Interim Management Insights Report:

Private Equity, Interim Management and Delivering High Returns Internationally

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Interim Managers Share the Inside Track

Global Co-Leaders of Boyden's interim management specialists, Lisa Farmer, Managing Partner, United Kingdom & Ireland and Georg Larch, Managing Partner, Germany, host a discussion among distinguished interim leaders: Susanna Schneeberger, Gerhard Bickmann, Flemming Munck and Tony Page.

These seasoned, global and market-savvy panellists share invaluable insight into private equity, challenges facing general partners and their experiences as interim leaders, typically CEO, CFO, COO, CDO, for portfolio companies.

Through the eyes of Boyden Partners – Interim, Lisa Farmer and Georg Larch

Lisa Farmer
Global Co-Leader, Interim Management and Managing Partner, United Kingdom & Ireland

Georg Larch
Global Co-Leader, Interim Management and Managing Partner, Germany

Over the last year, interim management has been, and we expect this to continue, a highly subjective experience for interim managers, clients and specialist recruiters. Each country has had different drivers, organisational needs have been varied, and interim managers have responded to a variety of challenging engagements.

"What has been more uniform, is the greater understanding in organisations of what this talent demographic can deliver, particularly in private equity portfolios and privately-owned businesses," comments Lisa.

While interims are engaged from start-ups to large corporations, private industry accounted for 90% of European interim assignments in 2020[1]. "In private equity, general partners increasingly see the value and efficacy of interim managers: rescuing businesses from 'near death' situations; financial leadership through a crisis; accelerating digital strategies; and helping the board or CEO to address pressing leadership issues," adds Georg.

ESG is a consistent theme for limited partners, interims and the private equity market as a whole: 78% of limited partners consider ESG factors when investing in private equity funds[2] and continue to put pressure on general partners, yet to display a consistent approach. "ESG is becoming a critical factor in gaining market share, hiring the right talent and raising capital," asserts Lisa.

At Boyden we have seen demand increase, with complexity, as businesses cope with major shifts in the market. "A key trend is increasingly global recognition," says Georg, "We extended our interim engagements across the UK and Ireland, France, Germany, Norway, Finland, Italy, and Australia through 2021."

Through the eyes of Boyden Partner – PE & VC, Anita Pouplard

Anita Pouplard
Global Practice Leader, Private Equity & Venture Capital Practice and Managing Partner, France

The panel was joined by search expert Anita Pouplard, Boyden's Global Practice Leader, Private Equity and Venture Capital, and Managing Partner, France.

Boyden's search and interim experts often work together, placing interim managers while a search is conducted to find the right leader. Travel restrictions during the pandemic increased cross-border collaboration, with general partners relying on interim leaders to protect investments in global markets, in place of an executive sent from 'home' base.

Private equity is booming. According to Preqin, the global market is estimated at $4.4 trillion and expected to double in the next five years[3].

This is driving competition and new entrants, creating a crowded market with more than 7,000 private equity firms worldwide. "Private equity has evolved and developed, both geographically and in terms of sophistication," comments Anita. "Understanding of interim talent is high in Europe, where this demographic evolved, with the US and particularly Asia planning greater use of interim managers in the near future[4]".

A key trend is the launch of new funds within existing funds, creating new vehicles and fierce competition in a maturing market with four megatrends:

1. Advances in tech and AI: this is changing the way portfolio companies are identified and how PE firms work with them
2. Globalisation: PE firms increasingly want to invest in international businesses
3. Multigenerational environment: with four generations working together, from baby boomers to the new generation, different expectations need to be managed
4. Environmental issues: limited partners are more demanding around ESG, challenging funds on their own diversity, particularly in the front office

PE firms must find ways to differentiate themselves and reinforce the value they bring. "This requires operational excellence and a well-thought-out, premium human capital strategy," says Pouplard. "Private equity firms recruit operating partners internally, but externally need portfolio advisors to create the right human capital strategy to deliver high returns on investment".

Accelerated by Covid, companies need to accelerate digital transformation and align new business models with their workforce, which is complex.

Introducing the Panelists

Susanna Schneeberger
Board Member, CEO, CDO

A value driven, visionary market and customer-centric C-level executive with extensive international experience. Susanna is a highly professional and result-oriented general manager with profound knowledge in business transformation, digitalization, growth and P&L management. She has a proven history of futureproofing and developing the strategic and operational sides of tech and industrial hardware, software, service and project businesses. Susanna is an experienced global leader with a solid track record of excellent team building skills combined with a highly developed ability to successfully drive sustainable change and establish positive performance cultures.

Gerhard Bickmann
CFO, CRO

A highly experienced and influential C-level leader with more than 25 years success, managing domestic and international operations in multi-industry environments with €500m to €1.2bn in revenues. Gerhard is a results-driven leader with extensive international experience in strategic & operational issues, financial management & control, restructuring and refinancing in medium and large organisations and emerging businesses. He possesses excellent strategic and negotiation skills combined with a hands-on mentality. He has a proven track record in the private equity environment and with family-owned businesses.

Flemming Munck
CFO

A qualified accountant with more than 25 years' experience holding CFO and FD positions in a number of market sectors. Flemming manages private equity transactions migrating portfolio companies to new ownership, dealing with banks on leveraged and syndicate banking structures, systems, organisations and reporting. He provides strong leadership in corporate governance, reporting and establishing cash flow controls, together with developing strategic and operational plans. In multinational companies he managed multisite and multicultural, cross-border teams. Fluent in Danish and English, proficient in Swedish and German.

Tony Page
Chairman, CEO, CRO

A high energy, high impact, high 'coaching-style' turnaround leader with over 30 years of experience across private equity, 'blue chip' corporates and high profile multi/omni-channel retail and manufacturing. Tony's expertise covers broad-based general merchandise, as well as all areas of food, pharmacy/healthcare/beauty, and the fitness/sports sector. He relishes transformational, people-led change within extremely challenging environments in multi-site and complex consumer-facing businesses, both domestic and international. Tony has considerable experience in European businesses, in addition to more than 20 years in UK-based companies. Pivotal roles in turnarounds are a feature and a passion during the last 20 years, with a recent emphasis on Private Equity-backed businesses, including hands-on roles as an interim CEO/advisor/CRO/ coach to businesses requiring radical recovery from 'near-death' situations.

"Portfolio companies need new leaders, some of whom can be trained within the company through leadership development," adds Pouplard. "However, a new state of mind is usually required, leading to external recruitment to define the new business model and digital acquisition strategy – this is not something everyone can do, particularly if the objective is double-digit growth".

Next generation, future CEOs are committed to engagement and purpose, taking a more evangelist role, and responding to employee expectations that organisations communicate on societal issues. In a study by Gartner, 60% of employees reported improved engagement among their peers after witnessing employer involvement in societal issues[5].

Organisations cannot reskill the capabilities of their existing workforce fast enough to meet changing needs. Coupled with this, there is a talent shortage and a need to assess different skills. Talent is the competitive advantage, with Boyden behind general partners' make or break, as buy-outs and IPOs mushroom through 2022.

Through the eyes of four Interim Managers

Boyden: How are Private Equity companies reacting to the re-opening of the market following lockdown and other restrictions due to Covid-19?

Bickmann: I agree we are in a booming market, but before the pandemic, eighteen months to two years ago, private equity was already on alert, shopping around for new companies and exploring which interim leaders were available. And not just in the Mittelstand, from big to small companies in different industries, particularly automotive suppliers in special circumstances and basic, raw material industries.

So, they came to the pandemic well prepared, with money to invest in different targets, even looking at smaller companies around $20-50 million.

Page: I saw the industry go into panic mode and prepare for disruption, with Covid-19 a catalyst for making more money in the wake of the pandemic. Private equity is defined by a sense of urgency and anxiety, because GPs still have to manage portfolio companies and preserve value. Just as the 2008 financial crisis created massive opportunities, so did the pandemic, but this time with an arsenal of capital, with debt and credit widely spread.

> I found myself in a world of due diligence, with more profound questions, more detailed scenario plans and intricate strategising

From my consumer perspective, certain companies were going to explode into growth, others would implode because it's about moving money into the right places, getting out of companies not working and follow consumer spending trends. I found myself in a world of due diligence, with more profound questions, more detailed scenario plans and intricate strategizing. It was very different to the pre-Covid face to face experience.

Munck: During my work through the pandemic the focus was on stabilising cash flow, then, with the private equity team and portfolio managers ascertaining if the management team could be strengthened internally, and if talent was needed, how to secure it.

Very few people were looking to move, so the softer side of management was put aside until the world started to open up. Companies in fintech, online retail, FMCG, SAAS and certain pharma didn't seem to be in crisis; investment, funds and capex still flowed as normal and that generated a number of opportunities, with numerous portfolio companies asking if I could help. It was all about growth, creating business plans, opportunities within a certain platform, and with a view to consolidation, accelerating cashflow earnings and improving exit strategies.

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Schneeberger: my view here is from the advisory board. In the industrial and tech space we saw cash protection as the highest priority in the beginning of the pandemic, and the drop in top line was a major challenge to achieve the targets in the value creation plan. In the latter part of last year though, in many cases, the profitability increased faster than anything else as a consequence of the stringent focus on cash, savings and adjusting cost structures quickly.

Boyden: with huge growth, pent up capital and opportunity for interims, where do you expect activity to come from now? What are the key demands or drivers?

Schneeberger: we will continue to see activities in the healthcare sector and everything related to it, as well as tech and automation, because those underlying markets are growing. Everything related to the megatrends Anita outlined will continue to be hot in the market.

Expect a push for quick results, a lack of talent and fierce competition for it. ESG is more important to the younger generation; they are not only interested in creating money and value in traditional ways. Therefore, if that aspect is not dealt with, it may be a limiting factor to successful growth and attracting the right competency.

Munck: in recent meetings with a food manufacturer and engineering business, both owner-run businesses, they focused on succession planning, so I am reaching out to private equity firms almost to create an 'auction'. These businesses are well run, cash generative and profitable, but lack internal management talent. Owners at end of their careers, wanting to exit but without a natural successor to the business, create a significant market for private equity to invest and put in talent for general management, finance, procurement, supply chain, and so on.

Because of this 'auction' environment and so many firms wanting to get involved, businesses can be choosy. The time when private equity firms could get assets at low prices has come to an end.

Page: One of the drivers is social impact; almost every firm has set up a 'social impact' fund, or are acutely aware of positive social impact, because consumers and employees are demanding it. It's a safe space to be. Early growth businesses are energising and refreshing because they go with purpose first.

"Early growth businesses are energising and refreshing because they go with purpose first"

From an interim point of view, if there are problems, what's the challenge? I am always ninety-nine percent sure it's a leadership issue, and in a week in a new interim role I can confirm it. This is a people business, it doesn't matter where you put us as interims, it's about leadership – in any company, sector, country, you have to figure out the solution in leadership. Face-to-face is how we get people to change, and we are there as catalysts.

Bickmann: Boyden will have many client requests for talented managers, not because the market is empty, but because it is more difficult to get the right people today. A lot of people who are really talented have retired over the last fifteen years and don't want to come back. Now private equity is booming, getting the right people into the right place is difficult.

Page: That's a great point. Private equity can be too focused on money and forget the softer dimension. There is a massive group of people in the market, perhaps retired, semi-retired, who could mentor less experienced people to become better leaders. But there isn't the appetite to pay for this and it is a big, missed opportunity. They are missing people like today's panellists who would give their time to help others but not in a full-time operational role.

Boyden: Will the envisaged booming stock market and wave of IPOs impact the exit strategy of private equity companies?

Schneeberger: I see that some exit plans are delayed because of what needs to be achieved to get the value they are aiming for. The top line dropped in many cases last year and didn't meet the business plan, and now after improvements in profitability, there are supply chain and raw material cost challenges that counteract the achieved margin gains.

On top of that we see push backs from the unions in the US, asking for high wage increases which creates further uncertainty around inflation and adds to the already challenging situation in supply chain, freight, container handling and components. Pressure on salary levels is currently primarily in the US, however, that will spread if cost inflation continues. On the other hand, there is so much money in the market and competition for deals; and in an 'auction' type environment the multiples are very high, which drives exits.

> Some exit plans are delayed because of what needs to be achieved to get the value they are aiming for… there are supply chain and raw material cost challenges that counteract the achieved margin gains

Page: Current multiples are a key point; when businesses sell for multiples they don't deserve, it inevitably leads to changes in the management team so they can fulfil expectations.

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Boyden: How important is it for an interim leader to have international experience to affect change?

Munck: It is vital you take your speciality, for me it's finance and international trade, to the client and identify gaps within the management team and general staffing and show them where they need to invest; in systems, management skills, talent recruitment and pricing, make vs. buy and outsourcing. It is essential that as professional mentors and change managers, we identify areas where clients can make an impact on the bottom line.

We all have 30 years of experience in do's and don'ts. Our clients and Boyden expect us to bring our USP to the client and make a difference to where the busines is going.

Boyden: You are sometimes engaged by both the CEO of the portfolio business and the Private Equity house. How do you manage the CEO relationship?

Munck: Your relationship with the CEO is everything. The entire organisation has to trust you and you tread a fine line between the private equity house and the board.

"The entire organisation has to trust you and you tread a fine line between the private equity house and the board"

We come with no agenda, no history with the company or its politics, we just try to find the truth, the diagnosis, the way forward. Trust is everything. Our trust in the recruiter, the CEO has to trust us and we engender trust by being honest and respectful. If the CEO doesn't like you, get out; that's the best way of helping them fix the business. From day one, I am thinking about how am I going to get on with the CEO.

Boyden: How are ESG expectations impacting private equity and how are they managed?

Bickmann: Only a limited number of private equity companies use the ESG component to create value within the company. It has been more of a headline for limited partners and many firms see it as expensive, trying to find a way to work around it.

Schneeberger: I see a lot of efforts going in, and as soon as there is a 'green' label, the valuation increases, so there is definitely a change in the market. There is also pressure from the customer side since they need to solve their own ESG problems and need help from suppliers. It is a shift, and I believe we will see more of it. It is just like with digitalisation, it will gain traction quickly, create value, and lead to higher multiples if we start taking advantage of the opportunities instead of only talking about it.

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Anita Pouplard pointed to Bain's Impact Assessment (BIA) metric to gauge ESG impact; portfolio companies in Bain's Double Impact firm increased BIA scores by 42 percent since 2017[6]. "Bain's metrics allow them to associate impact with revenue, enabling them to raise another fund very quickly for social impact, education and endowment. They are very serious about ESG and impact and have given themselves the resources and benchmarks to show ESG actions will generate revenue," she commented.

Page: How diverse are the private equity firms we talk to? I see a lot with similar thinking, they are low on diversity and EQ and higher on acumen and straight-line thinking. The question is, how much does private equity want to change?

Pouplard: Limited partners are obliging them to change, and some corporates say they want more females as investors and greater diversity, so clients will drive change. Private equity will need to respect the new rules and not have only men as managing partners.

Lisa Farmer concluded the discussion. “This is something we raise in our conversations. It’s our responsibility to ask the question and understand how important it is for clients. Unless we also drive change, it will not happen. We need to seek out the private equity firms that are serious about diversity and ESG and create meaningful approaches to both issues.”

Georg Larch added, “Interim leaders are a key competitive advantage for general partners. They are entirely objective, have extensive turnaround experience and an ability to diagnose current status against market opportunity from a strategic and a leadership perspective.”

About Boyden

Boyden is a premier leadership and talent advisory firm with more than 75 offices in over 45 countries. Our global reach enables us to serve client needs anywhere they conduct business. We connect great companies with great leaders through executive search, interim management and leadership consulting solutions. Boyden is ranked amongst the top companies on Forbes’ Americas Best Executive Recruiting Firms for 2021. For further information, visit www.boyden.com.

Footnotes

[1] According to Inima Management, the international network of interim management associations. https://www.inima.management/survey

[2] According to Acuity Knowledge Partners, https://www.acuitykp.com/blog/esg-trends-in-private-equity

[3] Reported 29th September 2021, https://www.consultancy.uk/news/29094/resilient-private-equity-market-eyes-fresh-opportunities

[4] https://www.boyden.com/media/talent-led-transformation-in-a-post-pandemic-world-21330238/index.html?page=8#pager

[5] https://www.gartner.com/smarterwithgartner/corporate-advocacy-of-social-issues-can-drive-employee-engagement

[6] https://www.bain.com/insights/esg-investing-global-private-equity-report-2020/