

Brief

A Private Equity Fund Just Bought Your Company ... Now What?

Private equity ownership can be tricky, but it doesn't have to be fatal for the incumbent CEO.

By Hugh MacArthur

4 min read



Listen to this article
6 min

At a Glance

- It's common for private equity investors to replace a portfolio company's CEO during ownership.
- That's often because company executives fail to understand—and embrace—a demanding new set of expectations.
- The leaders who beat the odds focus hard on building a strong relationship with new owners through alignment, transparency, and operational excellence.

There's one stat that always stops executives cold when private equity shows up on the scene: New owners replace somewhere between 50% and 70% of all portfolio company chief executives during the hold period.

That speaks volumes about how unforgiving the job can be. Private equity brings capital but also delivers big expectations. The bar is high, timelines are tight, and value creation can't wait.

Change, of course, is foundational to the PE business model, meaning new owners are always measuring the executive team against the specifics of the transformation challenge ahead. They tend to favor inspirational leaders with mission-critical skills, those who lean into risk and have demonstrated resilience in the face of adversity (or even failure).

Yet results, pure and simple, are what matter most to any PE sponsor, suggesting there's no single path to success. The common denominator of the executive teams that survive the transition is a willingness to dial up the metabolism and work closely with their new partners to craft a plan for adding value quickly.

The learning curve can be steep for CEOs dealing with private equity ownership for the first time. Here's how to stay ahead of it.

Align on the investment thesis ASAP

Success in the immediate post-acquisition period is all about quickly developing an integrated, actionable value-creation plan (VCP) that resolves any mismatch in expectations between management and deal sponsor. The best way to get there is to marshal a deep fact base that provides a well-synthesized view of what is known, what is likely, and what will be required for success. The objective is to zero in on three to five value-creation levers that will produce the desired results: at least a 3x multiple on invested capital or a doubling of enterprise value. The most effective leaders ensure these objectives dominate the board's agenda and that the team is getting the resources it needs. They pinpoint key performance indicators (KPIs) and are

vigilant against drift. They articulate a clear vision for the team and confirm that it cascades through the organization.

Be transparent (no surprises)

It's never easy to build a relationship with a new owner. But hunkering down defensively or keeping sponsors out of the loop is the quickest path to friction. Open information flows promote trust. Proactive communication beats reactive damage control every time. It's important to gauge a fund's appetite for updates and to set a regular rhythm of investor involvement and communication. Be honest about risks and share challenges (as long as you come with proposed solutions). Communicate all new developments—especially bad news—quickly. Be out in front of investors on providing and interpreting performance numbers.

Operate with discipline

It's your job to increase the tempo and prepare the organization to work with a more hands-on, financially astute board. Identify early who's doing what and when. Define short- and long-term priorities around the three to five key value-creation levers and establish a dashboard for the KPIs. To communicate what's happening in real time, make sure to designate a primary liaison with the PE fund (often the CFO) to prevent a firehose of information requests that distract the team. Pre-wire board members. No one likes surprises, least of all PE investors.

Upgrade the bench

Once it's clear what skills and capabilities will be required to execute on the VCP, you'll have a fact base for determining the talent you'll need. Right now is the time to make those decisions, especially the tough ones. Sentimental loyalty to underperformers is inevitably a deal killer, signaling to the sponsor

that you aren't willing to lead effectively. Data shows that PE investors value the ability to build and motivate an A-team over all other management attributes. Be honest about where talent gaps exist, and act early. Execution is everything.

Staff for the sponsor

You may be private now, but the reporting intensity is no less onerous than it was under public ownership. PE sponsors eat data for lunch and will expect a regular flow of information to gauge progress against the VCP. That means you'll likely need to add headcount on the financial planning and analysis team to handle the new data load. Automate where possible. Templates are your friend when the heat's on.

Don't be afraid to tap the ecosystem

Your fund likely has operations partners, expert advisers, and peer forums—use them. They speak fluent PE *and* operations, which can provide a critical bridge in understanding as you navigate the world of private capital. They not only possess valuable expertise in an array of operating disciplines, but they've seen this movie before. Their guidance can shorten your learning curve.

Know your sponsor

We've been talking in broad strokes here, but it's important to note that not all PE firms behave similarly. Some are hands-on, others more laissez-faire. It's worth the investment to understand their style, decision cadence, and politics. Talk to other portfolio companies. Ask questions. Build the relationship.

Private equity is high-octane, but it can also be invigorating. With alignment, transparency, and a clear operating model, portfolio company CEOs and

management teams can turn pressure into performance.