

Munich, November 21, 2018

Project Study: Innovation Processes in German Private Equity Buyouts

Context

Private Equity (PE) has grown strongly in Germany as a class of shareholders and a source of capital of “Mittelstand” companies. As competition among PE firms for promising investments has increased strongly, and in consequence has driven up transaction prices, PE investors need to understand best practices for increasing value in order to sustainably achieve attractive rates of return.

Innovation can be a key lever toward superior value creation in “Mittelstand” companies. However, PE investors tend to be conservative and to prefer certain returns, and so they may be reluctant to support innovation in their portfolio firms and may even stifle it. Their challenge is to estimate the future, uncertain value of innovations and to manage innovations successfully.

Specifically, PE investors need to understand:

1. the value of innovation potential that resides inside a portfolio firm
2. the opportunity for introducing innovations from outside into the portfolio firms
3. the process of successfully managing innovations

The objective of the project study is to investigate the role of innovation in PE-held companies in Germany and the role of the PE-investors in the context of innovation.

Deliverables

The aim of the project study is to create a report answering the following questions:

- What are the primary levers PE investors utilize to improve innovativeness and innovation processes in German “Mittelstand” companies both, by increasing internal innovation capabilities or introducing external innovation?
- What is the impact of the investor’s engagement on the innovativeness and value creation through innovation in portfolio firms?
- How big is the influence of improving the innovativeness and value creation through innovation on the overall investment success?
- What are key recommendations towards PE investors to increase value creation through innovation in portfolio firms?

Methods

To answer the questions above, the project team will:

- collect and analyse relevant data on selected PE acquisitions and create measures for the innovativeness prior and after the involvement of a PE investor
- conduct interviews with PE investors and managers of (former) portfolio companies to gain better understanding of the involvement PE investors in innovation activities and their impact
- conduct a survey (if this proves doable)

The industry partner

The project study will be conducted together with our industry partner CODEX Partners. CODEX Partners is a leading consulting firm for private equity investors and their portfolio companies. CODEX searches for new investment opportunities, provides Commercial Due Diligences (e.g. strategic review of acquisition targets) and supports the management of portfolio companies to identify and implement growth opportunities.

Organization

- The project will be supervised by Prof. Henkel and Michael Vetter from the TIM chair as well as an experienced team from the industry partner, CODEX Partners.
- Project duration will be 3 months (full-time), starting ideally in early 2019.
- We will have bi-weekly check-ins on the project progress.
- Team applications (2-4 students) are encouraged.

Please send your CV and a short motivational statement to Michael Vetter (michael.vetter@tum.de).