PRIVATE EQUITY BOARDS

What public company directors might learn from the PE playbook

By Allan Grafman and Jason Kelly

Once occupying a quiet corner of the financial world, private equity firms have taken on a greater prominence in the global economy, controlling in excess of a trillion dollars and owning the likes of Hilton Hotels (which did an IPO in late 2013), The Weather Channel, and J. Crew.

As private equity grows, it is an intriguing exercise to look at the PE board of directors' playbook and see what we might learn. In this article, we examine some processes that may be considered by public company boards to enhance their positive impact as directors. (We don't address controversial policies such as excessive leverage, job cuts and dividend recapitalizations.)

Here are four topics for consideration:

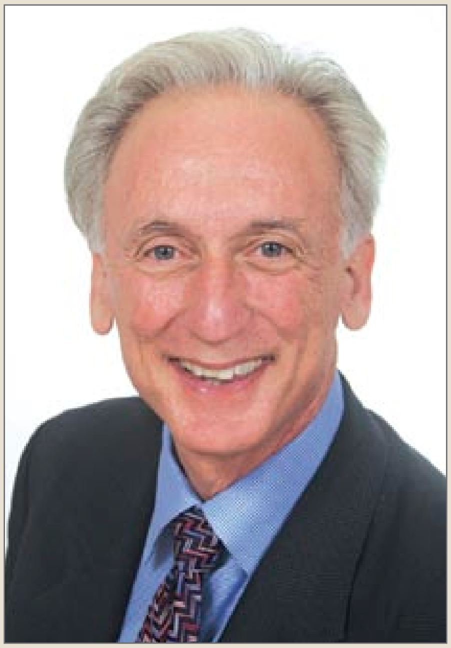
1. ***Preparation and commitment before joining a board.*** Private equity firms perform extensive due diligence ahead of any transaction, sometimes studying an industry or individual company for years before making an offer. Once a deal is agreed upon, a PE firm will typically engage a team dedicated to executing the plan agreed upon with management. The team often comprises the financial specialists responsible for the transaction, as well as operational executives.

Preparation allows the new owner and board to start making decisions almost immediately, putting theory into practice. PE firms rarely, if ever, start figuring out what to do once the transaction closes.

Possible board takeaway: Consider a longer "runway" during which prospective director candidates are provided data on the company and its challenges, as well as opportunities to meet, and form relationships with, key company executives. A more prepared and committed director may emerge. No board wishes to have a candidate join the board and subsequently learn it's a bad fit.

2. ***Well-defined time frame.*** While private equity managers often present a buyout as an escape from the scrutiny of quarterly earnings reports, the clock ticks loudly for a private equity-owned company. Managers invest from a fund with set time parameters. Investors commit money with an expectation of market-beating profits by the end of their investment period. During the fund life, PE firms spend the first half buying companies and the second half "harvesting," or finding ways to exit investments and reap profits. With limited time, private equity managers can't be married to ideas that aren't working or management teams who aren't executing. That sense of urgency filters through nearly every discussion.

Possible takeaway: Public directors may consider setting clear time tables to assess the success or failure of management teams and strategies, and shouldn't be afraid to abandon strategies or teams that aren't bearing fruit. Setting reasonable deadlines may help directors and management feel a sense of shared urgency in making meaningful changes in the business.



Allan Grafman (left) and **Jason Kelly**: The 'nose in, fingers out' approach widely advocated and practiced by public company directors is anathema to PE directors.

3. ***Shareholder and stakeholder relationships:*** PE firms receive money from a range of investors (known as limited partners) who get regular, detailed updates on specific investments. Given that a private equity manager will need to ask those same limited partners for money again in the future, the PE fund managers have a strong incentive to develop meaningful relationships. Many of these relationships stretch across decades and involve the private equity firm's most senior partners. The best managers make regular, in-person visits to their investors, in addition to hosting annual in-depth meetings to review individual investments and strategies. As PE firms have expanded their ownership to include dozens of companies, they've extended their outreach to

stakeholders beyond financial investors. Labor unions, local governments, and environmentalists now rate extra attention as private equity firms seek to leverage their influence and protect their investments and reputations.

Possible takeaway: The days of the CEO being the exclusive gatekeeper to shareholders are waning. The public company board may consider structured programs to introduce board directors to shareholders and other stakeholders.

4. *Interaction with CEO:* The 'nose in, fingers out' approach widely advocated and practiced by public directors is anathema to PE directors. PE board directors are well known for a much more active interaction with the CEO and management team. PE company CEOs will often comment that frequent calls (and more!) from their board directors are the norm.

Possible takeaway: Directors may consider ways to formalize more frequent check-ins with the CEO, without being overly intrusive. This could take the form of a more engaged, independent chairman, or weekly board calls. (See "Board Calls — Weekly Is the New Quarterly," *Directors & Boards,* First Quarter 2009.)

Private equity's business model demands a different approach, one focused on quick action and deep relationships — with investors, management, and other stakeholders. While each company has its own opportunities and challenges, a playbook that favors longer director preparation and more active engagement may lead to a more rewarding and profitable directorship that benefits all stakeholders.

Allan Grafman monetizes brands and content for PE, VC and corporate owners. He serves on several boards, public and private, domestic and international. He is president of All Media Ventures and can be contacted at allangrafman@allmediaventures.com. **Jason Kelly** is the author of *The New Tycoons: Inside the Trillion Dollar Private Equity Industry That Owns Everything* (Bloomberg Press, 2012). He is the managing editor and host of Bloomberg LINK, the firm's global conference business. He can be contacted at jkelly14@bloomberg.net.

CINCINNATI BELL INC.

Cincinnati, OH

has added to its board:

Russel P. Mayer

Theodore H. Schell
Managing Director
ASSOCIATED PARTNERS LP
New York, NY

Bio Notes: Mayer is the former EVP, CIO & Quality Leader at GE Healthcare. He retired following a 37-year career in information technology and business process improvement. In 1986 he joined General Electric and spent 20 years as a chief information officer. Age 60. **Schell** previously oversaw the U.S. investments in telecommunications, wireless, and related technology and applications companies for Apax Partners. He also served as SVP for strategy and corporate development at Sprint Corp. Age 69.

Cincinnati Bell operates wireline, wireless, and technology businesses. Revenues are $1 billion. **Associated Partners** is a private equity firm primarily focused on telecommunications infrastructure.

CIRRUS LOGIC INC.

Austin, TX

has added to its board:

Christine King

Bio Notes: From 2008-2012 she was president and CEO of Standard Microsystems Corp. She spent a more than 23-year career in senior positions at IBM. Also is a director of QLogic Corp. and Idacorp Inc. and its principal operating subsidiary, Idaho Power Co.

Cirrus develops signal processing components. Revenues are $863 million.

CITIGROUP INC.

New York, NY

has added to its board:

Duncan P. Hennes
Co-Founder and Partner
ATREVIDA PARTNERS
Rye, NY

Bio Notes: He co-founded Promontory Financial Group, where he currently is a member of the advisory board. Previously he was CEO of Soros Fund Management and held senior roles at Bankers Trust Co. Also is a director of Standard & Poor's and Syncora Holdings Ltd.

Citigroup is a financial services company. Revenues are $67 billion. **Atrevida** is an investment advisory firm specializing in alternative assets.

CMS ENERGY CORP.

Jackson, MI

has added to its board:

Kurt L. Darrow
Chairman, President, and CEO
LA-Z-BOY INC.
Monroe, MI

Bio Notes: He has spent a 34-year career with La-Z-Boy, where he was appointed chairman in 2011, president and CEO in 2003, and previously was president of the company's flagship brand and largest division, La-Z-Boy Residential.

CMS is an electric and natural gas utility. Revenues are $7 billion. **La-Z-Boy** is a residential furniture producer. Revenues are $1 billion.

CONAGRA FOODS INC.

Omaha, NE

has added to its board:

Thomas K. Brown

Bio Notes: He joined Ford Motor Co. in 1999 and from 2007 until his August 2013 retirement served as group VP of global purchasing. From 1997-1999 he held senior positions at United Technologies Corp, including VP of supply management. He currently serves as chairman of the Michigan Disabled Veterans Roundtable and is a director of 3M Co.

ConAgra is a packaged food company. Revenues are $16 billion.

CONSTELLATION ENERGY

Baltimore, MD

has added to its board:

Ann C. Berzin

Bio Notes: Beginning in 1984 she was general counsel of Financial Guaranty Insurance Co. (a subsidiary of General Electric Capital Corp.), where from 1992-2001 she served as FGIC's chairman and CEO. Also is a director of Ingersoll-Rand Co. Ltd. and Kindred Healthcare.

Constellation Energy is the parent company of Baltimore Gas and Electric. Revenues are $15 billion.