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Four Things PE Firms Are Looking For In 2023

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As we head into Q2, multiple factors like the volatile economy, politics, technology and foreign conflicts are driving change in the

M&A market. As a result, private equity (PE) firms are much more selective today as compared to a few years ago.

While they were once eager to invest in companies with a clear angle and growth potential, companies must go above and beyond to back up their claims and prove their reliability during tumultuous times. While profitability continues to play an integral role in the sales process, investors are diving deeper into the factors behind that profitability.

Proven Resiliency

Having strong numbers is crucial to selling your company, but you should also be able to demonstrate why and how those strong numbers came to be. Private equity firms will want to see and understand your competitive advantages—now and in the future.

PE firms look at hundreds of companies each year, so why should PE firms trust that your company will continue to perform successfully during good times, and bad?

This is where brand recognition and customer loyalty come into play. Your company's history, longevity and continued growth often set the stage for your outlook—and the factors that are driving that loyalty make for a compelling case.

Simultaneously, a split government and the anticipation of the 2024 election are already making waves in M&A. Because the government controls and affects many components of M&A—from financing to industry-specific policies and foreign affairs, uncertainty breeds hesitation when it comes to investing.

PE firms are doing their due diligence like never before. “Resiliency” is no longer *just* defined by past performance, such as during the pandemic, but by what companies are doing to prepare for whatever the future may hold.

Capex

Just like any other investor, PE firms have one main question in mind: “What can we expect our return to look like?” Proactivity is key, and demonstrating that you’re investing in your company’s growth may entail everything from technology to human capital.

A company’s capex also provides trust that PE firms are buying a company that is already set up for success, rather than a struggling company that is selling in an effort to survive. It speaks to the company’s ability to identify and act on areas of opportunity—ones that can result in booming growth.

As always, your best bet is proven success. Those who have already invested time, effort and money into their long-term performance and have results to show for it will stand out and ultimately boost their valuation. For those who have not yet achieved their desired results, their investments and projections can help attract PE firms.

In 2023, a prime area to invest in is also one that can differentiate you from competitors and help with customer acquisition and retention: the consumer experience. These days, technology is at the forefront of convenience and personalization.

PE firms will take a special interest in companies that are leveraging and embracing the latest and greatest tech—from artificial intelligence to virtual reality. Companies that are building their operations and policies around it can truly provide an experience that "can't be found anywhere else," while those who fall behind in the technology sphere will ultimately be beaten out by competitors who do.

Human capital is another major component PE firms are looking at in 2023, as experienced leaders and skilled workers are invaluable. In fact, many of these experienced leaders are the ones navigating the company's capex and the driving force behind its success.

Flexibility And Versatility

A large part of resiliency is fueled by one of the strongest selling points a company has: preparedness. PE firms are looking for forward-thinking companies with a durable, adaptable model.

Think of what happened when the Covid-19 pandemic hit. Businesses were caught off guard, and many had to close their doors. Others had essential components or revenue diversification that kept them afloat.

This can mean different things in different industries. For instance, fitness brands are now investing in all types of revenue streams—from mobile apps and online boot camps to branded retail components, meal preparation kits, recipe books, on-site cafes, premium memberships and more. It's this kind of diversification that has helped many bounce back from the pandemic.

Overall, companies that can function successfully under various conditions have a leg up on competitors: especially those that can cut back on fixed costs like labor, space and equipment.

Cash Flow, EBITDA And Working Capital

Speaking of costs, PE firms now look at much more than your profit and loss statements. They'll also take a deep dive into your free cash flow, EBITDA and working capital. Demonstrating financial responsibility, consistency and frugality can instill confidence in where your company is headed.

You should highlight how and where you're cutting costs, and how you will continue to ensure strong performance regardless. Meanwhile, locking in pricing with vendors and suppliers, as well as raising prices for consumers, will help show preparedness and amplify your financial projections.

Those that offer products and services with defined customer life spans also offer extra security to PE firms and investors of all kinds. Subscription-based models are on the rise for a reason: They help drive customer loyalty and maintain revenue, rather than companies banking on them selling a certain amount of product or service within a given timespan.

What To Know Before Selling

As economic uncertainty continues, your company is only as strong as the investments you make in it. With inflation, high interest rates, fewer funding options and industry or overall market volatility, investors are more concerned than ever with achieving an adequate and timely return on investment.

The best thing a company can do is ensure that you're constantly improving your people, processes and customer experience. Keeping these focuses in mind as you are distributing your finances can help improve the chance that these investments will pay off—

not only in your daily operations, but when you decide it's time to sell.

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