

DIRECTORBANK.

THE ROLE OF THE PRIVATE EQUITY CHAIRMAN

Part 1.

When should a Chairman get
involved in a pre-deal situation ...

**As early as possible or when a deal
is imminent?**

A series of short reports on the role of the PE Chairman encompassing
the views of 240 experienced Chairmen and 30 Private Equity investors.

When should a Chairman get involved in a pre-deal situation - As early as possible or when a deal is imminent?

In a series of reports, Directorbank explores the role of the PE Chairman – the draw, the required skill set, the opportunities and the challenges, particularly concerning the relationship with the CEO, the wider management team and the backers.

240 PE-experienced Chairmen and 30 private equity investors took part in the research and shared their views with us. Direct quotes and anecdotes are highlighted throughout.

View from Private Equity ...

More than 90% of the PE investors surveyed preferred a Chairman to get involved as early as possible in a pre-deal situation.

The 6 main reasons cited were:

1. Allows the Chairman and the PE team to get to know each other
2. Enables the Chairman to sense check the business plan and prospects
3. Allows the Chairman to review the deal due diligence so that they have a sense of ownership on the deal

5. Enables the Chairman to influence and take joint ownership of the value creation plan
6. Gives time to get agreement on strategy and projections
7. Lets Management and the Chairman bond so that they can hit the ground running

“We often use a Chairman candidate as an initial sense check of the business plan and prospects. Also the earlier we can get involved the more time there is to build rapport prior to completion.”

“The more a chairman can influence and take joint ownership of the value creation plan the better.”

However, more than 50% of these respondents admitted that this is an idealistic situation, and in reality actually involving a Chairman early in the assessment process happens only occasionally.

“It is very situation specific. If someone has deep domain expertise and can offer real insight, then the earlier the better. Having said that, we are always reluctant to waste people’s time - often we want to know we have traction before asking someone to spend too much time on anything and I’m sure we always leave it too late.”

“Ideally yes, but in practice it’s often not the case - it’s not clear which deals will get completed and it simply isn’t possible to get a Chairman involved with every one early on.”

The Chairman’s View ...

We put the same question to 240 private equity experienced Chairmen from Directorbank’s network. An overwhelming 71% preferred to get involved with a PE House as early as possible in a pre-deal situation.

Reasons for wanting to get involved with a PE House early in the deal process:

1.

The opportunity to get to know the PE House and the Management Team and their motivations and expectations for the deal.

“Establishing chemistry and trust.”

“The Chairman should be part of the team from the outset and not perceived as an add-on by management.”

“The earlier the better because the success of any deal is about relationships; it’s not about interfering. It’s about understanding the people and the dynamics, and then effective advice and guidance can be provided.”

“It enables you to start developing a relationship with the CEO and assess whether or not you are able to work with him.”

2.

Gives them time to effectively assess the situation - is it right for them and do they have the right expertise and skills for the job.

“There is a need to ensure that the aspirations of the backer are compatible with the potential of the Chairman – this clearly has to be based on proper analysis.”

“I usually invest and want to be convinced of the investment rationale.”

3.

The opportunity to shape the deal structure and ongoing strategy.

“The earlier you get involved the more influence you can have on the deal and subsequent set up.”

“I prefer to mould the cement before it is set.”

“By seeking an early input from the Chairman with their knowledge of the capability and capacity of the company, the PE House is better placed to assess the prospect of deal success.”

4.

To help the team avoid costly mistakes which could cause issues and delays further down the line.

“Getting involved early and sharing your knowledge and experience can hopefully avoid mistakes being made during the acquisition process and inheriting unnecessary problems later on.”

“It is helpful to develop and include your own due diligence questions. They are often a lot more commercial than what the consultants deliver.”

5.

The chance to develop the necessary depth of understanding to get the business running post-acquisition.

“The more you learn about a target company, the quicker you can add value post-deal.”

Of course, there is always a level of uncertainty with a pre-deal situation that the opportunity could fall away. Interestingly, the majority of Chairmen surveyed were undeterred by the speculative nature of pre-deal work and instead saw it as a chance to build their credentials.

“Each deal is a learning curve, and the experience with success or failure helps with the next deal.”

In contrast, a minority of the Chairmen surveyed - **29%** - were less enthusiastic about getting involved early on during a deal process, many preferring to step into the role once the deal was imminent. The main reason given by respondents was the potential for their time to be wasted and not getting financially reimbursed for the effort committed.

“I prefer to get involved when the PE House has in principle decided if they want to do a deal, but still has extensive DD and price negotiations to complete. I can still add value to the DD process, but the PE House has to either pay for it or expect just a small element of my time. Otherwise, one can spend too much time in unpaid consultancy work!”

“They (PE) are paid to run around chasing rainbows – I am not!”

“I get involved when they can actually offer me a job. You can waste a lot of time not being paid going to pre-deal meetings for unsuccessful bids.”

ABOUT DIRECTORBANK ...

We are a specialist executive search firm that introduces entrepreneurial board-level directors to the private equity industry across the investment cycle. We also conduct board and senior level search assignments for privately-owned and AIM listed businesses.

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