

Organisational Excellence

The 3rd Wave Coming

- Summary results of London breakfast dialogue 20th September 2016 -

20th September 2016

CONFIDENTIAL

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1 | Six conclusions on organisational due diligence excellence from the breakfast panel discussion and group work

1	Deal markets are becoming increasingly competitive, creating more pressure on purchase prices and required returns whilst limiting pre-deal due diligence accessibility	<i>“Previously we would easily get access for up to 8 weeks in due diligence, however now it is becoming increasingly difficult to get more than a week or two”</i>
2	The importance of organisational due diligence is highly recognised however everyone has a different approach – there is a need for an industrialised organisational due diligence process	<i>“I have worked with 30 different funds and they had 30 different approaches to assessing the management in due diligence.”</i>
3	Organisational due diligence needs to be wider than just traditional senior management team assessment to take the key levers of future performance into account	<i>“Just conducting senior team assessment is no longer enough – understanding “the culture” of an organisation is key”</i>
4	Identifying organisational effectiveness “Red Flags” up front is key to delivering superior value creation	<i>“Understanding organisational issues early on through systematic evaluation is important for accelerating post-deal planning”</i>
5	LPs are increasingly focusing on the capability of GPs to assess and improve organisational effectiveness as part of their asset allocation decisions	<i>“A key part of GP due diligence is to assess the GP’s ability to identify, assess and mitigate potential organisational issues”</i>
6	While LPs are aware of the importance of assessing the management soft factors, there is still a perceived lack of awareness amongst deal makers	<i>“Most deal teams – as opposed to operational teams - lack the necessary EQ to identify and assess the criticality of potential organisational issues”</i>

2 | London breakfast dialogue - description in 30 seconds

- Humatica hosted an invitation-only breakfast workshop on organisational excellence and due diligence at the Ritz in Mayfair on September 20th
- Over 30 PE practitioners across all deal categories in attendance
- Key focus was on how to accelerate value creation pre- and post-deal through improved organisational effectiveness assessment
- Workshops explored the challenges of conducting a structured and systematic organisational due diligence - as deal completion intensifies – building on Humatica’s insights and recent “Third Wave” research study
- Discussions included the limitations of focusing only on senior management rather than overall company organisational assessment
- Challenges of ensuring an early, fact based understanding of a portfolio company’s underlying management practices and “organisational engine” were discussed
- Focus on the organisational requirements that ensure effective conversion of strategy into EBITDA and accelerate time-to-value and IRR
- Agenda also included a panel discussion with representatives from mid and large cap GPs (ECI and TPG), an LP (Aberdeen) and a portfolio company CEO with primary, secondary and public flotation experience – as well as interactive group discussions.

Results from each group discussion are available upon request: michaela.koetter@humatica.com

3 | Distinguished panellists came from four different deal-market stakeholder groups

LP



Narcisa Sehovic

Senior Investment
Manager

GP UK mid-market



Lewis Bantin

Partner

GP Global mega-fund



Antonio Capo

Operations Partner

Portfolio company



Dr. Geoffrey Scott

Co-chairman of the
Board and previous
CEO

3 | The panellists discussed key issues in organisational and management assessment from their different perspectives

Portfolio company CEO questions

- What is an acceptable level of pre-deal management/organisational due diligence access/inquiry? At what point does it start compromising the deal from management's perspective? Concrete examples?
- What is the most effective way to assess a management team and wider organisational effectiveness?
- After two PE buy-outs, what questions should have been asked about the organisation but were not? Where have you seen pre-deal organisational due diligence done well; where not so well?
- Is there a difference with a primary vs. secondary buy-out?

GP | Large-cap questions

- What tools/ methodologies/ support do you use for organisational pre-deal due diligence? What works well/ what less so?
- What can be done pre-deal to accelerate the mitigation of organisational risks identified in due diligence?

GP | Mid-cap questions

- What is the minimum level of organisational due diligence pre-deal you require for an acquisition?
- What role does "gut feel" assessment of the management team play?
- What delays the resolution of key organisational issues only identified post-deal? What if you have co-investors?

LP questions

- Considering increased competition, do you see an increased GP focus on organisational due diligence?
- How important is a GP's ability to judge and mitigate organisational risks in your due diligence of GPs? What practices are you looking for?
- How do you explain the gap in terms of organisational issues which delay investment plans and the lack of structured organisational due diligence processes?

Note: Please contact Humatica directly michaela.koetter@humatica.com for a copy of the panel discussion key takeaways

3 | Participant groups discussed four critical questions on deal organisational performance¹

1. What are best-practice techniques to uncover the cultural issues during due diligence?
2. How to position management and organisational assessment without losing face with the management? When is the right time?
3. What are the top 5 characteristics of the most successful top-teams?
4. What are the top 5 organisational and/or management red flags in due diligence?

Note: Please contact Humatica directly michaela.koetter@humatica.com for a copy of the group work documentation

Organisational Excellence

The 3rd Wave Coming

- Intro presentation -

20th September 2016

Robert Gordon:

The death of innovation, the end of growth

TED2013 · 12:14 · Filmed Feb 2013

 28 subtitle languages 

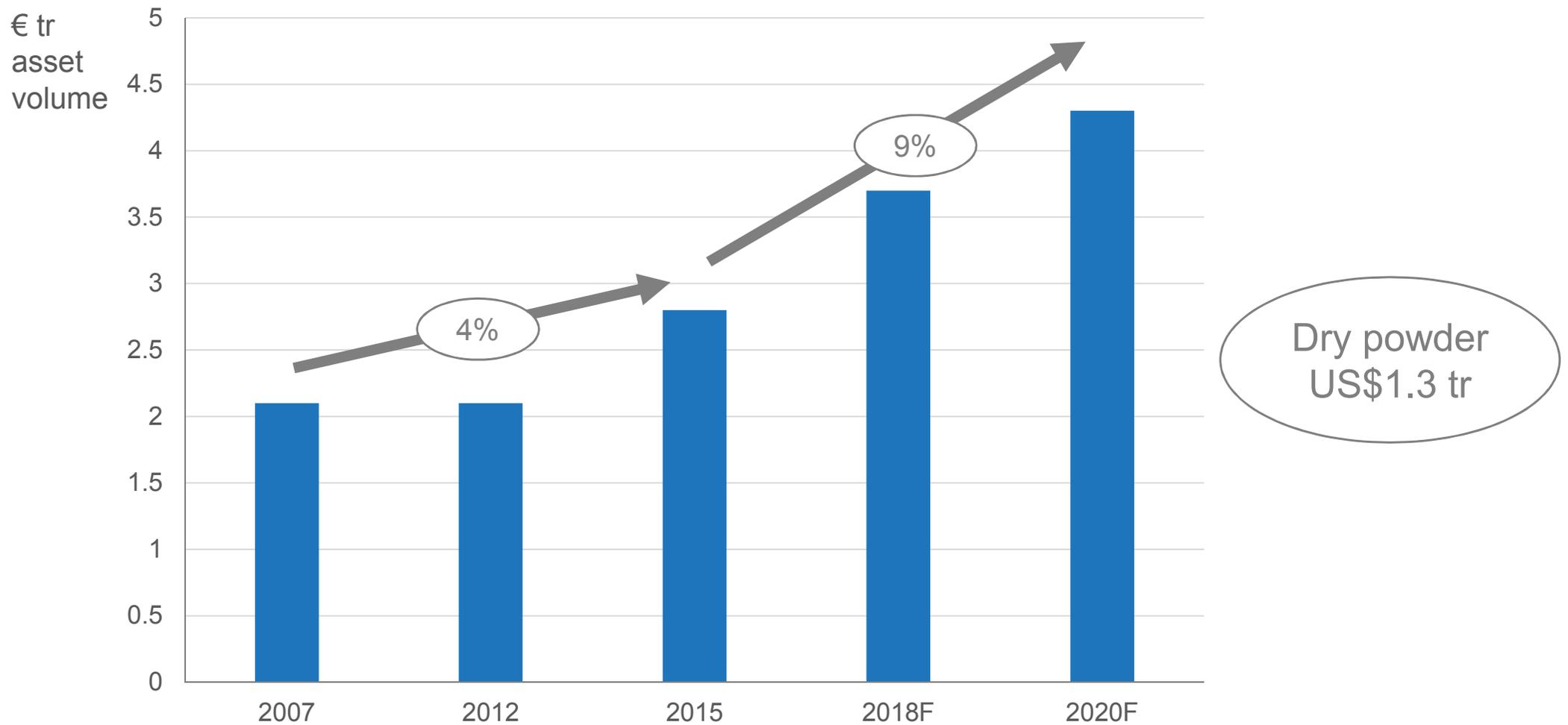
 View interactive transcript



Share

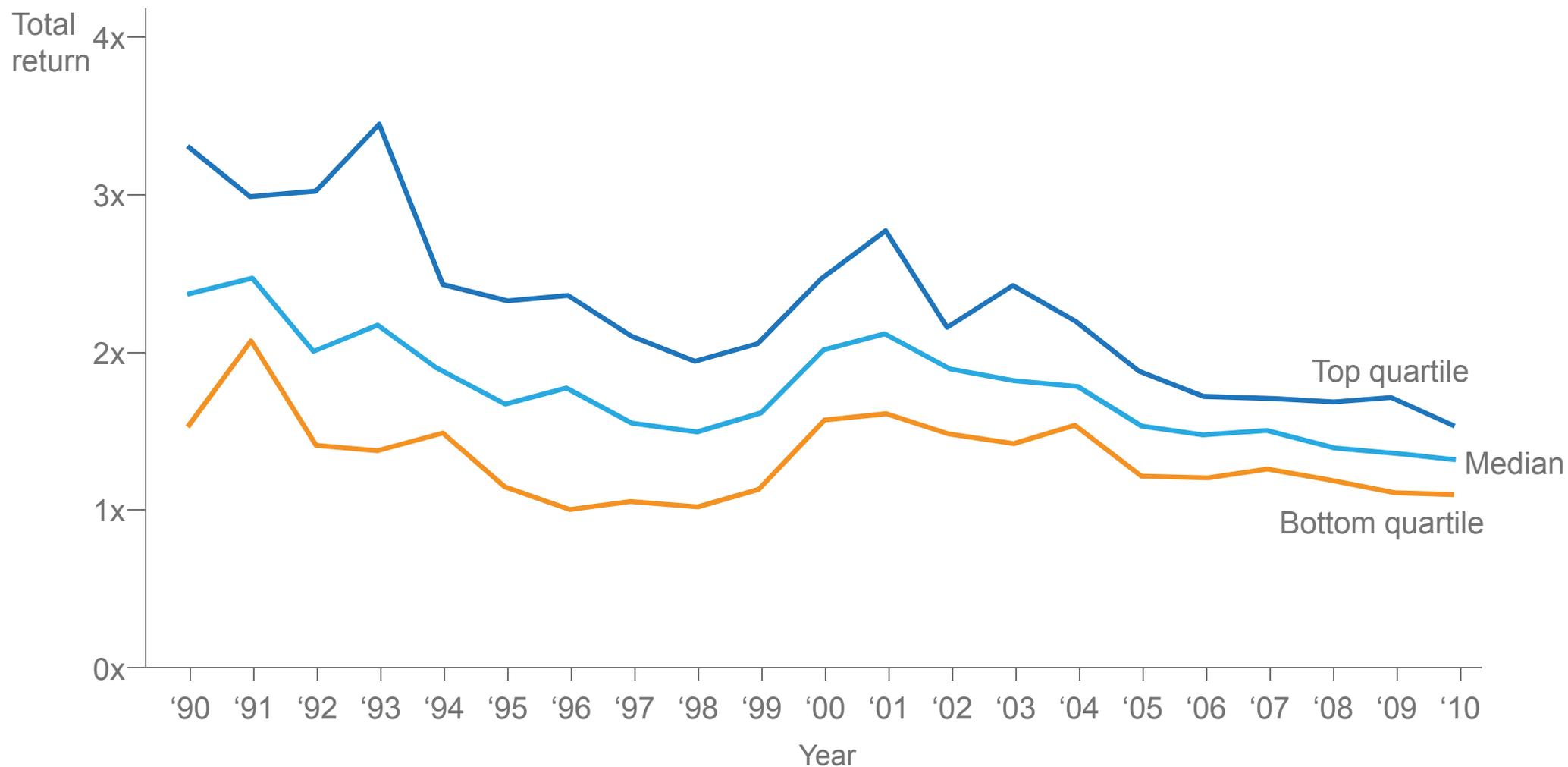
1,025,955 Total views

More money piling into private equity



Source PwC, Bain Global Private Equity Report 2016

Total returns in decline and converging



Source: Bain Global Private Equity Report 2015, 2016

The big stretch IQ vs. EQ

Unable to keep pace with the tide of money chasing investments, [GPs] are sharpening their focus on deal sourcing, investment thesis articulation and post-close value addition

Bain Global Private Equity Report 2016



The value creation challenge

Can you change behaviour fast enough?

PE financial objectives



- Leaders caught in the middle -

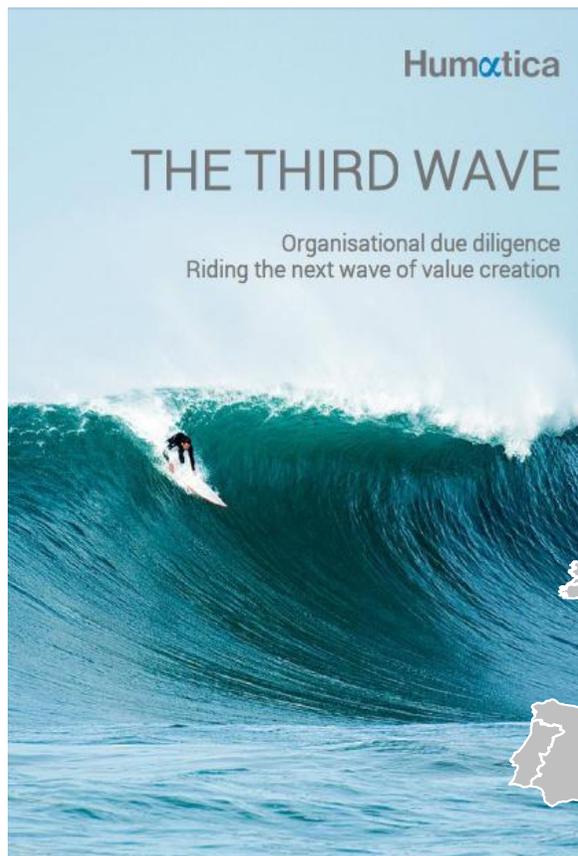


Knowledgeable employees



3rd Wave Organisational Due Diligence study

Study background



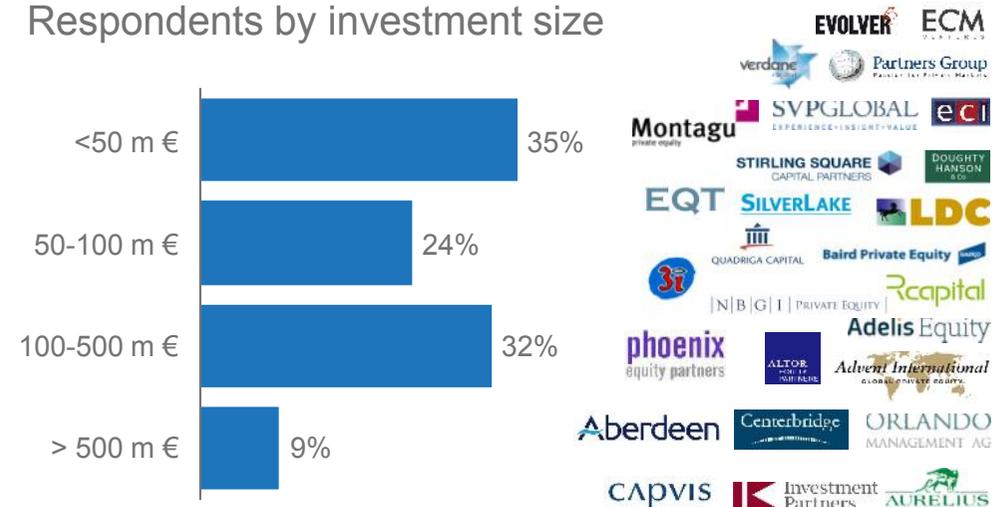
Geographic coverage



Study method

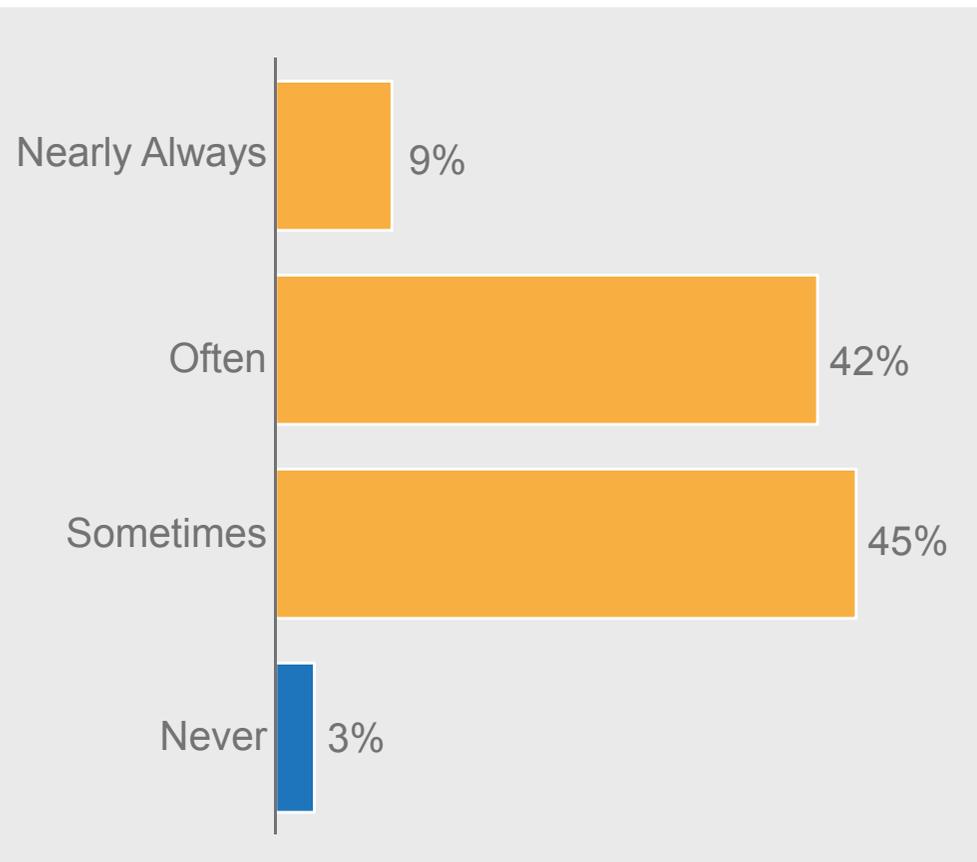
- Research with PE houses, social psychologists and academia
- 30+ in depth interviews
- 50+ survey responses
- Covering all fund sizes and investment strategies

Respondents by investment size



Organisational problems delay value creation

How often is the initial business plan delayed because of organisational problems?



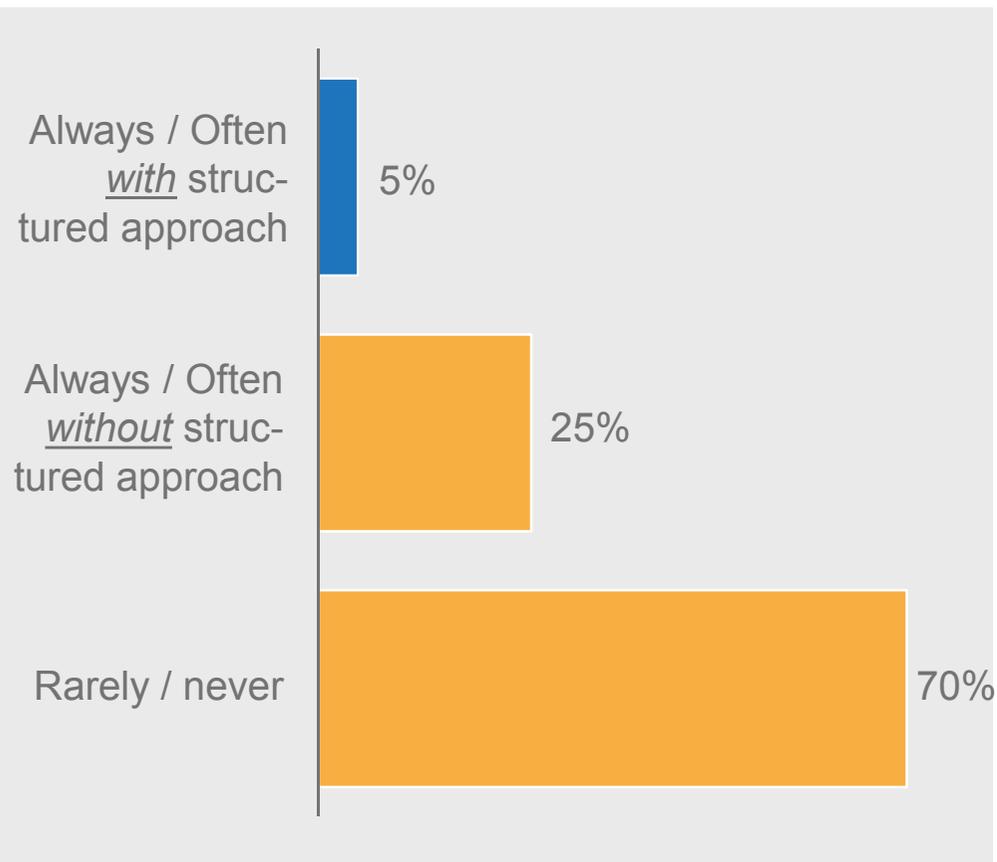
What are the top organisational risks? (% answers)



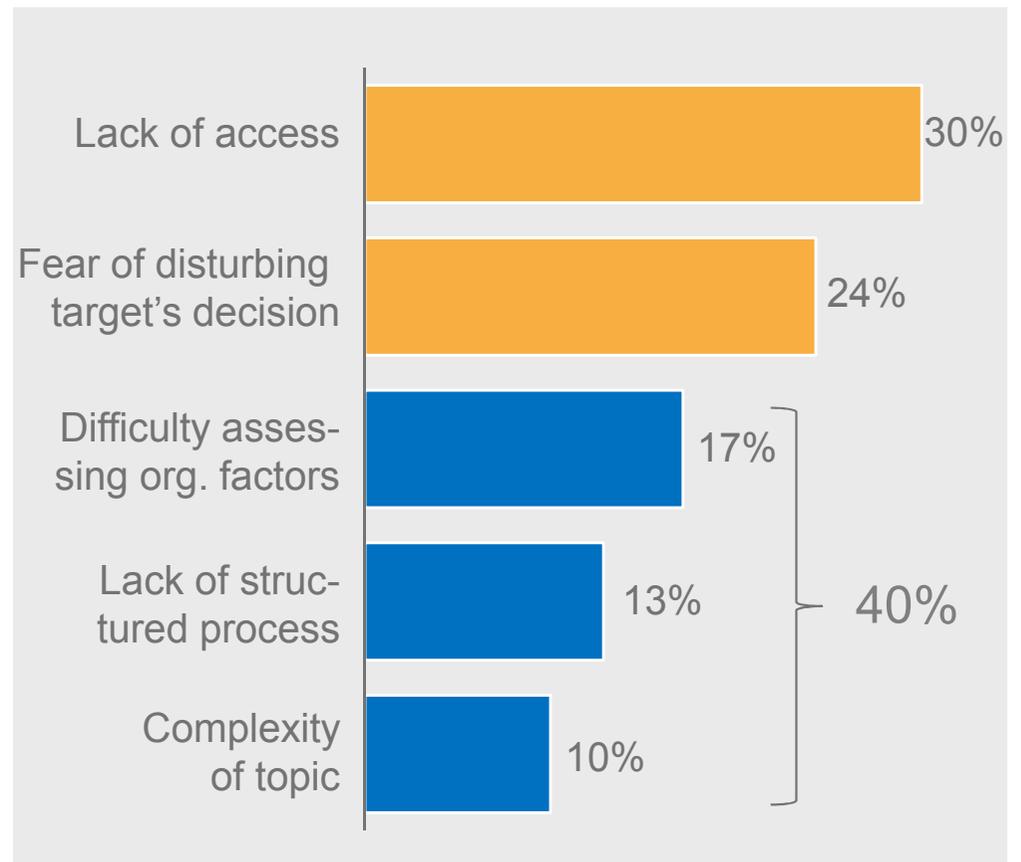
Source: Humatica 3rd Wave Organisational Due Diligence study, October 2015

Organisational issues not adequately addressed in due diligence

How often do you conduct organisational due diligence? (% answers)

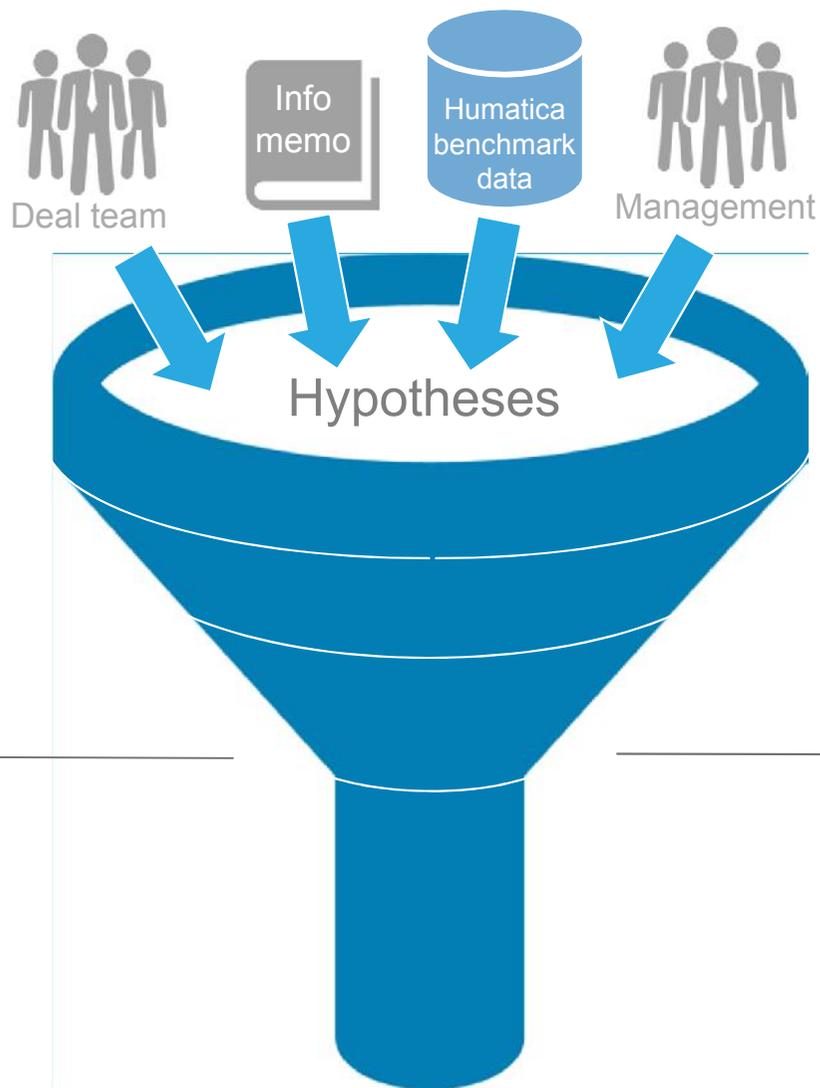


Reasons for not performing organisational due diligence on potential target companies?



Source: Humatica 3rd Wave Organisational Due Diligence study, October 2015

Modular Organizational Due Diligence Using all the information at hand



 **accelerate**
Input data

Humatica benchmarks and management practices maturity model	
Web research	Info memo
Data room analysis	Operating partners
Other due diligence parties	Management presentation
Expert session participation	External third party interviews
Management interviews	Referencing
Management assessment	Psychometric team testing

 Red Flag

Limited access

Enhanced access

 100 Day Actions

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