

Trends in Private Equity Procurement - Results of Treya Partners' Survey of Leading PE Firms

June 2013

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Survey Background

- Treya Partners conducted a survey of leading PE firms to learn more about procurement-related priorities and challenges for private equity professionals
- The survey was completed by 23 PE firms
- Key information about the responding PE firms:
 - Fairly large number of portfolio companies
 - Average of 28 portfolio companies
 - Number of portfolio companies ranged from 8 – 40+
 - Significant combined portfolio revenues
 - Average combined revenue of \$18.8B
 - Combined revenue ranges from \$1B - \$120B

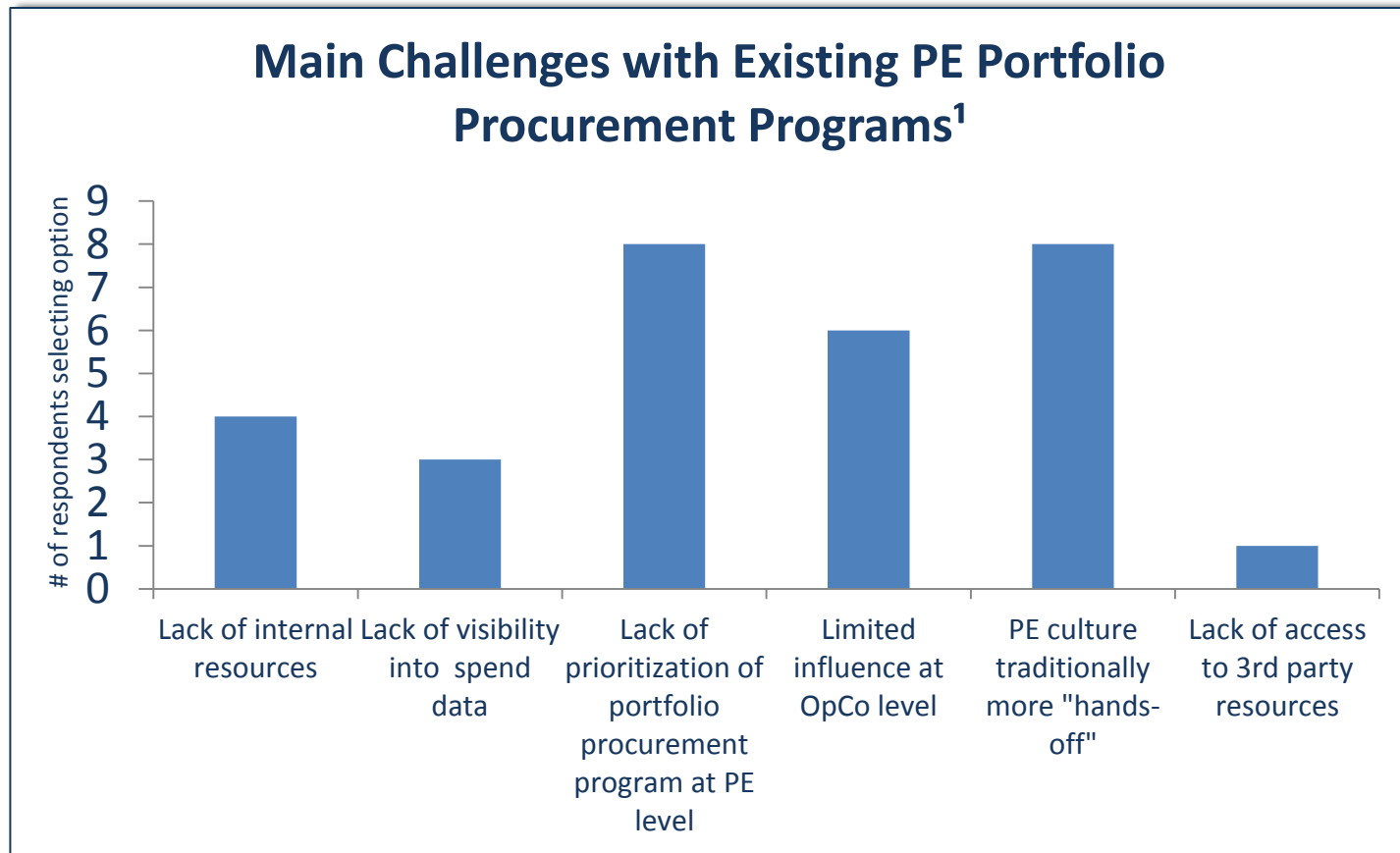
Executive Summary of Survey Results

- PE firms face many challenges in implementing procurement programs, including a lack of prioritization relative to other initiatives, and a “hands off” culture when it comes to working with portfolio companies
- While many large PE firms have dedicated operations groups that focus on operational improvements and turn-around situations, the number of resources within these groups that are focused on procurement is often limited
- Slightly less than half of the PE firms surveyed indicated that they had a portfolio procurement program in place. Of the PE firms that had implemented a portfolio procurement program, many relied on a mixed model of selected in-house resources coupled with third party consultants to develop and implement portfolio procurement programs
- For those PE firms that have implemented a procurement program, key elements have included spend analytics, utilization of external GPO contracts, and development of PE firm specific cross-portfolio contracts
- The most popular stage in a PE firm’s investment lifecycle for the implementation of procurement programs is post-acquisition operations
- Key spend areas commonly addressed by PE portfolio procurement efforts include Small Parcel, Healthcare, Office Supplies, IT, Travel, Transportation, etc.
- The range of savings achieved by the PE firms with a portfolio procurement program varies by size of the portfolio companies (and their spend) as well as the level of participation from their portfolio companies

Survey Results

Current Challenges to PE Portfolio Procurement

Private equity firms face a variety of challenges in implementing and maintaining portfolio procurement programs. The primary challenges are internal – mainly a result of “hands-off” firm cultures and a lack of prioritization of portfolio procurement.



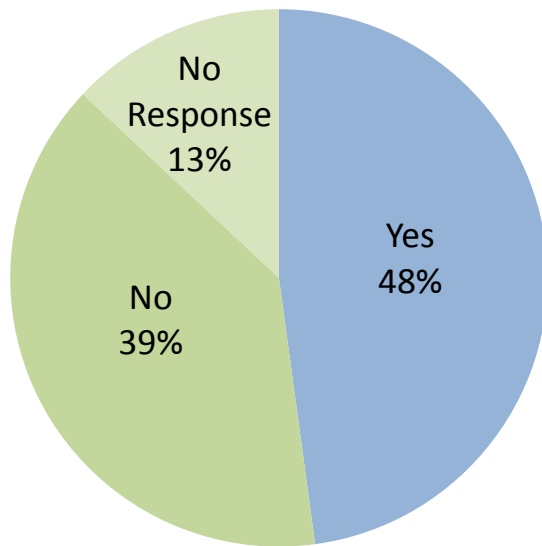
¹Sample size of 15 private equity firms (each firm may have identified more than one procurement challenge)

Survey Results

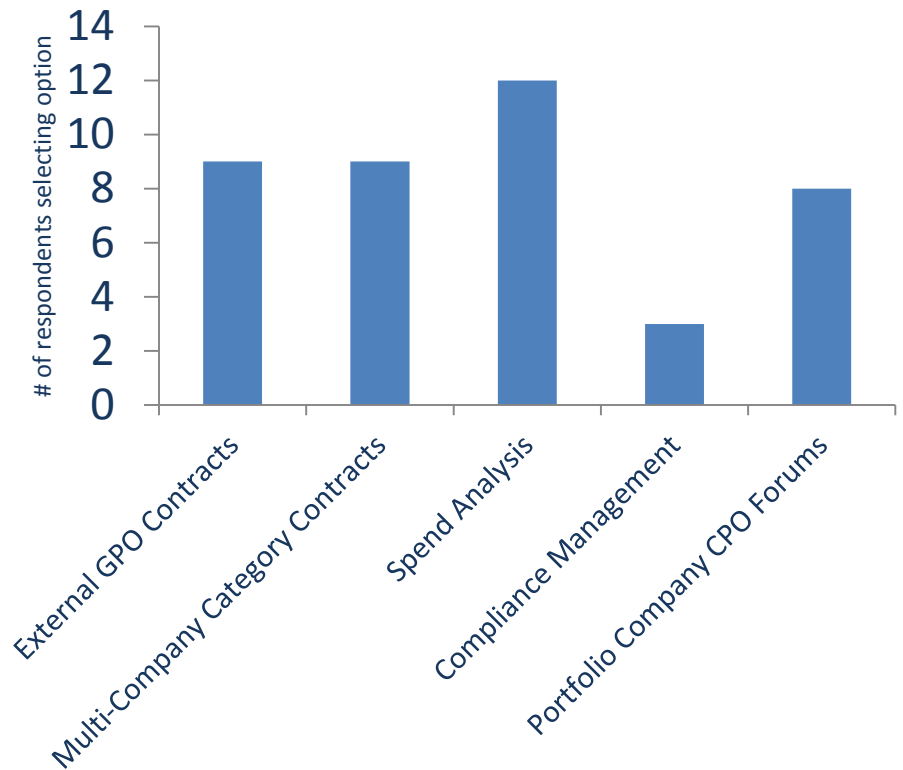
Procurement Solutions Utilized

Private equity firms with portfolio procurement programs already in place have pursued a variety of procurement efforts, with spend analyses being the most popular.

Private Equity Firms with a Portfolio Procurement Program¹



Procurement Efforts Pursued²



¹Sample size of 23 private equity firms

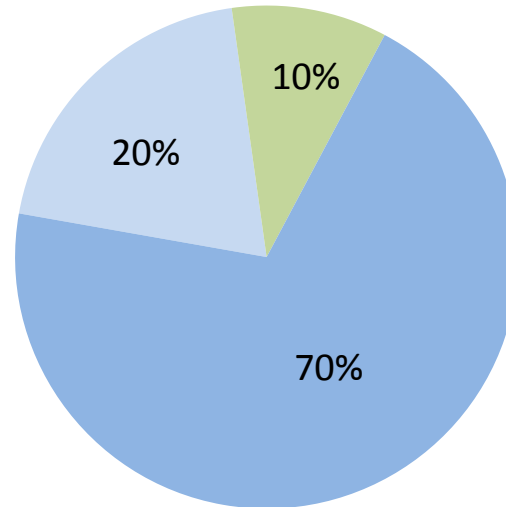
²Sample size of 12 private equity firms (each firm may have implemented more than one procurement solution)

Survey Results

Spend Analysis Approaches

Of those responding private equity firms that have analyzed their portfolio spend, 70% utilized third party consultants for the effort.

If a spend analysis was conducted, was it done in-house, by a third party, or was a mixed model utilized?

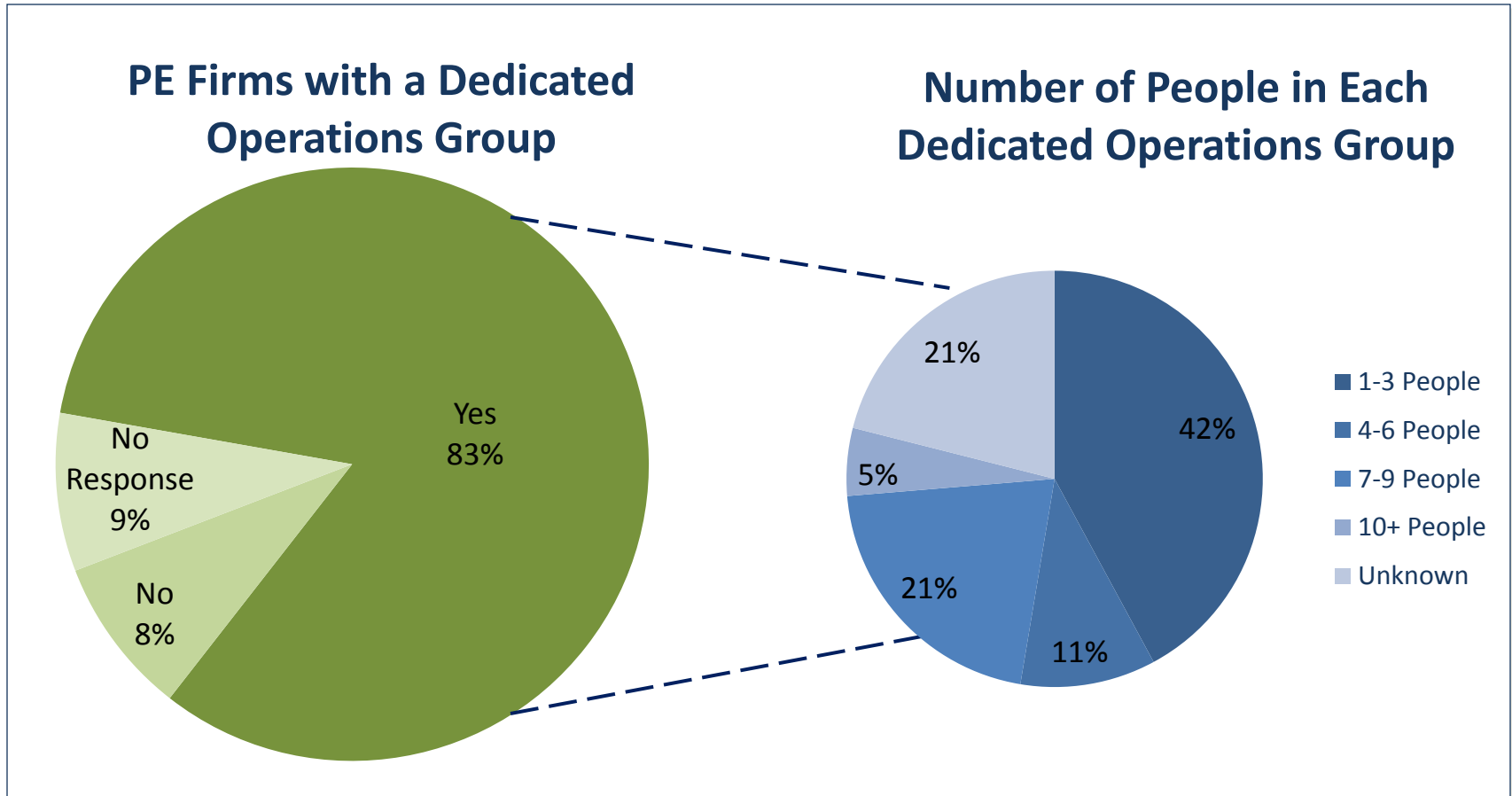


■ Both ■ In-House ■ Third Party

Survey Results

Presence & Size of Dedicated Operations Groups

83% of respondents have a dedicated operations group that focuses on improving operational efficiency and performance of OpCos. The number of dedicated resources in these groups varies by firm. 42% of respondents only have 1-3 people focusing on efficiency and performance.

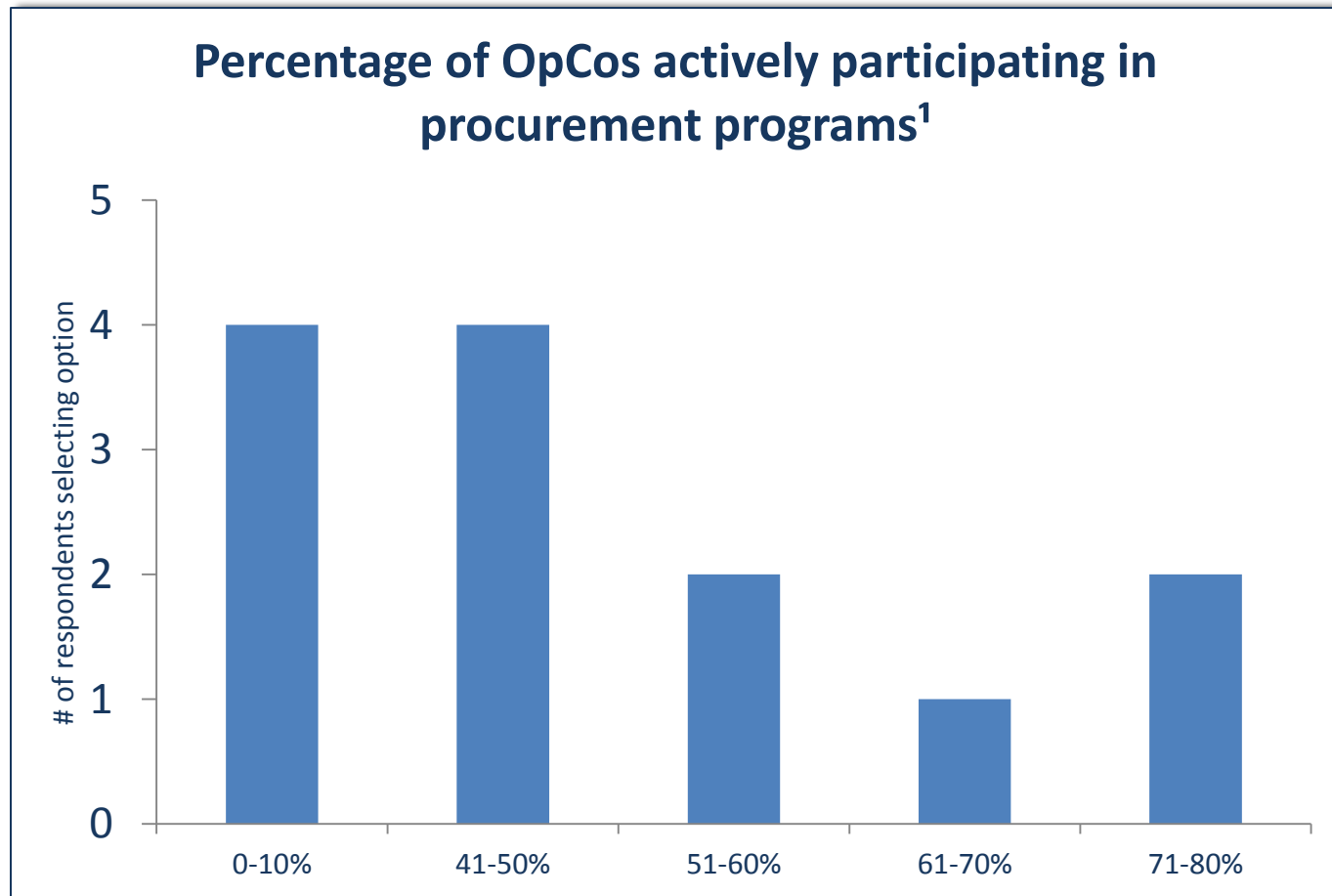


Note: Sample size of 23 private equity firms, 19 of which have dedicated operation groups

Survey Results

OpCo Participation Levels in Portfolio Procurement Programs

Of the responding PE firms, the majority indicated that they have 50% or less OpCo participation, highlighting the difficulties of achieving extensive cross-portfolio coordination.

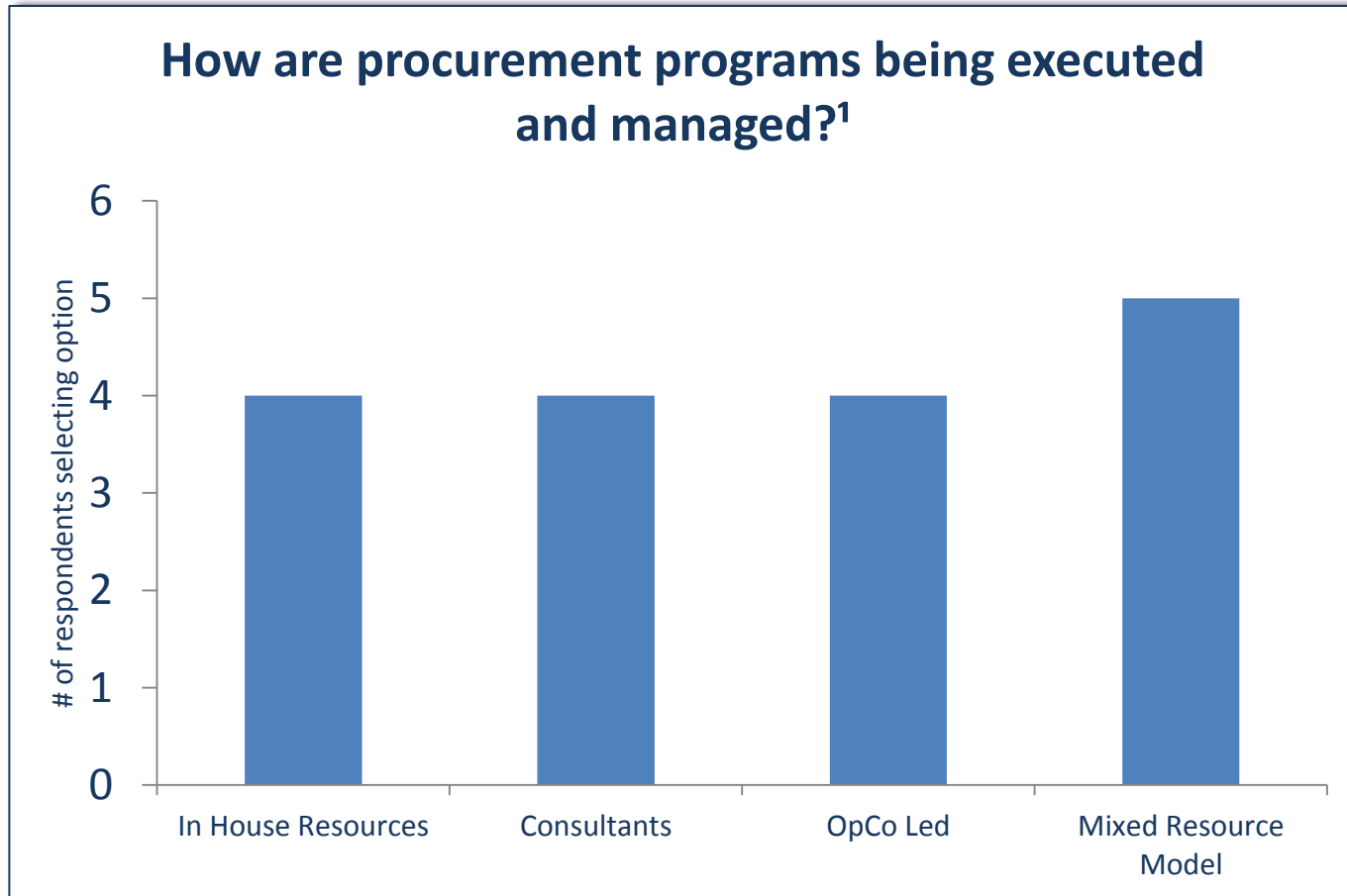


¹Sample size of 13 private equity firms

Survey Results

Management of Portfolio Procurement Programs

Respondents' portfolio procurement programs are being managed by both in-house teams as well as consultants. Many PE firms have consultants play an important role in executing and managing procurement programs, largely due to their limited internal resources.

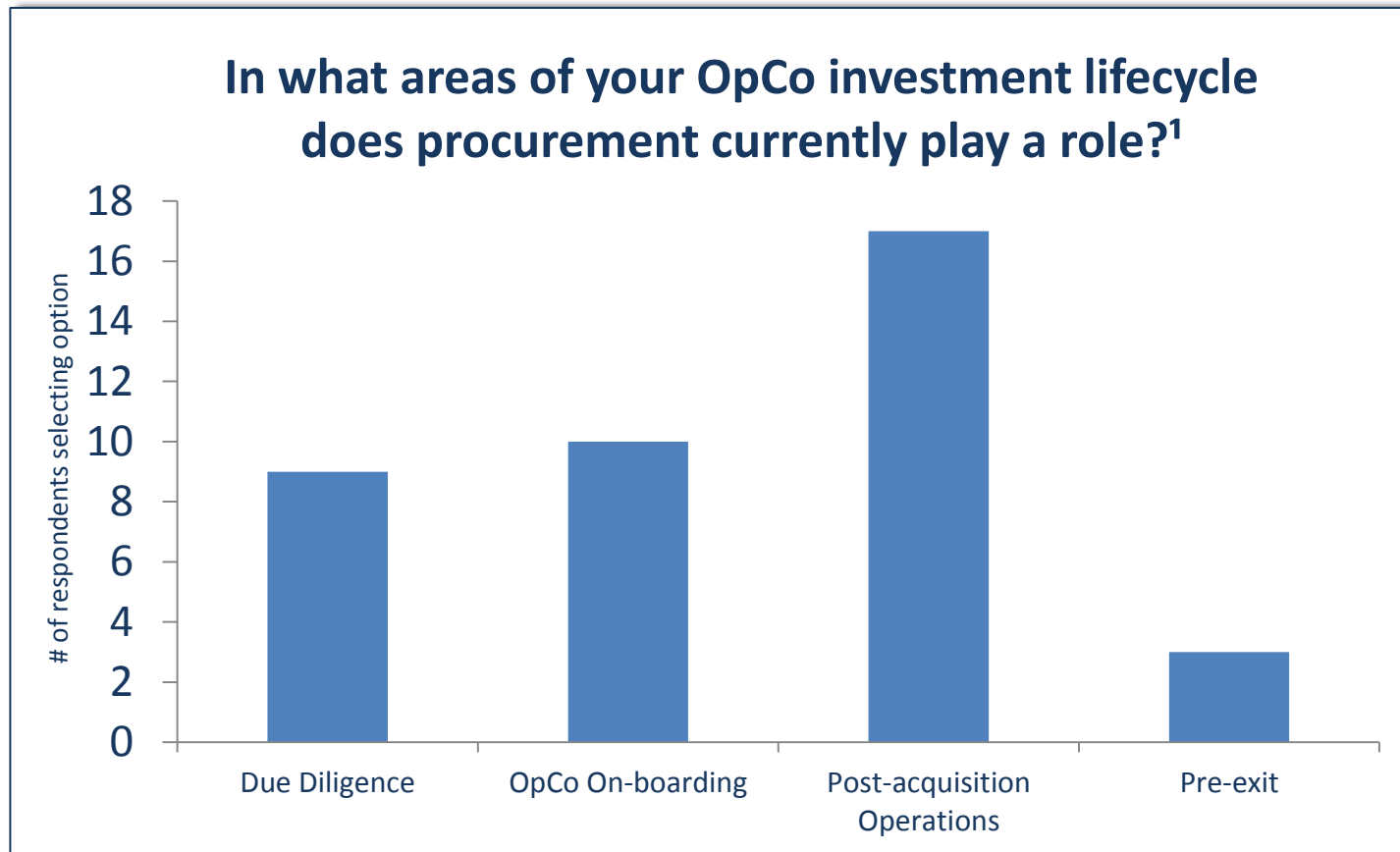


¹Sample size of 12 private equity firms (each firm may have selected more than once choice)

Survey Results

Role of Procurement in OpCo Investment Lifecycle

There are multiple stages within the investment lifecycle where PE firms pursue procurement programs. Survey responses indicated that post-acquisition operations is the most popular stage at which procurement programs are being implemented.

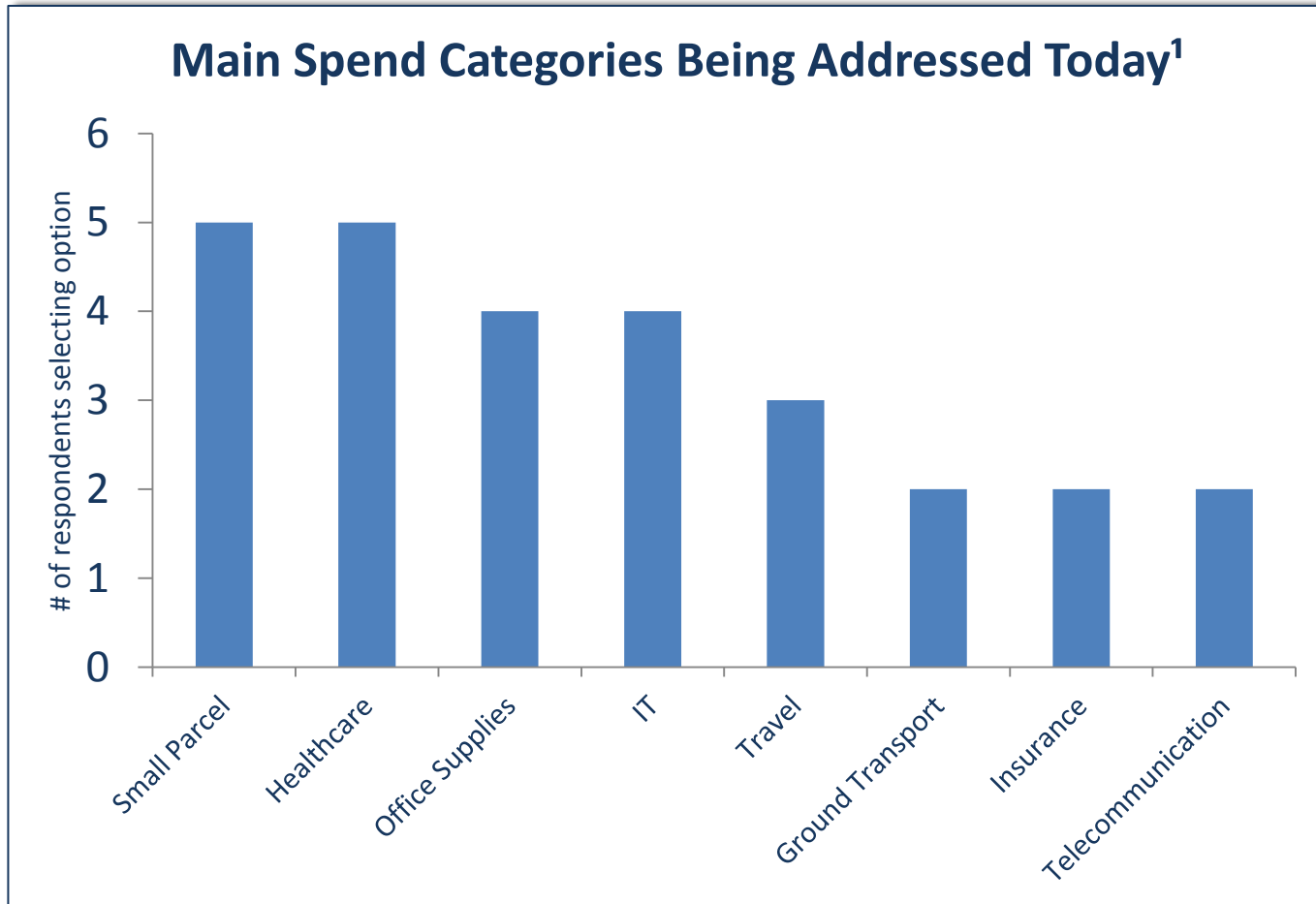


¹Sample size of 18 private equity firms (each firm may have identified more than one area)

Survey Results

Spend Categories Addressed

Private equity firms with a portfolio procurement program in place tend to focus on a few key spend areas. In particular, firms are focusing largely on small parcel and healthcare spend.



¹Sample size of 8 private equity firms (each firm may be addressing more than one spend category)

Survey Results

Savings Achieved

Portfolio procurement programs are instrumental for creating cost savings.

What savings have been created through portfolio procurement?

“

“\$25 Million Annual Run Rate”

“\$60 Million+ in Savings”

“\$500 Million in Savings Achieved During Contract Period”

“8-25% Savings”

“\$200 Million in Savings Achieved Annually”

“\$8 - \$10 Million in Savings”

“7-10% Savings”

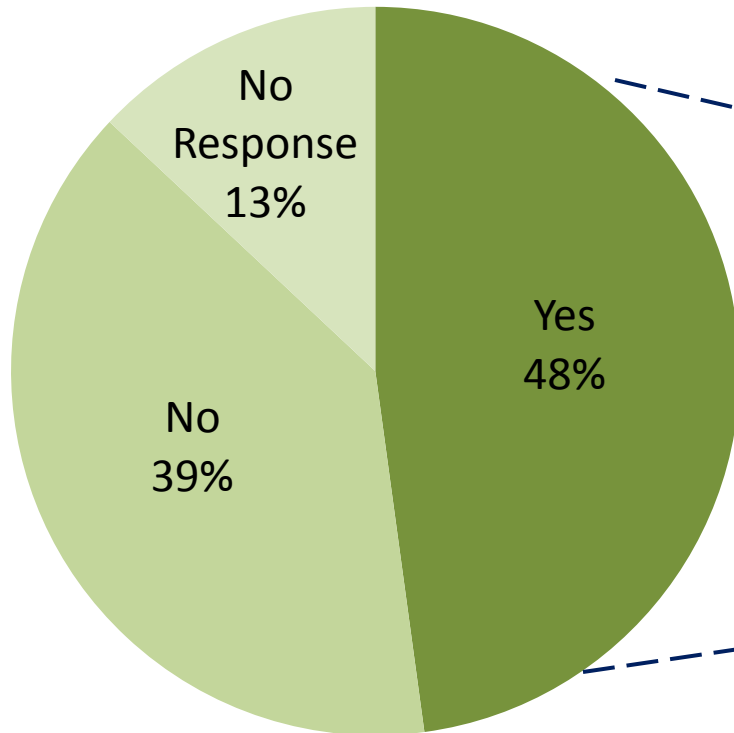
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Survey Results

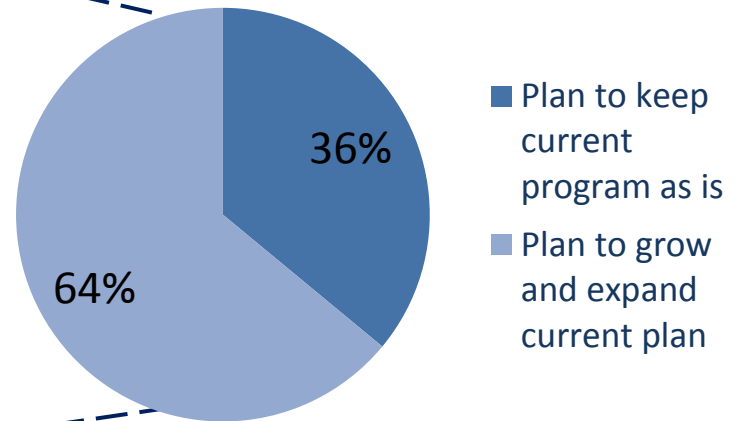
Future Portfolio Procurement Expansion Plans

64% of responding private equity firms with a portfolio procurement program already in place see the benefit of further expanding their procurement program to create additional savings.

Private Equity Firms with a Portfolio Procurement Program



Portfolio Procurement Expansion Plans in the Next 12-18 Months



Note: Sample size of 23 private equity firms

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Survey Results

Future Opportunities to Add Procurement Value

Many responding private equity firms believe there is great value in growing their procurement programs. These firms have a varied set of future procurement-related priorities.

Where do you see the biggest opportunities for private equity procurement teams to add value in the future?



“It will be different for every portfolio since each one is a collection of diverse businesses and cultures at various stages of development.”

“Insurance and Transportation”

“Direct Materials”

“More complex areas like professional services, eSourcing, Talent, and other valuable services”

“Healthcare”

“Coordinating across OpCos, particularly in the larger capital spend areas”

