



OPERATIONS

DESCRIPTION

- Refers to the efficiency, scalability, and consistency of a company’s day-to-day operations.
- Strong operational quality is demonstrated by streamlined processes, cost control, and the ability to scale without compromising quality.
- Weak operations lead to inefficiencies, poor customer satisfaction, and increased costs.

WHY PRIVATE EQUITY CARES

- PE firms value businesses with high operational efficiency because it drives profitability, scalability, and the ability to manage growth.
- Well-run operations reduce risk, making the business more attractive to potential buyers.

IMPACTS ON SELLER

- **Strong Operations:** Higher valuation due to scalability, efficiency, and lower risk.
- **Weak Operations:** Lower valuation due to perceived inefficiencies, higher risk, and increased cost structure.
- **Operational Improvements:** Potential for a buyer to invest in operational improvements post-acquisition, but the company may be valued lower due to current inefficiencies.

EXAMPLE

Factors	Weak	Medium	Strong
EBITDA Margin Stability	<10% EBITDA Margin	10-15% EBITDA Margin	+15% EBITDA Margin
Valuation Impact	-20-40% discount to EV	-10-20% discount to EV	+10-30% of EV
Buyer’s Risk Perception	Low	Moderate	High

