

Third Annual Private Equity Survey Results

INFOGRAPHIC

Unplanned CEO turnover leads to significantly worse returns and significantly longer hold times



Effects?

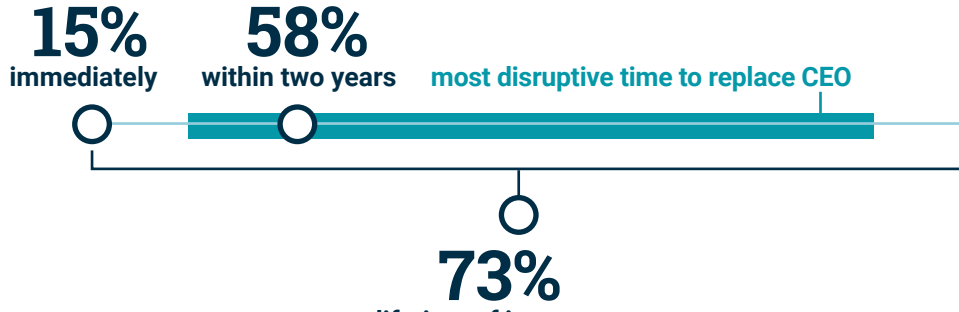
Company disruption, causing confusion and sparking fear among managers and employees about what the change in leadership will mean

Results?

- Plummeting productivity and morale
- Eroding internal rate of return (IRR) on investments
- Longer investment hold times

CEO turnover over the investment lifecycle – often at the most disruptive time

Investment lifecycle



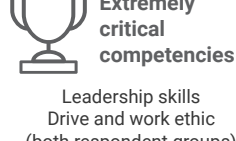
Timing: PE investors replace portfolio company CEOs at the most disruptive times, after one year of investment and before one year of exit



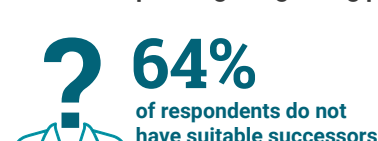
CEO assessment and succession planning



Are PE investors prioritizing the right capabilities in their CEO assessments?

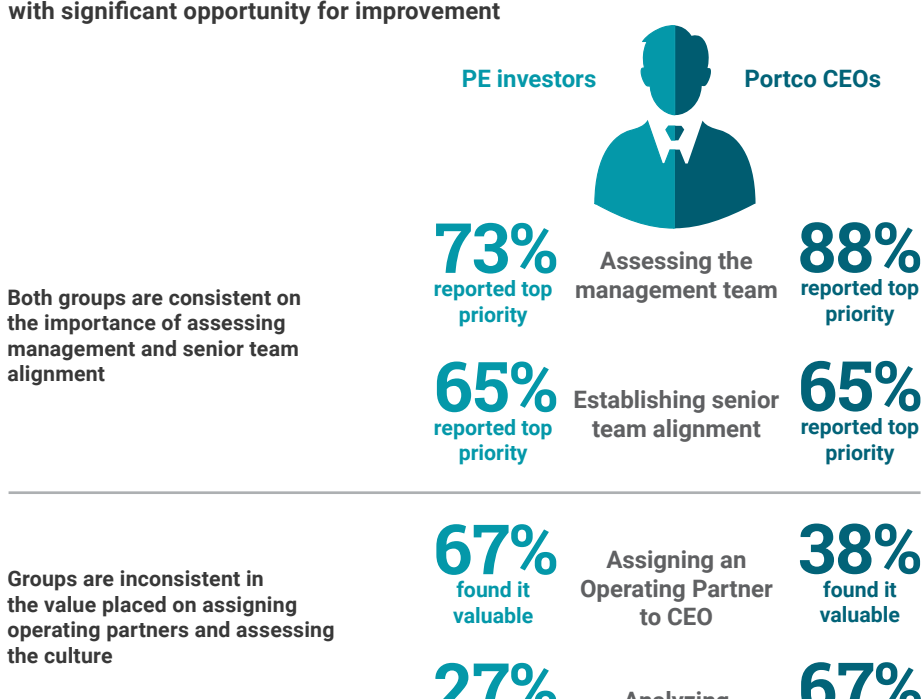


Succession planning is a growing priority for PE investors, but not for portco CEOs



First 100 days: misalignment between PE investors and portfolio company (portco) CEOs on operational support

Quality of the relationship between CEO, and PE investors is variable, with significant opportunity for improvement



First 100 days: misalignment between PE investors and portfolio company (portco) CEOs on expectations and communications

PE investors need to clarify expectations about goals, performance metrics cadence of communications and meetings with company leadership teams



- **Performance metrics:** Often the management team doesn't know how they are being measured or what is expected of them; outcomes and KPIs are not clear
- **Communications:** No set cadence for notifying PE investors of minor problems in portfolio companies
- **Frequency of contact:** CEOs are challenged by multiple requests for information, often of a very detailed nature

Recommendations



Utilize better assessment tools



Set clear expectations up front

If a formal third-party executive assessment is not feasible pre-deal, alternative methods that can be used:

- Conducting structured interviews
- Thorough reference checking
- Benchmarking with other candidates
- Personality/psychological assessment
- Evaluating the company leadership reputation
- Talking to market influencers, industry executives, or former executives
- Talking to target asset customers, suppliers

At the beginning of the investment discuss expectations:

- Goals and performance metrics
- Meeting and reporting channels and frequency
- Communication topics and cadence between PE investors and various members of the leadership team (c-suite)
- Integrate clear goals and metrics into the CEO compensation package to drive alignment on common goals
- Request first time PE CEOs to speak with experienced CEOs in the portfolio to gain insight into the role, relationships, and culture