

# PRIVATE EQUITY INSIGHT

# **CREATE MORE EBITDA**

# **THROUGH STRATEGIC PRICING**

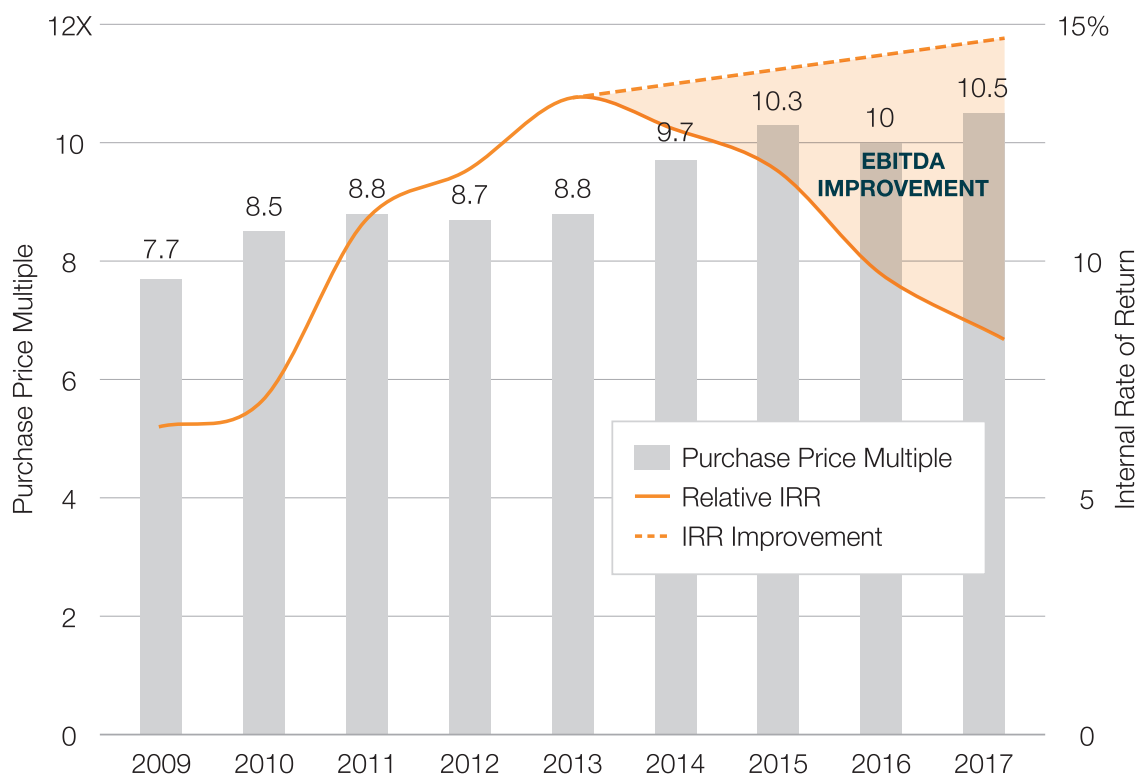




A recent Bain & Company's Global Private Equity Report showed buyout price multiples hit a new high while the internal rate of return (IRR) declined. **The strongest lever for private equity firms to increase EBITDA is active price management.**

In the following pages are the **answers to private equity firm executives' most pressing questions** about implementing pricing initiatives...

### Use the Lever of Price for EBITDA Growth Through Hold Period



Sources: INSIGHT2PROFIT, adapted from S&P Capital IQ LCD, Cambridge Associates Private Investments Database, and Bain & Company, Inc.  
Average EBITDA purchase price multiple for US LBO transactions. 9-year horizon pooled net IRR, US Buyout funds.



# 1 Where Should I Focus My Attention First?

As leveraged buyout purchase price valuations continue to increase, the need to find more effective methods to increase profitability post acquisition is greater than ever. Finding ways of creating EBITDA must play a significant role in the operational improvement playbook in order to justify these higher valuation multiples. One of the quickest paths to do so is to turn your attention to the pricing decisions your portfolio companies already make every day, including **low-hanging fruit** such as discounts, freight costs, and return policies.

# 2 How Do I Rapidly Increase Profit With Minimal Disruption?

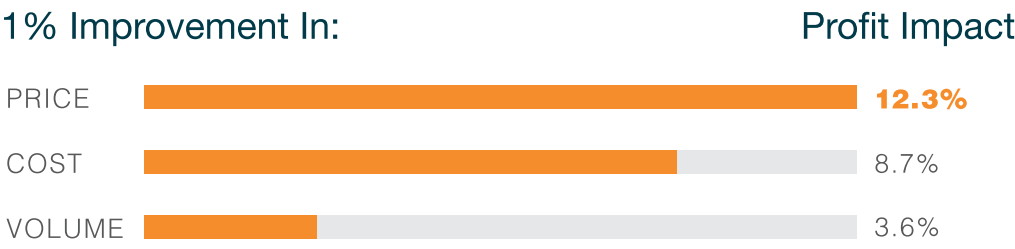
**Improvements to pricing** are among the few changes a company can make that won't interfere with its leadership, workforce, or objectives, and they can be implemented with great speed for rapid impact.



**CONSIDER THIS:** A 1 percent reduction in cost impacts a company's bottom line by an estimated 8.7 percent but can cause significant disruption to structural integrity.

By contrast, a 1 percent improvement in pricing can boost the bottom line by more than 12 percent (3 percent more than cost reduction) and **holds little to no risk of operational disruption.**

## PRICING IS YOUR MOST POWERFUL PROFIT LEVER





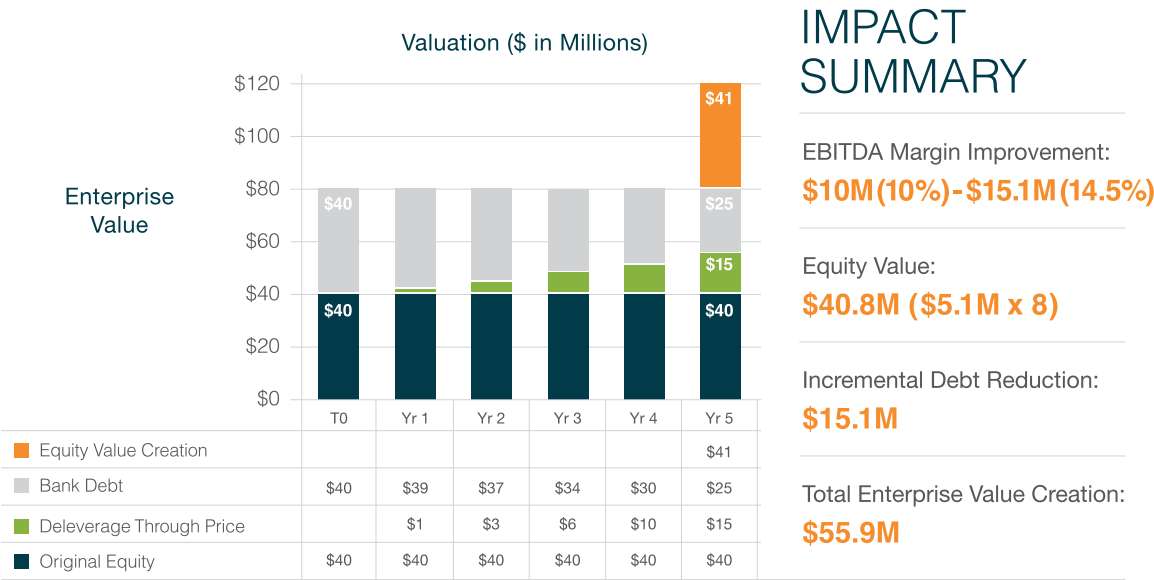
### 3 How Do I Create Sustainable EBITDA Growth and Equity Value?

The median holding period of investments is now six years or more, making the question of how to create sustainable EBITDA growth a vital one. **Pricing changes** continue to be one of the most powerful ways to grow EBITDA year-over-year in a sustainable way.



**CONSIDER THIS:** A \$100 million business with 10 percent EBITDA at time of acquisition can achieve a **50 percent EBITDA** growth with a **1 percent price adjustment each year for five years**. The additional revenue delivers over **\$15 million cumulative EBITDA increase** for debt reduction or other uses, and over \$40 million of additional equity value creation.

#### MINOR IMPROVEMENTS IN PRICE ALONG WITH PROPER CONTROLS CREATE EQUITY VALUE



#### ASSUMPTIONS:

- Based on a \$100M Company
- 10% EBITDA at Acquisition
- A 1% incremental price improvement each year
- No additional sales growth or margin improvement efforts

## 4

## How Does My Portfolio Company's Pricing Compare to the Market?

Market pricing data can be expensive to identify and isn't always available. That's why mining historical data is a powerful way to develop insights into market and behavior trends.

**CONSIDER THIS:** A pricing firm with deep expertise in industrial verticals can use **data mining software** to examine a company's **historical pricing** at the line-item level. This gives leadership visibility to what's driving price sensitivity and where opportunities exist to segment products to identify customers' willingness to pay true market price, leading to improved margins.

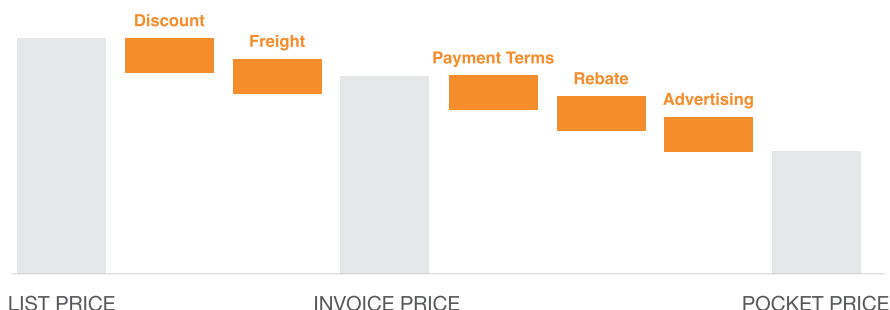
## 5

## Is My Portfolio Company Leaving Money on the Table?

While pricing guidelines offer sales teams valuable information, most companies have a difficult time realizing the optimal price they set out to capture. Private equity firms can look at their portfolio companies' historical pricing trends for evidence of **price leaks**. For example, how much price variation exists between similar customers? How often are prices updated? Are customers receiving volume discounts for small-quantity orders? Even minor inconsistencies can add up to a substantial loss in profits.

Private equity firms can help their portfolio companies to first understand the **true “pocket” prices**, then address these inconsistencies through ongoing training, policies, and controls, making sure their organization understands the value of each product and the rationale behind its pricing.

### SYSTEMATICALLY IDENTIFY AND QUANTIFY SIGNIFICANT PRICE AND MARGIN WATERFALL ELEMENTS



### COMMON PRICE LEAK AREAS

- Pricing
- Freight
- Discounting
- Collections
- Samples
- Returns
- Rush Orders



## 6

## Does My Portfolio Company Have the Right Pricing Foundation?

Most companies lack built-in structural accountability for price enforcement. For example, price targets may be set by management, while sales adjusts them and finance measures the results. Often, no one in a management role owns a company's pricing strategy. Effective price management isn't a one-time project; it's an ongoing commitment that requires **process, technology, and clear ownership**—such as a dedicated pricing manager or leadership team member—to drive and sustain pricing excellence.



### Summary

Throughout all the answers above, there's a single common thread: **Pricing**.

1. **Pricing boosts bottom-line margins.**
2. **Price improvements are rapid to implement and have minimal operational disruption.**
3. **Pricing is one of the most powerful ways to create equity value.**
4. **Historical pricing data mining reveals low risk margin improvement opportunities.**
5. **Understanding “pocket” prices exposes price leaks.**
6. **Pricing foundation includes process, technology, & clear ownership to drive sustainable results.**

Price improvements are one of the few changes companies can make that cause little-to-no disruption while creating sustainable profit improvements. And pricing is the one thing private equity firms cannot afford to ignore. By adding pricing expertise to their repertoires, private equity firms strengthen their abilities to add value to their portfolio companies. Additionally, it allows them to offer their limited partners strong evidence they have a differentiated strategy for the creation of EBITDA and deliver consistently strong IRR to their partners. **If you're ready for more EBITDA, pricing is the single most important place to look.**





INSIGHT2PROFIT is a market leading technology-enabled service company focused on delivering sustainable revenue and EBITDA growth through implementation and management of pricing and profit strategies. With its unique pairing of data-driven DRIVE technology and subject matter expertise, INSIGHT2PROFIT has a stellar reputation as an innovative, high ROI partner, often through private equity partners. INSIGHT2PROFIT has locations in Cleveland, Ohio and Chicago, Illinois.

---

For more information about how INSIGHT2PROFIT can answer your questions about pricing, visit: [www.insight2profit.com](http://www.insight2profit.com)

---