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Back to Basics for Private Equity – Four Longer-Term Areas That Warrant Renewed Focus Post-COVID-19 (October 2020)

As the global economy slowly emerges from COVID-19 lockdowns, it is important for companies to focus once again on some of the longer-term challenges that may have taken a backseat in recent months. Private equity managers can partner with their portfolio companies to ensure these areas are receiving appropriate attention.

Recently, we have published a number of resources offering insight into four vital areas for organizations in different industries. Here are some highlights, with links to content providing deeper details.

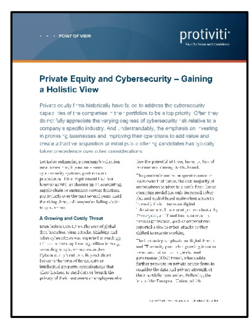
Cybersecurity: A Holistic View

At a time when cybercrime continues to increase, an emerging trend among private equity firms is their growing attention to the remediation, monitoring and reporting of cybersecurity capabilities of the companies in their portfolios. Historically, they have not fully appreciated the varying degrees of cybersecurity risk relative to a company's specific industry. And understandably, the emphasis on investing in promising businesses and improving their operations to add value and create attractive acquisition or initial public offering candidates has typically taken precedence over other considerations.

Many private equity firms are struggling to find an efficient and cost-effective way to accomplish cybersecurity reviews. A holistic approach, with minimum acceptable performance thresholds and a common framework applied across the portfolio, not only sets expectations for cybersecurity at the company level, but also creates management efficiencies that save time and money for portfolio managers.

This is a relatively new direction for private equity managers. As we detail in this paper, those that step forward will not only increase the chances of a profitable exit, but also demonstrate proper governance to investors:

Private Equity and Cybersecurity – Gaining a Holistic View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Private Equity and Cybersecurity – Gaining a Holistic View

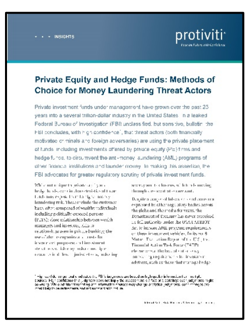
Anti-Money Laundering: Greater Scrutiny Required

Money laundering is a threat to businesses worldwide. Private equity firms and their portfolio companies are not immune. In fact, a recently leaked FBI bulletin suggests that the lack of an anti-money laundering (AML) reporting regimen has made private equity and hedge funds havens for wealthy individuals and politically exposed persons (PEPs) looking to circumvent AML requirements at other financial institutions.

Specifically, the FBI bulletin suggests that private equity funds may receive funds from offshore entities registered in countries that make it easy to mask the true, underlying beneficial owners, and cites numerous examples involving fraud, organized crime and sanctions evasion. The agency predicts that this trend will only get worse unless private investment funds adopt AML measures comparable to those used by banks.

It is not yet clear whether the Treasury Department will ultimately extend current AML requirements to include private equity. The risks, however, are clear, and law enforcement is paying attention. Learn more in this paper:

Private Equity and Hedge Funds: Methods of Choice for Money Laundering Threat Actors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A Company in Your Portfolio Requires Legal Counsel – What Are Your Options?

It is common for companies expanding through acquisitions to outgrow their in-house capabilities. This is often the case with legal services during acquisitions, when company management might turn to their private equity firm for due diligence and other guidance.

It's not unusual for those companies to continue to work with the same outside counsel on other legal matters after an acquisition is complete. The challenge here is that by continuing to contract with a large, full-service law firm, companies may be paying for bandwidth and capabilities they no longer need.

Some larger private equity firms have addressed this concern with a variable cost, or "on demand," model, especially for routine services. This "managed service" approach allows companies to bring in attorneys and legal experts and pay only for the time and talent they need – tax lawyers for tax issues, human resource lawyers for personnel challenges, etc.

By augmenting the in-house legal group with temporary staffing and subject-matter expertise, companies can manage peaks and valleys without the expense of keeping a full-service law firm on retainer, and reallocate the savings to other pressing needs. Hear more on this issue in our podcast featuring Protiviti Managing Director Rob Gould and Robert Half Managing Director Joel Wuesthoff:

Podcast – A Private Equity Perspective on Legal Services

Healthcare Profit Hack: Revenue Cycle Automation

Healthcare is a growing area for private equity investors, as technology, regulations and rising costs fundamentally change the way services are delivered and consumed. More and more companies are entering the space. But while healthcare providers have been focused on improving quality of care and squeezing costs out of the supply chain, one critical process, the revenue cycle, has remained largely unchanged.

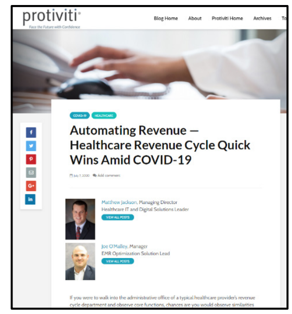
Financial clearance, claim status checks, denial resolution and late charge entry look nearly identical for providers across the United States. These processes are generally manual and require many full-time employees, both in-house and outsourced – resources that could be put to more profitable use. It's not that healthcare companies don't recognize the opportunity. But revenue cycle automation has taken a backseat to other priorities, including, most recently, the pandemic.

Revenue cycle automation represents a vast and largely untapped opportunity for private equity managers to create value. Something as basic as the automation of high-volume, repetitive tasks through robotic process automation could free up employees to focus on more complex tasks.

In addition to RPA software, there are a number of other intelligent automation applications that can be used to optimize workflows with artificial intelligence and machine learning. Intelligent automation and enhanced analytics can help improve decision-making without drawing scarce resources away from the patient experience and the delivery of critical services.

Read more in this recent blog post on The Protiviti View:

Automating Revenue – Healthcare Revenue Cycle Quick Wins Amid COVID-19



In Closing

These are not new issues, but they are important. With everything going on in the world right now, it may have been several months, or longer, since private equity firms have given these subjects much thought. By revisiting these issues with company management and checking regularly on their progress, private equity managers can mitigate portfolio risks and add value across the board.

We Are Here to Help

These are just a few areas of expertise in which Protiviti professionals excel. Private equity firms that need additional assistance or insight should not hesitate to seek guidance in these unprecedented and challenging times.

Contact

Rob Gould
Managing Director
+1.212.708.6354
rob.gould@protiviti.com