

London Organisational Excellence Breakfast Workshop

Focus | *Onboarding new acquisitions*

Overview of materials and outputs

April 2017

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1 | Overview

- Humatica's second breakfast Organisational Excellence workshop was held at the Ritz in Mayfair on April 4th
- More than 25 PE practitioners across all deal categories participated
- Key focus was on how to optimise the onboarding process for new acquisitions to accelerate value creation
- This was in the context of more capital flowing into private equity and driving the need for more effective and faster delivery of value creation plans
- Topics of discussion included onboarding objectives, challenges and best practice as well as how to optimise the process. These were discussed in a series of group and plenum dialogues and take-aways were identified
- This document contains the presentation materials and outputs from the workshop discussions

2 | Key take aways on optimising onboarding effectiveness were identified in group and plenum discussions

1

The onboarding process is a key opportunity to clarify priorities, mutual expectations, decision making authority and the management incentive plan – as well as building trust and maintaining momentum. It also allows practical identification of gaps in the management team by observing their decision making processes, direction setting and general openness to change. Done right it accelerates delivery of the value creation plan

2

A key challenge is managing the pre to post deal change in relationship - and not jumping straight in to 100 day plan execution but rather investing time understanding respective cultures, clarifying rules of engagement and prioritising focus areas – as well as working with the management team to ensure the value creation plan is seen as their plan

3

Trust can be built faster by sharing due diligence outputs with the management team to explain value creation hypotheses and involving the management team in the finalisation of the value creation plan – as well as running workshops explaining requirements, constraints and the basics of PE mechanics

4

Formal and informal interactions between PE firm and portfolio company are key in clarifying mutual expectations – as is the cascading of corporate objectives in to management team personal plans and objectives

5

Engaging middle management as early in the process as possible is also key – in value creation planning, select management team meetings as well as regular interactions with the senior management team

3 | On-boarding objectives – Questions and plenum discussion responses

What are your objectives with the on-boarding process?

- *What do you want to get out of it?*
 - *What should management get out of it?*
-
- Clarify how management and PE will work together
 - Avoid surprises
 - Maintain the pace of the deal after signing so there is not a loss of momentum
 - Clarify measures of success
 - Clarify expectations
 - Clarify mutual responsibility for decisions
 - Clarity where the company is going and what it will look like
 - Get a better understanding of the company
 - Build mutual trust
 - Prioritisation of the tasks to be accomplished
 - Find gaps in the management team
 - Ensure understanding of leverage /incentives
 - Agree on what you will focus on
 - Restart the relationship
 - Identify strengths in the management and culture
 - Define KPIs
 - Effective transition from deal team to operating team

4 | On-boarding challenge - Questions and group discussion responses

What are the typical challenges with properly on-boarding a new management team?

- 1. Discuss at your table for 5-10 min*
- 2. Note the typical challenges*
- 3. Prepare to discuss in the plenum*

- Limited time available – catch-up on business issues
- Assessing the capacity of management
- Limited access to validate management plan
- Getting management to own the plan
- How to measure success
- Change of relationship from previous shareholders
- Establish trust and respect with management team – time required to build respect
- Change in decision making process – overcoming founder shadow
- Internal fund coordination issues and competency to agree on doing on-boarding
- How to focus on 1 or 2 things as an Operating Partner that make the difference
- Time required to get incentives figured out
- Setting rules of engagement during the on-boarding phase

5 | On-boarding best practice - Questions and group discussion responses

Best practice questions

What are the best measures to build a deep, trusting relationship with the CEO and management during the on-boarding phase? What is the role of non-exec. Directors?

- Process of deep engagement in developing the value creation plan
- Sharing due diligence report individually
- Workshop with management to explain PE constraints and requirements
- Expand understanding of PE-basic mechanics – financial mechanics
- Non executive directors are not always helpful – depends on when engaged
- Start small to build trust
- Psychometric profiling also of the sponsor team
- Management team needs to believe plan
- Take time to develop trust and respect and communicate
- Clarify respective roles and responsibilities

5 | On-boarding best practice - Questions and group discussion responses

Best practice questions

*How to clarify expectations in both directions between the management and sponsor?
Implicit and explicit? Business and personal?*

- Consistency in messaging
 - Agree what we are trying to achieve
 - Help management understand long term process – 100 days, 3-5 years, beyond
 - Management team personal plans
 - Formal and informal interactions – with all management team
 - Importance (relative) of targets and implications
 - Role of the Board and the Chairman
 - Never assume understanding

5 | On-boarding best practice - Questions and group discussion responses

Best practice questions

How to test the management's competence for the task at hand during the on-boarding phase?

- Set challenges and targets, run workshops, observe
- Observe decision making process, quality, priorities, set direction, motivate, openness to change
- Be clear with Management what is expected from the beginning
- Leverage the assessments

5 | On-boarding best practice - Questions and group discussion responses

Best practice questions

Best-practice mechanics of on-boarding process – when to announce/plan, who leads, how long, how many sessions, session duration?

- CEO agrees rules of engagement 101
- Allow time for interactions, spend a few days on each others site. Build shared view of the business and opportunities
- Who leads: agree framework – partnership /empower Management /CEO provide support
- Management buy-in that info for PE is also essential for Management to run/grow the business
- Start planning post signing / pre closing if possible – the earlier, the better

5 | On-boarding best practice - Questions and group discussion responses

Best practice questions

How to on-board the rest of the organisation beyond the senior management – e.g. middle management?

- Do all the other steps of the on-boarding process well
- Management meetings with middle management
- Enable opportunity for middle management to present to Board
- Work in three month “sprints”
- Promote do-ers and culture carriers
- Go Deep with middle Management in value creation plan
- Work through the leadership team
- Where company is centralised – cover questions 1 to 4, where decentralised – much more involvement
- Assess certain areas in a standardised way

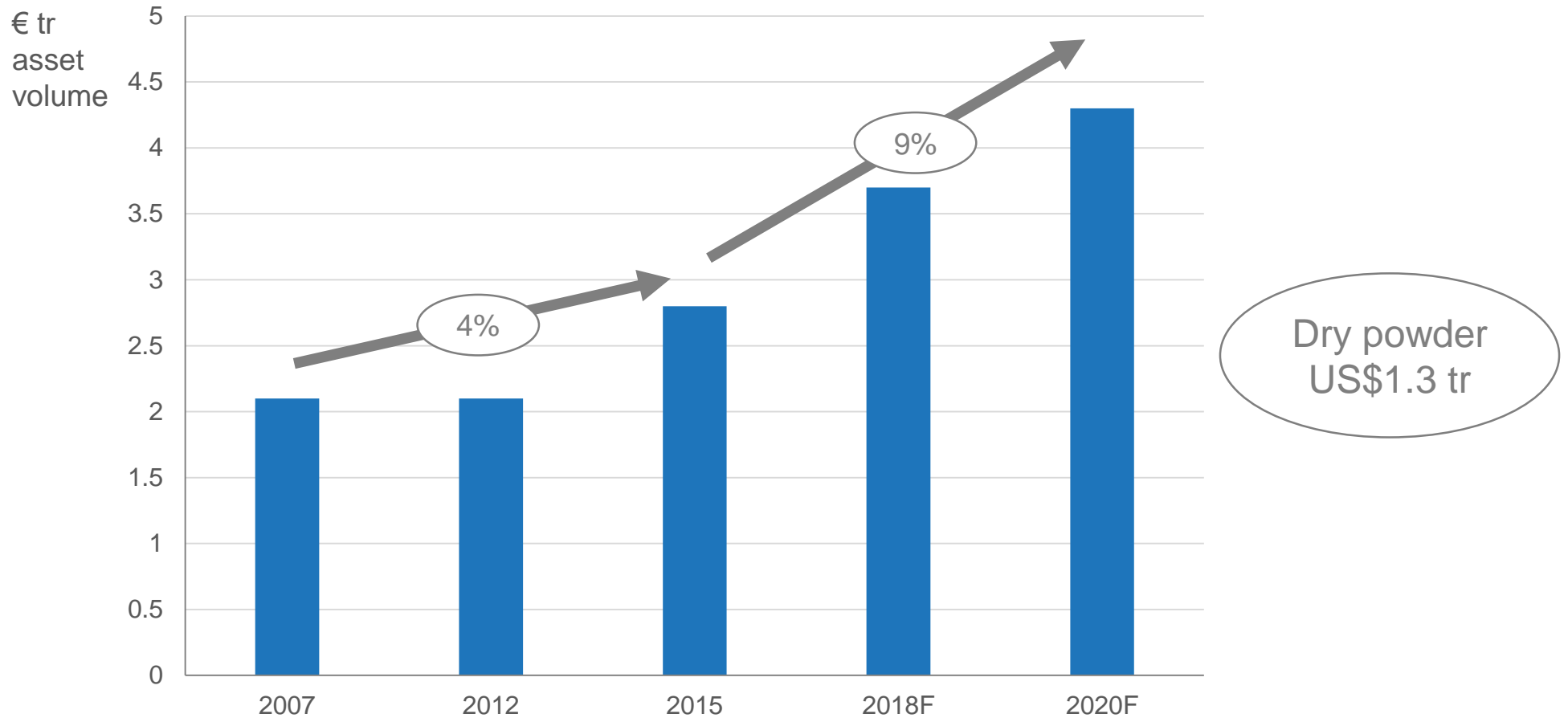
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More money piling into private equity



Source PwC, Bain Global Private Equity Report 2016

A photograph of two giraffes with brown and white spotted patterns on their necks and heads. They are both looking upwards towards a thin, bare, brown tree branch that stretches across the top of the frame. The background is a clear, bright blue sky. The giraffe on the left is slightly higher than the one on the right.

With every success,
it gets harder
to find the next one

Implications for investors

1. Increased competition for fewer quality assets
> driving-up prices

2. Funds looking for a new edge to accelerate value creation



Differentiation

3. More focus on sweating operational improvements post-deal

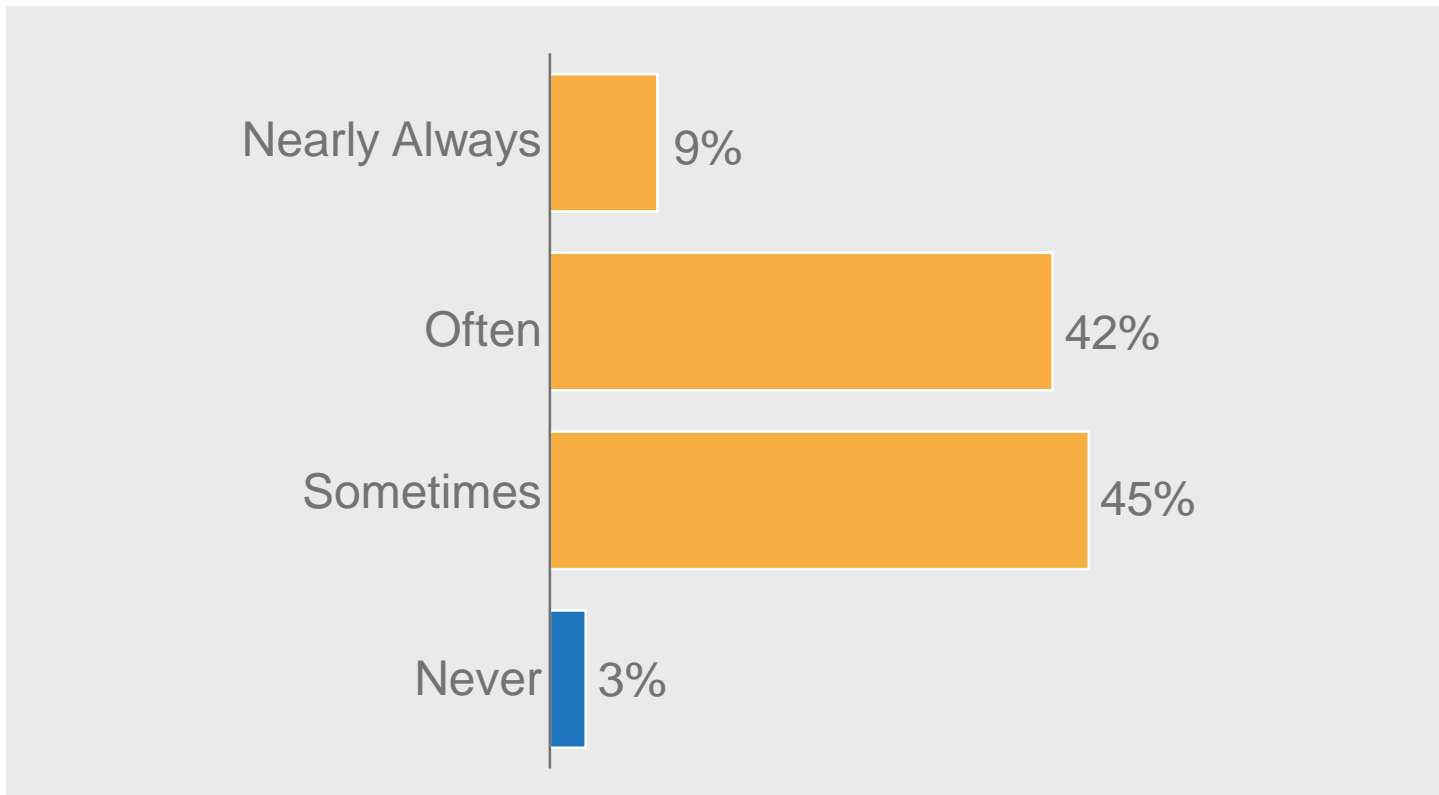
4. Not just money multiple, but rather IRR > next level of competition



Speed

Organisational problems delay value creation

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



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

Leadership and culture cause delays

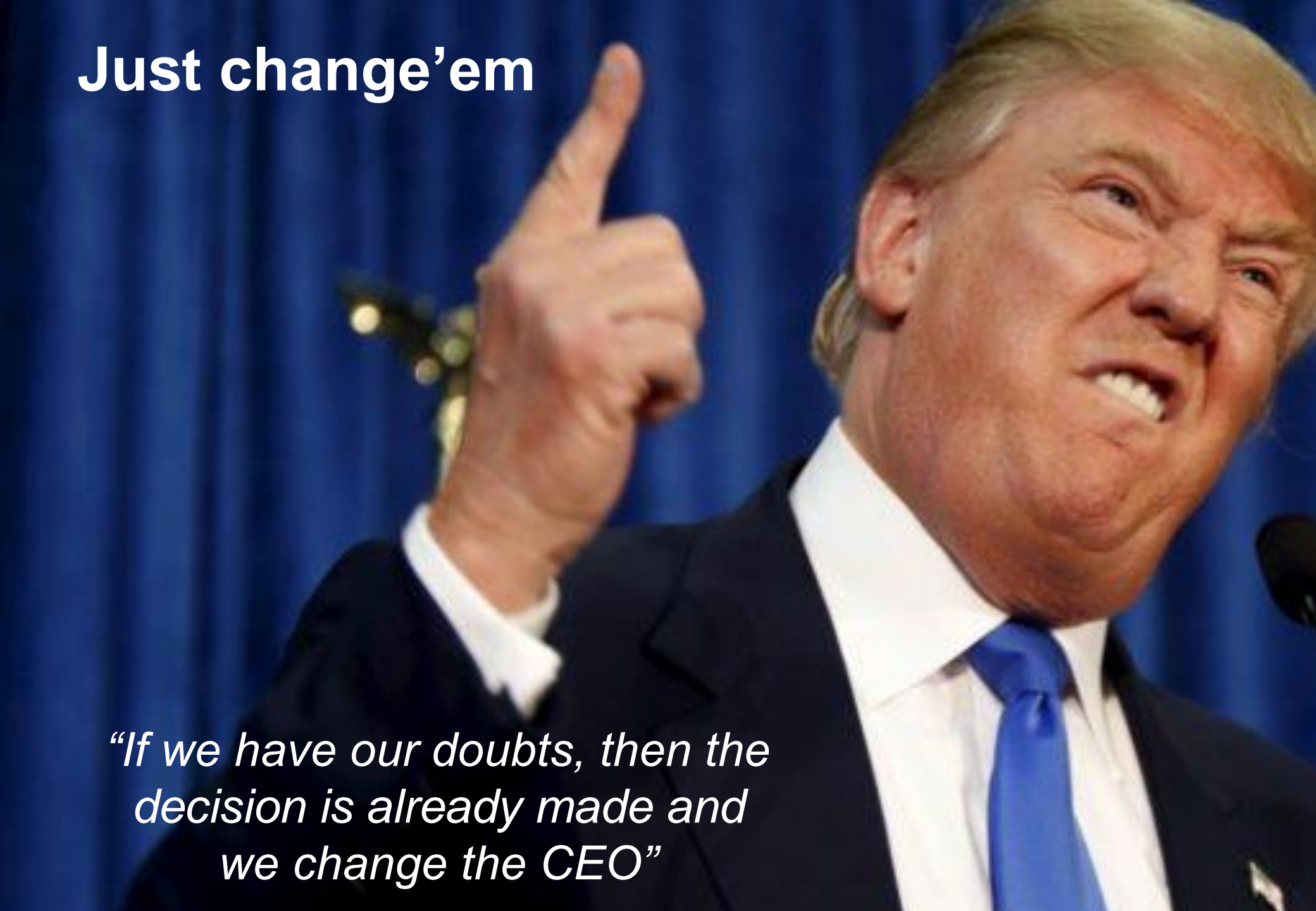
*What are the top organisational risks?
(% answers)*



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

Just change'em

“If we have our doubts, then the decision is already made and we change the CEO”



Wouldn't it be nice (and valuable) to...

1. Increase the chances of an incumbent management team making it...

or

2. Find out early that the incumbent team won't make it?

Deals require some work



100 km/h in 2.5s



100 day transformation plan

A man with a shaved head, wearing a purple long-sleeved shirt and blue jeans, is leaning over the open hood of a dark-colored car. He is looking down at the engine compartment, which contains various components like the battery, fluid reservoirs with yellow caps, and the engine block. The background is slightly blurred, showing an outdoor setting with greenery.

Getting under the hood

**Check the motor
before accelerating**

Start early

**On-boarding – the
first time working
together**



On-boarding best-practices

Build trust

Build trust
Expectation
levelling

Understand

Understand
competence

Strengths
+
Weaknesses

Deliver

100 Day
Initiatives

Implementation

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