

Private Equity and Interim Management



13th July, 2017, by Michael Hahnelt
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Medium-sized companies look for equity sources in a wide range of situations. Generally, there are 7 reasons why private equity companies invest:

1. **Growth:** To maintain a company's market share, strong company growth requires considerable investment in manufacturing capacities or the expansion into or expansion of international presence. More complex structures become necessary if a certain company size is exceeded. Building these effectively requires additional capital.
2. **Classical financing instruments exhausted:** Available funds, loans and mezzanine capital have been used by the company, but additional capital is needed.
3. **Economic Difficulties:** The company is in a temporary crisis, but has a positive future forecast. However, the continued existence of the company can only be secured through the contribution of fresh equity.
4. **Company Sale:** The company separates from ancillary activities to focus on its core competencies
5. **Lack of succession planning:** Around 70,000 companies must deal with succession issues every year. However, if there is no successor

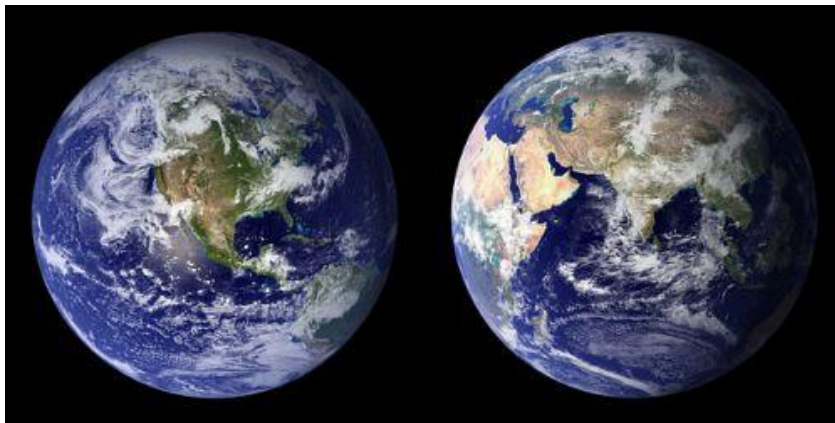
in the family, but the company wants to remain independent, a non-family member succession plan must be found.

6. Family reasons: A succession, gift, or divorce can lead to the reduction of private assets previously tied up in the company.
7. Lack of willingness to reinvest: Current shareholders are - despite great need - not willing or able to invest more of their assets in the company

Two worlds: Private Equity and SMEs

As a shareholder, private equity companies are interested in the business performance of its portfolio companies.

It is therefore understandable that an investor wants to be informed and involved in strategic decisions to be able to influence the company's development. Due to the close link between the entrepreneurial family and the company, medium-sized family



businesses have specific features. This becomes clear in the decision-making and corporate culture. Stereotypically, family businesses are considered emotional, secretive,

and risk-averse. Financial investors are characterized as yield driven and straightforward.

Family entrepreneurs typically invest most of their assets in their own business, and maintaining them is their top priority. This results in a long-term orientation and the desire for independence. Non-financial goals are a high priority. Private equity donors expect a double-digit

return and participation rights for their risk-bearing capital provision and strive for the medium-term exit from the company. These incongruent target hierarchies provide sufficient space for conflicts.

Interim Manager as interface between the company and the private equity company

Interim managers have a wealth of experience from all sectors of industrial manufacturing: from construction, automotive, mechanical engineering to chemistry, renewable energies, and reprocessing.

Companies in the healthcare industry are also among the clients and companies from the FMCG, services, tourism, and food. There are numerous applications for interim managers, who can bring a vast wealth of experience in specific business situations for private equity companies. Interim managers may be involved in all phases of a business cycle, such as business start-up, growth phase, stabilization,



stagnation and work in a crisis and on its potential impact.

In almost all these entrepreneurial phases, reorganizations, restructurings, realignments, mergers, splits, changes of shareholders, purchases and sales or partial sales

of companies are a result.

Due to their mostly international activities, interim managers speak several languages and are familiar with different cultures, which makes them so attractive to many companies.

That's why the private equity firm often uses the right specialist for the company and its situation: reorganizer, M & A or post-merger

integration (PMI) expert and generalists. The prerequisite for a successful implementation of the task in cooperation with the company, the PEG, its management team and the interim manager is a detailed analysis of the current company situation. Added to this, as an essential aspect of the "positive chemistry" between the participants.

Using interim managers in these situations can support the participants in their projects and be a major success factor. Once the appropriate decision-makers have experienced a successful interim assignment, other tasks are often assigned to the Interim Manager. The enormous wealth of experience of a carefully designed interim manager pool can cover all management tasks of an organization and master challenges.

Substantial experience of interim managers - a "valuable resource" for private equity companies



Many private equity companies rely on Interim Managers as part of their investment activities, typically filling senior positions in portfolio companies.

But even in the identification phase of investment projects, external executives can

provide valuable support. The selection and evaluation of suitable companies requires extensive industry and market knowledge that interim managers usually bring with them through their project experience.

The classic use of interim managers takes place in the phase of strategic realignment of the company. Depending on the task at hand - ranging from restructuring and turn-around projects to performance improvement programs to growth and internationalization strategies - experts with experience in their respective field of activity and proven success in the value structure are in demand. Using external managers also makes sense when planning and executing the optimal exit strategy. In addition to knowledge of the industry for the selection of potential, strategic buyer and experience in due diligence legal know-how for preparing the contents of the contract is required.

Interim manager Michael Hahnelt has been frequently employed as CFO for private equity companies:

"Managers are at the center of attention when it comes to important changes. It is expected that their actions make sense, to communicate change, and to exemplify what matters in the future."

Do you want to benefit from the enormous experience of an interim manager?

Contact us. We are always happy to advise you.

Sources used:

- Excerpts from reports of the BVK e. V.
- Aurum Interim
- Online presentations
- Own experiences of Michael Hahnelt