

Succession Planning in Private Equity

While the focus in private equity is on building immediate value for exit, leaders must consider the company's development after it's been sold. **Mary-Anne Baldwin** explores how succession can be integral to building a strong growth story

A [recent poll](#) by Criticleye found that while ninety per cent of respondents believed that succession planning built a company's valuation on exit, none were satisfied with their existing framework for succession.

"It can be uncomfortable to have conversations regarding your successor at the best of times, not least in private equity when other business challenges can seem more immediate. Yet succession is a vital part of building

value in the business," says **Matthew Blagg**, CEO of Criticleye.

We asked a range of business leaders within private equity to share their thoughts and experiences on succession planning. Here's what they had to say: >



Paul Brennan
Chairman, OnApp

Understand What Makes a Good Succession Plan in PE

Paul Brennan is Chairman of private equity backed cloud software provider, OnApp.

A succession plan is not only good for the business but for its potential buyer – it's the insurance that underpins the value of the existing team. If an acquirer comes into a business without a succession plan, it's really only buying the IP.

Some private equity-backed businesses neglect succession because they just don't see the importance when they are looking to get out in three or four years. Other PE houses focus on it as a way of replacing the CEO, which isn't succession planning, it's replacement planning – there is a fine line at times. A good succession plan is one that the person who will leave buys into.

If you have a strong number two in place because they are a co-founder, that is not succession planning. Good planning brings the whole company upstream.

If it's handled in a way that's best for the business then succession shouldn't be contentious. While the decisions should be made by the CEO and board, an experienced HR Director – which you may only get in a larger business – is critical in understanding the nuances and processes.

For example, people may question what will happen to them when they leave – will they lose their stock or options? Having a HRD who can explain remuneration avoids having conversations about packages on the fly, which is not what you want to do.



Debbie Hewitt
Chairman, Moss Bros Group

Use Succession to Build Value for the Exit

Debbie Hewitt is Chairman at Moss Bros Group and the private-equity owned Evander Group.

When you come to exit a PE-backed business, the value of being able to show you have a very credible team but also that there is some succession within that team – is significant. If you have no demonstrable succession plan for critical roles, many potential buyers are likely to see that as a risk to the long-term sustainability of performance across the business. Having succession options is a critical part of building value.

What I've often found is that succession planning becomes part of the exit plan but if you wait until six months before

the exit, you won't have a plan. Assess the team early on in your ownership of the business, be clear about the critical roles, understand how you might build the cadre of talent and then implement that.

It's really important to understand the vital roles in the exit story, and the strength and depth of your team in those roles. For example, is the digital expertise concentrated in just one person or across a team?

I don't see succession in private equity businesses as any different from succession in other ownership structures. Arguably, the value from good succession planning in private equity-owned businesses can be more tangible.



Stuart Coventry
Partner, Jamieson

Prepare for Your Departure

Stuart Coventry is Partner at Jamieson, an advisory firm that supports PE firms in succession.

In private equity you have a combination of new owners, liquidity and management time horizons to deal with. Those three things together mean you have to manage succession more vocally than if you had a business that was not changing hands.

If you think about a typical four-year PE hold, you'd need to have succession in place about mid-way through, which is when most people only just start to think about it.

Leaders must prepare for their own departure and that means succession planning. We sometimes get asked "Do I always have to roll?" I tell them that if they haven't prepared anyone to replace them they'll be too important to the deal to leave, which is why they end up rolling again.

Succession is not a dirty word, actually it's part of ordinary business process and if you do it in an orderly way there is no issue with it. Investors will want that conversation to be had. While it can be a difficult conversation for management to raise, it's healthy on both sides.



Shaun Middleton
Managing Partner, Dunedin

Don't Stop at the C-Suite

Shaun Middleton is Managing Partner at Dunedin, a UK mid-market PE firm.

Many of the businesses we buy have been run on a shoestring so don't have a broad enough base for succession. In those cases owners don't invest in quality people because they are focused on the short term. Investment into building the right team, and one that can progress, will have an immediate hit on your bottom line but it pays off in the longer term when you're growing.

We continually look at succession and that's not just regarding the leader, it's about the entire business. If you look at it in that way, CEO succession happens naturally.

The biggest issues we face are when someone leaves a business and you don't have the tiers below to step up. Having someone internally is far easier than recruiting from outside.

When it comes to exiting, if you have a strong management structure with good people below, it makes the sale easier. If you're selling a business that relies on one or two leaders, people aren't going to pay as much for it.

The better the management team, the more willing they will be to put succession plans in place. Some don't want the threat they perceive a good succession plan may pose. There are myriad reasons why people might be nervous about it, but you need to deal with the human element and persuade people about the value of succession.

Find out more about our next Private Equity Breakfast [here](#)