

BLUWAVE PRIVATE EQUITY INSIGHTS REPORT

Q4 2022



FOREWORD

BluWave is the business builders' network trusted by more than 500 of the world's leading private equity firms and thousands of proactive businesses. We equip our clients with the best-in-class, BluWave-vetted, PE-grade service providers they need to assess opportunities and build value with more speed and certainty.

The following pages leverage BluWave's proprietary project data to summarize key trends acted on by PE industry peers from Q1 2018 to Q4 2022.

As we all know, private equity firms generate some of their best outcomes during times of perceived higher risk like the present. BluWave's data herein illustrates how you and your peers have been running toward the storm, proactively embracing dynamic environments, and taking action ahead of events to support the safety and success of new and existing investments.

BluWave was the solution I wish I had while I was in private equity for nearly 20 years. Our hope is the insights herein will provide you with some incremental information and edge to help you thrive and win during the days ahead.

We wish you good fortune for a great 2023.

Onward,



A handwritten signature in blue ink, appearing to read 'SMOONEY', written in a fluid, cursive style.

SEAN MOONEY

Founder & CEO, BluWave

ANNUAL INSIGHTS

2020-2022

ANNUAL SUMMARY OVERVIEW

Over the past three years, the private equity industry has continually reframed risk through the lens of finding opportunity – whether that be in 2020 and 2021 in the COVID era, or this year as the PE industry feverishly prepared for safety and success in advance of an economic downturn. BluWave’s data shows the actions that PE firms have taken as they run toward the storm. The following summarizes some of the key areas where BluWave equipped our more than 500 PE firm clients from 2020 to 2022.

OVERVIEW OF ALL ACTIVITY

Due Diligence/Value Creation Mix: In 2022, Value Creation surged, accounting for an annual record 72% of all private equity activity in [BluWave’s Value Creation Index](#), a more than 14% increase year over year. The significant Value Creation activity in 2022 was a result of (i) 2021’s robust deal flow that created a large population of new portfolio companies and related Value Creation initiatives, (ii) decreased deal flow in 2022, which by default led to fewer due diligence needs relative to 2021, and (iii) a running toward the storm attitude that was embraced by the private equity industry, in which PE firms focused on equipping their portfolios with every resource they needed to not only survive but thrive during a coming recession versus recoiling in fear of risk.

Human Capital Surges: Human Capital continues to be the biggest trend in private equity, accounting for 41% of all private equity initiatives in [BluWave’s Activity Index – Overall](#) in 2022, a 5% increase when compared year over year. The private equity industry continued to lean into Human Capital as they focused on transforming companies versus optimizing them, which required meaningfully enhanced and/or wholly new skillsets in portfolio companies. In 2022, PE firms continued to address tight labor markets while also bringing in wartime generals in place of peacetime ministers where needed to manage through a coming storm. A growing trend in 2022 was also a focus on bringing in talent more deeply down within portfolio company organizational structures in alignment with longer-term value creation plans.

Strategy: In 2022, Strategy resources accounted for 17% of all PE activity in the BluWave Activity Index - Overall, a 19% decrease from 2021. This decrease in overall Strategy activity levels can largely be explained by the relative decline in mix of due diligence activity versus value creation activity. Strategy resources are most often used within due diligence. With a relatively lower mix of diligence versus value creation, Strategy declined in kind. When we view activity strictly through the lens of diligence projects, we saw that strategy usage actually increased in 2022 as PE firms placed a premium on understanding market dynamics in the relatively fewer deals that were acted on in 2022. As deal flow increases over the coming years and due diligence projects therefore do too, we expect to see the overall activity for Strategy to rise again, even above historic levels.

ANNUAL SUMMARY OVERVIEW

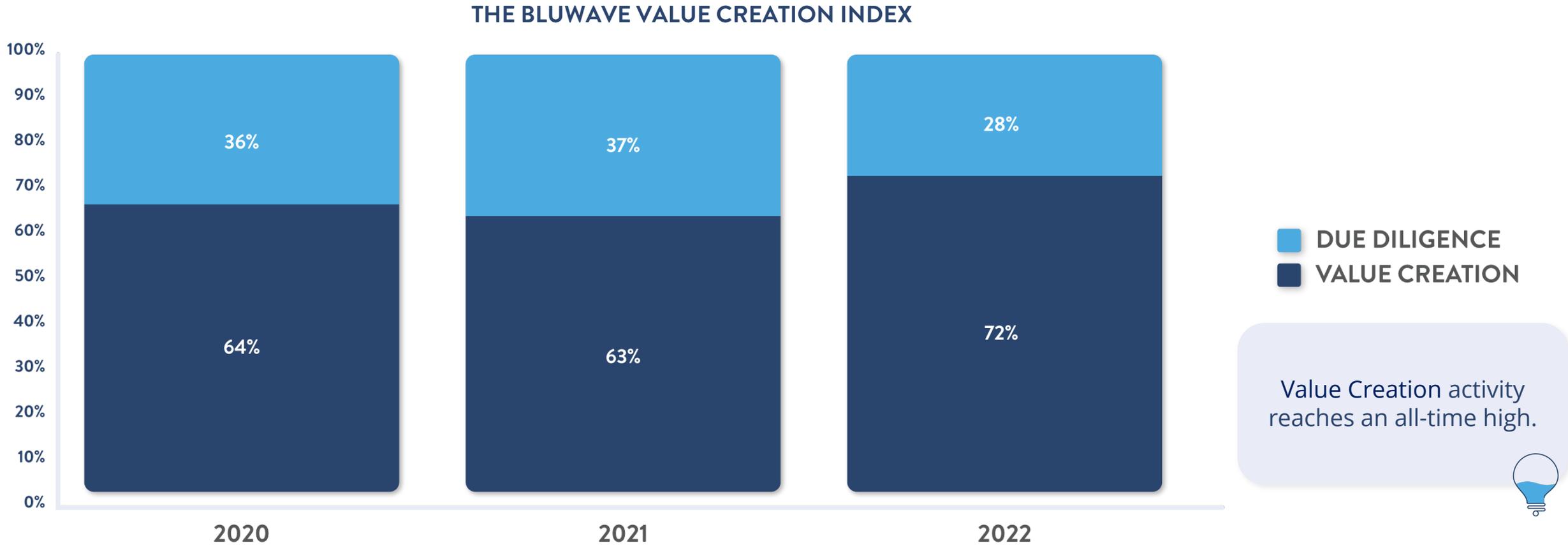
Operations: Operations resources accounted for 13% of all PE activity in the [BluWave Activity Index - Overall](#) in 2022, a 7% decrease from 2021. In 2022, we still saw significant Operations investments being made across due diligence and value creation. The relative decline in 2022 in many ways can be explained by significant action already take in 2021 as operational investments were some of the first levers pulled in 2021 by PE firms when they first saw inflationary challenges emerging. In 2021, we saw PE firms preemptively taking action to help their portfolios battle inflation and prepare for a recession. In 2022, overall Operations activity, while still significant, was modestly lower relative to other areas where PE firms were choosing to place more strategic investments, particularly given the actions that were already underway in 2021.

Technology: In 2022, Technology resources accounted for 12% of all PE activity in the BluWave Activity Index – Overall, a 20% increase from 2021. As labor markets remained tight in 2022 and it became increasingly difficult to source the labor needed, many firms chose to invest in Technology so that they could automate processes and reduce their need to rely on hard-to-get labor. Additionally, we saw the PE industry lean more heavily into data and analytics in 2022 as they realized the differential value of real-time, actionable information and how it helps their portfolio companies navigate turbulent times. This has led to broad-scale adoption of data quality and visualization endeavors and emergent efforts in higher level analytics and AI.

Sales & Marketing: In 2022, Sales & Marketing resources accounted for 10% of all PE activity in the BluWave Activity Index - Overall, a 25% increase year-over-year. The PE industry understands that growth is one of the largest correlates to exit valuation and with a softening economy likely underway, pe firms have focused on winning as much market share as possible through enhanced sales & marketing initiatives. Additionally, as PE firms have tried to keep up with inflation, many deployed pricing strategy resources in 2022 to protect margins and cash flows.

ANNUAL SUMMARY OVERVIEW

BluWave has supported thousands of PE industry projects over time. Here's where PE has invested its time and resources across Due Diligence and Value Creation in the past three years:

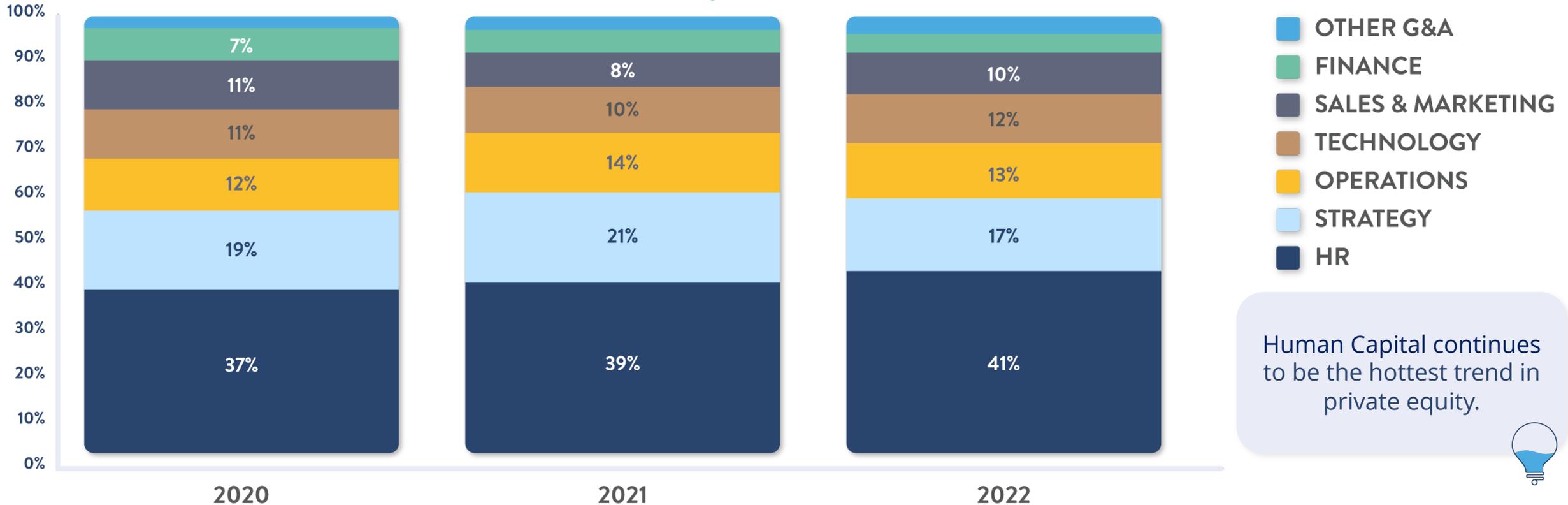


*Certain historic percentages may have changed versus prior reports due to BluWave taxonomy enhancements.

ANNUAL SUMMARY OVERVIEW

Here's where PE firms have invested time and resources across functional areas in the past three years:

THE BLUWAVE ACTIVITY INDEX – OVERALL
Annual Breakdown by Functional Area



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OVERVIEW OF DUE DILIGENCE ACTIVITY

Here are some of the top annual due diligence trends BluWave equipped in 2022:

- **Strategy:** Strategy resources accounted for 46% of 2022 initiatives within [The BluWave Activity Index – Due Diligence](#), as compared to 43% in 2021. Deal flow was down in 2022, but use of strategic resources in diligence was up because PE perceived that the cost of getting the market wrong could be massive in the face of a softening economy.

- **Human Capital:** Human Capital resources accounted for 19% of 2022 initiatives within The BluWave Activity Index – Due Diligence, as compared to 24% in 2021. While we still saw significant amounts of Human Capital activity occur during diligence, from a relative perspective, we saw PE firms place a stronger focus on strategy and technology in their overall mix of diligence activities.

- **Technology:** Technology resources accounted for 13% of 2022 initiatives within The BluWave Activity Index – Due Diligence, as compared to 10% in 2021. Tech activity grew as PE was trying to pre-inform their software and digital strategies, cybersecurity remained a wipeout risk that requires specialist support, and there was churn in the more common service providers in this area as a number of providers encountered difficulties in scaling, became more expensive, and/or lost quality.

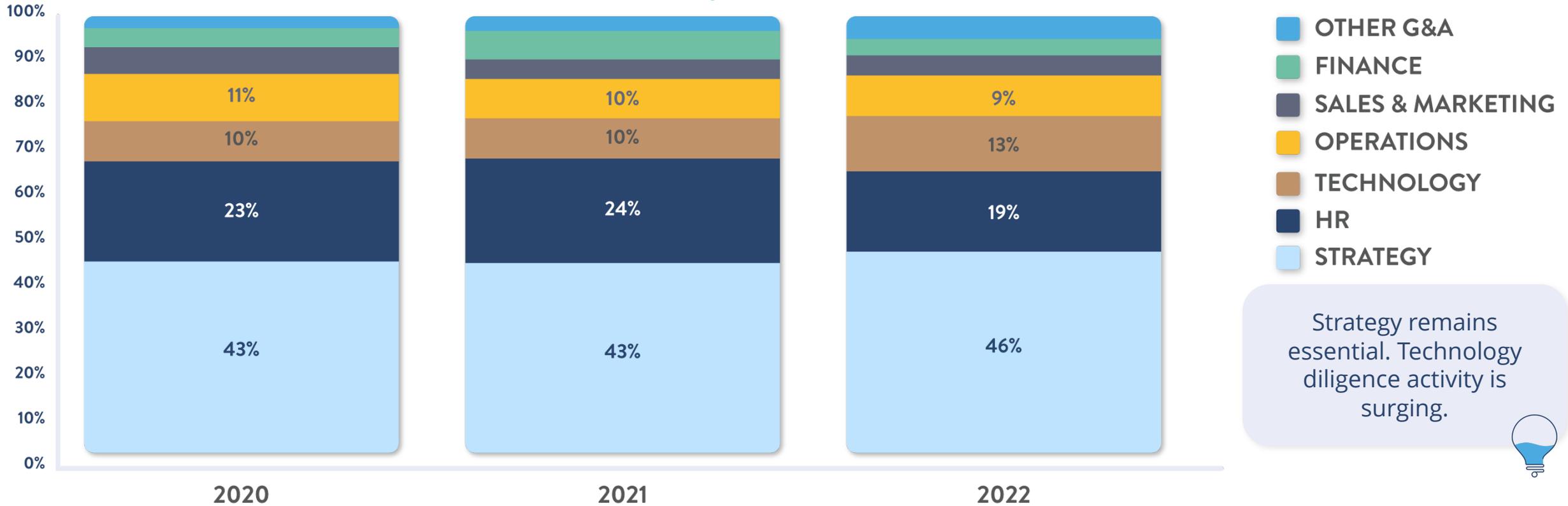
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ANNUAL SUMMARY OVERVIEW

Here's where PE firms have invested time and resources across functional areas in due diligence in the past three years:

THE BLUWAVE ACTIVITY INDEX – DUE DILIGENCE

Annual Breakdown by Functional Area



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OVERVIEW OF VALUE CREATION ACTIVITY

Here are some of the top annual value creation trends BluWave equipped in 2022:

- **Human Capital:** Human Capital resources accounted for 50% of 2022 initiatives within [The BluWave Activity Index – Value Creation](#), as compared to 48% in 2021. Human Capital activity continued to grow as PE firms focused on transformational activity as well as tying mid-level recruiting strategies to longer-term value creation plans. As Human Capital activity grows, the PE industry is gaining a stronger appreciation for specialization and the unique capabilities required for someone to be PE-grade.

- **Operations:** Operations resources accounted for 15% of 2022 initiatives within The BluWave Activity Index – Value Creation, as compared to 16% in 2021. PE firms began taking advance operational action in 2021 in anticipation of an expected economic downturn in 2022-2023. We still saw significant operational activity in value creation but other value creation streams made relative gains in the mix during 2022. PE firms also made tremendous efforts in 2022 to make sure that add-on acquisitions were effectively integrated as the economic environment allowed little room for error.

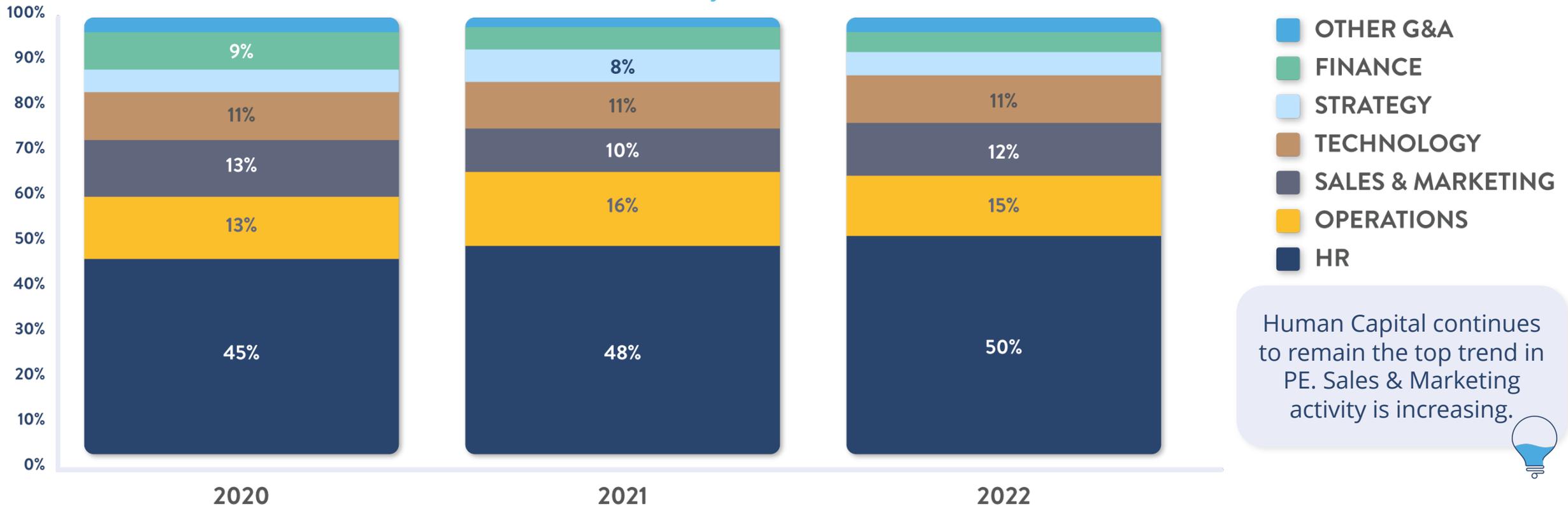
- **Sales & Marketing:** Sales & Marketing resources accounted for 12% of 2022 initiatives within The BluWave Activity Index – Value Creation, as compared to 10% in 2021. As the world began slowing and inflation remained rampant, the private equity industry was doing everything they could to drive growth and pass on cost increases within their portfolio companies.

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ANNUAL SUMMARY OVERVIEW

Here's where PE firms have invested time and resources across functional areas in value creation in the past three years:

THE BLUWAVE ACTIVITY INDEX – VALUE CREATION
Annual Breakdown by Functional Area



Human Capital continues to remain the top trend in PE. Sales & Marketing activity is increasing.



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BLUWAVE'S TOP VALUE CREATION CATEGORIES AS OF 2022



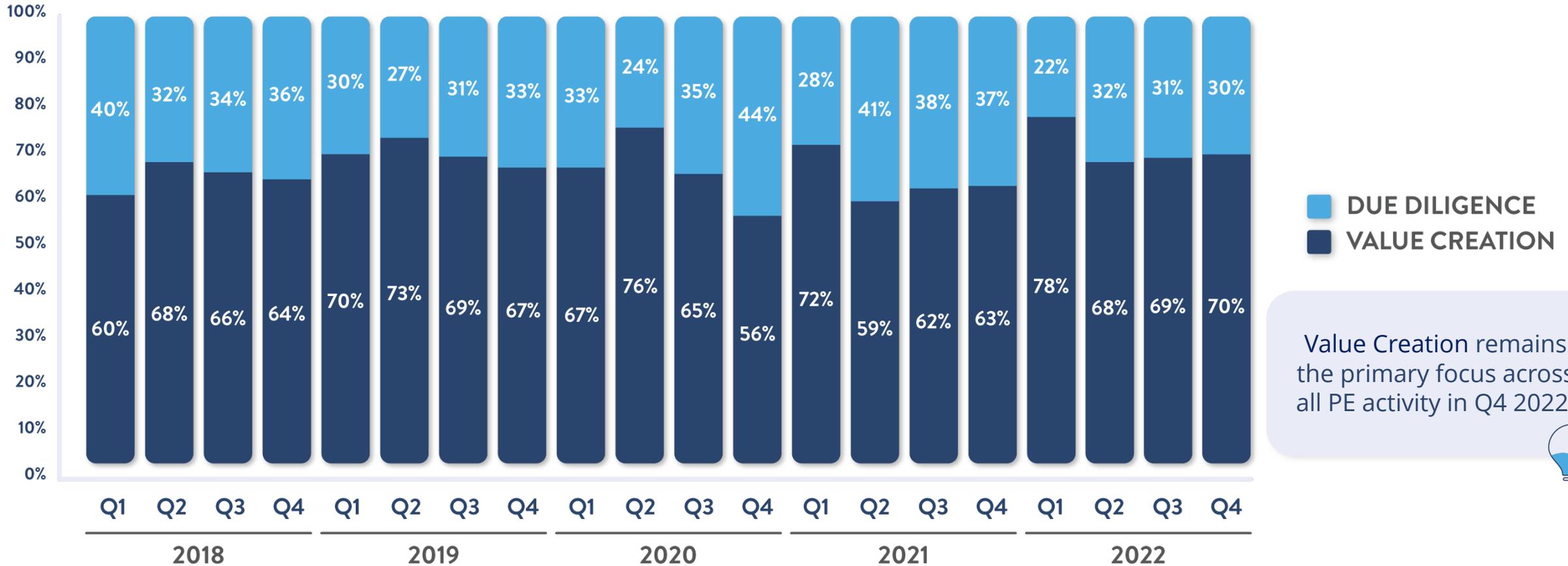
QUARTERLY INSIGHTS

Q1 2018 – Q4 2022

QUARTERLY SUMMARY OVERVIEW

During Q4 2022, Value Creation activity continued to move up and to the right, accounting for the highest percentage of Value Creation ever seen in Q4.

THE BLUWAVE VALUE CREATION INDEX



Value Creation remains the primary focus across all PE activity in Q4 2022.

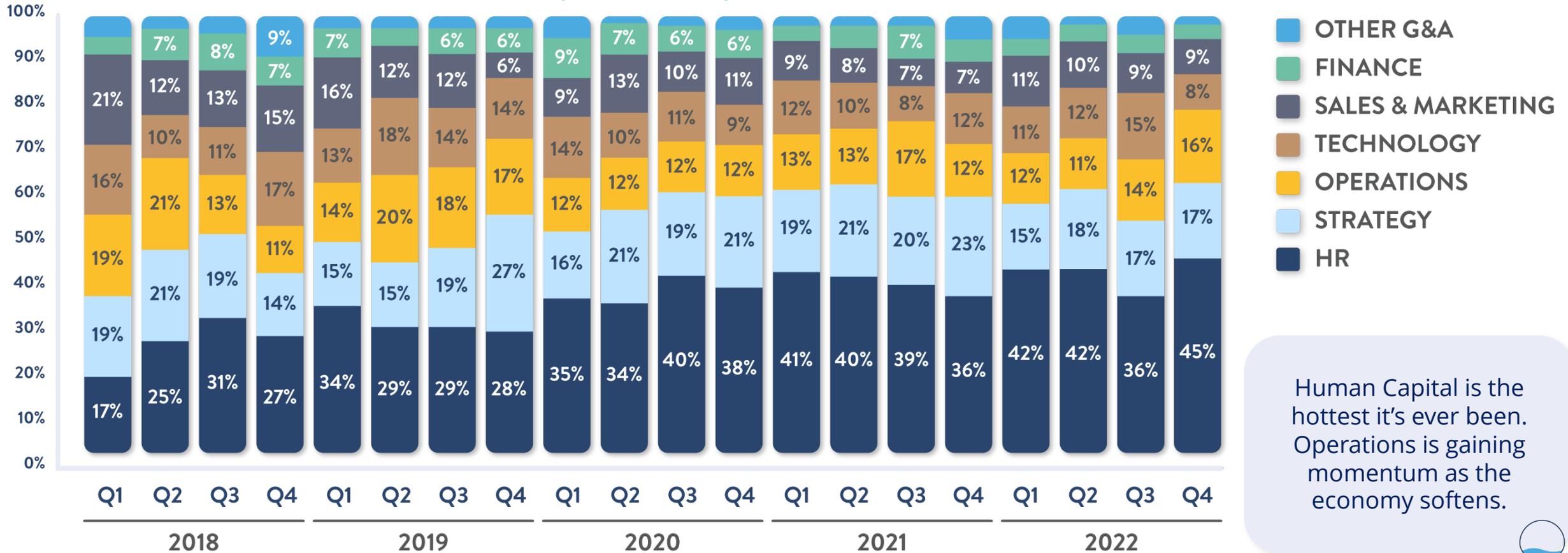


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QUARTERLY SUMMARY OVERVIEW

Here's where PE firms invested time and resources across functional areas as of Q4 2022:

THE BLUWAVE ACTIVITY INDEX – OVERALL
Quarterly Breakdown by Functional Area



Human Capital is the hottest it's ever been. Operations is gaining momentum as the economy softens.

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OVERVIEW OF DUE DILIGENCE ACTIVITY

Here are some of the top quarterly due diligence trends in private equity as of Q4 2022:

- **Strategy:** Strategy resources accounted for 46% of Q4 2022 initiatives within the [BluWave Activity Index - Due Diligence](#), as compared to 47% during Q4 2021. Market dynamics continued to be one of the most important due diligence elements and is thought of as one of the greatest predictors of business success. Strategic market diligence remains one of the most highly utilized tools in private equity.

- **Human Capital:** Human Capital resources accounted for 24% of Q4 2022 initiatives within the BluWave Activity Index - Due Diligence, as compared to 10% during Q4 2021. In Q4 2022, we saw continued strong demand for senior advisors who could help inform strategies and perspectives into how targets performed across economic cycles. We also saw PE firms placing strong emphasis on understanding management team strengths, weaknesses, and informing related Human Capital value creation plans.

- **Technology:** Technology resources accounted for 8% of Q4 2022 initiatives within the BluWave Activity Index - Due Diligence, as compared to 12% during Q4 2021. Notwithstanding relatively softer demand in Q4, during the balance of 2022 we saw strong usage of Technology resources in diligence as PE firms swapped out previous service providers they were dissatisfied with for more PE-grade specialist providers. Cybersecurity is an area that continued to grow in priority for the PE industry in diligence due the significant downside risk associated with cybersecurity breaches.

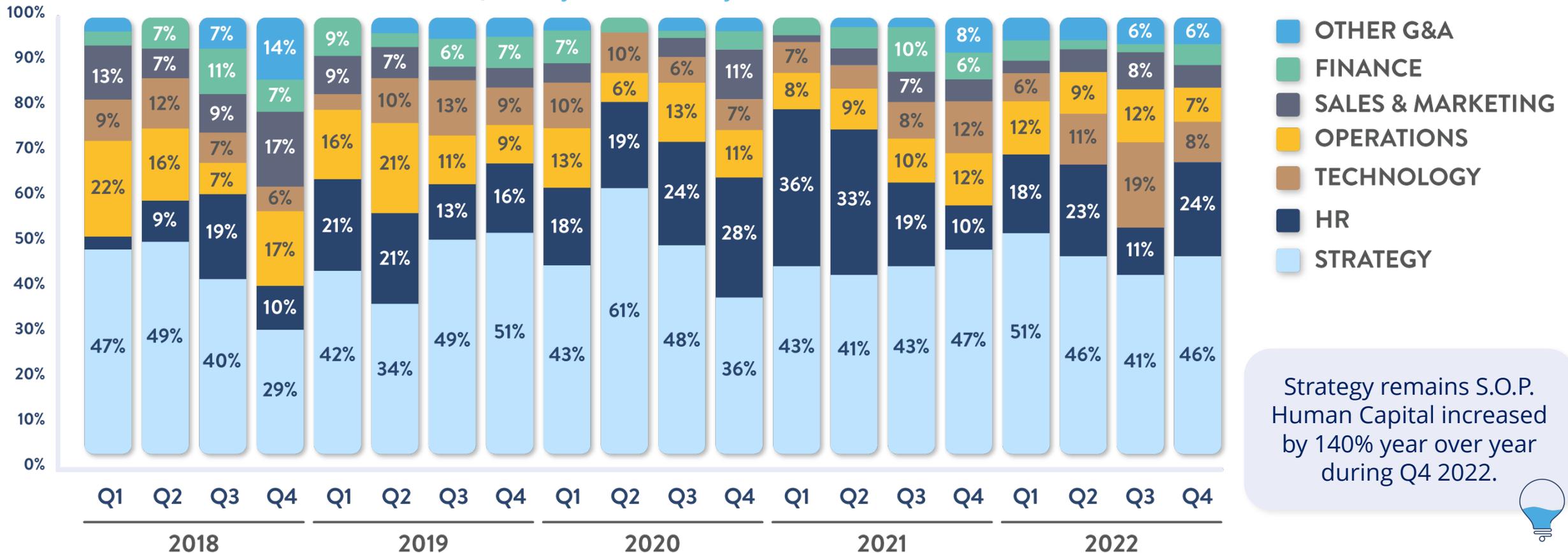
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DUE DILIGENCE OVERVIEW

Here's where PE firms invested time and resources across functional areas in due diligence as of Q4:

THE BLUWAVE ACTIVITY INDEX – DUE DILIGENCE

Quarterly Breakdown by Functional Area



Strategy remains S.O.P. Human Capital increased by 140% year over year during Q4 2022.

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BLUWAVE'S TOP DUE DILIGENCE CATEGORIES AS OF Q4



OVERVIEW OF VALUE CREATION ACTIVITY

Here are some of the top quarterly value creation trends in private equity as of Q4 2022:

- **Human Capital:** Human Capital resources accounted for a record 54% of Q4 2022 initiatives within the [BluWave Activity Index – Value Creation](#), as compared to 51% during Q4 2021. The meaningful uptick in Human Capital activity since a brief decline in Q3 2022 is due to the previously noted focus on utilizing Human Capital resources to both equip longer-term value creation strategies and the need to bring in wartime generals in place of peacetime ministers in the face of a transitioning economy.

- **Operations:** Operations resources accounted for 19% of Q4 2022 initiatives within the BluWave Activity Index – Value Creation, as compared to the 12% during Q4 2021. We continue to see substantial operational activity as it relates to preparing portfolio companies for a recession and significant activity as it relates to expertly executing add-on acquisitions.

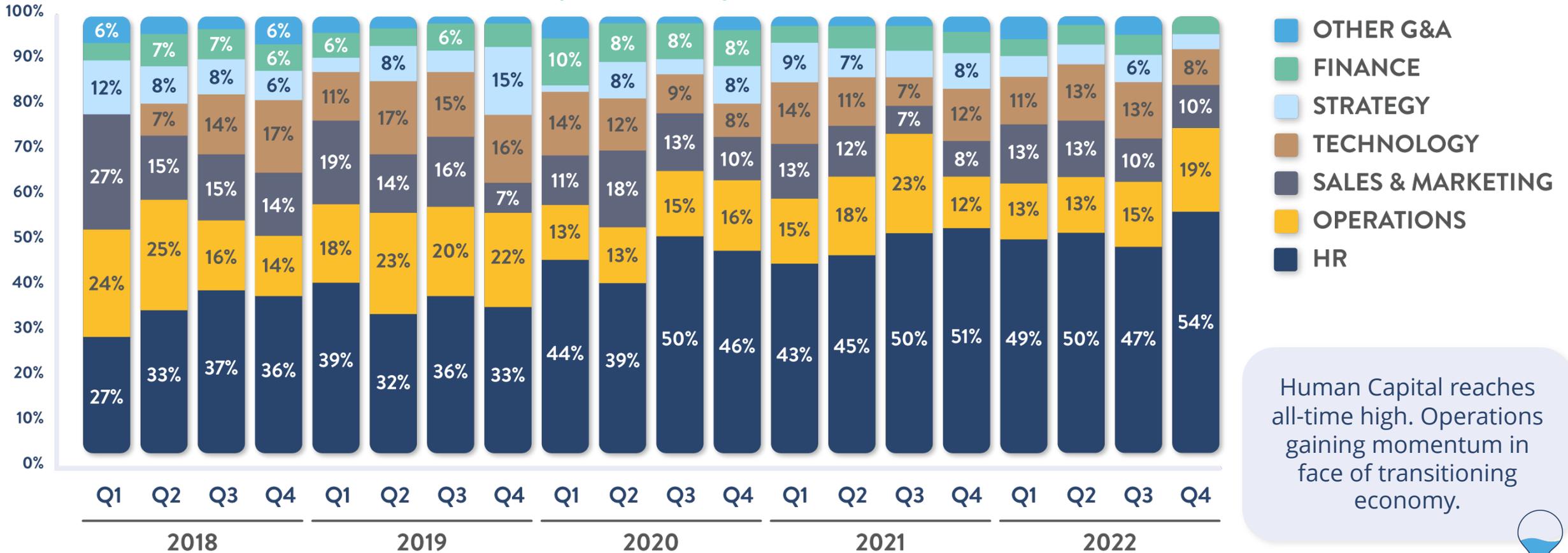
- **Sales & Marketing:** Sales & Marketing resources accounted for 10% of Q4 2022 initiatives within the BluWave Activity Index – Value Creation, as compared to 8% during Q4 2021. Demand for Sales & Marketing resources this quarter was fueled by digitization needs and the desire to enhance revenue strategies as PE firms continue to support their portfolios for growth in the face of an economic downturn.

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VALUE CREATION OVERVIEW

Here's where PE firms invested time and resources across functional areas in value creation as of Q4:

THE BLUWAVE ACTIVITY INDEX – VALUE CREATION
Quarterly Breakdown by Functional Area



Human Capital reaches all-time high. Operations gaining momentum in face of transitioning economy.

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BLUWAVE'S TOP VALUE CREATION CATEGORIES AS OF Q4



2023 PREDICTIONS

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2023 PREDICTIONS

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For further insights into our 2023 PE industry outlook, please see the 2023 Predictions episode of our [Karma School of Business](#) podcast.

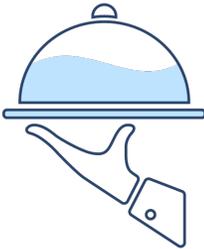
CASE STUDIES & APPENDIX

ABOUT BLUWAVE



BUSINESS BUILDERS' NETWORK

We connect you to the exact top-tier resources you require for due diligence, value creation, and preparing-for-sale activities. We already know the PE-grade resources you need before you need them.



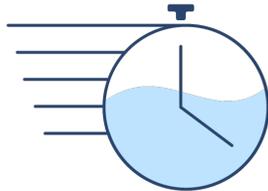
WHITE GLOVE

BluWave clients deserve more than a self-serve platform. Our consultants expertly support the success of every project in a high-touch, human way. Our job is to make your life easier.



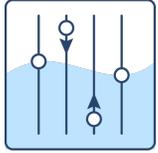
BLUWAVE-VETTED

We work with only the best resources that exceed the PE standard and pass our pre-vetting process before they're invited into our Intelligent Network.



FAST

We move at the speed of private equity. We're available when you are and take action at your pace.



CALIBRATED

We leverage technology, proprietary data, AI, consultative frameworks, and human ingenuity to expertly match resources for your exact needs.



WHY BLUWAVE?

We exist to help you win. We save you time, get you better results, and help you focus more on higher-order competing priorities.

BluWave is a business builders' network for private equity-grade needs trusted by over 500 of the world's top PE firms to dramatically enhance your ability to perform PE-grade due diligence and value creation.



CASE STUDY

NEED:

Trusted force multiplier for proactive PE firm

INDUSTRY:

Private equity/middle market

BUSINESS TYPE:

Invests in B2B & B2C

CHALLENGE:

Finding a partner who can help PE firm get more done with better results

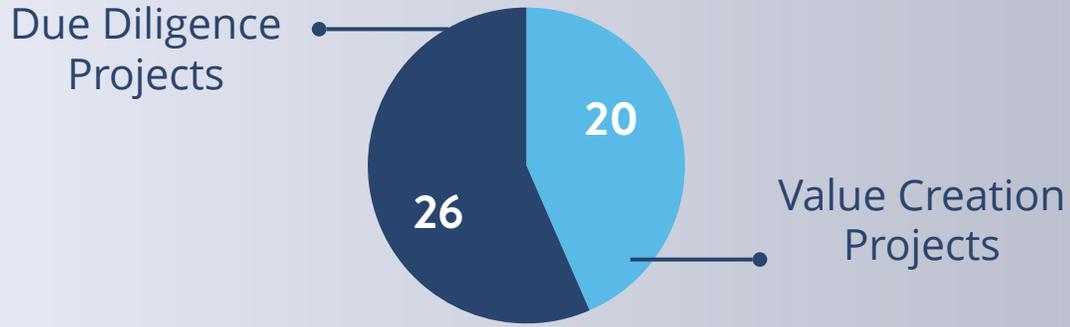
A middle market focused private equity firm was looking for a trusted partner who could assist them in their varied due diligence and value creation activities. Instead of reinventing the wheel every time a need came up, which was frequently given the number of companies in their portfolio, they reached out to BluWave to develop a relationship.

SOLUTION:

Right-fit, third-party resources across resource areas

We quickly connected the deal team with targeted diligence-related resources that fit their exact criteria, including a senior advisor, a group specializing in IT/digital diligence, and an industry-focused commercial market diligence provider. We helped their portfolio operations team manage and equip their plan of attack for their value creation plan, including aligning their value creation plan with management, bringing in specialized recruiters to act on talent opportunities, identifying interim executives to facilitate transitions where needed, bringing in third parties to engage in operational improvement opportunities, connecting them with custom-fit experts in sales development for growth, and connecting the firm with digital marketing resources.

CASE STUDY



46 PROJECTS IN 18 MONTHS

RESULT:

Due diligence and value creation efforts accelerate

Over the next 18 months, the PE firm's deal and operations teams quickly became a recurring client. We were able to give them tremendous leverage, getting them better results and availing more time to spend on strategy and execution. Specific functions and resource areas can be seen in the below charts.

PROJECT FUNCTIONS:



ALL PROJECTS

TO VIEW THE FULL REPORT, [CLICK HERE](#) OR EMAIL INSIGHTS@BLUWAVE.NET

DUE DILIGENCE PROJECTS

VALUE CREATION PROJECTS



The CFO is one of the most critical roles in private equity. Portfolio companies cannot afford to have a leadership void in this area. Top PE firms use interim CFOs throughout the ownership cycle, including portco onboarding, mid-cycle position changes, and preparing for sale.

NEED
INDUSTRY
CHALLENGE
SOLUTION
RESULT

IMMEDIATE BUY & BUILD CFO

Technology Software

A PE firm client had an urgent need for an interim CFO. They had just purchased multiple IT-managed service companies with the intention of integrating them into one streamlined platform. They were looking for an interim CFO to step in and help the integration get off to a fast start.

We assessed their unique need and then leveraged our Intelligent Marketplace of PE-grade resources to match them with multiple choices who were perfect matches for their needs.

The preferred interim CFO we introduced joined the team and got to work on critical integration activities just two weeks after the firm's initial outreach, and the portco was able to immediately start executing on their value-creation plan.

URGENT MID-CYCLE CHANGE

Automotive

When the existing CFO at a portco abruptly resigned, the PE firm reached out to us looking for an immediate interim CFO to fill the vacancy. The firm was seeking someone who understood the automotive aftermarket and the nuances of this type of organization.

After an initial scoping call with the firm, we were able to handpick from our deep bench of pre-vetted, PE-grade interim CFOs to immediately match them with select candidates who had the exact experience they needed.

We matched them with an interim CFO who was such a perfect fit that they converted the person to a full-time role within 10 days. The portfolio company was able to seamlessly continue growing without the risk of a leadership void.

CRITICAL SALE PROCESS PREP

Healthcare Services

A PE firm client needed an interim CFO to help their portco during their exit sale process. They were looking for someone who could come in for three to six months and support monthly financial closes, in addition to the influx of data requests throughout the sale process.

After thoroughly understanding the nuances of their PE sales process need, we leveraged our Intelligent Marketplace to connect them with the exact-fit resource needed to run an aggressive M&A process.

Within 24 hours, we presented them with a local candidate who had all the prior industry and sales process experience necessary. The firm quickly engaged with their preferred choice, enabling the portco to run a fast-moving sales process without losing momentum.

BLUWAVE REPRESENTATIVES



SEAN MOONEY, FOUNDER & CEO

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Sean is a ~20-year veteran of the private equity industry. He was previously a Partner and member of the Investment Committee of SFW Capital Partners. In addition to his investment responsibilities, Sean also developed and managed the operational and investment support ecosystem utilized by SFW to optimize due diligence and value creation activities.



RENA FRACKT, MANAGING DIRECTOR

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Prior to joining BluWave, Rena was a Senior Vice President with Dynata, the world's largest first-party data platform for insights, activation & measurement. At Dynata, Rena led the commercial and operational execution of the Private Equity, Consulting, and Life Sciences businesses across North America.



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