, cont.

Success for deal makers will lie in the ability to synthesize a large number of metrics for a growing body of potential targets quicker than other potential investors. The ability to spot trends before other investors and track progress once a target has been engaged is really just the start for the deal team and how they can make use of a business intelligence solution. Tracking which intermediaries bring value to the table is also an important metric worth analyzing over time. Data visualization tools allow deal teams to slice and dice information on any data set available to them. Understanding which deal sources are most beneficial is just another component of evaluating the effectiveness of the overall process.

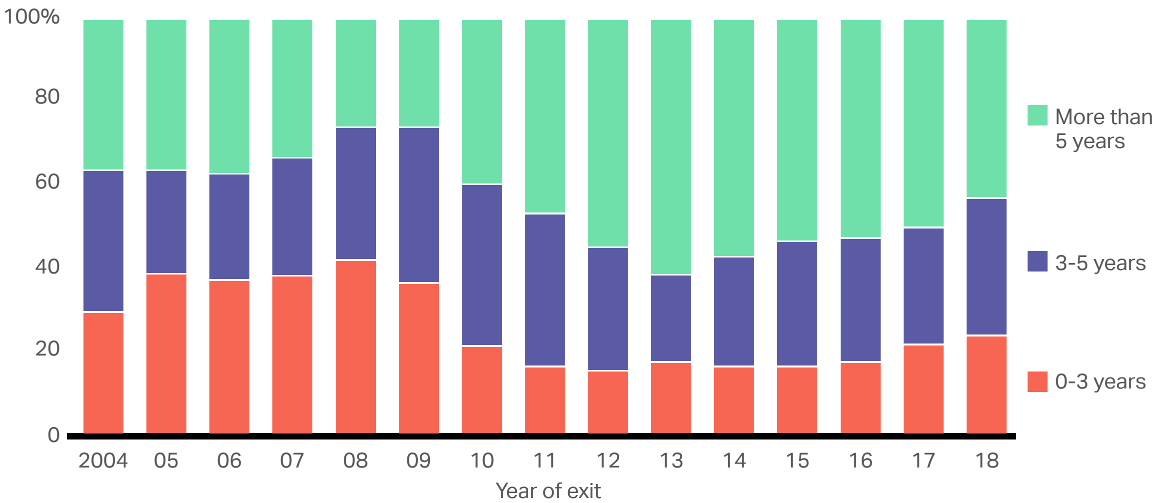
Once an investment is made, how can the team now stay on top of their companies and assets, so that they can become *proactive, value-add* investors instead of *reactive*?

Portfolio Monitoring

Arjun works as a senior investment principal for a mid-market buyout fund with 15 underlying portfolio companies. His firm takes a hands-on approach to operational improvement with their holdings, employing a number of operating partners to assist in the process. Therefore, having a systematized process with which to collect, spot and analyze trends with their portfolio companies' financials and KPIs is an important part of their value-add. Their current process involves sending Excel templates to their company CFOs to fill out and return. With all of their data spread out across multiple spreadsheets, Arjun and his team were late to spot declining margins in an important product line in their largest holding.

According to Bain & Company, portfolio company and asset holding times have become shorter[2] – forcing GPs to execute transformational initiatives with their management companies in a narrow window. (In truth, timeframes have compressed across all aspects of the private capital markets – deal origination, holding periods, fundraising and LP reporting.) As much as GPs bemoan the current cost basis of new investments, the flip side is a healthy M&A market fueled by corporate buyers and later stage funds who themselves need to put capital to work. Uncertainty about future global economic conditions has also accelerated the push to exit.

Distribution of global buyout-backed investments exited, by length of time held in portfolio



Median Holding period (years)	4.2	3.8	3.8	3.6	3.2	3.6	4.4	4.8	5.2	5.7	5.9	5.2	5.1	5.0	4.5

Source: Bain & Company

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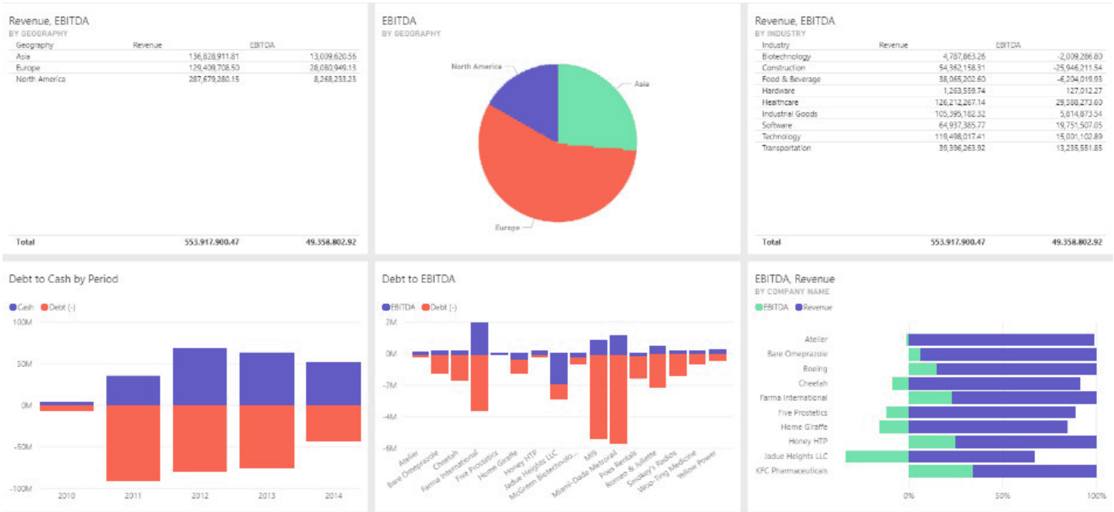
Portfolio Monitoring, cont.

So what does this mean for active, value-add GPs? It means the process of capturing, managing and presenting company financial metrics and KPIs needs to be expedited in such a way as to give the deal team ample time for analysis, reaction and communication (across the firm, operating partners/advisers and with portfolio company management.) Spreadsheets have typically been the status quo for company CFOs to send financials to GPs, but with the advent of cloud-based, PE-specific portfolio monitoring tools, the inefficiency & risks of using spreadsheets has become apparent. When financials and metrics need to be analyzed and benchmarked across all the underlying assets over various time periods, industries, geographies and stages on the road to exit, portfolio monitoring tools begin to show their value. When such tools are coupled with a compatible business intelligence solution, there really becomes no limit as to any kind of analysis that can be done. Where BI tools really prove their worth, though, is in identifying trends, whether it be variances to business plans, sales targets, expenses or operating margins. This is the benefit of have data in a visual format.

A plethora of information can be quickly consumed as outliers - whether positive or negative - can be identified for further analysis. If rising interest rates along with a slowdown in global growth come to fruition, making adjustments to models and executing on subsequent actions with management will mean having to leave no financial stone unturned.

For fund of funds, BI and data visualization tools can be a key contributor to portfolio management and due diligence. Numerous quantitative metrics - cashflows, IRRs, DPI, TVPI, etc. - need to be calculated and measured, which can be unwieldly when using spreadsheets. When comparing funds (or against benchmarks for that matter), graphical analysis using BI tools provides a much quicker and thorough way for research teams to identify patterns or abnormalities, particularity at the cashflow level. Diversification and risk analysis can be performed at the fund, geography, industry and vintage year level much more quickly and in more detail than trying to assimilate multiple spreadsheets.

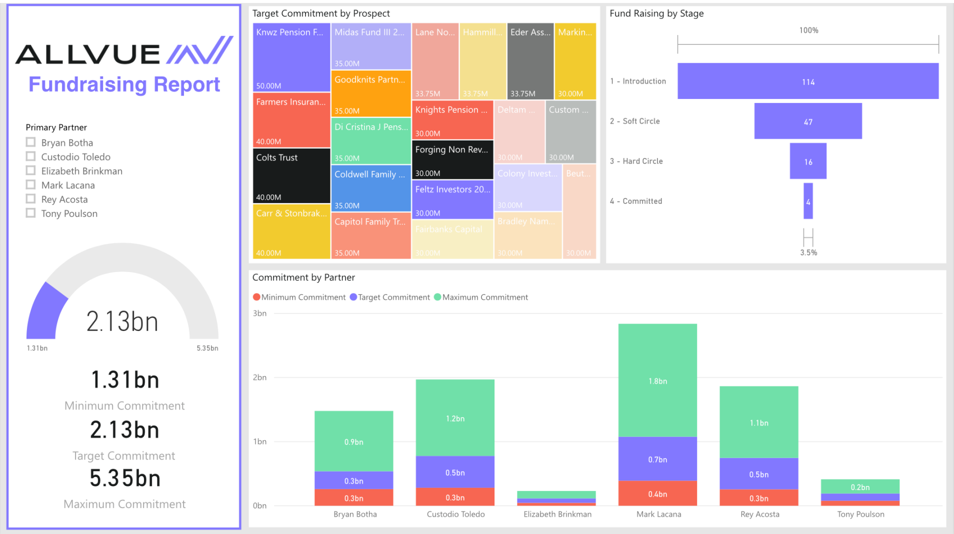


Fundraising

Karen is the head of investor relations at a $500 million Real Estate fund. Her firm is about to embark on a new fundraise which will almost double the size of the firm if successful. With such an ambitious target, Karen, in conjunction with the placement agent they hired, will have to substantially increase both the number and type of investors as compared to their previous funds.

Securing commitments from LPs during fundraising is often compared to “trying to herding cats.” [3] Even in one of the most opportune fundraising environments of recent memory, the actual steps of marketing, outreach, communication, meetings, and overall pipeline development never really deviates. While the fundraising steps might hold true over time, the underlying mechanics of fundraising is anything but static, particularly when a manager is looking to expand their investor base, either in terms of size, type (ERISA, SWF, etc.) or geography.

A CRM and fundraising portal can certainly add value in tracking communication with potential investors, but these tools can only go so far with how IR (and management) can have visibility into progress. In addition to a targeted final size, GPs invariably have an idea of what they want an optimal investor base to look like, both in the new fund and relative to any current funds. IR will use that as a guide for how the new fund’s investor base will ultimately be constructed. Commitment ranges, placement agents, number of re-ups, new investors, potential co-investors, investor types, domiciles, etc. are all variables that constantly change and need to be dynamically managed. With LP data being held in a CRM or other repository, it’s the ability of visual tools like BI that can help IR understand where they are in the fundraising process, and provide to management clear, easily understandable data points and trends on progress.



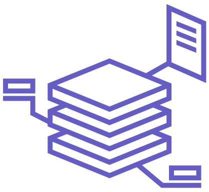
Leadership

Vertice Capital Partners is a bi-coastal venture capital firm which just celebrated it's 10 year anniversary while simultaneously closing on its 3rd fund. The firm has been growing quickly across its AUM, LP base, personnel and investments. Fee revenue and expenses have grown accordingly as well. The partners, recognizing the challenges in managing a growing firm, are looking to institutionalize their internal reporting, with the goal of better understanding what risks exist both in the firm and in the funds. Vertice is also concerned about possible economic headwinds and their effect on the firm's margins going forward.

One of the benefits of BI tools is their use of dashboards to pull information together. Such dashboards have the ability to present high-level information in user-friendly formats, contained in a single interface, with the capability to drill-down into more detail with a few simple clicks. With a GPs management team ultimately having oversight across the firm, information needs to be presented and shared in a thoughtful and insightful way. Partners need to consume vast amounts of information to make timely decisions - about the investments, funds and the firm.

For the management team, BI can serve as an effective risk management tool through its capability in presenting trends and patterns across various types of information including internal financials and overall firm status. Fund specific analysis, including the ability to calculate IRR's in various scenarios, can also add value in revenue forecasting and modeling.

SUMMARY



As fund managers begin to create more centralized data repositories with new back and front office applications, the efforts to turn 'data into information' is a natural evolution in a GP's technical ecosystem. Business intelligence applications offer a compelling, cost-effective solution to get from data to decision. Some of the benefits of implementing a BI solution include:

1. *Set up and deployment. BI tools can be configured quickly, with minimal help needed from the vendor; users can be productive in short order.*

2. *Integration with current data stores and infrastructure, particularly if a GP's infrastructure is based on Microsoft applications.*

3. *Collaboration with employees in different departments and locations. Cloud-based deployments of BI tools give anyone - regardless of location - easy access to the application.*

4. *Extensibility. As we've highlighted in this paper - the value in using BI tools can be applied across a GP's firm, whether its finance, the deal team or IR.*

5. *BI is a fairly inexpensive technology that can produce a high ROI when one considers the time and effort to manually configure spreadsheets in trying to produce the same results.*

The private capital industry has come a long way in the last few years in pushing for more productive applications, from PE-specific CRMs to cloud-based portfolio monitoring tools. As GPs look to establish a single source of truth with their data - financials, portfolio company metrics, LPs, etc. - it's only logical that next-generation information tools find their place with private capital GPs.

[1] https://www.shiftelearning.com/blog/bid/350326/studies-confirm-the-power-of-visuals-in-elearning
[2] Bain & Company – "Global Private Equity Report 2019"
[3] Herding cats – "An idiom denoting a futile attempt to control or organize a class of entities which are inherently uncontrollable – as in the difficulty of attempting to command a large number of cats into a group." https://en.wikipedia.org/wiki/Herding_cats

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