

BOTH RESPONDENT GROUPS AGREE ON WHAT MOST ERODES IRR

What factors have had the greatest impact on an investment that has not delivered the expected target returns?

PE investors



Portco executives



CULTURE SEEMS TO BE OCCUPYING MORE REAL ESTATE IN CEOs' MINDS THAN IN PE SPONSORS' MINDS. A CULTURE WAKE-UP CALL FOR INVESTORS?

The survey was administered online from October through December 2019. Respondents consisted of 56 managing directors, operating partners, or founders from PE firms and 52 senior executives—primarily CEOs and CFOs—from portfolio companies.

To request a copy of the AlixPartners/Vardis fifth annual private equity survey results report, please send an email to: pesurvey@alixpartners.com

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The logo for AlixPartners, featuring the word "Alix" in a bold, sans-serif font followed by "Partners" in a lighter, sans-serif font.

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FIFTH ANNUAL PRIVATE EQUITY LEADERSHIP SURVEY

**CORPORATE CULTURE
CAN MAKE—OR—BREAK
PE INVESTMENT RETURNS**

but the right leaders are required

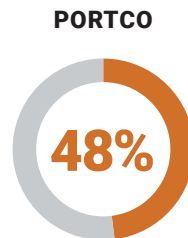
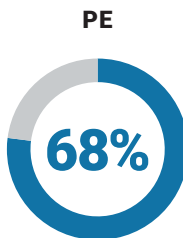
The background features abstract geometric shapes. On the left, there is a large blue triangle with black lines intersecting it. On the right, there is a grey triangle with a grid of small circles and black lines, resembling a technical drawing or architectural plan.

HUMAN CAPITAL WAS RATED AS THE TOP FACTOR IN PREDICTING THE SUCCESS (OR FAILURE) OF A PE INVESTMENT

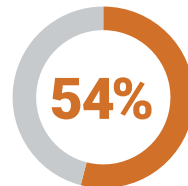
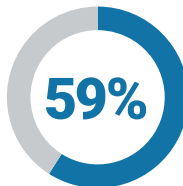
Both PE investors and portco executives cited senior leadership team alignment, talent management, and a well-developed strategy as the top factors

Which are the most powerful determinants to the value creation plan?

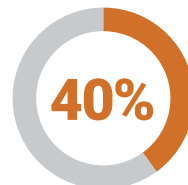
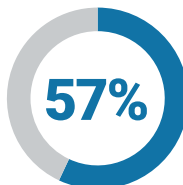
1 Senior team alignment on strategic direction



2 Talent management



3 Strategic clarity



PE FIRMS (71%) AND PORTCOS (81%) AGREE THAT IT'S CRITICAL TO CONSIDER THE CULTURE WHEN BUILDING A COMPANY STRATEGY BUT...

ONLY 13%

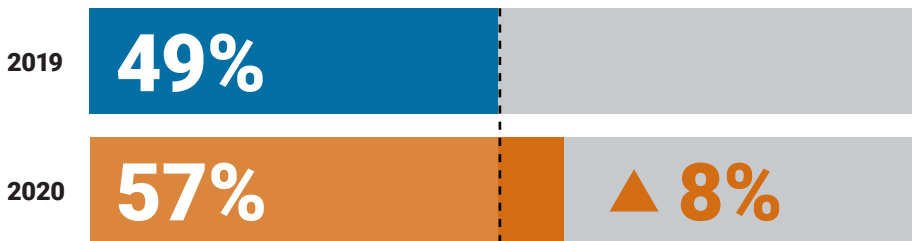
of PE investors
conduct a formal
culture evaluation

NEARLY 50%

of portco executives
said that their culture
is not fully aligned with
their business strategy

NEARLY 30%

of portco executives
noted that neither they nor
their investors evaluate
their company's culture



57% OF PE INVESTORS

(an increase from last year's 49%) indicate average-or-below
ability to assess culture

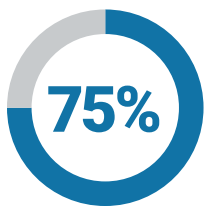
82%

of PE investors see early analysis as a path towards greater
returns, with deal partners most critically remarking on the
need for cultural assessments during due diligence (89%)

CRITICAL ROLE OF CEO IN CULTURE

A 'disruptive or derailing personality' is cited as the number one factor to avoid when onboarding a new CEO post-deal

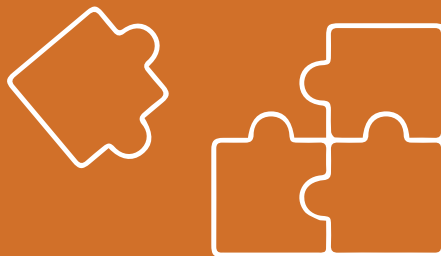
Disruptive personalities can lead to an overall **decrease in ROI**



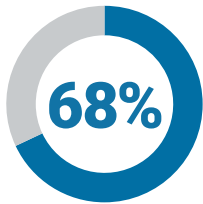
of PE investors report having experienced a portco failure as a result of a CEO not being an effective fit for the company culture

Both PE and portco respondents agreed...
A mismatch of culture fit can play a role in a CEO's underperformance

66% PE
79% PORTCO

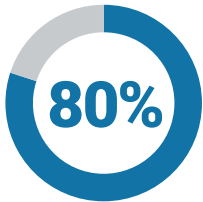


CEOS' ABILITY TO CHANGE THE CULTURE



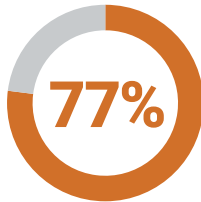
of PE investors reported hiring a CEO to purposely change a company culture and 82% report a high success rate as a result

PE



80%

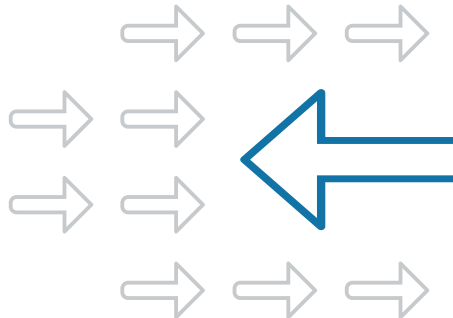
PORTCO



77%

Both respondent groups agree that a CEO promoted from within can effectively change the culture

Both respondent groups cited the CEO as the key driver of culture change, however, there may be a missed opportunity to involve the CHRO and others in leading culture change



NEXT STEPS FOR PE FIRMS AND THEIR PORTCOS



BROADEN YOUR VIEW OF THE FORCES THAT ARE TRANSFORMING BUSINESS

Understand the trends most shaping your industry, such as demographic shifts and employment-rate fluctuations. Does the business need to modify its culture to manage the effects of those trends?



CRACK THE STRATEGY-EXECUTION CODE

Assess how well portcos are set up to execute the strategy defined by their PE sponsors. Diagnose the degree of alignment between key constituents; measure leaders' speed in executing on strategy; and assess leaders' abilities to attract, develop, and retain the best talent as well as to inspire and motivate others.



GET SMART ABOUT CULTURE ASSESSMENT

Take more-formal approaches and use tools for assessing portco culture during the due diligence and post-deal periods. Formal approaches will generate more-useful insights into how a portco's culture needs to change—if at all.



PARTNER UP TO LEAD CULTURE CHANGE

Yes, portco CEOs are well positioned to drive the culture changes needed to execute strategy. But they don't have to—and shouldn't necessarily—go it alone. Leaders in other roles—such as in human resources or operations—can serve as powerful allies.