



Chicago Bar Association

People Side of Private Equity

June 15, 2011



Industry Snap Shot

Inside Private Equity Firms

- Focus
- Fund Performance
- Compensation Increases / Carried Interest
- War for Talent

Challenges in Finding the Right Deal

- People Issues during Due Diligence
- CEO Selection Increasingly Critical
- Post Deal Organizational Issues
- Management Issues During Portfolio Lifecycle



Industry Snap Shot

Historical Trend in U.S. M&A Activities: 2005 - May 2011



Source: Thomson Reuters



Inside Private Equity Firms



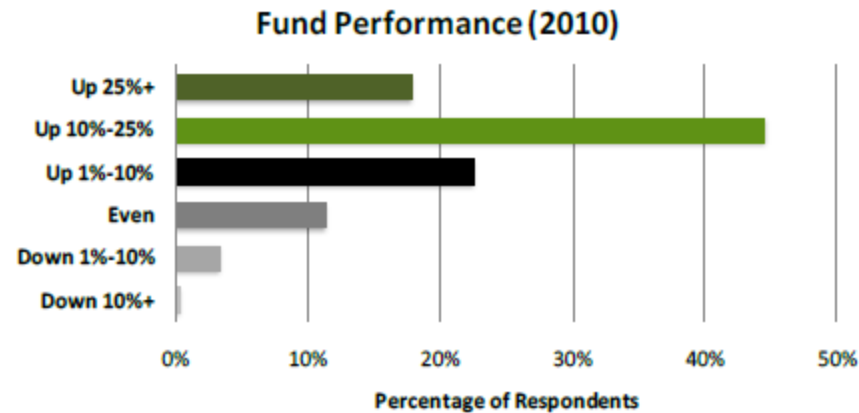
Focus

- Gone is focus only on financial engineering.
- Getting more from Portfolio company.
- Increase revenue, decrease costs.
- New skills sets needed for success.



Fund Performance

85% reported positive fund performance in 2010 vs. 50% in 2009.



Only 4% reported negative performance in 2010.

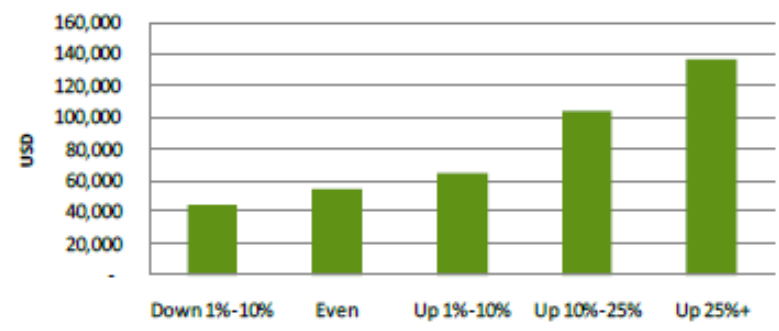
Fund Performance Ranges. Source: 2010 PrivateEquityCompensation.com



Compensation Issues / Carried Interest

- In 2010, large percentage no increase.
- Bonus substantial component of compensation.
- Increases driven by fund performance.

Expected Bonus Level by Fund Performance



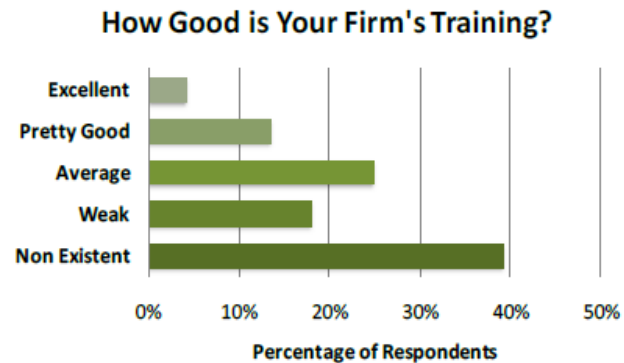
- Downward pressure on CI allocation.

Bonus Level By Fund Performance..Source: 2010 PrivateEquityCompensation.com



War for Talent

- New Investor Relations focus.
- PFIARA requirements.
- Operations skills.
- Its not about comp anymore!



Quality of Firm's Training Programs. Source: 2010 PrivateEquityCompensation.com



Challenges in Finding the Right Deal



People Issues During Due Diligence



Issues

- Executives concerned about own deal.
- Unrealistic ideas about compensation & equity.
- Drain on resources. Business stops.
- News leaks.
- Key employee departures.
- Compliance issues.



People Issues During Due Diligence



Solutions

- Who stays on the bus.
- Executive deals first.
- Executive compensation benchmarking.
- Communication strategy.
- Set the tone.



CEO Selection Increasingly Critical



Issues

- 80% executives recruits change within 2 years. *(HBR, 2000)*
- 40-60% new hires **fail** within 18 months. *(CLC, 2001)*
- Companies with tenured executives rewarded by markets.
(McKinsey, 2006)
- Best leaders **≠** best selectors. *(HBS, 2009)*

CEO Selection Increasingly Critical

Solutions

- 3rd Party Assessments
- PEG leadership competencies.
- Big company executive roles **≠** success.
- Hesitation leads to turmoil.
- “Act Now, Do it Today, Gets Results”.



Post Deal Organizational Issues



Issues

- What does this mean to me? How will my life change?
- Capability issues abound.
- Where to start?
- Who has what role?
- How will things change?



Post Deal Organizational Issues

Solutions

- Execution strategy.
- Communication strategy.
- Role expectations.
- Role of private equity.
- Culture.



Management Issues During Portfolio Lifecycle

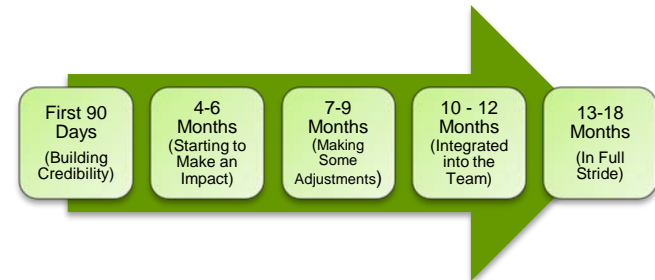
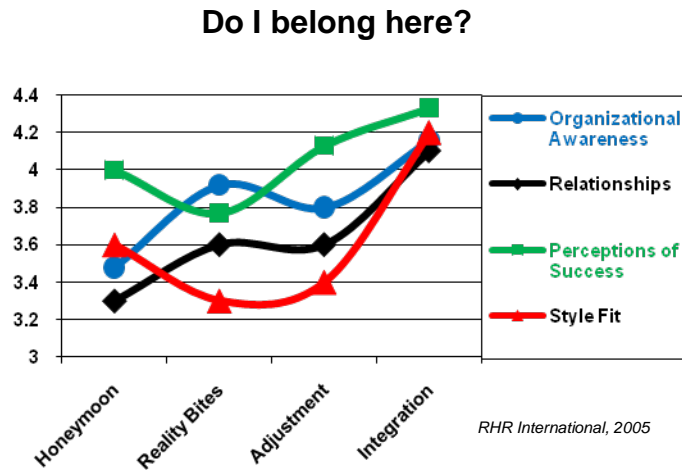


Issues

- Leadership at the top.
- Structure, decision making misalignments.
- People systems not aligned.
- Culture change.

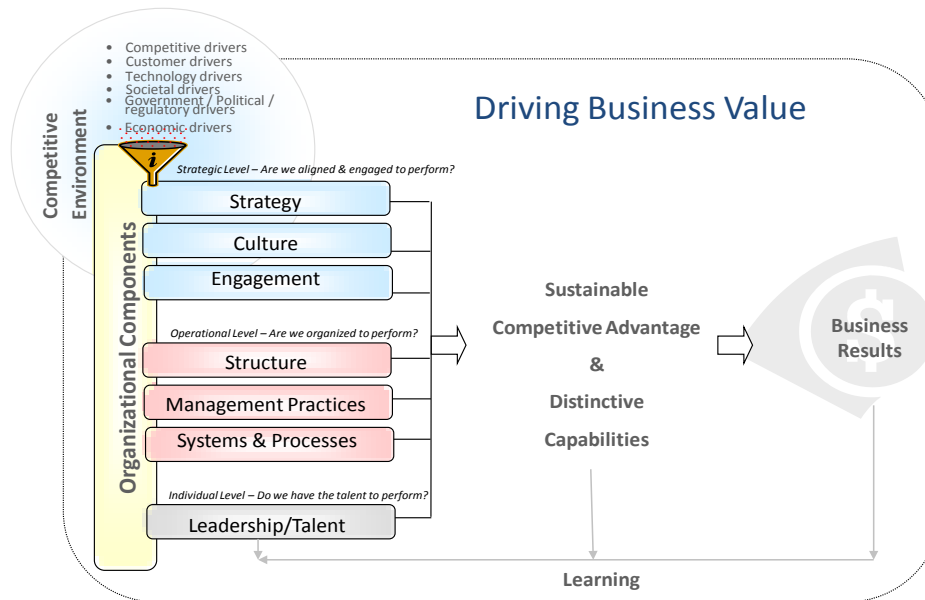
Management Issues During Portfolio Lifecycle

Solution to: Leadership at the top.



Management Issues During Portfolio Lifecycle

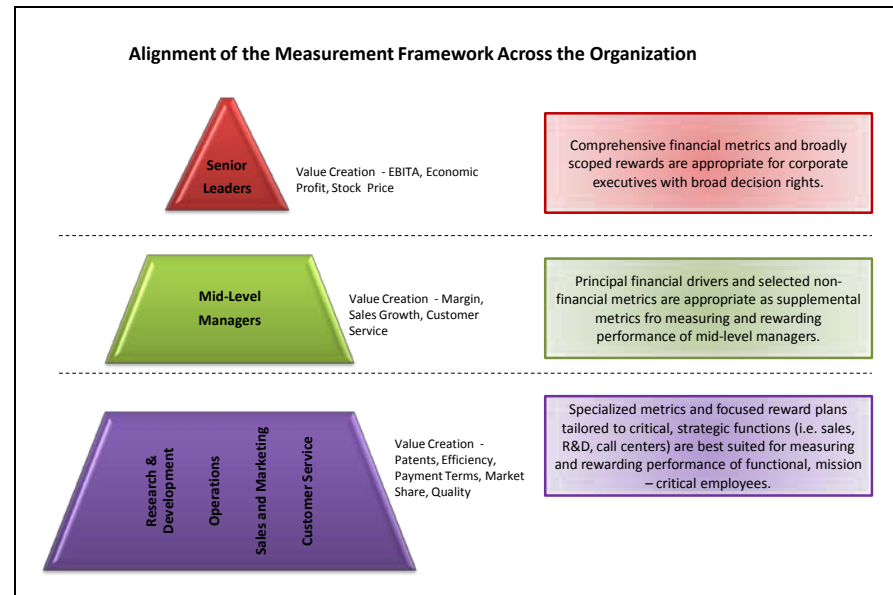
Solution to: Structure, decision making misalignments.



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Management Issues During Portfolio Lifecycle

Solution to: People systems not aligned.





Management Issues During Portfolio Lifecycle



Solution to: Culture change.

- Performance metrics.
- Performance management.
- Talent acquisition processes.
- Provide rewards.
- Communicate tribal vision.



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