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Leading an Exit Through the 'Double Bubble'

Many predict exits are set to become harder to execute over the next twelve months. At Criticaleye's recent Private Equity Retreat, business leaders explained how to get the best out of these deals

According to 68 percent of respondents to a poll conducted at Criticaleye's Private Equity Retreat, exits are set to become harder to execute over the next 12 months. The view from chief executives, chairmen and advisors in attendance was that investment houses will need to hold onto companies for longer if they're to get the rate of return they need.

This is largely because there continues to be a lot of money chasing a small pool of growth companies, which makes it harder to gain the required return as the prices being paid are often high. **Sean Longsdale**, Managing Director, Structured Finance Group at Santander, said: "Globally it is suggested that there is £1.1 trillion worth of dry powder in the private equity community looking for a home.

"This is only one half of the story though: what we have at the moment is a double bubble. There is currently estimated to be £650 billion in debt funds. This is over, above and beyond banking capability."

Sean expressed doubt over whether the high prices being paid for companies is sustainable. "I think there is going to be a correction in the market, the question is when? If the next five years produce much lower returns, compared to the last five, then private equity will not be seen as such an attractive destination and liquidity flows will moderate."

Matthew Blagg, CEO of Criticaleye, argued that leadership skills are going to be tested as it's an environment which is ripe for deal fatigue among stakeholders. "As the timelines for exits get stretched, PE CEOs will have to build a more collaborative approach between the senior leadership team, investors and chairmen."

Here are some outtakes from Day 1 of the PE Retreat 2018, which was held in association with Santander and Brewin Dolphin. >

Drive the Terms of the Deal

The number one message for management teams is they need to own the deal process and drive it. **Stuart Coventry**, Partner at Jamieson Corporate Finance, commented: “Show buyers that you are willing to challenge the PE house [about terms] and think about the structure of a new deal.

“Think carefully about the economics; consider how this fits with the type of deal you are looking for and think of the differences between you as a manager and you as a co-investor.”

If new incentive equity has to be negotiated, **Stuart** said it’s the role of the CEO to define the structure. “Tell them clearly what it is that you want,” he added.

Building on this point, he continued: “It is the role of the management team to successfully articulate their strategy to the buyer. A lot of time is spent focusing on the business plan, but what is the strategy for the management team?

“The PE house doesn’t know what you are thinking. You need to tell them your plans for the team. If not, don’t be surprised if you don’t get the deal you were looking for. Ask yourself... should your incentive plan cover five managers or 25 managers? Are there plans for M&A? What is the right level of reserve equity?”

Engage the Next Level of Management

If a company is going to achieve fast growth, it needs strength and depth beyond the ExCo. **Giles Turrell**, former CEO of Weetabix, said: “When it came to building a three-year plan, which

> *“ Managers are like teabags: you can’t see how good they really are until they are in hot water ”*

is one of the things that the private equity owners wanted to help the exit process, we engaged the next level of management down. This was an important signal to ensure that all the senior leaders were involved in directing the success of the company.”

He noted that having a plan that everyone buys into is incredibly important when it comes to alignment. “Simply telling people what to do doesn’t work, but if they have been part of co-creating a strategic plan and they understand key value drivers then they will respond more positively. If people don’t buy in, then you will start to see cracks in your team.”

Matthew has a simple rule which he follows. “A CEO should remove anyone from the top team who does not align to the outcome of a group discussion,” he stated. “A senior leadership team has to be able to show a completely united front when it leaves the table – clarity of purpose is crucial.”

The First Six Months are Vital

A lot is made of the first three or so months for a new chief executive. However, **Giles** said: “It takes longer than your first 100 days to change a company. It’s really the first six months. The first 100 days should be for assessment, then the changes and key people can be put in place to ensure long-term success.”

Matthew agreed. “The first 100 days of a CEO’s tenure should be for assessing the company. After this, the chief executive must start laying their own path, using the knowledge gained.”

For **Bev White**, UK CEO of Gi Group, it’s essential to spend time getting a sense of the rhythm of the business. “I spent my first few months at Gi Group visiting our locations to meet as many people as possible and to see the teams and the business operating in real time.

“Somebody once said to me that managers are like teabags: you can’t see how good they really are until they are in hot water. Get to know your team and let them know what kind of leader you are by being visible.” ■

Featuring Commentary From:

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