

Getting Noticed By Private Equity Firms Looking for Partners

Talented and driven executives who want to be CEOs are usually looking for a combination of two things: First, the autonomy to lead their business, map out and execute a growth strategy and to be fully responsible for the business' success. Second, to benefit directly in the value they are creating through meaningful equity ownership. If this describes your goals and interests, then you may be an ideal candidate for a partnership with a private equity firm.

And you are not alone. Locked into a salary-plus-bonus structure, with limited equity, if any, many talented senior managers have not had the opportunity to create significant personal wealth for themselves, despite their strong performance in growing and leading their business.

Partnering with a private equity firm can provide an interesting opportunity for executives who have the proven ability to grow a company. You will be the senior leader with the opportunity for equity participation, either as part of the initial investment or through an option or profits interest package. You will have the support of a private equity firm to help drive growth, both organically and through add-on acquisitions. And your success will be supported by access to growth capital.

There are many ways to work with a private equity firm. The most common are:

- **Drop-in roles:** Executives are recruited by headhunters to run a business owned by private equity.
- **Management buyouts:** The existing management team partners with a private equity firm to acquire the business they are already running.
- **Executive in Residence:** Some private equity firms keep a bench of operating executives that they work with to advise them on one-off transactions (typically less of an opportunity to run the company).
- **Pro-active Search** [(though this is less common)]: A private equity firm partners with an executive to do a proactive acquisition search. The private equity firm and the executive together source and evaluate attractive investment opportunities where the executive would run the business.

For senior executives who have transitioned out of their last postings, the last option may provide the most attractive solution for them – partnering with a PE firm to proactively identify a business they can acquire, run and grow as CEO.

Executives considering any one of these options need to know whether partnering with a PE firm is the “right” answer. Consider these issues:

- You will likely have less corporate infrastructure and support staff, with limited “middle management.”
- You will need experience and/or comfort working in a leveraged environment.
- Acquisition and integration experience may be a critical success factor if the PE sponsor is pursuing a build-up strategy.
- You may face difficult management challenges if the sellers or family members remain in the business.
- You will need a high degree of risk tolerance. CEOs and other senior managers in buyout situations are often replaced, or transitioned out, if performance does not match expectations.

If working with a private equity firm is a path that you want to pursue, how do you know which is the right fund for you? Consider some of the following:

- Understand the private equity firm's capital structure. Is it a committed fund with a defined life cycle or an independent sponsor raising capital for this specific deal? How much capital, or “dry powder,” do they have to invest in a platform and future add-ons?
- Is there a cultural fit? A private equity partnership is a lot like a marriage, so it is essential to know what you are getting into. Check their references, and speak with their former CEOs and sellers.
- Make sure it is a true partnership, particularly if you are doing a proactive acquisition search. How are they supporting you for the acquisition search? Will they dedicate time and resources to the search? Or are they relying on you to generate the leads?

Working with private equity can be a compelling option for talented senior executives and there are many ways to pursue a partnership with a private equity firm. Good luck in picking the right path. It can be interesting, rewarding, fun and lucrative!

