



Vardis

/ N. AMERICA PRIVATE EQUITY
CFO SURVEY Q1 2019

- Overview:** We are pleased to share with you the results of our 2019 Private Equity CFO Survey. As in our previous surveys, we explore compensation norms, investment and governance trends, the relationship between CFO and PE investor, and the differences in the CFO role between public and PE owned companies. This year, we also asked respondents to gaze into their collective crystal ball and share their views on micro and macroeconomic issues.
- Methodology:** During January/February 2019 (following up on its Q4 2016 AND Q4 2017 surveys), Vardis contacted the CFOs of more than 1,000 North American Private Equity Portfolio companies to review job content, differences between Private Equity and traditional finance roles, compensation, and expectations. We appreciate the time and consideration of those who responded.
- About Vardis:** Vardis is an international executive search firm focused strictly on portfolio company recruitment on behalf of Private Equity investors in North America, Europe and Asia (CEO, CFO, Board Directors, etc.) and in Pre-Deal situations through the introduction of Advisors, potential Board Members and Operating Executives.
- Questions & further information:** Should you have questions or want further information on this or Vardis' other surveys, including its annual Leadership surveys (conducted in conjunction with AlixPartners), please feel free to contact a Vardis consultant in any of our offices at www.vardis.com.

/ SURVEY HIGHLIGHTS



The more things change...

Investors target experienced CFOs to de-risk investments

- 70% were previously CFOs, 48% previously CFO of a PE-backed company.
- 55% of CFOs cite their former CFO experience as the key reason for their selection
- Only 13% work with PE firms whose Operations Groups include CFO expertise

Demand for talent outpaces supply

- “CFO base salaries up 6% over last year with total cash increasing by 17% for CFOs in the \$100-\$500M revenue range
- CFOs report 2-3 new job approaches each month with those in companies with revenue greater than \$100M averaging 4-5 per month



PE CFOs a breed apart

Pressure and Oversight are different

- 40% describe their companies as “Highly Leveraged” including 70% of those with revenues over \$100M
- 71% have contact at least weekly with their investor with more than a third having multiple contacts per week

Career expectations are different

- The career path is serial, episodic. 21% are in the first year with their company with 2/3 in the same company less 3 years.
- Almost half are working in a different city from their previous role with half of these commuting long distance from a remote home base.



Trends to watch

Hold times continue to shorten

- Over half of respondents expect an exit within the next 2 years
- CFOs perception of their investor's average hold time has decreased from 60 to 47 months in the past year.

Expectations are sky-high

- While 39% of respondents indicate that their companies have underperformed the initial investment thesis, 78% expect improved results in 2019 over 2018
- Expectations are not dampened despite awareness of potential economic, trade, political, credit and regulatory challenges

/ THE PRIVATE EQUITY CFO

Experienced Specialists

- Less than 30% are first-time CFOs, almost half have previous PE experience
- Previous PE experience is cited as the most important hiring criteria, significantly outpacing Industry experience (55% compared to 36%). Other criteria include; exit experience and other specialized skills such as Operations or Transformation

Private Equity DNA™

- Comfortable with close oversight - 71% report at least weekly contact with their investor with 35% reporting multiple contacts per week
- Comfortable with leverage – 60% describe their company's debt as “very low” or “average” despite average debt multiple of 4-5X

Agents of Change/Transformation

- **FP&A** Drives Transformation and Decision Support. Two-thirds have supplemented their FP&A teams already and half plan further FP&A adds in 2019
- Multiple respondents urge Boards to hold management to account, drive change

“CFO Plus”

- “Numbers just the starting point. Commercially and Operationally astute.
- Over half also lead HR, Legal, IT and one-quarter are responsible for other functions such as Supply Chain, Operations, Customer Services, Purchasing

Confidence & Sober Optimism

- Despite 39% of companies underperforming the initial investment thesis, 78% of CFOs expect stronger YOY results in 2019 with 29% expecting “much better”
- CFOs identify various risks on the horizon – including US recession -- but more than half are confident of a liquidity event in 24 months, 83% within 48 months

/ THE PE INVESTOR / CFO RELATIONSHIP

PE Investor and Portfolio Company CFO “joined at the hip”

- 71% of CFOs have at least weekly contact with their investors, more than twice as often as CEOs
- 73% of PE Investors view the CEO and CFO dynamic as “essential” to delivering investment results

CFOs have generally positive views of their investors

- CFOs score the relationship with their PE Investors as “7.75” on a scale of 1 – 10
- CFOs cite M&A, Strategy Development as the areas where their investors are Most Helpful
- Recruitment, Team Assessment/Development, and Strategy Implementation as areas where they are cited as Least Helpful

Though generally positive, they can identify areas for improvement, including...

- Greater support from other PortCos – networking, best practices, sourcing, introductions
- Clearer, more frequent communication to management of expectations and exit plans
- “More room to breathe”, “less micromanagement”, “more listening”
- Operating Partners “who understand our business”

Don’t put all your eggs in a single basket

- 57% of CFOs indicate they have no internal successor and only 13% of those surveyed indicate that their PE investors have finance specialists within their Operations group
- There is a shortage of experienced talent. The average CFO in a Company of \$100M or more is getting 4-5 new job approaches each month
- 45% of respondents indicate that senior finance recruitment took far longer than anticipated

/ TRENDS WORTH WATCHING



Talent Shortage Driving CFO Comp Increases

- Average base salaries up 5.7% and expected bonus up 17% over last year
- Middle market (revenues \$100-\$500M) total comp up 17% from last year to \$448k
- Talent shortage – Where do we go for untapped talent?



Hold Times Getting Shorter

- 51% of CFOs expect an exit within the next 24 months
- Median expected hold for companies with revenues greater than \$100M shorter by 10% from last year to 47 months
- Exit to a financial buyer expected in 41% of the exits, an increase of 30% since 2016



Corporate Performance Improving

- Only 39% of companies underperformed their initial investment thesis in 2018, down from 51% in 2017
- 33% of companies outperformed their initial investment thesis in 2018, up from 27% in 2017
- One-third of CFOs expect further improvement in 2019 with 14% expecting “much better”



Debt Levels Rising

- Debt markets continue to be strong
- Median leverage 5X EBITDA with average higher than 6X for companies > \$100M revenues
- 80% of loans are “covenant lite” at B2 or below, nearing norms of 2007 peak

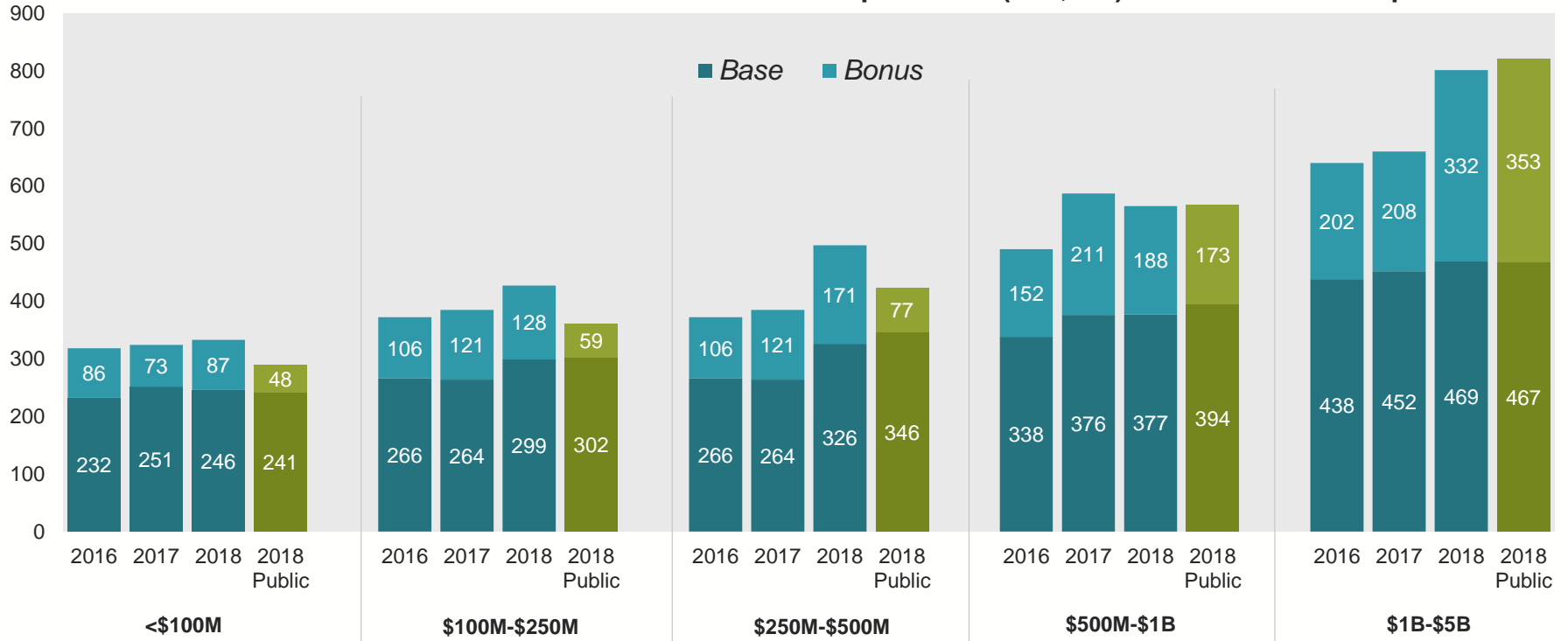


Clouds on the horizon - cirrostratus or cumulus

- The tight “employment market” is cited by 65% of CFOs as a point of concern
- Debt markets cited by 36% of respondents
- Trade policy & tariffs cited by 35%
- Other points of concern include Brexit, M&A multiples, potential for a slowdown, and a sentiment shared by a number of respondents best captured by one; “My company has been acquired and sold twice. Expectations are astronomical. I don’t see how it can last.”

/ CFO CASH COMPENSATION BY COMPANY REVENUE

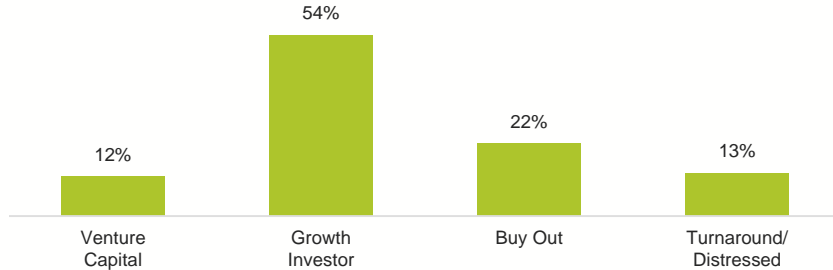
2016 – 2018 Annual Cash Compensation (X\$1,000) for PE Backed Companies



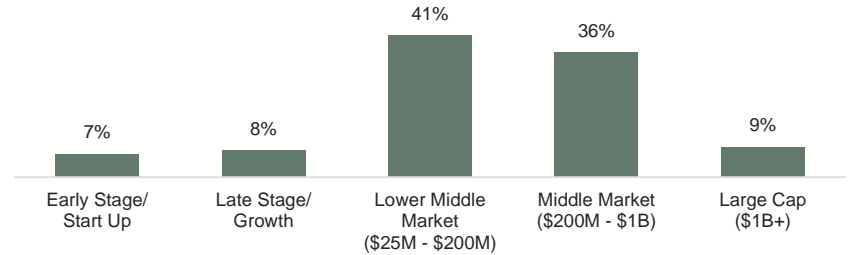
/ SURVEY RESPONSES

/ SURVEY RESPONSES: SECTION I, INVESTOR PROFILE

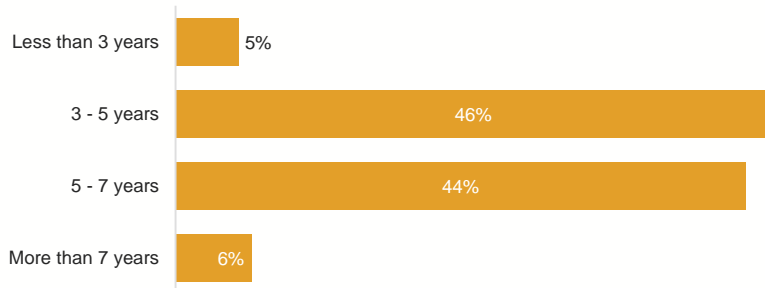
1 Your investor's investment style can best be described as:



2 The size companies in which your investor typically invests are best described as:



3 Your investor's typical hold period is:



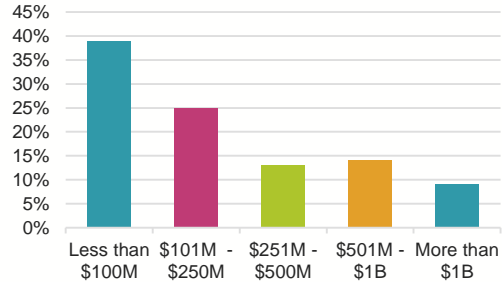
4 Which of these best describes your investor's operations model?



/ SURVEY RESPONSES: SECTION II, COMPANY PROFILE

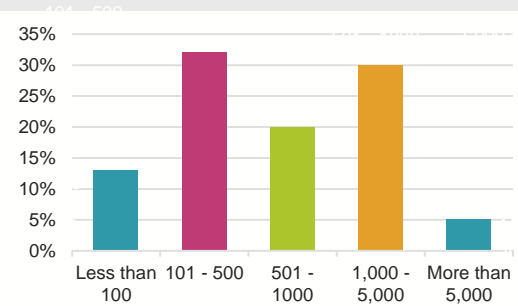
5

What is your Company's annual revenue?



6

How many employees at your Company?



7

Which best describes your Company?

Domestic - less than 15% of revenue and operations outside of NAFTA region.

68%

International - between 15 to 30% of revenue and operations outside of NAFTA region.

13%

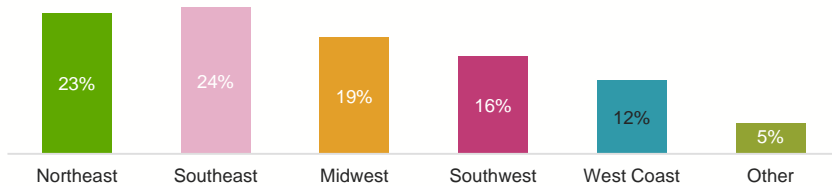
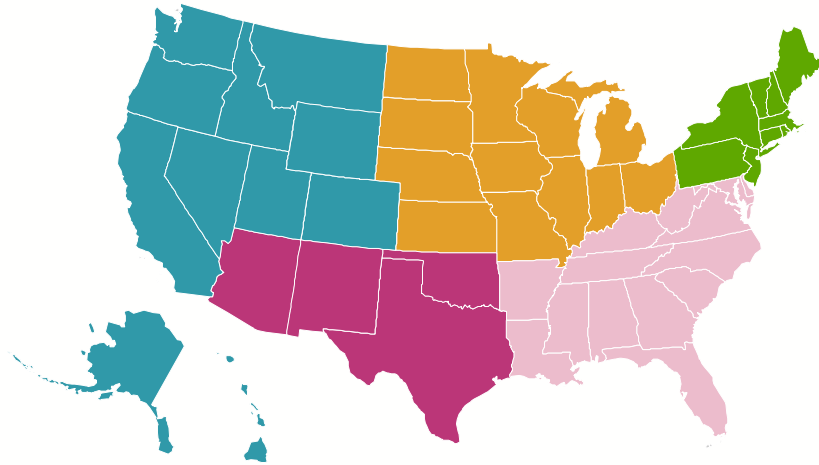
Global - more than 30% of revenue and operations outside of NAFTA region.

19%

/ SURVEY RESPONSES: SECTION II, COMPANY PROFILE

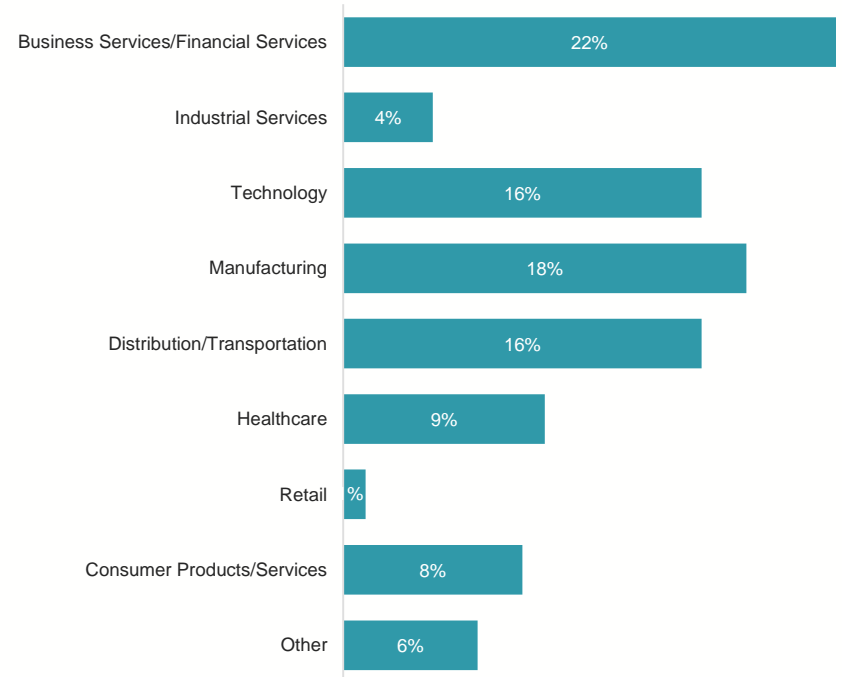
8

Where is Company Headquarters?



9

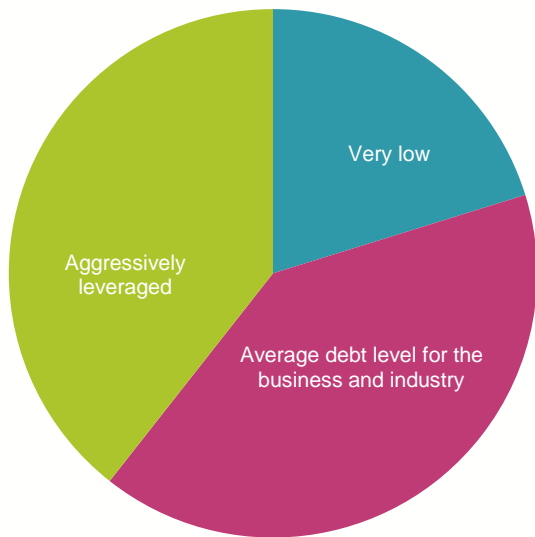
What industry best describes your Company?



/ SURVEY RESPONSES: SECTION II, COMPANY PROFILE

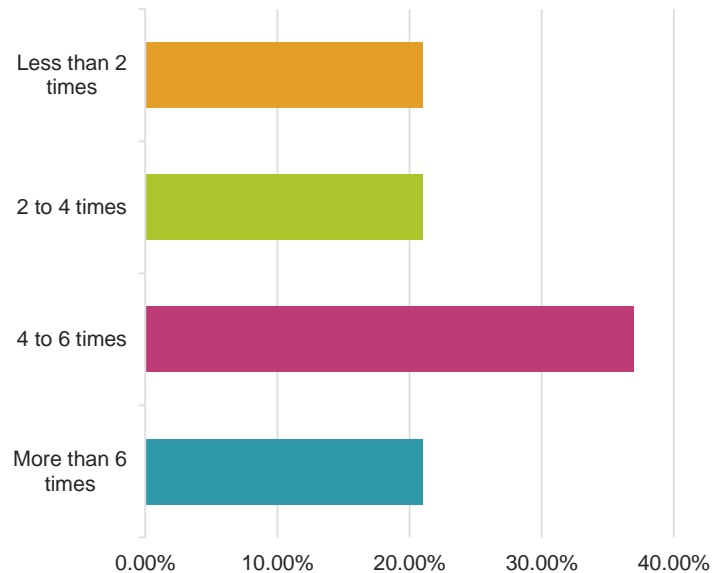
10

How would you describe your Company's level of debt?



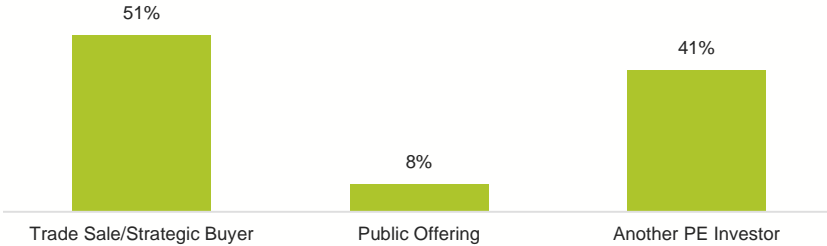
11

For its most recent reporting period, what was the approximate multiple of debt to trailing 12 months EBITDA?

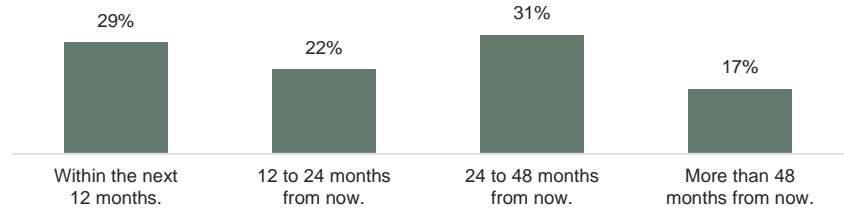


/ SURVEY RESPONSES: SECTION II, COMPANY PROFILE

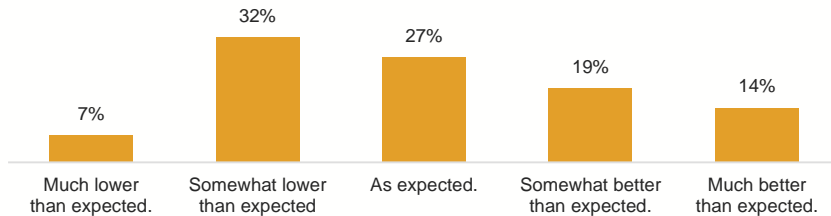
12 What is the most likely exit for your current investor?



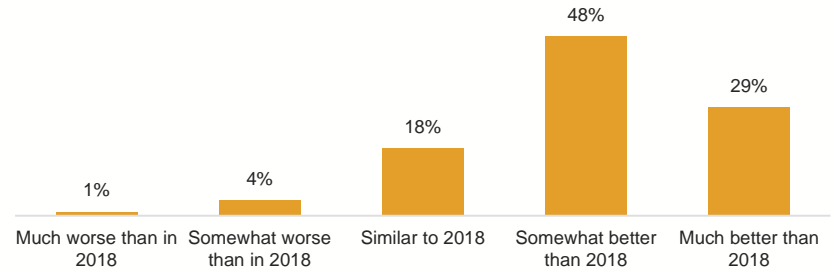
13 When do you anticipate an exit?



14 How have operating results and value creation compared to the initial investment thesis?



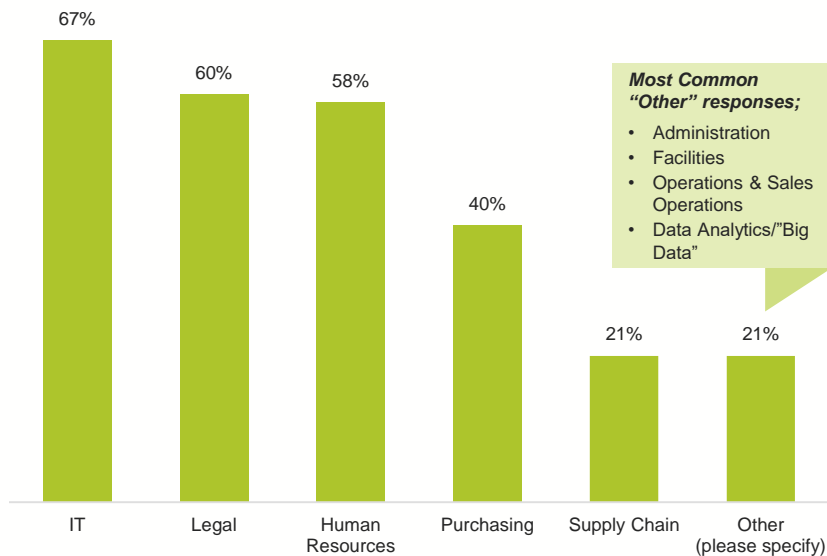
15 Looking forward to 2019, how will operating results compare to 2018 results?



/ SURVEY RESPONSES: SECTION III, CFO ROLE

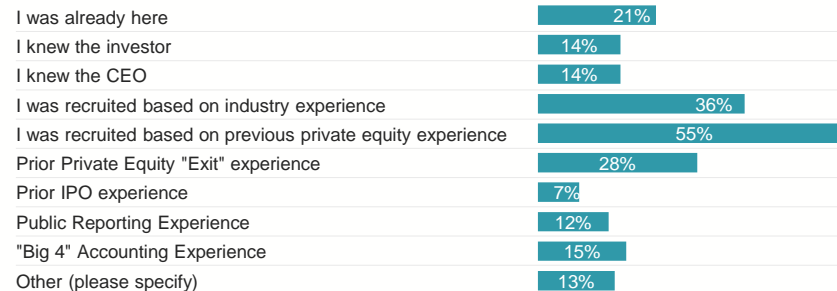
16

Other than finance & accounting, what other roles report to you? (check all that apply)



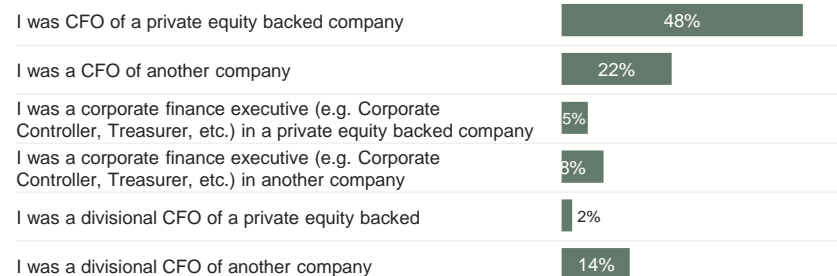
17

What were the key factors in your hiring? (check all that apply)



18

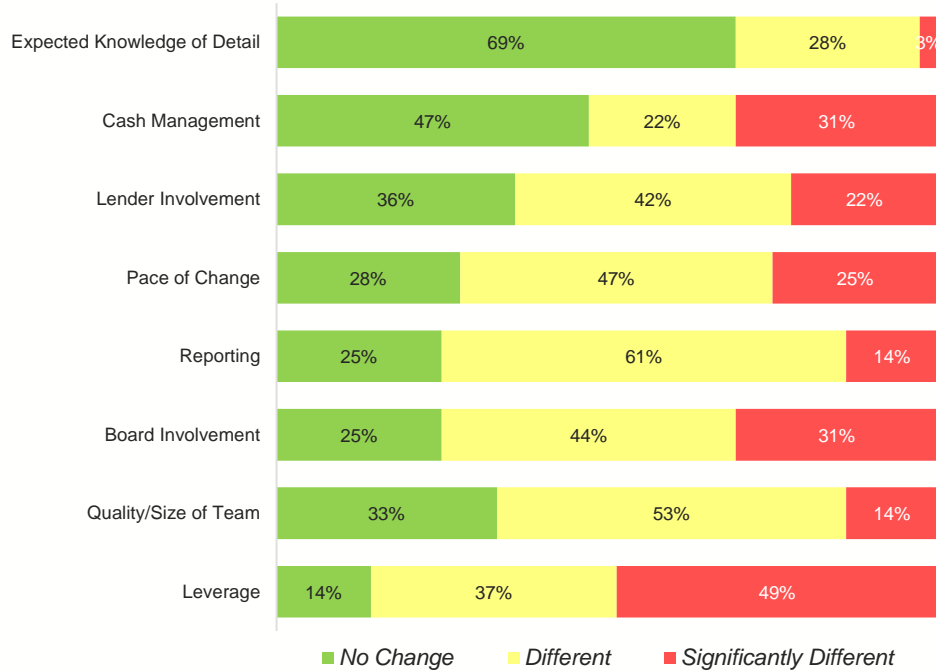
What best describes your previous experience?



/ SURVEY RESPONSES: SECTION III, CFO ROLE

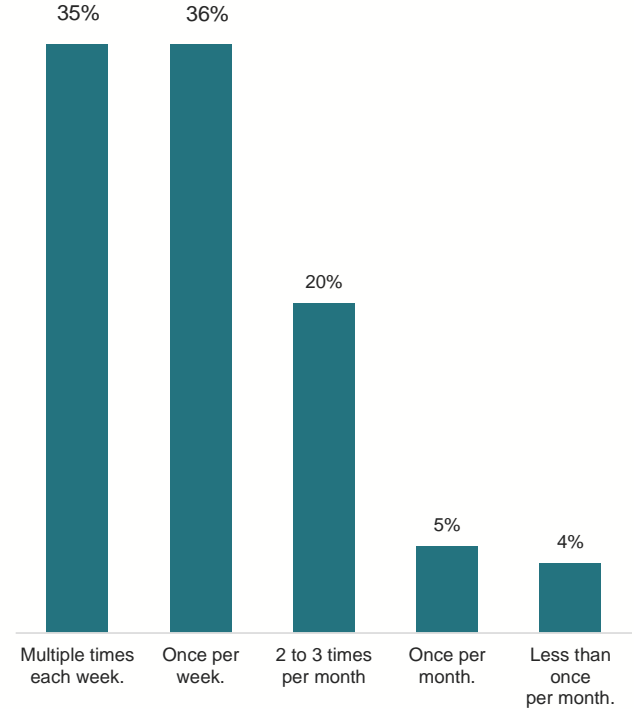
19

If this is your first experience in a Private Equity backed company, how does it compare to your previous role in the following categories?



20

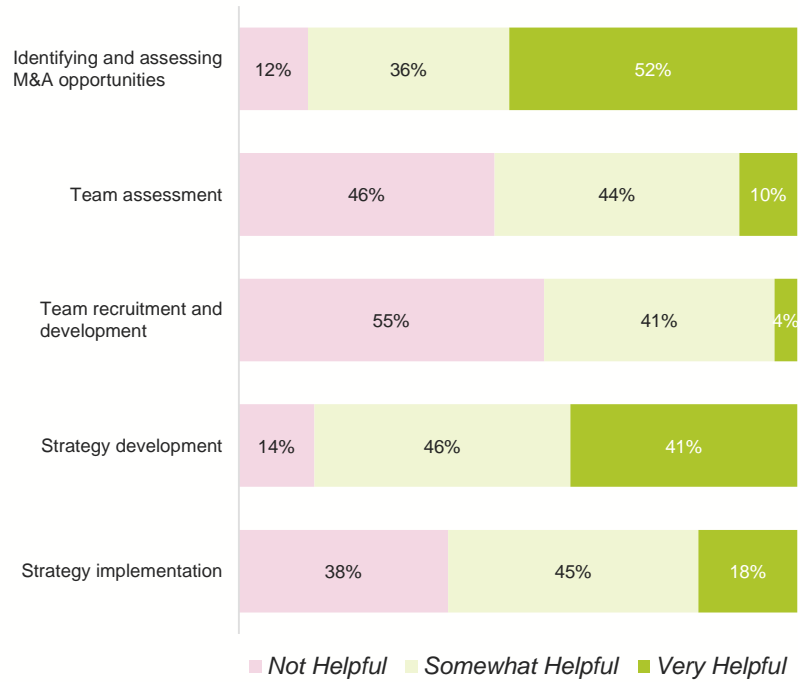
On average, about how often do you have contact with your investor?



/ SURVEY RESPONSES: SECTION III, CFO ROLE

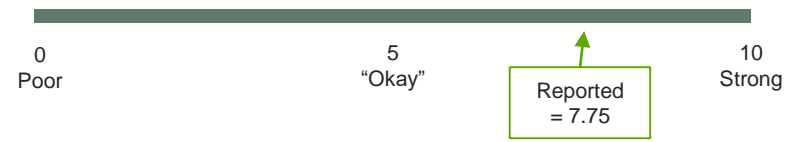
21

Generally speaking, how helpful is your investor in...



22

How would you rate your working relationship with your investor (from 1-10)?



23

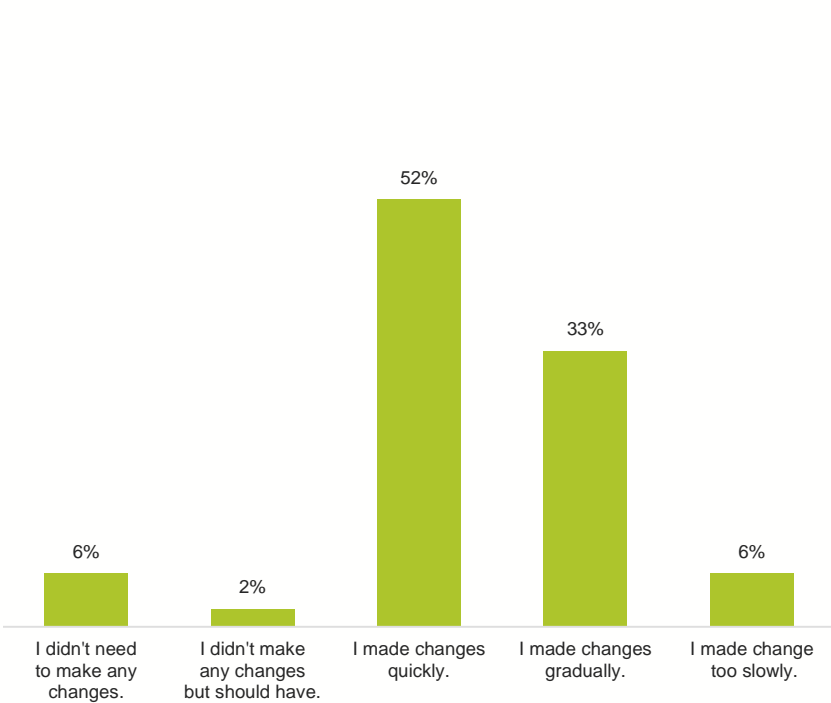
What else could your investor be doing to support you (open response)?



/ SURVEY RESPONSES: SECTION III, CFO ROLE

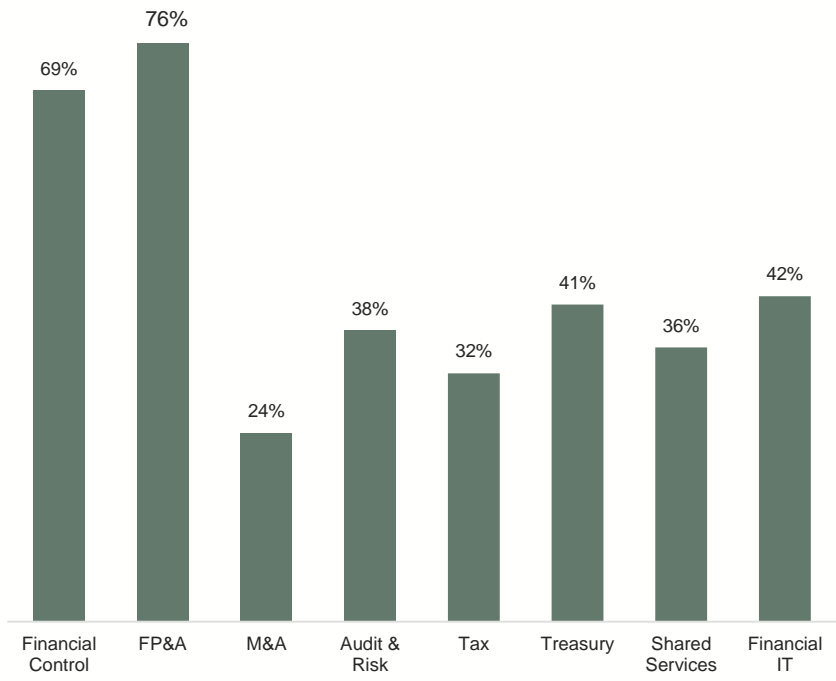
24

After joining your current employer and assessing your team, which statement is most accurate in retrospect?



25

In what areas have you made changes to your team since taking your current role? (Check all that apply.)



/ SURVEY RESPONSES: SECTION III, CFO ROLE

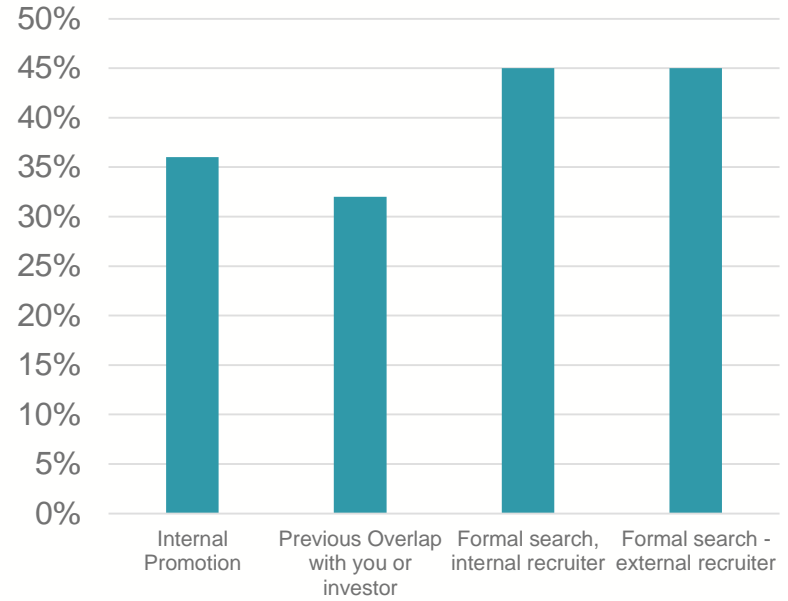
26

If you have made changes to your team, how would you rate...



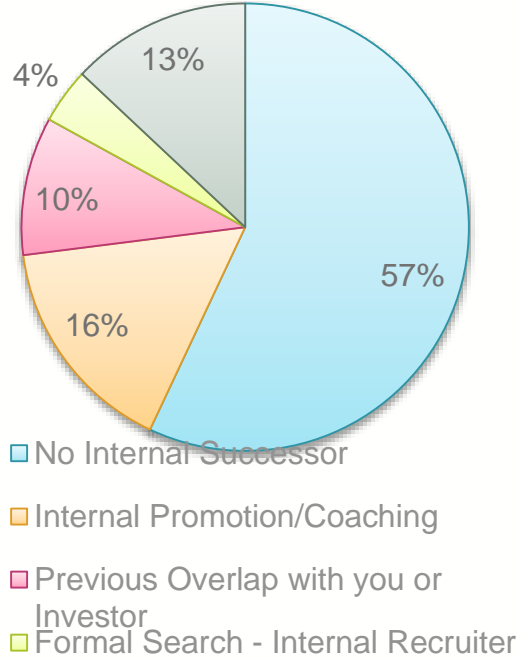
27

Looking at your current team, how did they join the Company? (Check all that apply.)

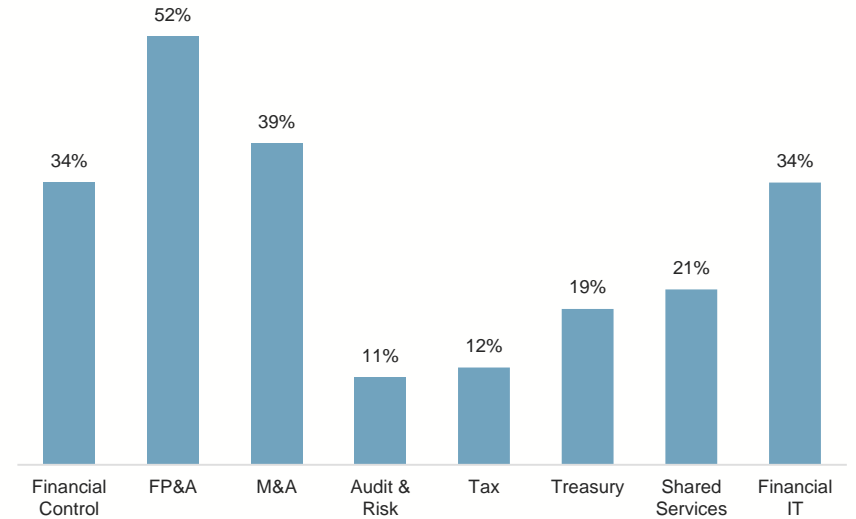


/ SURVEY RESPONSES: SECTION III, CFO ROLE

28 If you have an internal successor, how did he/she join the Company?



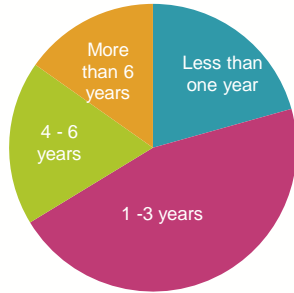
29 In what areas are you mostly likely to invest during the coming 12 months? (Check all that apply.)



/ SURVEY RESPONSES: SECTION III, CFO ROLE

30

How long have you worked for your current organization?



31

Which of the following best describes your situation;

My current position is in the same city as my former role.

54%

My current position is in a different location and I relocated.

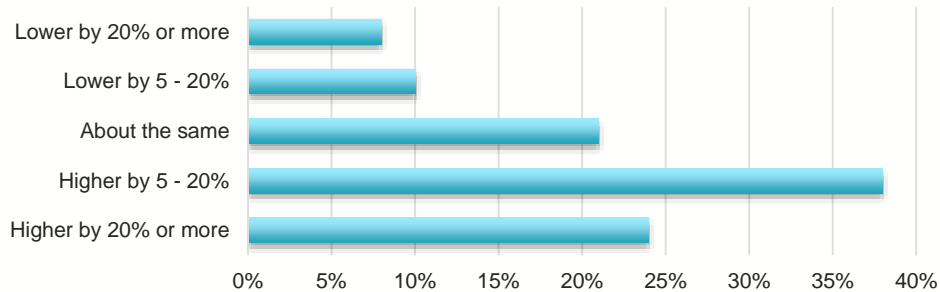
24%

My current position is in a different location. I maintained my previous residence and "commute" on a weekly or periodic basis to the new location.

24%

32

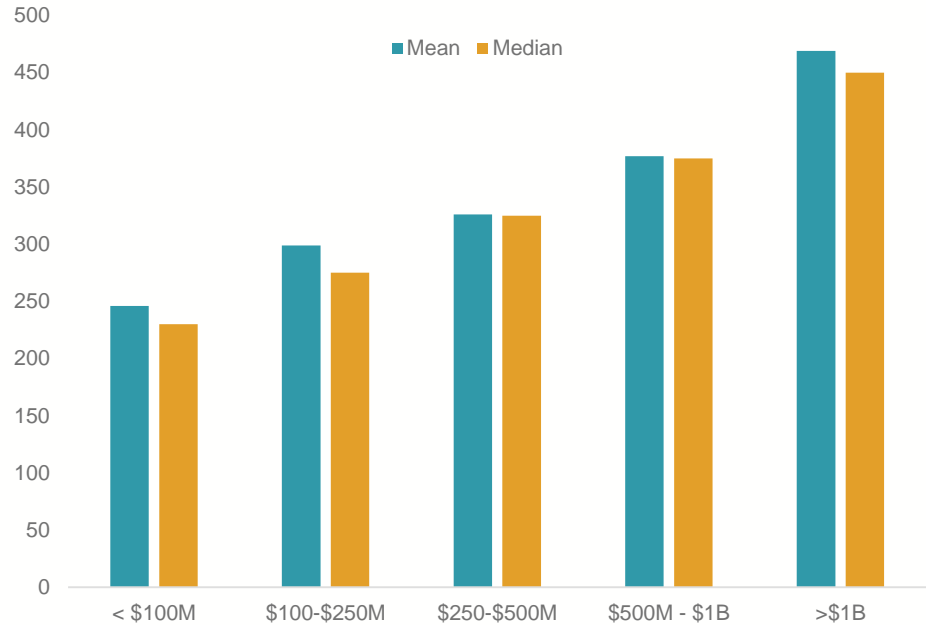
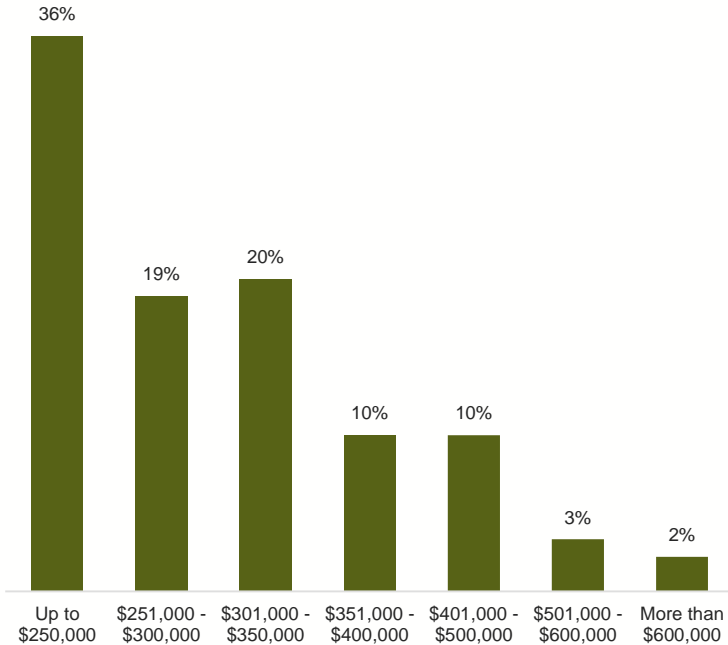
How does your current cash compensation (base & target bonus) compare to your last role?



/ SURVEY RESPONSES: SECTION IV, CFO COMPENSATION – BASE SALARY

33

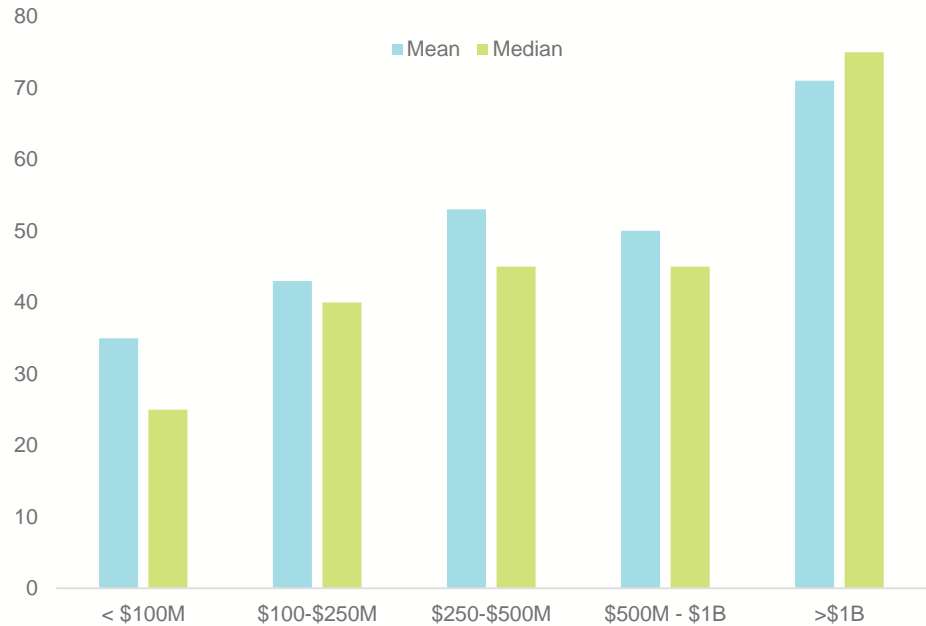
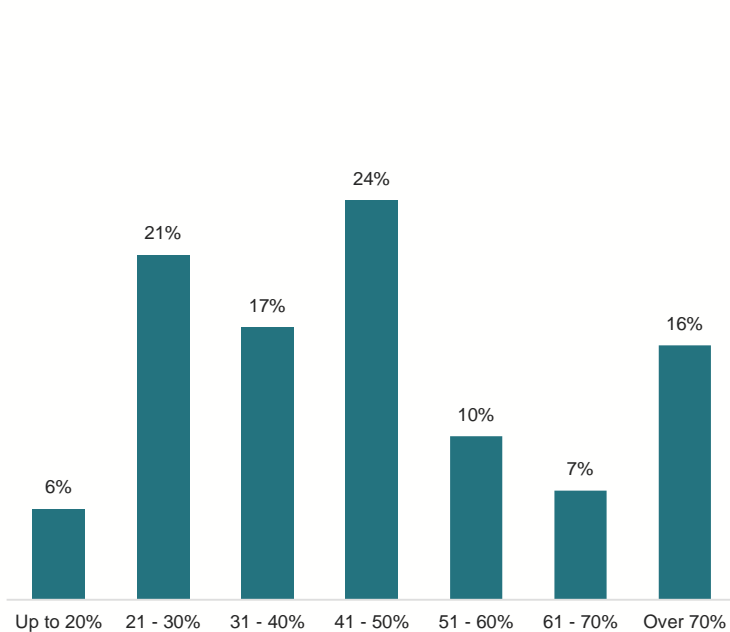
What is your current base salary? (Overall distribution and median and mean by revenue)



/ SURVEY RESPONSES: SECTION IV, CFO COMPENSATION – ANNUAL TARGET BONUS (PERCENTAGE OF BASE)

34

What is your current target annual bonus? (Overall distribution and mean/median by revenue.)



/ SURVEY RESPONSES: SECTION IV, CFO COMPENSATION – EXPECTED BONUS (PERCENTAGE OF BASE)

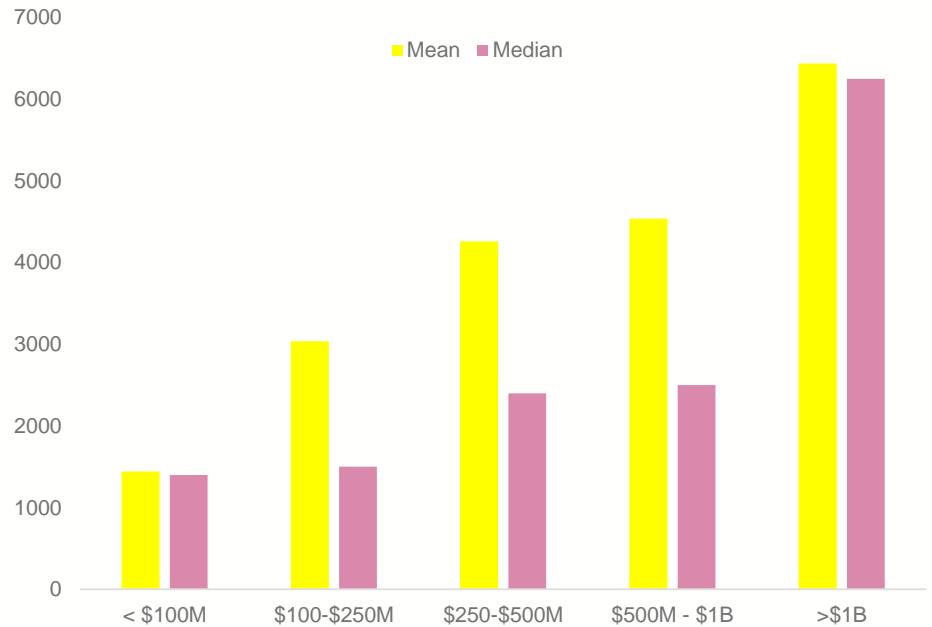
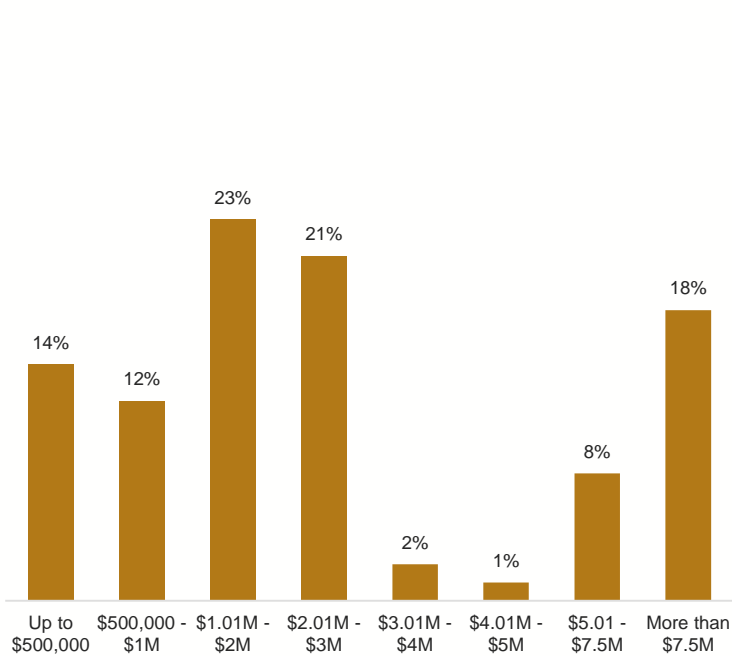
35

What do you expect your actual annual bonus to be this year (for 2018, paid in 2019)? (Overall distribution and mean/median by revenue.)



/ SURVEY RESPONSES: SECTION IV, CFO COMPENSATION – BASE CASE EQUITY

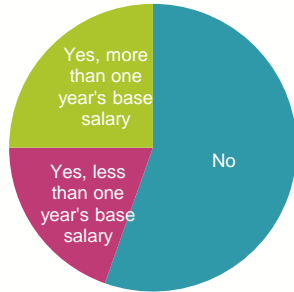
36 If your equity delivers against the expectation of the investment thesis, what gross proceeds (000's) do you expect at exit? (Overall and mean/median by revenue)



/ SURVEY RESPONSES: SECTION IV, CFO COMPENSATION – EQUITY

37

Did you invest your own capital in the Company?



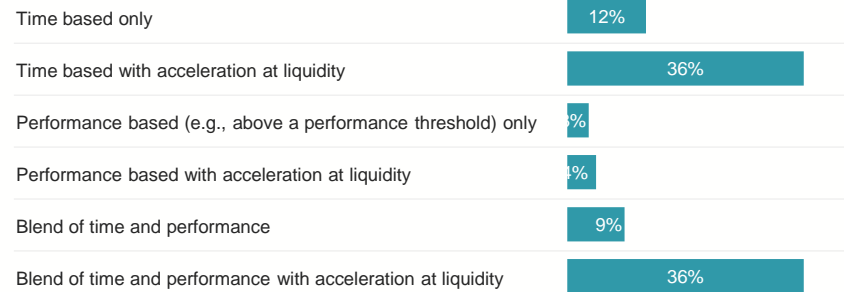
39

How do you perceive your remuneration package compared to the market?



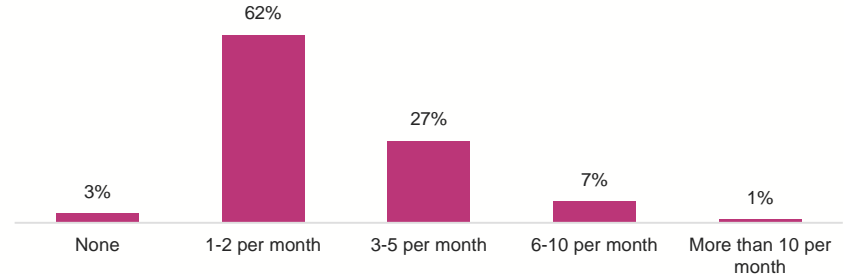
38

How does your equity vest?



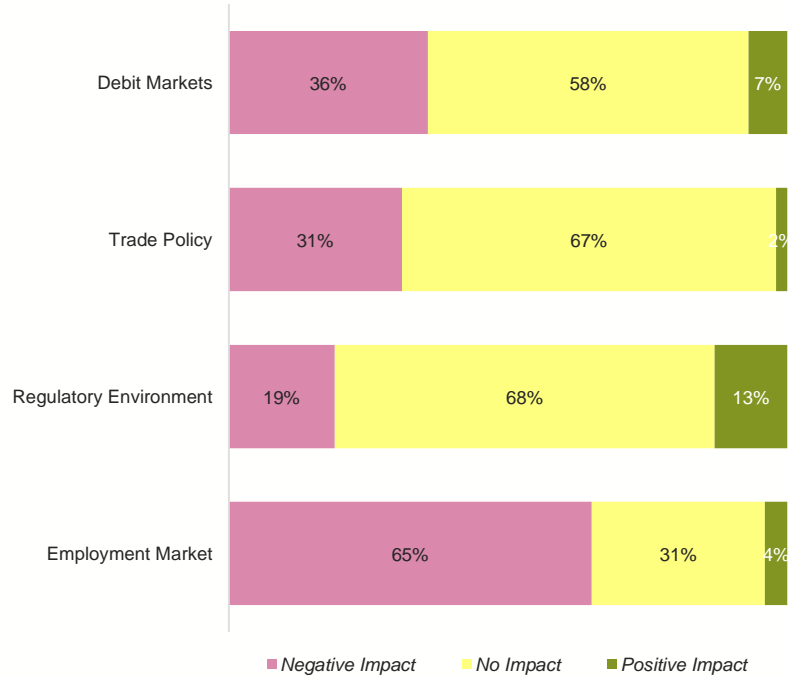
40

How many new CFO job opportunities are presented to you by investors or recruiters in the average month (whether or not you “take the call”)?

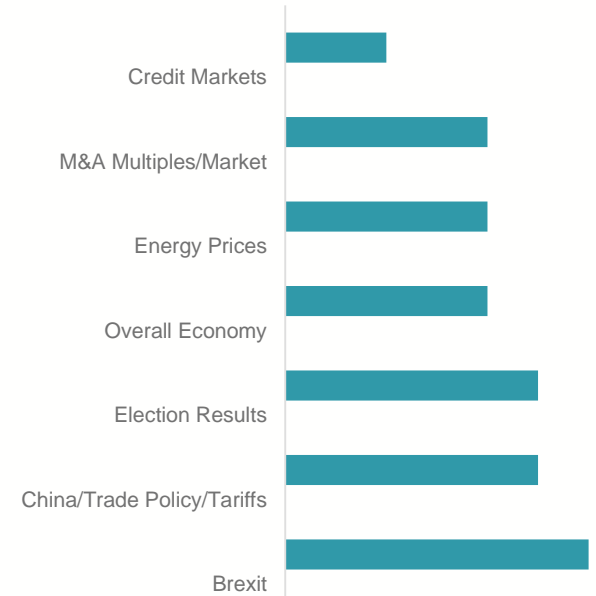


/ SURVEY RESPONSES: SECTION V, CFO PERSPECTIVE

41 How do you anticipate the following will impact your business in 2019?



42 What other outside factors do you anticipate will affect your business in 2019? (Listed include all those scoring 5% or higher)





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