

Strategies for portfolio value enhancement: The FLEX Capital approach



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Introduction

In this whitepaper, Peter Waleczek, Managing Partner, and Peter Kautz, Director Portfolio at FLEX Capital, present strategic and entrepreneurial approaches to value creation for medium-sized software and internet companies in the DACH region.

They provide insights into FLEX Capital's strategic value enhancement approaches and the operational collaboration with their portfolio companies. Topics discussed include whether and how the essential core DNA of the companies is influenced and what long-term strategies are applied to ensure sustainable development.

The evolution of value creation in the private equity industry

Peter Waleczek: The early phase of the private equity industry was characterized by a rather passive form of value generation. Primarily, this was based on the use of financial instruments, particularly loans – a method that, although simple, was highly effective in achieving attractive returns for investors.

However, over time, there was a significant paradigm shift. It was no longer sufficient to rely solely on financial leverage. Instead, the focus shifted to strategic add-on acquisitions to form corporate groups. This approach aimed to substantially increase the size and thus the market value of the companies.

In our industry, company valuation is usually based on the EBITDA multiplier, depending on a multiple of EBITDA. Achieving certain size thresholds, such as increasing EBITDA from below 5 million EUR to over 10 million EUR, can significantly increase the multiplier at sale – from 10x to 15x. This illustrates not only a significant value enhancement but also the shift from purely financial-driven to comprehensive, growth and strategic development-focused approaches.

However, building corporate groups brings increased complexity and requires an integrated and innovative approach.

A new operational value enhancement: Our methodology

Peter Waleczek: Our approach to operational value enhancement specifically targets smaller, development-capable companies. In an increasingly competitive market environment, the structured development and professionalization of their operational structures are crucial. Through our strategy of active value enhancement, we aim to accelerate growth by optimizing business processes and acquiring new customers. At the same time, we focus on increasing efficiency and profitability. These targeted measures are fundamental to significantly contributing to the company's value increase.

Entrepreneurial expertise and structural innovation: Our unique selling proposition

Peter Kautz: Founders and CEOs often face significant challenges, especially in the dynamic software sector. From my own experience, I know how important a balance between strategic planning and operational implementation is. As private equity investors at FLEX, we bring enormous added value by identifying, prioritizing, and supporting critical issues in their implementation - tasks that many management teams struggle to handle alone. Our entrepreneurial background helps us provide active and targeted support.

Peter Waleczek: Our drive at FLEX is based on our own entrepreneurial experience. Many of us have worked directly in companies and understand the challenges first-hand. This sets us apart: While many funds in Germany must operate passively or in an advisory capacity due to regulatory requirements, our commercial structure allows us to actively intervene in operational development. This is our unique selling proposition - we are not just investors but also active partners for our portfolio companies.

Value enhancement in practice

Peter Kautz: Our value enhancement approach is not about ideal conceptual models but about real entrepreneurial challenges. We know that practice often involves compromises and difficult decisions. Our goal in the value enhancement team is to provide practical and strategic support to our portfolio companies. We focus on identifying and strengthening the right leaders and establishing a clear organizational framework. Another critical point is data utilization: We rely on measurable metrics to track progress and make informed decisions. This combination of human expertise and data-driven analysis forms the core of our value enhancement strategy.

Peter Waleczek: Complementing Peter's remarks, our value creation is manifested in FLEX Capital's organizational chart, particularly through the People, Finance, and Data Analytics teams. These teams reflect our priorities and are crucial for our success. We continuously develop our value enhancement team, identifying relevant areas of focus and expanding our capacities strategically. We remain agile and continuously question our approach to adapt it to different market phases, whether in times that require growth through acquisitions or efficiency improvements or when organic growth is at the forefront.

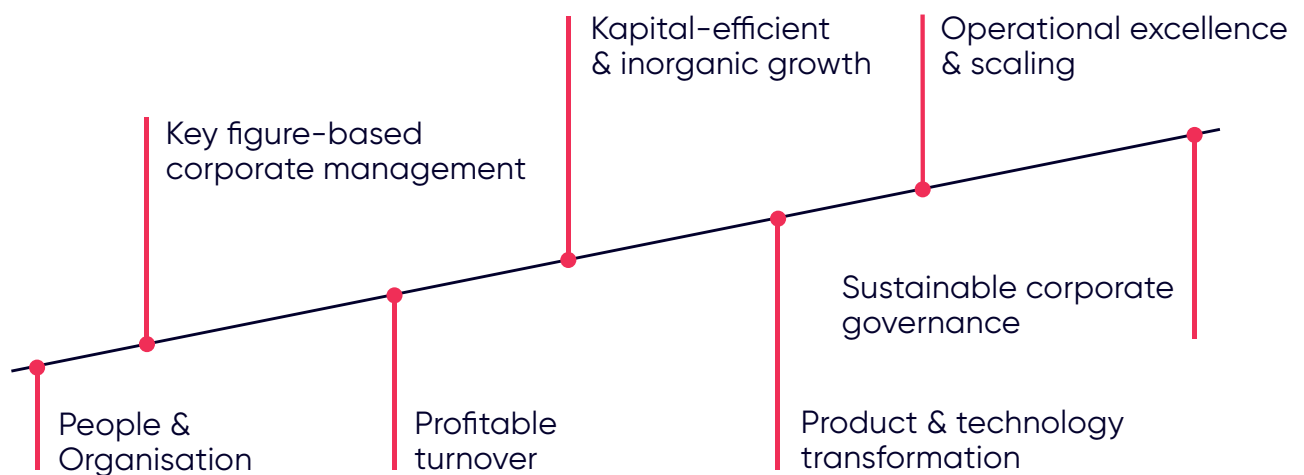
Core areas of the FLEX value enhancement strategy

Peter Waleczek: Identifying and prioritizing issues are central to our investment decisions. It is about realistically assessing the operational potential and risks of a company. Can we truly generate added value along our defined core areas? This is crucial for the development of our value enhancement plan, which begins during due diligence and extends beyond the first 100 days.

Peter Kautz: During the first 100 days and beyond, we conduct regular and in-depth discussions with the management to specifically determine which challenges need to be addressed and which strategic steps should be taken next. This often involves a detailed analysis based on numbers, data, and facts to improve certain business

functions. A critical point here is pricing, where we examine whether the price level is appropriate for both new and existing customers. In simple terms, pricing decisions always aim to improve a company's price-quantity structure. We try to understand and optimize the elasticities and dependencies of price and quantity sold as best as possible. Additionally, we consider broader issues such as the forward-looking development of our software products or the successful operational scaling of the business. Another central concern is creating sustainability, which includes both operational success and alignment with ESG criteria. This aligns with our business goals and enables us to initiate and implement deep and valuable changes along the entire value chain.

See our seven value enhancement levers and case studies here.



For additional information and case studies, visit our website:

[FLEX Capital Value Enhancement Approach](#)

Balancing short-term goals and long-term visions

Peter Kautz: At FLEX Capital, we resolve the temporal dilemma by making every decision as if we were shaping the company for a long-term successful future. Even as temporary owners, we focus on sustainable growth to ensure that future owners understand and find the direction attractive. We continuously assess which issues should be addressed immediately and which we need to analyze in more detail to achieve sustainable effects. This way, we ensure not only current success but also the future attractiveness of the companies. We are aware that exits may or may not occur, and market conditions and situations change. Therefore, it would be a mistake in the short or long term to forgo measures that are substantively beneficial to the company.

Preserving the Core DNA: Our Philosophy

Peter Kautz: Our creative team, including myself, constantly faces the challenge of exploring the „what-if“ potential. This initial spark for ideas is fundamental but requires discipline and a structured approach. It is important not to lose sight of the company's mission and vision. We have in-depth conversations with team members at all levels to ensure that new ideas do not jeopardize the success factors of the past. People and data guide us to ensure that our innovations harmonize with the company's history and future. We pursue opportunities with a critical eye, carefully evaluating and validating them to ensure they are not only innovative but also authentic and implementable.

Trends and caution: Our approach in portfolio companies

Peter Waleczek: In our private equity approach, we are more cautious than in the venture capital sector. We identify opportunities through the Ansoff Matrix, optimize existing offerings, and cautiously explore new market segments without the core risk of a complete industry change. From there, we carefully test perhaps a new service in the same market or enter a slightly different market segment with the same product or service. We shy away from changing both at the same time, i.e., introducing a new service into a new market. We clearly avoid market risk. There are more aggressive funds, but we hold back because it can work, but it can also fail. We are selective but open-minded about technological trends.

We recognize the potential of AI and other advanced technologies that enable more efficient software development, such as tools like CoPilot. Here, we are willing to be innovative and invest specifically in areas that demonstrably promise growth and improvement.



Peter Kautz
Director Portfolio

Peter Kautz brings over fifteen years of leadership experience in scaling and transforming renowned companies. After his time at Siemens and McKinsey, he significantly drove the expansion of the product portfolio, brand presence, and global expansion as Managing Director at Statista. With the founding and development of the company mymoria into the leading digital funeral home in the German-speaking region, he also has operational founding experience, which is so important in working with our portfolio companies.

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Peter Waleczek
Managing Partner

Peter is the founder and Managing Partner of FLEX Capital. After his own startups, he accompanied numerous companies in strategy, organization, and digitization projects as a strategy consultant at McKinsey. His expertise at FLEX lies primarily in strategy development, value enhancement measures, and inorganic growth. Additionally, he continuously advances our ESG approach.

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FLEX Capital is a private equity fund founded by successful serial entrepreneurs that invests in profitable and growing companies from the German internet and software SME sector.

The second fund announced in early 2023, amounting to 300 million euros, includes for the first time a commercial structure that enables FLEX Capital to operationally support portfolio companies with a dedicated 30-person expert team, distinguishing the investor from many other private equity funds. Currently, the FLEX portfolio comprises seven corporate platforms.

Further information and case studies are available on our website: [FLEX Capital Website](#)