Diamonds in the Rough

How PE breathes new life into unloved businesses

SEPTEMBER 2022
Executive summary

Private equity’s calling card is fixing companies. Sometimes they are household-name companies, and sometimes they are small, family-led companies known only to locals. Sometimes they aren’t even companies at all, but PE sponsors see them becoming valuable contributors to the economy if given the chance.

This report covers “carveouts,” a creative strategy employed by today’s most innovative investors. These carveouts are for “noncore assets,” which is a polite way of saying underloved, under-resourced, or misaligned business units nestled in much larger companies. Every year, PE firms identify hundreds of those businesses, buy them from their parent corporations, and make them independent companies—often with new names, logos, and management teams. PE can also help with antitrust situations. When regulators require divestitures in order for mergers to get approval, PE can step in and buy those assets and save a potentially transformational deal. Because they are fiduciaries for their own investors, PE firms need to make deliberate plans for how they will add value to those divested assets and make them attractive for future buyers.

This report, produced in conjunction with PitchBook, shows that thousands of new companies have been created over the past decade across every pocket of the US economy.

To take just one example, in 2018, PE firm Francisco Partners reached out to Discovery Communications, which runs the Discovery Channel, Animal Planet, and dozens of other media outlets. Francisco had an idea to build a new science education company and wanted to buy Discovery’s Education platform as a starting point. A couple years later, Francisco acquired a promising startup called Mystery Science, which makes digital science and STEM curricula for grade schools, and merged it with its Discovery team. By the time it sold Discovery Education in early 2022, Francisco had created an innovative approach to education that gets grade schoolers more excited about science.

There are hundreds of other examples to mention. Once they stand on their own, these companies are motivated to prove themselves and do something new and beneficial for the economy.
Rejuvenating businesses

PE carveouts are a popular and creative type of transaction that often go under the radar. But they happen all the time. According to PitchBook, there were more than 500 last year alone. Over the past decade, PE firms have carved out over 4,000 new, standalone companies, investing over $700 billion in the process.

Like normal buyouts, carveouts require vision and a clear roadmap to be successful. But instead of turning entire companies around, carveouts are about identifying teams and businesses that are lagging in their current situations and giving them a chance to prove themselves. Instead of being on the backburner of bigger corporations, these business units are given the resources they need to operate as their own companies.

Many of today’s most successful companies started out as underloved divisions of other companies. Perhaps they didn’t have adequate budgets to grow enough, or perhaps their old bosses were looking for ways to get rid of them. With PE sponsors in their corner, they no longer needed to worry about those things. With new names and logos and a new lease on life, those businesses could reach their full potential. There are countless success stories across dozens of sectors, including manufacturing, energy, healthcare services, pharmaceutical drug production, and retail, to name several. We highlight a few examples later in this report.

![Chart: PE carveout deal activity]

Source: PitchBook | Geography: US
*As of June 15, 2022

**Step 1:** “Noncore” business unit operates below the radar of a much larger company.

**Step 2:** Private equity recognizes potential of the business and pays the parent company to “carve it out.”

**Step 3:** PE sponsor gives the company a new name, logo, and management team, then builds it into an independent success.

**Step 4:** PE sponsor exits the portfolio company by taking it public or selling it to a buyer that values it.
Rejuvenating businesses

Not every carveout turns into a new, independent company. Just as often, private equity sponsors will identify under-resourced businesses that can transform their existing portfolio companies. While those businesses don’t always get the full, standalone treatment, they’re appreciated just as much by their new owners.

Take GE Lighting, a former business unit of General Electric. AIC member KKR bought the business in summer 2020 and merged it with Savant Systems, which was already sponsored by KKR. Savant, a Boston-based company, provides smart home technology through a single interface, including climate, lighting, entertainment, security, and home energy settings. GE Lighting’s technology was incorporated into Savant, which is investing in lamp space innovation and other advanced products. Under KKR, Savant’s mission is to become the number one intelligent lighting company worldwide.¹

Acquiring talent and assets from a reputable company such as GE helps it get there.

Those types of transactions happen hundreds of times every year. PE-backed energy companies acquire unused properties from names such as BP and Shell; PE-backed food companies pick up noncore brands from companies such as Nestlé; the list goes on. But private equity has the playbook, financial resources, and creativity to initiate those transformative deals, thereby resulting in stronger portfolio companies and innovative solutions across every sector of the economy.

---


---

**Step 1:** “Noncore” business unit operates below the radar of a much larger company.

**Step 2:** Private equity recognizes potential of the business and pays the parent company to “carve it out.”

**Step 3:** PE sponsor blends the business into an existing portfolio company, where it can thrive.

**Step 4:** PE sponsor exits the portfolio company by taking it public or selling it to a buyer that values it.
Manufacturing new companies

According to PitchBook, PE firms have created almost 1,000 new manufacturing companies over the past decade, including visionary deals in machinery, building products, consumer nondurables, food production, electrical equipment, and industrial parts suppliers. Many of those new businesses were carved out of household names, such as John Deere, Johnson & Johnson, General Electric, Pitney Bowes, and Dow Chemicals. With more resources behind them, those new manufacturing companies can hire more, without relying on approval from indifferent management teams.

Private equity at work

Core & Main used to be known as HD Supply Waterworks, a subsidiary of HD Supply. That changed in 2017, when AIC member Clayton, Dubilier & Rice (CD&R) made the company independent. Core & Main makes storm drainage, fire protection, and wastewater products for a range of industries, including contractors and municipalities. When CD&R bought the business, it employed about 2,900 people and operated 246 branches throughout the US. By the time it went public as an independent company in 2021, its headcount had increased to 3,700, and its footprint expanded to 285 locations. It also became much more valuable, almost tripling in value in about four years.

Beyond the numbers, Core & Main also transformed as a workplace under CD&R sponsorship. CD&R is behind the Lean Forward women’s leadership summit, which promotes career growth at CD&R portfolio companies. Laura Schneider, Core & Main’s chief human resources officer, said that the “customized training [its] team has received… has been a game changer for developing the next generation of leaders for Core & Main.”

Creating new energy producers

Private equity takes a creative approach to the energy sector. That includes carveouts, which can come in the form of underutilized or undeveloped properties. PE firms are capable of buying those assets from sprawling producers such as Shell or BP and turn them into smaller but independent producers. In fact, PE investors can create energy producers from scratch—hiring management teams and oilfield workers within months—and provide those new producers with whatever resources they need to get off the ground.

Energy PE carveout deal activity

Source: PitchBook | Geography: US
*As of June 15, 2022

Private equity at work

In 2014, AEA Investors acquired the water technologies business of Siemens AG. Renamed Evoqua Water Technologies, the business provided water treatment solutions to a range of customers. In Evoqua, AEA recognized several improvements to be made and recruited new senior talent to implement them. Under AEA, Evoqua expanded its footprint in medical water, irrigation systems, industrial wastewater, and several other types of water purification systems. By the time Evoqua was taken public in 2017, the company’s financial performance had improved thanks to organizational and process upgrades—transforming it into one of the best standalone water companies in the world.
Carving out business products & services

The business services sector is a valuable source for new companies. Among other companies, PE firms have rejuvenated business units from AIG, Thompson Reuters, PricewaterhouseCoopers, Aramark, and Waste Management. Thanks to creative carveouts, the US economy benefits from new companies in human capital, media, accounting, logistics, educational training, and environmental services.

### Business products & services PE carveout deal activity

![Graph showing deal activity from 2012 to 2022](chart.png)

**Source:** PitchBook | **Geography:** US  
**As of June 15, 2022**

#### Private equity at work

In 2013, AIC member Platinum Equity took over the equipment rental business of Volvo for $1.1 billion. Volvo Rents had been in business since 2001, but Volvo leadership felt that “Volvo Rents’ business [did] not have a sufficiently strong connection with [Volvo’s] core operation to motivate continued ownership.” Its new owner, Platinum Equity, had a long history of transforming under-resourced businesses into new, standalone companies. Platinum Equity renamed the company BlueLine Rental and set it on an ambitious growth path, servicing industries such as construction, oil & gas, power, metals, and industrial manufacturing.

After five years under PE sponsorship and earnings improvements, BlueLine Rental was sold to United Rentals for $2.1 billion. BlueLine evolved into an industry leader and brought substantial assets to United Rentals, which felt it was going to market “with more talent, capacity and customer diversification than ever before.”

---

4: *“United Rentals To Acquire BlueLine Rental for $2.1 Billion,”* United Rentals, September 10, 2018.
The software sector is becoming an increasingly rich source of new, independent companies. Over the past decade, PE’s expertise in software has strengthened, which makes it easier to identify promising business units and their growth trajectories. Innovative deals have been struck with Dell Technologies, Intuit, and Compuware, and software’s rise as a market means more independent companies in operating systems, network management, financial and educational software, and productivity tools in the years ahead.

In 2014, AIC member Marlin Equity Partners acquired three divisions of Compuware, with plans to create a new company. At the time, Compuware was under pressure to make changes from activist investors, and Marlin was able to come up with its acquisition plan in less than six weeks. The deal included two software units, as well as an IT services business unit. Marlin’s plan was to merge all three into a new software company called Changepoint, which would offer professional services automation and project portfolio management software to professional service organizations. After seven years of growth under Marlin, Changepoint was acquired by Planview, a similar company backed by AIC members TPG and TA Associates. At the end of Changepoint’s long journey came “an unmatched level of expertise, IP, and resources to ensure [Planview’s customers’] more important outcomes are delivered with efficiency, urgency, and transparency.”

From urban to rural and everywhere in between, private equity is making a positive impact across America and investing in every community to:

- Back small businesses
- Support good-paying jobs
- Boost the American economy
- Strengthen public pensions

The American Investment Council (AIC) is an advocacy and resource organization established to develop and provide information about the private investment industry and its contributions to the long-term growth of the U.S. economy and retirement security of American workers. Member firms of the AIC consist of the country’s leading private equity and growth capital firms united by their successful partnerships with limited partners and American businesses.

Let your voice be heard. Join the AIC today.