TOP **50**

Private Equity Firms for Executives

2023

PRIVATE EQUITY CXO

FALCON

Overview.

The Annual Top 50 Private Equity Firms for Executives highlights the funds whose governance style, engagement and fit are seen as best enabling their executives to achieve success. The winners were selected through a collaboration between PrivateEquityCXO (PE-CXO) and Falcon Partners. PE-CXO is the world's largest community of private equity-backed executives. Falcon Partners is a leading retained executive search firm exclusively serving private equity firms and their portfolio companies.

An unrelenting, decades-long increase in PE deal-making has resulted in unprecedented demand for C-suite portfolio company executives. And the supply/demand trend continues to worsen, thereby making a competitive talent pool even more daunting. Elite executives will be diligent in selecting the right platform and optimal sponsor fit. The stakes are further intensified by economic uncertainty, drawn out exit horizons, a challenging debt market and dynamic valuations. As a result, value creation becomes even more challenging for all stakeholders.

Aligned interests are a hallmark of private equity. Yet the key findings of this report show there is a significant opportunity for sponsors and executives to ensure that cohesion is better prioritized. No single governance approach is ideal except to the extent it aligns with a given management team's behaviors. The findings in this report can serve as a framework for sponsors and management when conducting mutual diligence ahead of a key hiring decision, or when seeking performance improvement. That framework is presented as the **Nine Dimensions of Governance Fit®**.

> They believed in bringing in strong management teams and after strategy was aligned, we were empowered to run the business.
>
> —4X PE-exited CEO

Methodology

The Top 50 Private Equity Firms for Executives selection process included surveys and interviews of more than 1,000 sponsor-backed executives from July 2022 through December 2022. Participating executives were selected for their credible track record and exposure to more than one sponsor.

Fund performance was also an important consideration since the majority of executive compensation is tied to achieving a successful liquidity event. For newer sponsors, we considered Multiple on Invested Capital (MOIC) progress as reported by executives. For more established sponsors, we also evaluated historical results by fund vintage.

We dug into four primary areas as the basis for our research:

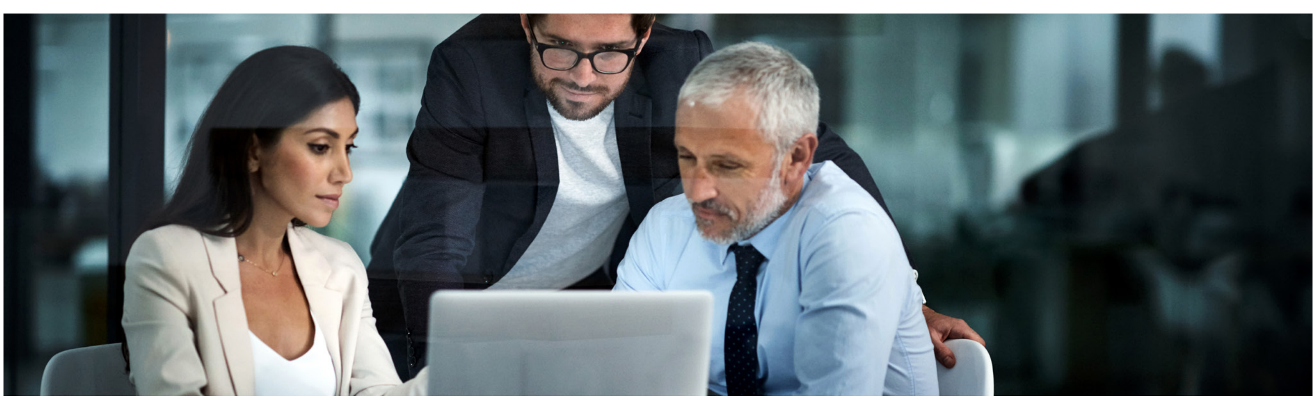
Sponsor criteria.

Investment prowess
to help fuel executive wealth creation.

Highly effective governance
in true partnership with management.

Management's desire to stay
and/or reunite with a fund to lead another deal.

Value add support
to help maximize upside performance.



Why governance fit matters.

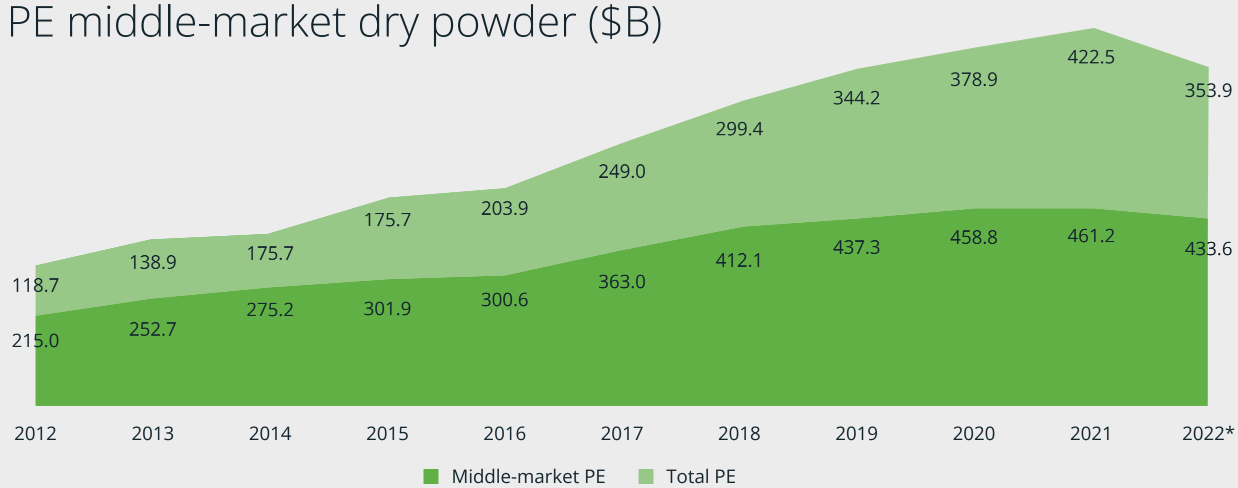
Current outlook on supply and demand

Market data suggests that private equity is in the middle innings of a perfect storm on talent.

- The number of portfolio companies has grown at 9% annually since 2010, outpacing the growth of the talent pool by more than 4X.
- 2021 saw a record number of transactions and new deals stoke recruiting demands, further contracting the talent pool of qualified candidates.
- Portfolio company leaders are facing a rising degree of difficulty and increasing complexity with each passing year.
- Persistently high multiples and a rising interest rate environment require even more from management.
- Record levels of dry powder, in concert with these other factors, suggest the war for leadership talent among sponsors will only intensify.

More than ever, turnover must be minimized. An abundance of third-party research on executive turnover in private equity indicates that, within a hold period, CEO turnover is more than 60%, while CFO turnover is more than 75%. This turnover is costly, blunts value creation, and erodes IRR.

PE middle-market dry powder ($B)

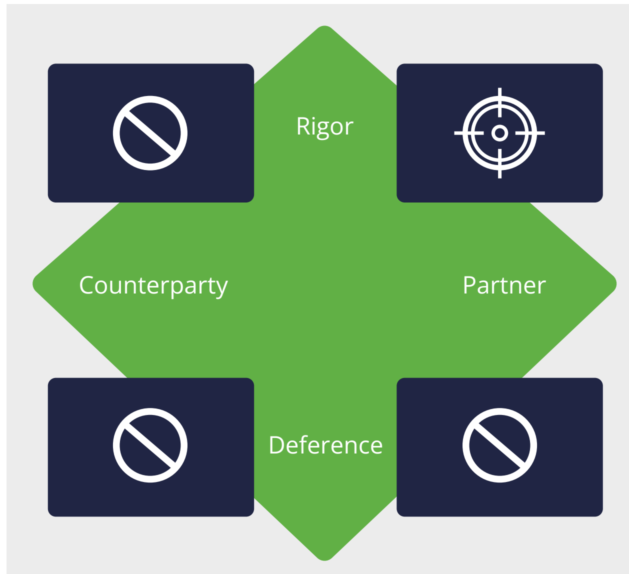


Source: Pitchbook | Geography: US
*As of September 30, 2022

Consequences of misaligned governance fit

Most leadership research across private equity focuses on the shortcomings of management or on the traits of great leaders. Our survey provides all-important insight into the other half of the deal equation, the governance fit between sponsor behavior and management. Private equity firms would be advised to ensure their governance model is a fit for management for several key reasons:

- **Recruitment:** Executives are quick to share negative information about sponsors with their peers. Funds known for their transactional treatment of management have little chance to recruit elite executives who are in the know.
- **Retention:** Unvested equity is not enough to retain elite leaders laboring in an unproductive governance environment. Funds must recognize that their portfolio company executives are being contacted by a recruiter multiple times per month. Talent will not stay for the exit if dysfunction persists. Everything is relative, and a better deal with a superior sponsor is only one recruit call away.
- **Returns:** Private equity investors possess elite business minds. However, the road to top quartile returns only steepens with self-inflicted recruitment and retention wounds.



THE DATA SHOWS THAT ELITE EXECUTIVES WOULD PREFER TO FORGE A LONG-TERM PARTNERSHIP AND LEAD MULTIPLE DEALS FOR THE SAME SPONSOR, BUT ONLY IF THE GOVERNANCE FIT IS ON POINT.

Caveats

1. Across any sponsor's portfolio, there will be stronger and weaker management teams. Sponsors have no choice but to engage accordingly. That said, the most sophisticated sponsors recognize their strongest teams and unleash their upside by engaging in a manner reflected in the majority of the findings of this research.
2. Management must still execute at a world class level. Even with optimal governance alignment, a meaningful percentage of portfolio company executives are not properly equipped to thrive in a private equity-backed setting.

Key takeaways.

I. The breadth of executive feedback has informed what we offer as the **Nine Dimensions of Governance Fit®**.

II. Every sponsor has a unique approach to management governance, and no single sponsor is world-class in all nine dimensions.

III. One governance model is not superior to another, so long as management is well-suited for a specific fund's approach.

IV. A sponsor's governance mix will help determine an optimal executive archetype.

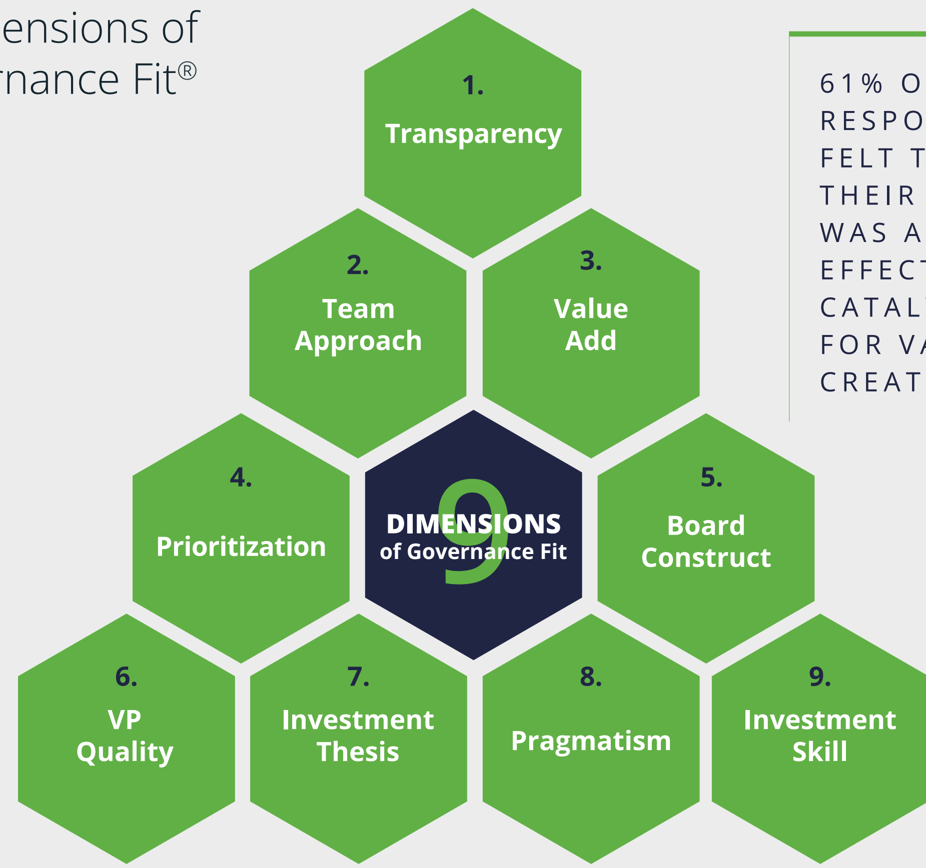
56% OF RESPONDENTS RANKED TRANSPARENCY, OPEN COMMUNICATION, AND PRAGMATISM AS THE MOST IMPORTANT ATTRIBUTES OF A POTENTIAL SPONSOR. ONLY 28% OF RESPONDENTS WHO FELT THEIR SPONSOR FAILED IN BOARD MANAGEMENT SAID THEY WOULD BE WILLING TO WORK FOR THAT SPONSOR AGAIN, WHILE 87% OF EXECUTIVES WHO WERE PLEASED BY THEIR SPONSOR'S USE OF OBDS SAID THEY WOULD BE WILLING TO RETURN. AND JUST 16% OF RESPONDENTS WHO FELT THEIR SPONSOR FAILED TO PARTNER WITH MANAGEMENT SAID THEY WOULD BE WILLING TO RETURN TO THEIR FORMER SPONSOR, WHILE 97% OF EXECUTIVES WHO FELT ALIGNED WITH THEIR SPONSOR REPORTED BEING WILLING TO WORK WITH THEM AGAIN.

> "When things went wrong, they didn't leave us twisting on our own for long, they jumped in with pragmatic insights as to how we could get through the storm together."
>
> —2X PE-exited Chief Commercial Officer

Findings.

Although management feedback was wide ranging, the data clustered around nine key areas which we present here as the **Nine Dimensions of Governance Fit®**.

9 Dimensions of Governance Fit®



61% OF RESPONDENTS FELT THAT THEIR SPONSOR WAS AN EFFECTIVE CATALYST FOR VALUE CREATION.

1 Transparency

Candid, real-time feedback lets management know where they stand. Preferred funds do not hesitate to provide feedback when they have concerns. Unfortunately, many sponsors keep quiet about frustrations with management, which usually leads to dysfunction. Elite executives crave candid feedback, both positive and constructive.

Hold period timing is a common emphasis for executives. A lack of transparency regarding exit timing causes unnecessary angst among management teams. These executives are happy to sacrifice for the pursuit of value creation. However, with as much 50% of equity vesting tied to a successful exit, opacity on exit timing can create retention risk and can negatively impact morale.

Respondents raised concerns about sponsor trust towards management including a pattern of second-guessing executive decision-making capabilities. This finding is a leading reason that PE-backed leaders feel disappointed with previous sponsor relationships. CEOs often cited a “lack of transparency” as a significant component of their sponsor dissatisfaction.

2 Team Approach

Deal partners must be skilled transactors. Unfortunately, some take a transactional approach with relationships, including their approach with management. Strong executives don't appreciate being kept off-balance as if they are a counterparty. Instead, they prefer authenticity and a sincere approach to ensuring buy-in.

Respondents liked rigor and being held accountable, but private equity firms should be allies who support management's cause. In dysfunctional settings, executives are made to feel as though they are necessary evils who are underappreciated by their sponsors.

Respondents preferred a sponsor that can constructively receive bad news and work with management to formulate a plan. Executives prefer sponsors that are as supportive and engaged in downtimes as during good times. All parties win when management succeeds.

3 Value Add

Effective resources, such as pre-vetted toolkits, were welcomed by respondents.

Executives were particularly fond of sponsors who had a knack for asking all the right questions and bringing strategic insights. Expertise with lenders and capital markets was recognized as a critical value-add.

Operating Partners are seen as high beta. Top-quartile executives welcome expertise and help, but they are less receptive when the Operating Partner indexes toward an additional report-out layer for management.

4 Prioritization

Executives prefer that sponsors not see every issue as a fire drill.

Respondents were mindful of their many responsibilities and finite resources, and they understandably preferred sponsors that focused on the priorities that matter most.

Executives strongly preferred sponsors who sincerely sought executive input on setting priorities.

5 Board Construct

Many top management teams benefit from the presence of legitimate outside board directors (OBDs). Elite executives want more than just box checks serving as outside directors.

Respondents preferred that OBDs be empowered to counterbalance sponsor views when indicated.

Duplicative managerial use of OBDs across a fund was specifically cited as a concern. Top leaders are demoralized by ineffective board members that engage in shadow management. It is not just a question of who is on the board, but who should not be on the board.

6 VP Quality

Participants were vocal that the #2 deal person, given their day-to-day involvement, can make or break the experience for management.

Two distinct archetypes were cited by management:

a) (Preferred): Value-add, constructive, and service-minded; or

b) (Problematic): Punching above their weight, arrogant, focused on scoring points with senior deal partner.

This area is often the most overlooked dimension during the recruitment process.

7 Investment Thesis

At the risk of stating the obvious, having a clear, fact-based and realistic investment thesis is a central priority in management's eyes. Respondents cited many examples where their thesis meandered causing frustration and a lack of focus.

Savvy executives prefer an actionable, detailed investment thesis over theoretical, higher-level scenarios.

Respondents showed a preference for sponsors that were fair-minded in their assumptions (multiples, organic growth, etc.) as compared to those whose assumptions seemed untethered from reality. This issue plays a particularly key role when executives are evaluating the equity upside of an opportunity.

8 Pragmatism

Respondents showed a strong preference for funds that can contextualize objectives for the realities of a business. Less preferred funds were seen as overly indexed toward analysis and as "living in spreadsheets."

Strong management teams understand that their sponsor will drive decision making. However, these executives also want to have a meaningful voice to balance the shared (but sometimes competing) goals.

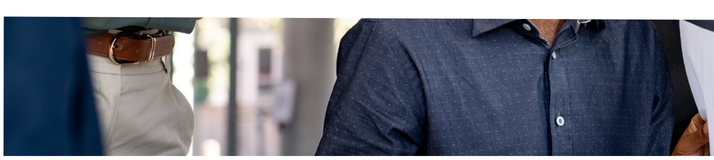
The data shows that executives who felt they were assessed in a fair and constructive environment were more likely to want to work with that sponsor again. Sponsors who tied annual bonuses to a combination of MBOs and EBITDA were preferred to those who paid out incentive compensation solely on EBITDA plan achievement.

9 Investment Skill

Sponsor-backed executives understand they will sacrifice over the course of the hold period. In return, they are laser-focused, in conjunction with their sponsors, on achieving a wealth-creating liquidity event for themselves and all stakeholders.

Respondents understandably appreciated their sponsors' ability to properly diligence platforms and add-ons to ensure all parties had a clear picture of asset quality.

Executives also volunteered the importance of a sponsor's ability to know "when to sell" to help avoid failed auction processes.



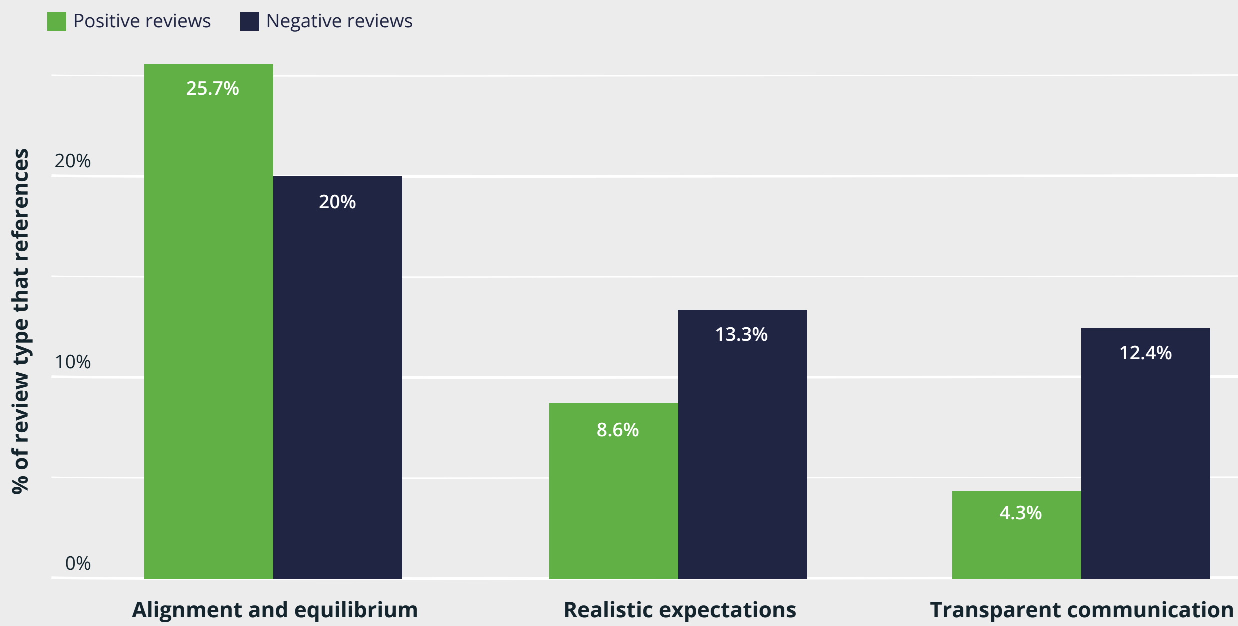
Candidate priorities and rankings.

Most important sponsor attributes according to executives.

Alignment was broadly considered the most important attribute of the 8 options given, with 61.7% of executives ranking it one of the top 3 attributes they looked for in a sponsor. VP Quality and Board Construction, two of the attributes not shown here, were clearly ranked as the least important, appearing on 12% and 7.5% of ballots respectively. If all 8 attributes were seen as equally important, we would expect each attribute to feature in 37.5% of top 3 ballots.

Executives were asked to rank the "top 3 attributes you look for in a PE sponsor." The 8 options given were Alignment, Value Add, Pragmatism, Transparency, Prioritization, Investment Thesis, VP Quality and Board Construction. This graphic depicts the percentages of executives who ranked each attribute in their top 3.

Prevalence of specific themes within positive and negative reviews.



Alignment was referenced in 25.7% of positive reviews, 20% of negative reviews, and 22% of all reviews. Executives referenced transparency in 12.4% of negative reviews as opposed to 4% of positive reviews, almost 3 times as often.

Reviews were designated 'negative' if they were provided in answer to "Describe a frustrating experience with a previous sponsor" or if the executive gave the referenced sponsor an overall poor review.

Regression of survey results on willingness to return to a sponsor.

	Dependent variable: Willingness to work with sponsor again	
	(1)	(2)
Number of portfolio companies		0.001 (0.001)
Fair assessment of performance	0.28* (0.11)	0.23 (0.12)
True partner with management	0.44*** (0.13)	0.44** (0.15)
Effective use of OBDs	-0.07 (0.08)	-0.06 (0.10)
Catalyst for value creation	0.31* (0.12)	0.30* (0.14)
Operating team added value	0.05 (0.09)	0.06 (0.10)
Constant	0.09 (0.09)	0.10 (0.12)
R^2	0.77	0.74
Adjusted R^2	0.75	0.72
Note:	*p<0.05, **p<0.01, ***p<0.001	

In the above chart "Regression of Survey Results on Willingness to Return," Model (1) analyzes the relationship between an executive's willingness to return to a previous sponsor and their belief that the sponsor provided a good experience in the key areas listed on the left side of the chart. Model (2) does the same, but also controls for the number of portfolio companies owned by the sponsor.

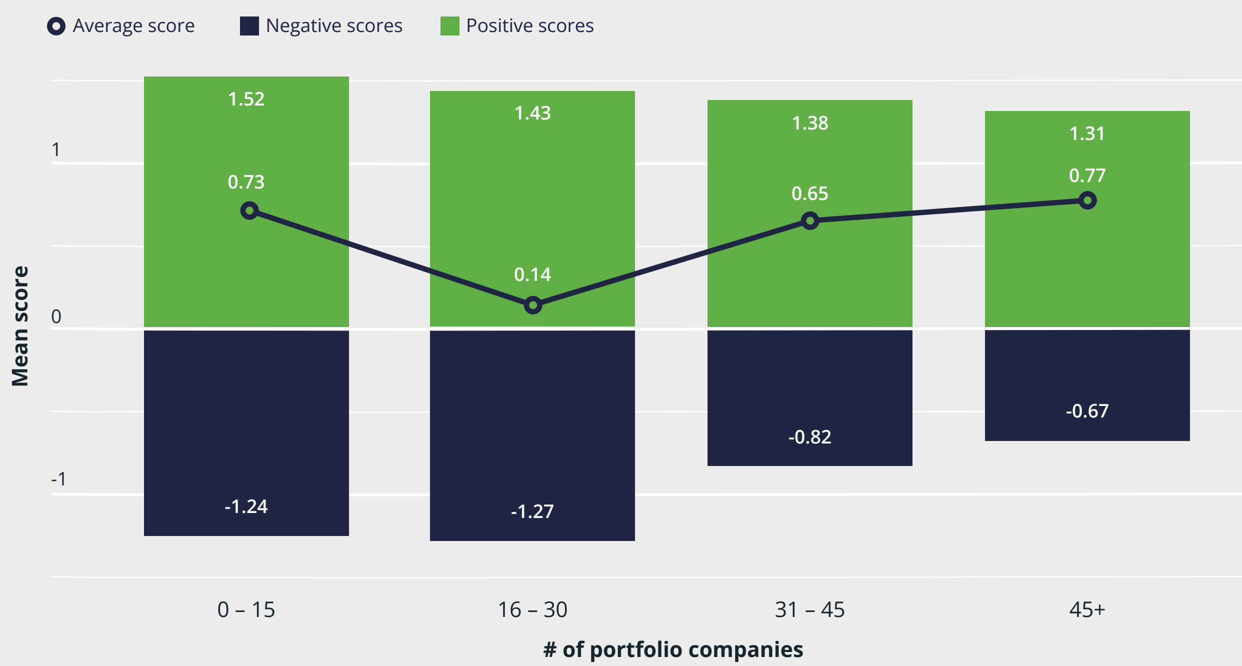
The asterisks symbolize the level of statistical significance each variable holds with executive willingness to return. Any level of statistical significance indicates that there is a non-zero correlation between changes in the independent variable (experiences provided by the sponsor) and the dependent variable (executive willingness to return to a previous sponsor). Each asterisk symbolizes a greater certainty in the existence of that relationship. One asterisk corresponds to a p-value less than 0.05, two asterisks with a p-value less than 0.01, and three asterisks with a p-value less than 0.001.

For example, we can conclude from this regression that an increase in an executive's feeling of partnership with the sponsor is correlated with an increase in their willingness to work with that sponsor again. Lacking statistical significance does not mean that the variable is unimportant to an executive's experience — only that there is not enough data to support that there is a correlation between the two.

The findings from this regression analysis align with what we would expect given the most important attributes executives look for in sponsors. According to the results shown in the graph "Most Important Sponsor Attributes According to Executives," we know that executives favor sponsors who add value and focus on aligning with management. This corresponds to two of the three significant variables found through the regression.

This regression suggests that within our survey results, the size of a sponsor has little to no effect on an executive's willingness to return to a sponsor. However, this is not the only way we can utilize our data to analyze the impact sponsor size has on executive experience. In the next graph, we explore how sponsor size correlates with overall positive and negative ratings.

Average of positive vs negative ratings across sponsor size.



Between the smallest and largest sponsors, the average rating of positive experiences dips slightly, while the average rating of negative experiences increases dramatically. This indicates that larger sponsors tend to provide a more consistent experience for their executives. Meanwhile, executives joining smaller firms may have greater potential for either a stronger negative or positive experience with that sponsor.

This graphic plots the average of scores greater than 0 against the average of scores less than 0 for different sized sponsors, bucketed by number of portfolio companies. This provides greater context into the overall average score for each bucket, indicated by the black line. Sponsor scores were calculated through a weighted aggregation of each executive's review.

Conclusion.

An intentional and open approach to management governance is a competitive advantage for sponsors.

This report is aimed to empower executives with a strategic and intentional framework by which to assess opportunities and progress. In no way do these findings relieve management of a burden to execute and lead at a world-class level. However, these findings clearly indicate that **Governance Fit** plays a significant role in value creation, or lack thereof.

As demand for portfolio company leadership continues to outpace supply, leading executives will intensify their assessment of sponsor behaviors when weighing competing opportunities.

Executives will continue to accept intense levels of rigor so long as the sponsor is a skillful investor with an impressive track record. They look to sponsors to bring to the table strategic insight, however, they expect to be entrusted with more room to operate as the company improves its performance.

Both sponsors and executives should utilize our **Nine Dimensions of Governance Fit®** Framework to self-evaluate and to drive continuous improvement that can strengthen both sides of the governance equation.

Most importantly, as our findings show, management who were well suited for a given firm's governance model (regardless of how effective) outperformed their counterparts where governance fit was flawed.

Elite executives tend to seek out sponsors in the upper right quadrant (see graphic on page 5). This strategic alignment is more likely to drive shared outcomes.

The Top 50 Private Equity Firms for Executives.

TOP 50
Private Equity Firms for Executives
2023

AEA Investors	New York, NY
ABRY Partners	Boston, MA
Arcline Investment Management	San Francisco, CA
Apollo Global Management	New York, NY
Arbor Investments	Chicago, IL
Arlington Capital Partners	Chevy Chase, MD
Arrowroot Capital Management	Marina Del Rey, CA
Audax Group	Boston, MA
Advent International	Boston, MA
Bain Capital	Boston, MA
Benford Capital Partners	Chicago, IL
Bertram Capital	Foster City, CA
Blue Point Capital Partners	Cleveland, OH
The Carlyle Group	Washington, DC
Centre Lane Partners	New York, NY
Centre Partners Management	New York, NY
Clearlake Capital Group	Santa Monica, CA
Cortec Group	New York, NY
DFW Capital Partners	Teaneck, NJ
Freeman Spogli & Co.	Los Angeles, CA
Frazier Healthcare Partners	Seattle, WA
Frontier Growth	Charlotte, NC
GenNx360 Capital Partners	New York, NY
Great Hill Partners	Boston, MA
Gridiron Capital	New Canaan, CT
Gryphon Investors	San Francisco, CA

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Hellman & Friedman	San Francisco, CA
Incline Equity Partners	Pittsburgh, PA
Industrial Growth Partners	San Francisco, CA
K1 Investment Management	Manhattan Beach, CA
Kinderhook Industries	New York, NY
Kohlberg & Company	Mount Kisco, NY
L Catterton	Greenwich, CT
Lincolnshire Management	New York, NY
MiddleGround Capital	Lexington, KY
MidOcean Partners	New York, NY
NGP Energy Capital Management	Dallas, TX
One Equity Partners	New York, NY
Pamlico Capital	Charlotte, NC
Prairie Capital	Chicago, IL
Pritzker Private Capital	Chicago, IL
Providence Equity Partners	Providence, RI
Roark Capital Group	Atlanta, GA
Serent Capital	San Francisco, CA
Shore Capital Partners	Chicago, IL
Summit Partners	Boston, MA
The Riverside Company	New York, NY
Thoma Bravo	Chicago, IL
Vista Equity Partners	Austin, TX
Wynnchurch Capital	Rosemont, IL

Anecdotes.

" We once had a sponsor sacrifice terms on our deal to build a relationship with a lender to benefit other portfolio companies. It was a killer to management team morale.

" They were just as supportive in down times as in good times. Constant focus on alignment of strategy and incentives.

" I once left a portfolio company before exit because the sponsor provided no insight into an exit timeline despite being 6 years deep in the hold, and despite repeated management inquiries.

" Their expertise with capital markets is second-to-none and brought huge value to our deal.

" Our deal lead told us he wanted his deal team to be the best we've ever worked with... and they lived up to it to make it so.

" They were aggressive yet rooted in reality. They held us accountable while allowing us room to execute with maximum speed.

" Even though they replaced me after growth slowed, they were highly professional in all of my dealings with them. We parted on great terms, and I'd welcome the chance to help them any way I could.

" They buy good companies with a desire to make them great. If you love add-ons, they are a great fund.

" They constantly improved the way they worked with companies... and offered an incredible network of resources and advisors.

" Of the six sponsors I have worked with, they were the most operationally oriented fund I have worked with, which allowed them to focus on the right things and ask the right questions.

" They were a great partner. They add tremendous value to the M&A process by adding strategic, operational, and commercial value-add post integration.

" They were really clear about what they were looking for, no hedging. Definitive. Transparent.

" When we hit turbulence, they didn't play the blame game. They stood in there with us and we worked through it together. They were quick and constructive in jumping in to help us figure out how will we solve this problem together.

" They almost always asked the right questions; intensity was placed on the right things. Priorities were clear and execution was indexed accordingly.

About Falcon Partners.

Falcon Partners LLC (Falcon) is a leading retained search firm with an exclusive focus on serving private equity firms and their portfolio companies. Falcon conducts searches for platform company CEOs, CFOs, Heads of Revenue, and other mission critical C-Level assignments. The firm also executes fund-level mandates for Operating Partners and Operating Executives. Falcon's mission is to ensure its clients and candidates have a competitive talent advantage in the pursuit of value creation. For more information, visit falcon-pe.com.

About PrivateEquityCXO (PE-CXO).

PrivateEquityCXO is a digital membership community offering content and playbooks that help PE-backed executives drive MOIC. The platform also provides 'rising stars' with an accelerated pathway to their first private equity-backed CXO role. The platform provides sponsors with curated access to talent while providing executives with the resources to optimize their careers and create generational wealth. For more information, visit privateequitycxo.com.