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FUNDS & FIRMS

PE firms fire 58 pct of portfolio CEOs within two years of a deal: survey

By Luisa Beltran

- **73 pct of portfolio-company CEOs likely replaced during fund's investment life cycle**
- **78 pct said "pace of change" was biggest conflict between PE firms and CEOs**
- **A third of PE firms think CEOs should be available**

Private equity firms aren't afraid to oust portfolio company CEOs who aren't up to muster.

In fact, nearly three of five (58 percent) of portfolio CEOs will be replaced within two years of an acquisition, and 73 percent of CEOs will likely be sent packing during a fund's investment cycle, a survey from **AlixPartners** said.

The biggest reason: lack of fit with the portfolio company's new direction. Failure to deliver results in line with expectations was another reason, the consultant said.

"It's a lack of due diligence on the CEO," said **Ted Bililies**, a managing director of AlixPartners. PE firms "often do due diligence on all aspects of a company except the leadership. Then they realize they have a problem."

PE firms need to vet CEO candidates thoroughly to draw out deficiencies, Bililies said. This can be done before a deal closes, immediately after, or even six months into an investment.

AlixPartners, along with **Vardis**, produced "Annual Private Equity Survey: Replacing a Portfolio Company CEO Comes at a High Cost," which looked at the relationship between portfolio company CEOs and PE owners.

Earlier this year, AlixPartners surveyed 104 respondents across PE; 38 percent were PE investors and 62 percent portfolio-company executives. Portfolio CEOs made the survey's largest group, 42 percent, while PE managing directors comprised 24 percent.

Nearly three-fourths (73 percent) of PE executives said the most important fact they consider when hiring a CEO is their record of success, AlixPartners said. Some 55 percent said they scrutinized whether the candidates faced strategic challenges similar to those at the portfolio company. People-leadership skills came in third with 48 percent of respondents.

The survey also looked at disagreements between PE firms and portfolio CEOs. Seventy-eight percent of PE investors picked "pace of change" as the biggest trouble spot between PE owners and portfolio CEOs.

Bililies said "pace of change" typically refers to large corporate CEOs who are often unused to the pressure and demands of the middle market and answering to a PE firm. "It's a completely different role than they are used to having," he said. CEOs from large corporations often "don't have the infrastructure and support that they're used to" when they switch to a portfolio company.

How frequently portfolio CEOs should communicate with their PE overlords produced differing results. One-third of PE firms thought portfolio CEOs should be available around the clock. Only 14 percent of CEOs thought that was acceptable. Thirty-one percent of CEOs were happy with scheduled monthly meetings but only 3 percent of PE firms chose this option, the survey said.

Lack of an explicit protocol between PE firms and their portfolio CEOs "can lead to a profound misunderstanding that can really, really hurt the investment," Bililies said. ❖

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