

Driving Value in Private Equity: The increasing importance of robust Value Creation



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Nathan McCarthy, Managing Director – Co-Head of Value Creation, at Interpath, speaks with Sofia Karadima about the importance of value creation, and the key strategies of cash, cost, and margin optimisation for success in today’s market.

In a world of heightened competition and shifting market conditions, private equity firms are under increasing pressure to deliver strong returns for investors. This is where financial advisory firm Interpath, is playing a key role in guiding businesses and investors with expertise across deals, advisory, and restructuring services.

Adding to the challenge, the private equity sector has seen record-breaking levels of dry powder flooding the market. This capital surge has driven fierce competition for assets and elevated sellers’ expectations. McCarthy describes this as a “perfect storm”, where heightened demand, a crowded buyer pool and pressure from LPs to deploy capital have driven asset prices higher than ever.

“Assets are becoming more competitive, which raises prices,” McCarthy explains. With private equity firms paying more for acquisitions, simply buying and holding is no longer enough. The emphasis has shifted

to improving portfolio companies to secure returns. “It’s no longer about just buying; it’s about making businesses better,” he says.

Value Creation Blueprint

McCarthy highlights cash flow, cost efficiency, and margin optimisation as the three essential pillars of value creation. These elements must be addressed early in the investment cycle to maximise returns.

“Getting cash flow right from the start lays the foundation for future growth,” McCarthy stresses. One way to achieve this is through working capital optimisation. He recalls a recent success story involving a global industrial business where Interpath helped unlock £200m in sustainable working capital improvements. “When you can fund your value creation plan from your own balance sheet, it’s the most cost-effective approach,” he notes. This freed-up cash enables reinvestment into key growth initiatives such as acquisitions, new product development and market expansions.

Data-driven Decisions

Proper use of data is key to effective value creation, yet many businesses fail to harness it fully. “You can only manage what you monitor,” McCarthy says, emphasising the importance of using data to track performance and adjust strategies as needed.

At both the company and sponsor levels, data often remains underutilised. McCarthy notes that actionable, detailed insights aligned with value creation plans can improve decision-making and outcomes. By implementing the right KPIs and dashboards, and linking these back to the investment thesis and value creation plan, private equity firms can stay on track and respond to challenges more effectively.

Pre-Deal Value Creation

Successful value creation begins before a deal is closed, according to McCarthy. The best private equity firms evaluate not only the present state of a business but its three-to-five-year potential. “A PE-backed business rarely looks the same on exit as it did on entry. Mapping out the future allows firms to identify value creation opportunities and integrate them into their investment thesis,” he explains. “This is also usually overlooked during diligence.”

Pre-deal planning also helps set realistic expectations and prioritise the relevant operational improvements. McCarthy underscores the importance of tailoring strategies to sector-specific challenges, ensuring a clear roadmap for post-deal success.

ESG and digital drivers

Environmental, social, and governance (ESG) considerations have shifted from being a “nice-to-have” to a commercial imperative. McCarthy notes that businesses are increasingly linking ESG initiatives to measurable outcomes.



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“It’s about demonstrating that ESG is not just the right thing to do but also adds value,” he says. By integrating ESG into their strategies, firms can align with investor expectations while enhancing the appeal of portfolio companies.

One example is where Interpath worked with a global FMCG business to develop a bespoke analytical commercial tool, arming teams with carbon and health impacts of the product mix. This focused teams on what were the most important levers to drive towards ESG metrics, increase margins and win new business.

Digital transformation continues to shape the PE landscape. While artificial intelligence (AI) garners much attention, McCarthy warns against viewing it as a cure-all. “AI is not a silver bullet—it needs careful implementation tailored to the specific needs of a business,” he advises.

By leveraging digital tools thoughtfully, firms can improve efficiency and uncover new opportunities. McCarthy predicts that while AI’s prominence may settle over time, its importance in enhancing business processes will remain.

Macro Challenges

The macro environment remains volatile. Supply chain disruption continues and regulatory changes, such as the imposition of tariffs, is another key concern for many businesses.

McCarthy shares the example of a European industrial client investing heavily in US expansion, only to face the threat of tariffs. “Unforeseen regulatory changes can disrupt even the best-laid plans,” he cautions. “The introduction of tariffs could eliminate margin and destroy value over night. If a business wants to maintain targeted demand levels, it’s highly unlikely these costs will be fully passed on. Understanding the true economic profit of products and customers to identify value areas to address can help offset this, and support a broader commercial excellence framework.”

McCarthy recommends building resilient operations by focusing on balance sheet strength and operational efficiencies. “You can’t control external factors, but you can make your business as robust as possible to give it the best possible chance of reacting quickly and effectively to unforeseen changes,” he says.

From challenge comes opportunity

Looking ahead, McCarthy remains bullish about the PE space and optimistic about the potential for value creation. He believes firms that adopt a strategic, data-driven approach and focus on fundamentals like cash flow, cost control, and profitability will stand out. “The difference between the winners and the losers has probably never been more binary. The firms that succeed will be those that develop robust value creation plans, adapt quickly and plan for the long term of the business,” he says.

In a challenging yet opportunity-filled market, McCarthy’s insights underscore the importance of proactive strategies. By embracing cash, cost, and margin optimisation, alongside effective pre-deal planning and thoughtful integration of ESG and digital initiatives, private equity firms can deliver sustainable value and thrive in a competitive landscape.

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