Right from the start: 5 resolutions to assist your new portfolio companies

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The IRR clock starts ticking from day one, and the first months of a deal are critical to establishing its pace and trajectory and the relationship between the PE firm and portfolio company. Our firm has advised more than 200 PE funds since 1995, and even in the era of the 100-day plan, we time and again see some of the same predictable and costly early stumbles. You can prevent these with a few simple resolutions:

1. **Meet the management team where they are.**

The moment you finish celebrating a new deal, the pressure is on, and your way of getting to know it may be to tear it apart like a shiny new toy. While you are at the starting line and raring to go, for some battle-fatigued management teams that just sold the business, it can feel more like the finish line — and these different frames create friction.

Winning ways:

- Acknowledge that dynamic with your CEO up front, i.e., "I respect that you have been very successful, and we may get in your shorts more than you would like at times in our effort to add value."
- Come to the table with three ideas — not 20 — to be useful.

2. **Agree on where you are headed.**

As we were interviewing the deal team and management team of a new retail investment to define a scorecard for success, the managers clearly were nervous about meeting the PE sponsor's growth expectations while driving operational improvements. They assumed this was non-negotiable, but by surfacing the concerns early, the investors opted to delay opening new stores and spend the first year getting the operations right. Instead of heading down a path of poor execution, the investment is on track for a 23 percent IRR.

Winning ways:

- Lock yourself in a conference room with the management team to discuss and sign off on a value-creation plan or scorecard within the first 30 days.

3. **Make the board a gain, not a drain.**

The most common complaints we hear from portfolio-company CEOs center on feeling bombarded, confused and/or micromanaged with too many ideas, information requests or cooks in the kitchen. As one CEO put it, "The best board I worked with was the one that actually told me what their role was."

Winning ways:

- Introduce your whole team (deal team, operating partners) and their roles.
- Document who has rights regarding key decisions.
- Agree on a communications cadence up front and share a best-practices dashboard and board deck; describe your best and worst CEO communications styles (without naming names!).
- When firing off an email with an idea, be clear about the priority level

and whether it is a request for follow-up or just a suggestion to consider.

4. **Get the team right.**

Winning ways:

- Share your observations on the management team with the CEO, vis-a-vis the scorecard.
- Have a talent review on the board-meeting agenda around the 90-day mark (and again at least annually).

5. **Build relationship capital ahead of the tough times.**

Like any marriage, a foundation of rapport and trust makes inevitable challenges easier to weather — and what counts is treating your CEO like a partner. We advised a portfolio company where the main growth constraint was the CEO's bandwidth to source add-ons. After years of a penny-pinching sponsor, the CEO nearly fell over when the new deal partner suggested chartering a plane instead of flying commercial. Long after a successful exit, he remembers that early gesture of walking in his shoes and being willing to invest.

Winning ways:

- Do one thing in the first 30 days to make your CEO's life easier or better.

Somewhere between cutting carbs and logging more hours at the gym, consider adding some of these to your New Year's resolutions list. The ROI is likely to be great.

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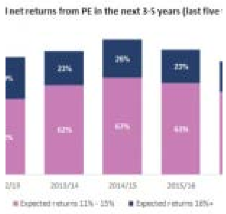

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