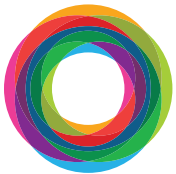


Pruning Private Equity Portfolios

by Terry Gallagher, President, Battalia Winston
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Pruning Private Equity Portfolios

There's been a noticeable increase in the number of private equity firms replacing the executives of their portfolio companies and, in some cases, hiring a completely new management team. One might call this a “pruning period” – PE firms are taking a hard look at the management teams they've invested in and are deciding to upgrade their teams with more qualified leadership to achieve their growth goals.

There are several explanations for this trend. After years of record-low interest rates, the Fed is showing signs that they won't prop up the economy for too much longer. In anticipation of a rise in interest rates, PE firms are ensuring that they have strong leaders in place to help grow their portfolio companies under tougher financial conditions. Furthermore, PE firms continue to use their portfolio companies as foundations for building bigger, more complex companies through a series of mergers and acquisitions. This type of complex business requires executives with experience building the infrastructure to scale the company's growth and positioning the company for sale once it reaches its optimal value.



About Our Firm

Founded in 1963, Battalia Winston is one of the world's largest woman-owned executive search firms and is consistently ranked as one of the top fifteen executive search firms by Kennedy Publications. The Firm is headquartered in New York City with offices in Boston, MA; Chicago, IL; Edison, NJ; Los Angeles, CA; and Washington, DC. Over the past 51 years we have conducted executive search assignments and established expertise in virtually every major industry and functional area. Clients range from early stage companies to Fortune 10 global enterprises.

This strategy of purchasing a company and then upgrading its leadership team can lead to success and a speedier return-on-investment for PE firms. PE firms hoping to identify a leader that can propel the portfolio company into high growth should look for candidates with the following experience:

Mergers and Acquisitions Due Diligence

In order to build a larger company around an existing, mid-sized organization, a company will need an executive that has experience with mergers and acquisitions within the given industry. This experience will allow him/her to actively manage the process, identify potential risks, and provide the “on-the-ground” knowledge that the PE firm requires.

Post Merger/Acquisition Integration

Integrating companies successfully post merger requires a specialized skill set. Executives must look at synergies and redundancies across the merged organizations to streamline processes and improve efficiency. They’ll need to (quickly) evaluate the leadership of the merged companies, retain the best employees and manage any downsizing in a manner that will minimize impact on employee morale. More importantly, an executive will need to retain the talent that will not only run the company now, but will be able to manage the business as it continues on its path of rapid growth. Having the foresight to retain the best people and combine them into teams that will eventually operate a much different company and a vibrant corporate culture is an art form.

Implementing Enterprise Resource Planning Systems

After a merger or acquisition, company leaders will need to implement an ERP system that will pull together the individual systems of the



Terry Gallagher, President

Terry joined Battalia Winston in 1991 as Senior Vice President and General Manager of the New Jersey Search Practice and was later promoted to Executive Vice President and Partner in 1994. In recognition of his contributions to the growth of the firm, Terry advanced to become President of Battalia Winston in January of 1997.

Terry was previously Partner in Charge of the Northeast Regional Search Practice and National High Technology Industry Partner for KPMG.

Terry’s primary focus has been in recruiting Board Directors, CEO’s, General Managers and C-Suite executives for private equity backed portfolio companies in a wide range of industries including: Industrial Products, Business and Professional Services, Insurance/Financial Services and Technology.

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existing companies. When two companies merge, the landscape of systems and databases – from financial to CRM, purchasing to inventory – can be cumbersome and inefficient. Executives leading these changes will have to implement a sound, effective ERP system that will be a good fit for the new merged business enterprise as it grows. The selected system must be scalable – serving as a solid foundation for any other systems that may have to be added into it from future acquisitions. This process can be complicated, and the best executives for the job will have a firm understanding of the automated systems available and a reasonable understanding of the existing processes.

Growing a Business Internationally

Any high-growth strategy, especially for companies with a healthy US market share, will include an international component. The most effective leaders will have experience growing a national company into a global company. This experience will also help the executive handle any mergers or acquisitions with entities outside the US.

Doing All of the Above with Diplomacy and Grace

Executives of portfolio companies that hope to double or triple in size need to have experience, but they also need to have a specialized set of soft skills that will positively guide the company as it expands. Change is difficult for tenured employees – some of the best employees of the company may want to flee in light of leadership changes and staff reassignments. An effective executive will be able to influence people and identify other influencers, understand the nuances of a company's culture and tailor their messages to them, and communicate across departments (and across ranks). Excellent listening skills will be required – he/she will need to address the concerns of their employees and learn how to best motivate the workforce.

Leadership Assessment

Our ability to conduct leadership assessments of our candidates has been a key driver of our success in helping clients engage, select and retain key executives for their organizations. Our methodology to uncover an individual's natural tendencies is a combination of behaviorally-driven interviews coupled with the Caliper Profile, an internationally recognized psychometric assessment tool that has been validated and continually refined by over 50 years of scientific research. We have been able to streamline these components into our core process which gives us a distinct advantage to advise our clients not simply on what a candidate has done experientially, but more importantly, why the individual acted as they did to achieve success, receive a promotion, or resolve a challenging issue. This invaluable advisory data has helped our clients more accurately simplify the selection process and more quickly integrate these leaders into their organizations.

Adding seasoned executives, those with experience tripling the size of a company and proactively managing it as it becomes larger and more complex, into a cohesive leadership team is a critical step in ensuring a great ROI for a PE Firm's principals. But, in some cases, the existing leadership team may be well suited for the job.

For example, Battalia Winston worked with a manufacturing firm that specialized in designing and producing custom gears used in industrial applications. The PE firm investing in the company decided to rapidly change the entire business and focus on repairing gears instead of manufacturing them. By doing so, the company retained their most valuable asset, their intellectual capital of leading edge R&D engineering, while removing a number of obstacles: a non-replicable production process with environmental implications, amongst others. In this instance, the existing management team was well prepared for the new course of action, and the company's profits soared. The PE Firm offered a competitive compensation and incentive package, including sharing in the growth of the enterprise's equity value, to ensure that the management team remained engaged through the organizational transformation.

Even if the upgraded management team consists of a mixture of existing and newly hired senior leaders, PE firms should prioritize recruiting candidates with the aforementioned skills and developing a compensation package that will incentivize executives to stay with the company for the long-haul. There's nothing more disruptive and harmful, for both investors and employees, than losing critical leaders and effective executives during stages of aggressive growth.



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