FMG LEADING

MORE THAN COACHING

How the right advisor can help untangle the human dynamics that derail portco value creation

By Chris “Mitch” Mitchell

Advisory is Different in Private Equity-Backed Businesses

While executive coaches and advisors often provide counsel to portfolio company management, not all can truly unlock value in the complex world of private equity.

Private equity (PE) firms invest in companies across a multitude of sectors, so the consultants and advisors they engage with must deeply understand a wide range of industries. It also means they must acknowledge the unique contextual realities organizations face when taking on institutional capital - many for the first time.

While executive coaches and advisors often provide counsel to portfolio company (portco) leaders, not all are well-versed in the complex world of private capital. What's more, few PE firms or portco leaders can, at least initially, differentiate between merely adequate and excellent, strategic, value-creating advice and coaching.

In this paper, we highlight the unique human capital needs and opportunities facing PE investors and their investments. We will focus on how coaching and advising in the private equity context is quite different, largely because of people-related challenges that often go unnoticed or unaddressed – and how the top PE firms identify and leverage outside counsel to accelerate growth and maximize enterprise value across their portfolio.

Investing Is A Highly Charged Moment

When private equity investors make their pitches, they often point out their ability to provide organizations with the support that creates value - typically meaning financial and operational support. However, most PE firms find it challenging to help their portcos manage the inevitable human capital challenges, which are typically enormously complex and time-consuming for even the most experienced leaders. The irony is that the very act of PE investment puts people issues front and center at a very intense and highly charged moment.

In acquiring organizations, PE firms and their operating partners automatically upend internal status quos and power dynamics, which brings individuals' fears, egos and other differences to the surface. Without meaning to, firms can become an intimidating presence met with skepticism and mistrust.

The resulting "us versus them" dynamic prevents PE investors and management teams from achieving the alignment required to tap into organizations' full potential. Instead, people issues fester under the surface, and show up as roadblocks to value-creation efforts. This generates high levels of frustration and distraction, preventing leaders from delivering on their investment theses. Ultimately, growth slows, and the investment suffers.

To meet this challenge, executive advisors who engage with PE clients must seek to recognize, understand and break down barriers between the investment's key players - general partners, operating partners, portfolio company leaders and the organization. By enhancing communications and building alignment, coaches can get these parties working metaphorically - and perhaps literally - from the same side of the conference room table.

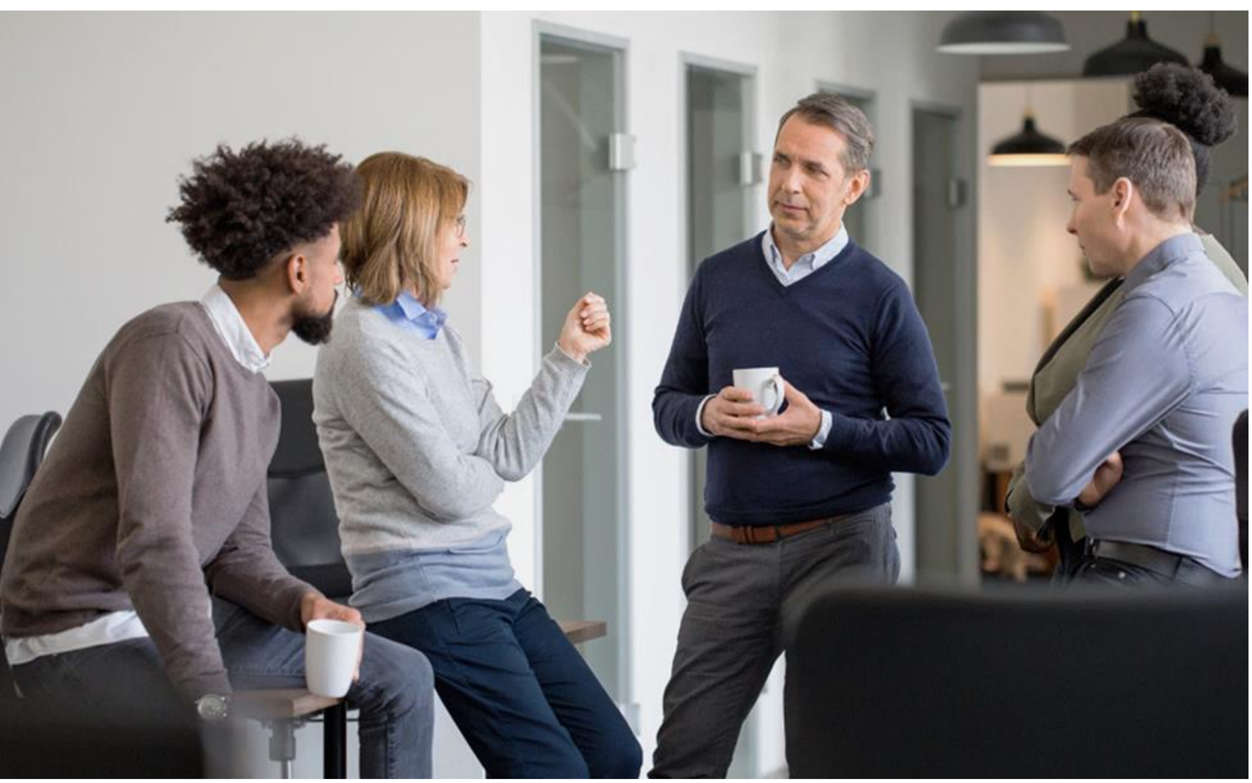
The Dual Depth of Understanding

For advisory partners to ensure they're delivering outsized returns on their work with private equity investors, both parties should understand what's required to make such investments most successful. While this includes an ability to recognize and solve the PE-specific people issues that arise, other areas of knowledge and fine-tuned perspectives also become vital for value-creation efforts.

For example, the most successful coaching engagements among PE-backed companies involve both advisors and clients whose view of executive leadership coaching extends beyond one-on-one sessions with the CEO. Rather, coaching is viewed as a more holistic practice that can help build high-functioning professional relationships among a variety of stakeholders, ultimately serving to enhance an organization's ability to accelerate its performance and meet and exceed ambitious goals.

Additionally, coaches and clients who understand the profound benefits of initiating work at the very beginning of PE acquisitions typically get the most value out of engagements. Their ability to prioritize and bring in coaches early - often pre-close - best ensures that senior management teams charged with driving organizational value at this key inflection point are working together as seamlessly and productively as possible.

When coaches and advisors work in close partnership with their PE clients and bring a deep understanding of private equity's unique dynamics and contextualized best practices, they have every ability to repair strained professional relationships. Better yet, they can keep them from fraying in the first place. By convening the right conversations, they can recalibrate and/or preserve critical bonds between key parties, creating and maintaining the alignment required to accelerate value creation.



FMG Leading helps us leverage a cutting-edge approach to backing portfolio investments, clarifying the financial impact of human capital and culture through data and process. Often in private equity, these elements are viewed as the softer, un-measurable elements of strategy, but we've learned that the 'soft stuff' is ultimately is the 'hard stuff'..... and is highly correlated to successful outcomes when you get it right.

Having the right talent and culture is not only about de-risking an investment by mitigating the risk of downside events, it's also about having the best leaders in-place early to accelerate growth quickly and enable the frequency of upside events. Bringing in outside experts helps us evaluate talent around a deal, both in terms of existing talent in a company, and also talent we bring to a company post-acquisition. So often, the human element is the differentiator between failure and success; between an 'A outcome' and a 'C+ outcome'. By maximizing the effectiveness of our human capital, FMG Leading helps our portfolio companies scale rapidly and also scale to the very best of their ability.

- **Oliver Moses**, Managing Partner, WindRose Health Investors

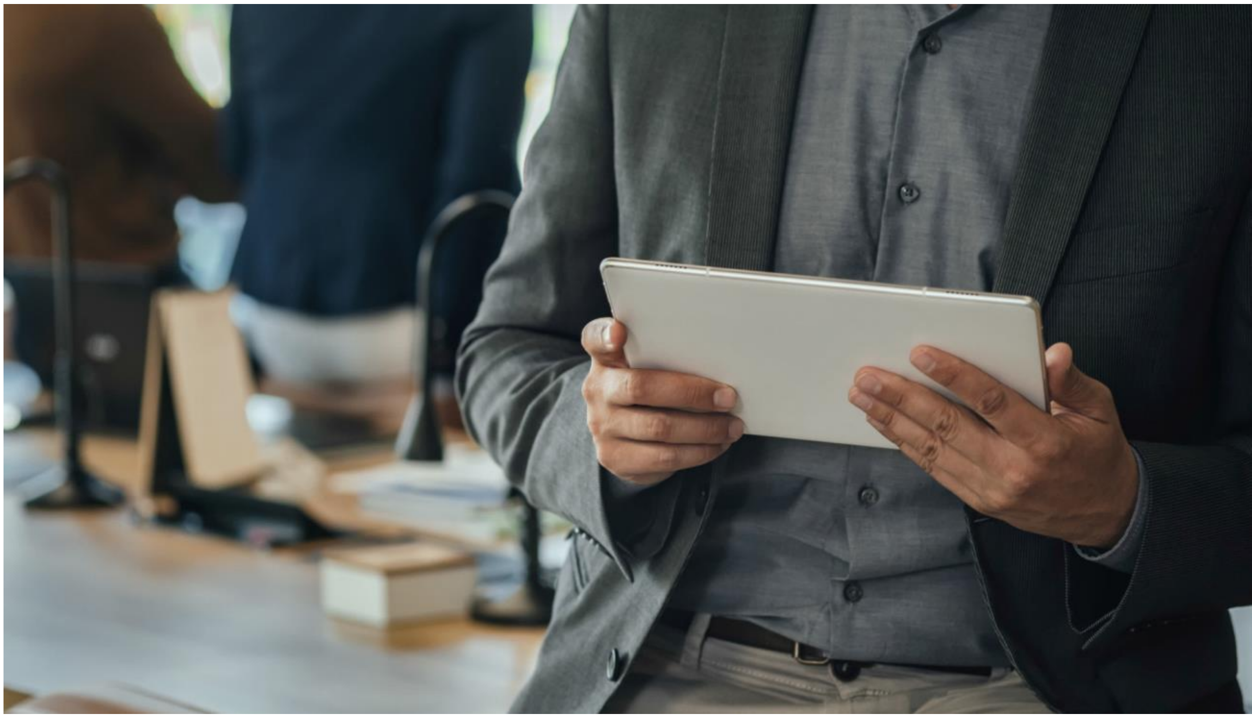
Coaching and Advising the Private Equity-Backed CEO

An executive coach's ability to recognize key patterns among CEOs of PE-backed companies enhances their ability to harness leadership potential and meaningfully accelerate value creation.

As mentioned earlier, the most successful PE advisory engagements go beyond sessions with CEOs; they incorporate a variety of other stakeholders, seeking to instill in organizations a "coaching mindset." Still, the fact remains that chief executives play a singularly pivotal role in driving value creation in a business. This means that the advisors working with them must deeply understand their unique challenges, which are often more pronounced and complex in private equity portfolio companies.

While serving as a CEO is, by nature, immensely challenging, those who take on these positions at PE-backed companies face unique challenges. Namely, businesses that have accepted investments from private equity firms have tight and strict timelines to hit aggressive financial milestones - targets that tend to creep up on executives faster than they anticipate, causing significant stress. As one of our PE partners says, "In private equity, a lost week is really like losing a month."

When weeks are months, timeframes are supremely unforgiving. Simply said, the pace of private equity is different.



What’s more, as is the case in most organizations, PE-backed CEOs often experience acute loneliness at the top of the organizational structure. Yet they also remain “underneath” the watchful eyes of the board. Nobody else in the system can truly understand this tension, the scope of their responsibility, or the isolation that comes with the job. External advisors can add immense value and support here. Helping CEOs best navigate such challenges requires trusted coaches who immerse themselves in the organization's specific context, from the investment thesis and the value creation plan, to all the obstacles that inhibit strategy execution and culture-building.

Five PE-Backed CEO Archetypes

PE-focused coaches repeatedly come across many of the same CEO archetypes. Their ability to recognize patterns among such executives enhances their ability to harness CEOs’ leadership potential to accelerate value fully. PE operating partners who recognize and understand these common archetypes are also at a competitive advantage, better able to maximize their talent and win.

Below are the most common portfolio company CEO archetypes, including some details about how to best support each through ongoing coaching:

1. The first-time private equity CEO

Even individuals who bring C-suite experience but have never served in the top job at a PE-backed company are consistently shocked by the vast difference between serving in this specific leadership seat and others they have occupied. They can derive particular benefit from working with coaches with strong PE backgrounds; this can help acclimation to this new leadership elevation come more quickly.

2. The first CEO after the founder

Taking the CEO role immediately after the founder has stepped down brings unique complications, especially in organizations looking to rapidly scale. New executives can benefit from the assistance of advisors when considering and responding to such factors as how much influence a founder still has within the business, whether a founder is truly ready to cede control, how well a founder actually worked with the rest of the company’s leadership, and how much of the organization’s mission, vision, and values predominantly existed in the founder’s heart and mind.

3. The CEO who is not meeting targets

Sometimes a CEO has a rough start and while still showing strong potential, doesn't hit the early milestones outlined in the plan. Their coach and the board can work closely with the CEO to align precisely on what adjustments are needed, what leadership gaps they need to fill, and how to achieve needed changes to the CEO's leadership approach.

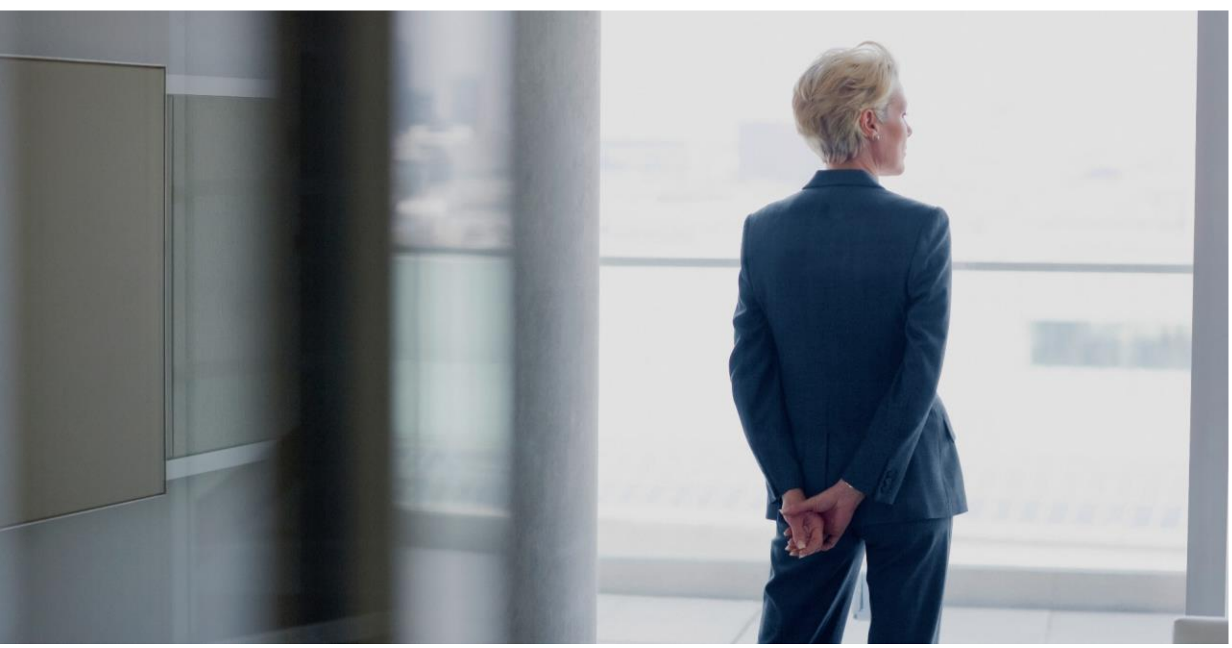
4. The CEO who doesn't want coaching

Like the proverbial horse that can only be led to water, some CEOs resist the idea of external support and will not be open to feedback or willing to change. This creates a near-impossible situation, even with a board advocating for coaching, as successful coaching engagements require cooperation and buy-in on the part of the coachee. Framing advisory support as an accelerator vs. a remedy is key.

5. The experienced private equity CEO brought in early

In this ideal scenario, coaches can become strong thought partners and help increase the likely success of this CEO by reminding the executive to stay focused and not get thwarted by the gravitational forces of the day-to-day that can distract them. Think of going from good to great.

While there are universal elements among PE-backed CEOs, the details surrounding individuals, companies and situations are always dramatically different. The best coaches will add value by recognizing patterns while constantly adjusting their approach from engagement to engagement, treating no two exactly alike.



When it comes to the rapid growth expectations associated with taking on an investor for the first time, sometimes you simply don't know what you don't know. Taking on a private equity partner requires you to look at things a little bit differently - you have to keep up with the pace and upgrade your skills so you can make the best possible decisions. FMG Leading's tools and resources helped us see forest through the trees, keeping us focused on the future through a strategic lens.

The new growth trajectory at ImmunoTek created a whole multitude of obstacles .... and also a multitude of opportunities. The team at FMG Leading helped us effectively navigate that course. Ultimately, our partnership helped us merge the old with the new, allowing us to grow into a place where our executive team was aligned and moving in lock-step with our board and advancing the company forward in a very healthy and proactive way.

- **Jerome Parnell III,** CEO and Founder, ImmunoTek

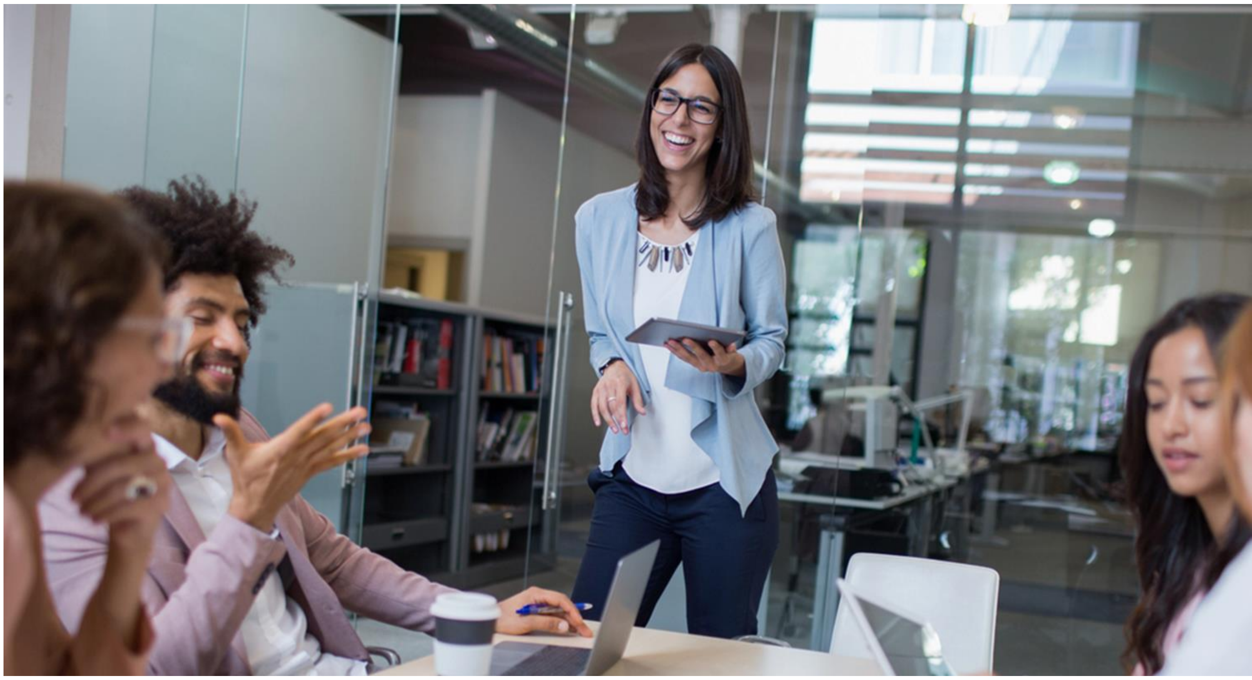
Advising Private Equity-Backed Management Teams

Experienced advisors can accelerate value creation by helping management teams perform at their best and build productive, high-trust working relationships.

When a private equity portfolio company CEO invites their executive coach to also advise their management team, they are inviting the coach to serve as a convener and centralizing force that continually reminds the players that "we're all on the same team and we win together." This can accelerate value in a way that nothing else can, especially when you consider the human elements (ego, fear, mistrust, etc.) that can run amuck under the kind of pressure that historically comes with growth and scale.

On a more tactical level, the advisor can help teams reach and maintain the alignment required to support the growth and scale of the business. That alignment is the golden thread that weaves together critical elements of the business' planned trajectory, namely:

- The Transaction Thesis: The investors' belief in this company's future and their ability to accelerate its performance.
- The Strategic Narrative: The company's story of who they are, where they are going and how they will get there.
- The Value Creation Plan: A comprehensive overview shared by all stakeholders, outlining exactly how and why the value of the business will increase.



For private equity firms to realize expected returns within their desired accelerated timeframes, management teams within their portfolio companies must be completely aligned on key focus areas and priorities. Executive advisors can play a critical role in helping these leaders achieve such alignment early in the investment lifecycle, enabling them to hit targets in a shortened timeframe that results in heightened multiples.

When private equity firms buy a business, they usually retain some of the existing management team while replacing others - adding capabilities that will be required for growth and scale. These leaders, many of whom are new to each other and the business, are expected to immediately accelerate performance across the business to meet the ambitious financial targets outlined in the value creation plan.

Unfortunately, senior leaders often begin acting before achieving real alignment on the plan and, crucially, without establishing the necessary foundation of trust among themselves, the CEO and the board. They often don't realize they've missed these fundamental steps until months (or even longer) into the investment's hold period, creating avoidable problems, headaches and delays resulting in missed performance targets.

Engaging with the management team at the earliest possible opportunity allows executive leadership coaches to facilitate the initial alignment and trust required to ensure top leaders are entirely in sync and working purposefully, in unison, toward their big-picture objectives. This can de-risk the potential for misalignment and mistrust, which can thwart even the most compelling investment theses, strategic narratives and value-creation plans.

It's Not a One-And-Done

Of course, facilitating alignment and trust at the beginning of a management team's tenure doesn't guarantee that these will continue, especially in a high-stakes environment. The enormous pressure to accelerate returns can incite defensive, self-protective postures among leaders and derail even well-established productive working relationships.

For this reason, savvy private equity firms and their portfolio companies often engage advisors to work with management teams on an ongoing, quarterly or even monthly basis, helping them sort through the inevitable people-oriented challenges that can erode value. Supporting these leaders as individuals and as a group can help keep them on track and unified, especially if engagements include regular team sessions with the CEO and board, creating an overarching positive dynamic in which everyone feels like they're on the same team.

The best executive leadership coaches engaged in such work are well-versed on the scope of challenges inherent in these environments. For example, first-time leaders at private equity-backed companies consistently experience a sense of shock when confronted with their investors' expectations, especially about the pace of work. In essence, they knew the job would be challenging - but not as challenging as it truly is. They didn't know what they didn't know.

Keeping these leaders highly focused is critical to helping them perform at their best while alleviating any anxieties that begin to take hold. One way to achieve this is to weave into team coaching sessions the same principal questions, such as:

- *Where are we now?*
- *Where are we going?*
- *How are we going to get there?*

This framework ensures that sessions never devolve into forums devoted to complaints; they might allow for a certain amount of venting but continuously ladder up to a big-picture strategy.

Embracing these kinds of best practices can serve as a force multiplier leading to exponential increases in efficiency and effectiveness. These efforts can also prevent management teams from fracturing in times of stress and subsequently eroding value, which is often unrecoverable.

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FMG Leading brings experience that enables them to immediately place what type of leader they're dealing with on the senior executive team and what will be their strengths and opportunities. It's very personal. It’s about individual leaders and how to make them more effective...and by extension, how to make the management team and whole organization more effective.

If you feel that your organizational effectiveness is impeded because your leadership team is not firing on all cylinders, or if you feel that your own limitations as a leader are impacting the organization, then FMG Leading is the type of firm that can really help you make progress.

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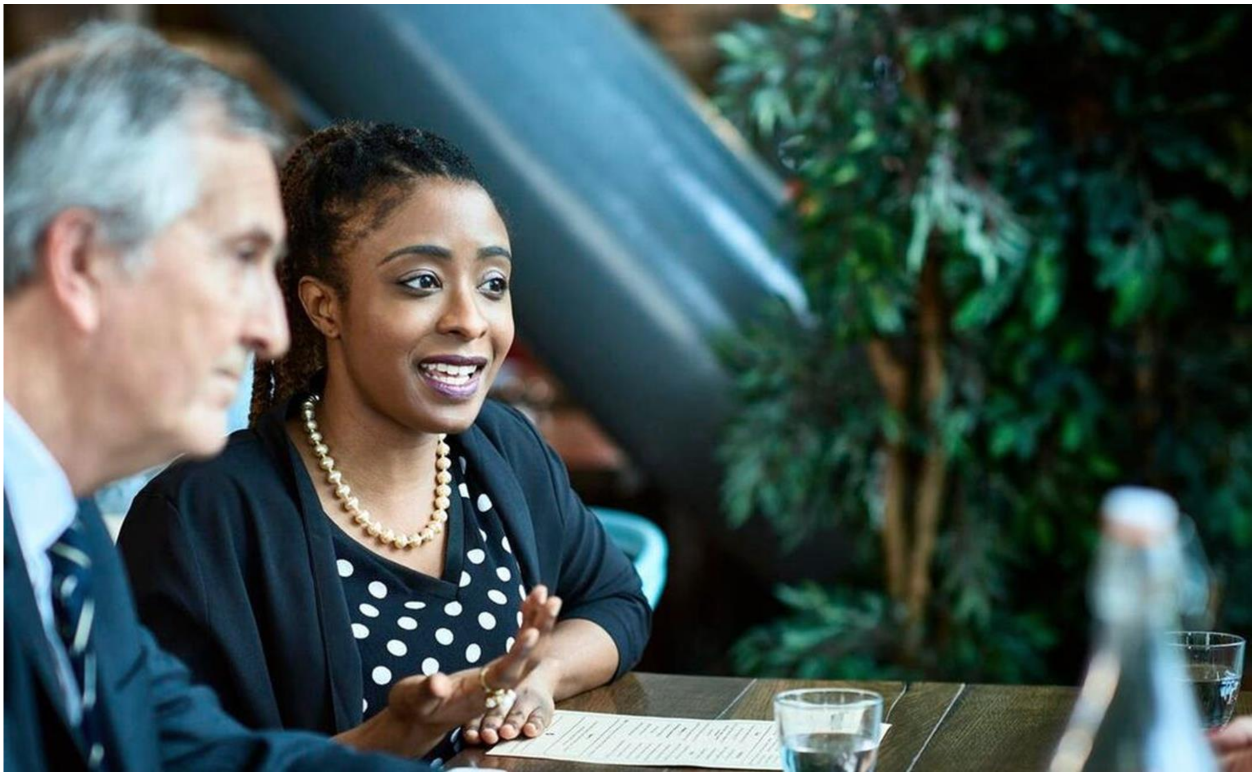
- **Jess Parks,** Chief Strategy Officer, Sound Physicians

Advising Private Equity Investors and Boards

A growing number of investors are inviting executive coaches to help build and support alignment between boards and management teams, creating a positive, holistic impact on high-level internal dynamics.

As we discussed previously, a common denominator among PE-backed companies is the common yet unintended "us versus them" mentality that can manifest between investors and management, preventing enterprises from maximizing their potential. Because investors usually have seats on their portcos' boards, this undercurrent usually makes its way into board meetings, influencing the way information is both presented and received, affecting the execution of agreed-upon strategies.

When given the opportunity, experienced advisors can proactively build, reinforce and repair relationships between outside stakeholders and management, especially the CEO, ensuring everyone is operating from a place of trust. Through wise counsel and facilitated gatherings, they can help smooth people dynamics and ensure that all parties are metaphorically working from the same side of the conference room table.



Laying The Groundwork For Strategic Board Coaching Efforts

Upon establishing contact with a board, advisors should immediately clarify that their responsibility and loyalty is to no one person or team, but to the investment itself. The advisor can thus become a valuable forcing function to help all relevant parties stay connected and aligned. And when issues creep in, they can convene mission-critical conversations, using skilled facilitation to help executives stay or get back on track and reach workable solutions.

With this as a backdrop, the best coaches reinforce the necessity of establishing and keeping the trust of their coachees - meaning they'll need to be able to protect confidentiality. They cannot serve their strategic purpose if they are directed to act as a board's spy or "mole." This perception alone can serve to undermine the advisor's work.

Four Priority Areas For Investor-Level Advisory

When granted a seat among board and C-suite members together for the first time, advisors might not know exactly where to begin concerning the engagement, but they can never do wrong prioritizing four core areas:

- **Alignment.** A savvy advisors' first immediate goal should be to proactively, intentionally and consistently press for alignment with big-picture strategy - from the board through the business leaders and down into the business. Such advocacy is essential because there is often no one else in the room taking on this crucial responsibility. This serves to exemplify why teams can work against each other and an overarching plan even after they've spent extensive time preparing and reviewing it together.

- **Role clarity.** Advisors should always seek to prioritize role clarity among board members and management team members. Time spent detailing and discussing parties' individual mandates and how they intersect can help establish a foundation of trust and respect among parties that can help prevent relationships from fracturing in the face of internal and external pressures.

- **Power dynamics.** The power and relational dynamics between key investment stakeholders are nuanced and complex and often materialize in ways that jeopardize investment strategies. This can take the form of conscious or unconscious favoritism, hiding critical information, egotism and fear-based thinking - all issues that can pull organizations out of alignment. An experienced outside voice can bring the objectivity and expertise needed to keep these dynamics positive and constructive and repair them when they become dysfunctional.

- **Focus.** It's too easy for PE stakeholders to lose sight of the most important business problems they are solving together, which extend well beyond the P&L and the bounds of mere spreadsheets. An expert advisor can help all parties stay focused on organizations' most critical issues, which nearly always have a human element and require a deeper layer of strategic thinking.

PE advisors should also apply their acquired knowledge of specific boards to enhance their engagements with their respective CEOs. The enormity of the chief executive's job includes navigating stakeholder alignment, including the nuances and complexity of boards and the relationships therein. Advising CEOs on this complex work frees them to devote scarce time and attention elsewhere.

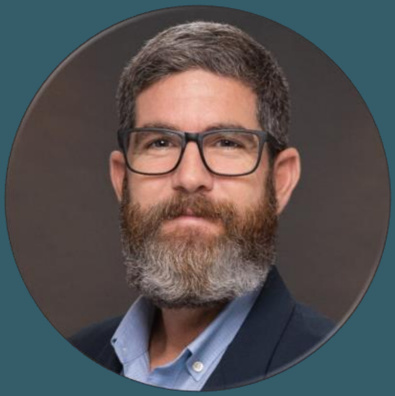
While executive advisors are rarely invited to offer their insights at the board level, the ability to join investors behind the curtain offers a singular opportunity to exponentially enhance the client value they deliver, extending the alignment they're facilitating to the highest-level sphere.

In Closing

Private equity-backed companies can maximize partnerships with experienced executive coaches and advisors in ways that go far beyond how most organizations elect to engage these professionals. By asking the right questions, aligning on partnership goals, and understanding the range of areas that qualified outside advisors can impact, investors and management teams can build early alignment throughout the organization, and create the momentum required to ensure a successful exit.

The most effective PE advisors contribute to these partnerships by earning the trust of their clients while ensuring their sensitivity to the nuances and pace of private equity is always at the forefront. Coaching and advising in the private equity context is different – and the best advisors turn that difference into a competitive advantage.

About the Author



Chris "Mitch" Mitchell is a Principal at FMG Leading, where he guides executive leaders and teams through periods of rapid scale, ambiguity, and strategic change.

Mitch partners with management teams, investors, and boards to accelerate growth and create value. He brings a holistic approach to both corporate strategy and individual development, aligning overall business context and goals with the human capital capabilities required for organizations to thrive. Mitch excels at guiding executive leaders through complex and nuanced situations where the stakes are high, primarily advising middle-market private equity-backed executives and investors, as well as senior leaders from a wide range of industries. His specialty is preparing executives to build and lead high-performing teams as they take on new growth expectations and the increased pace commonly associated with an infusion of growth capital.

Mitch earned a Bachelor of Arts in Finance and Insurance from the University of Rhode Island, and his Master of Divinity degree from the Gordon-Conwell Theological Seminary in Massachusetts.

About FMG Leading

FMG LEADING

The advisors at FMG Leading partner with visionary executives and investors who are on a mission to transform healthcare in America.

FMG Leading helps organizations build the alignment, agility, and strategic focus required to deliver world-class outcomes and help healthcare fulfill its promise.

To learn more, visit www.fmgleading.com