

Vardis

PRIVATE EQUITY CFO SURVEY
N. America Q1 2020

- Overview:** We are pleased to share with you the results of our 2020 Private Equity CFO Survey. This is our fourth annual survey. As in our previous years, we asked about PE CFOs for their perspective on compensation, governance, the relationship with their investors, and the differences in the role under PE ownership. We also asked respondents to gaze into their collective crystal ball and share their views on micro and macroeconomic issues. Given the scale and speed of economic change over a four-week period, a companion report – *The Impact of COVID-19 on PE Portfolio Companies* - has been added to our original survey.*
- Methodology:** Between February 8 to March 6, 2020, **Vardis** contacted the CFOs of more than 1,250 North American Private Equity Portfolio companies. The original survey concluded prior to any significant shelter-in-place restrictions outside of Wuhan. Though this was identified as a market risk, any view on general economic expectations were likely to be significantly different had the survey been conducted even two to three weeks later. With this in mind, we re-approached this same cohort between April 13-20, 2020 and included these responses as an Addendum.*
- 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.*

/ THE PRIVATE EQUITY CFO

Experienced Specialists

- Only 28% are first-time CFOs... 45% have been CFOs for PE before
- Previous PE experience is cited as the most important hiring criteria, significantly outpacing Industry Experience (57% to 42%). Other criteria cited include; PE Exit, Operations and Turnaround Experience

Private Equity DNA™

- 57% interact with their PE investor(s) at least weekly, 27% more frequently
- “Hold management accountable” - most common request of CFOs to their investors
- Only 4% keep their teams as-is. Most reengineer processes to repurpose headcount and build analytical capabilities

Insight/Analysis Drive Results

- **FP&A** drives transformation and fact-based decisions. 74% have supplemented their FP&A teams already and 55% plan further FP&A adds in 2020
- “Big Data” and data analytics beyond traditional FP&A emerging as key hiring criteria for CFOs. Over half of CFOs plan Analytics investment in 2020 compared to only one-third in 2019

Operators, Not Scorekeepers

- Accounting and Finance are just the entry point for real commercial and operational involvement
- Two-thirds lead other functions -- HR, Legal, IT are most common with more than one fourth also responsible for areas like Supply Chain, Operations, Customer Services, Purchasing, Analytics

Demands & Rewards

- Mean average cash comp (base & bonus) of \$436k in 2019 plus equity “base case” of \$2.8M
- 55% have been in current role less than 2 years with 70% less than 3 years
- 60% expect to be let go (post exit) in the next 33 months
- Only 49% are working in the same city as their previous role

/ TRENDS WORTH WATCHING



**CFO Comp Compression –
Public Co. Parity & Lower
Mid Market Increases**

- Virtual parity between PE backed company CFOs and their public company counterparts for base salary and annual cash bonus
- Public company CFO “other” compensation items outpace PE counterparts which generally avoid anything beyond base salary and annual bonus



**Cash Compensation
Curve Flattening**

- PE cash comp somewhat flat in 2019 after strong growth in previous years
- Cash comp flattening somewhat offset by “base case” equity gains, particularly among lower middle market companies under \$250M of revenue



**Investment Hold Time
Primed to Increase?**

- Exit activity continued strong in N. America (down slightly globally) in 2019 with a continuing trend to shorter holds
- However, CFO expectations showed a slight uptick in expected time to exit -- average respondent expects an exit in the next 33 months, up from 28 months in our 2019 survey



**Investor Expectations
for CFOs and
Operations Models**

- Investors cite CFO quality as essential to investment results – they generally lead the CFO hiring process, provide an equity grant and comp structure surpassed only by the CEO, and communicate more frequently with the CFO than any other PortCo executive
- Yet only 11% have CFO expertise within their Operating Partner/Operations Groups
- Coaching/Mentoring is the 2nd most requested area of support from CFOs

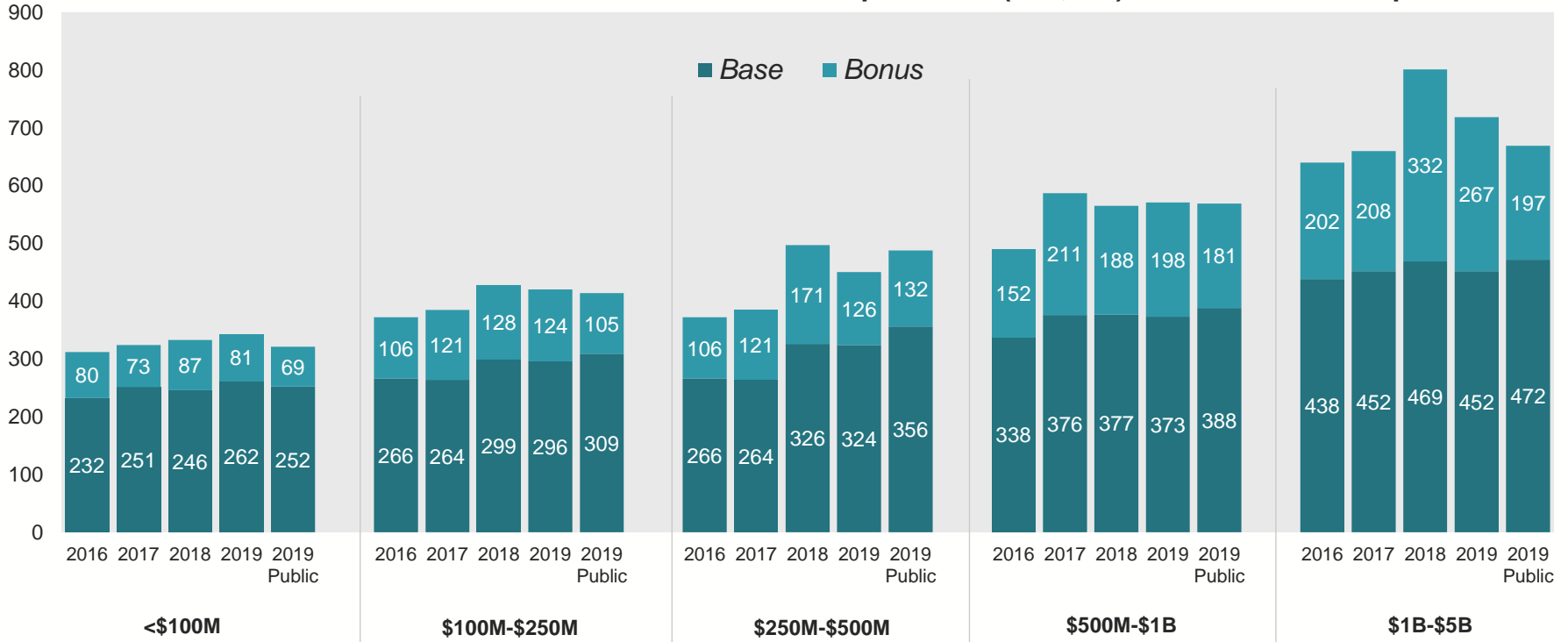


**CFO Job Market Robust –
Lots of Opportunities &
High Expectations**

- CFO market fiercely competitive – CFOs receive an average of 3 approaches on new roles each month with 28% indicating they receive 5-10 approaches each month
- Market is efficient with limited base salary geographic variability
- Significant regional variability in base case equity payouts
- 65% of respondents believe their compensation is at or above market. The SE region accounted for more than half of these as 58% believe they are “below market”

/ CFO CASH COMPENSATION BY COMPANY REVENUE

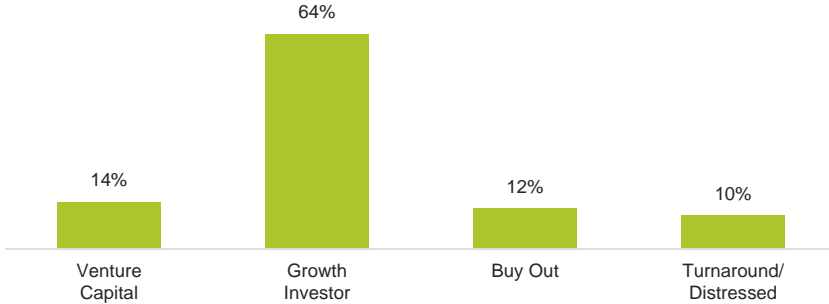
2016 – 2019 Annual Cash Compensation (X\$1,000) for PE Backed Companies



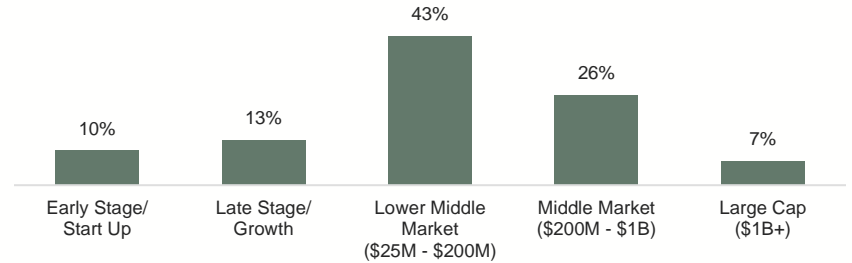
/ SURVEY RESPONSES

/ SURVEY RESPONSES: SECTION I, INVESTOR PROFILE

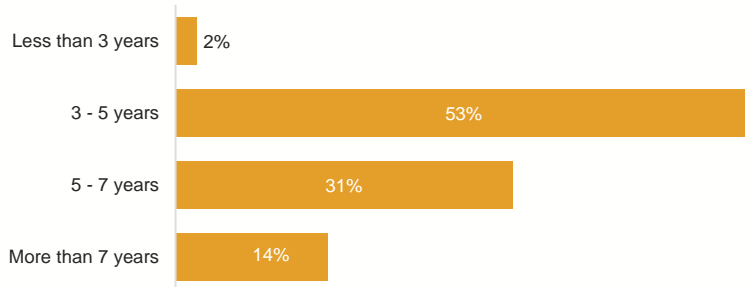
1 Your investor's investment style can best be described as:



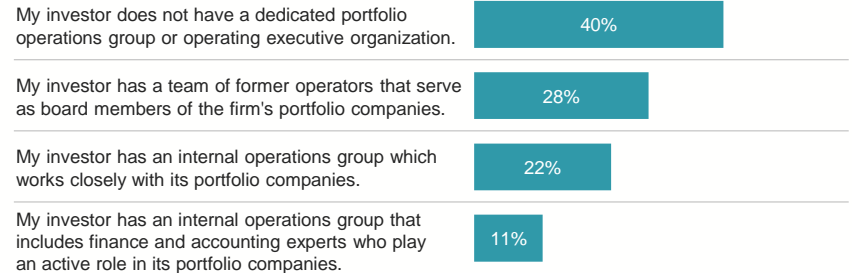
2 The size companies in which your investor typically invests are best described as:



3 Your investor's typical hold period is:



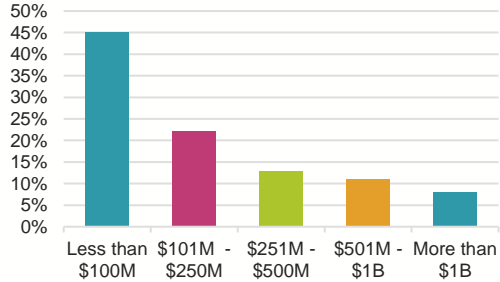
4 Which of these best describes your investor's operations model?



/ SURVEY RESPONSES: SECTION II, COMPANY PROFILE

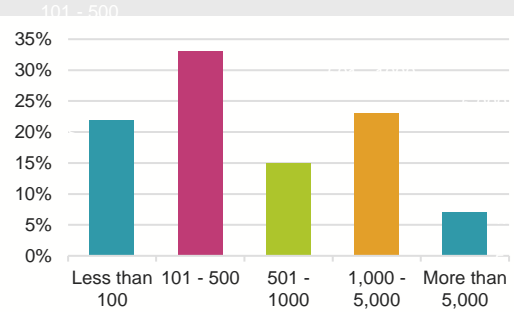
5

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.

74%

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

11%

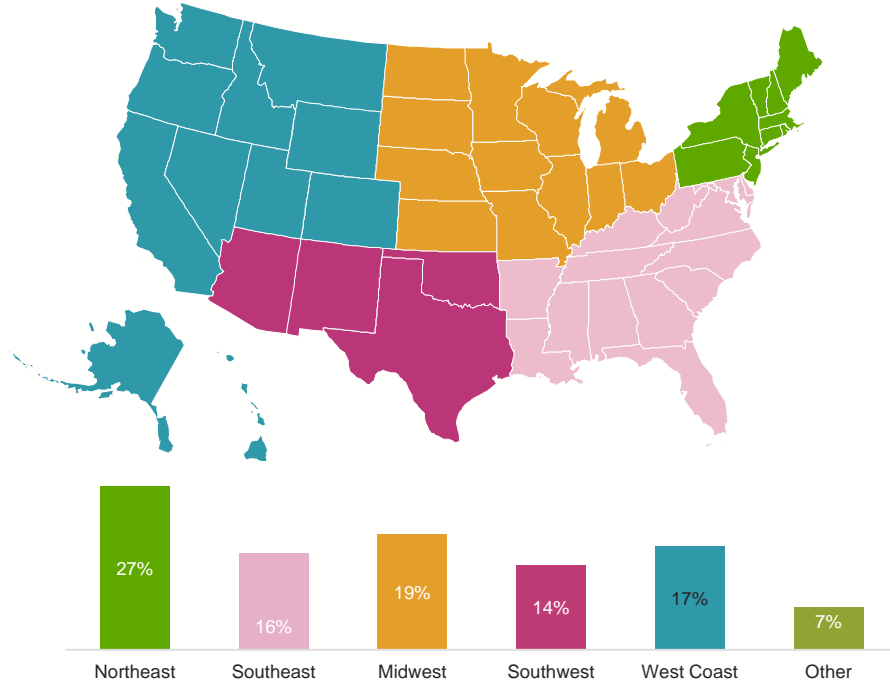
Global - more than 30% of revenue and operations outside of NAFTA region.

15%

/ SURVEY RESPONSES: SECTION II, COMPANY PROFILE

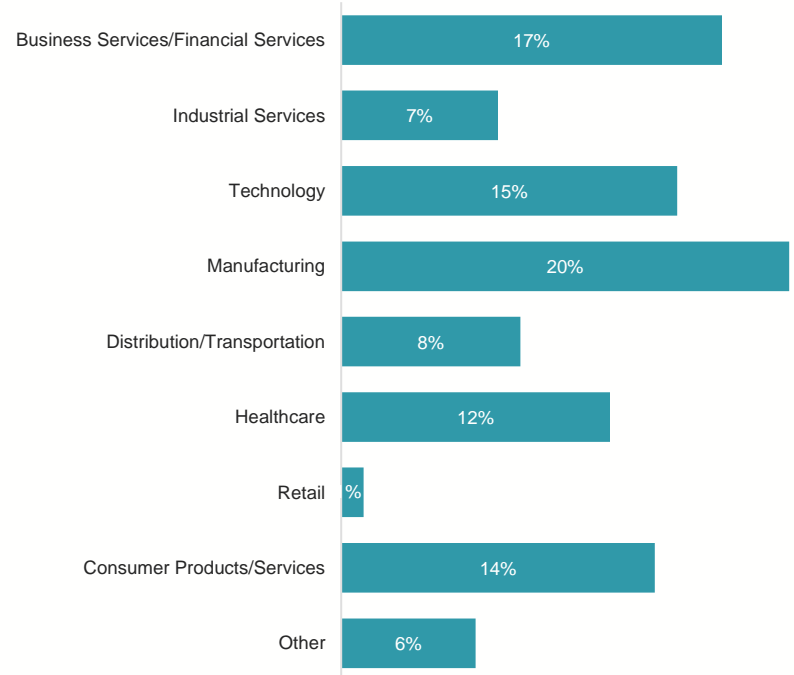
8

Where is Company Headquarters?



9

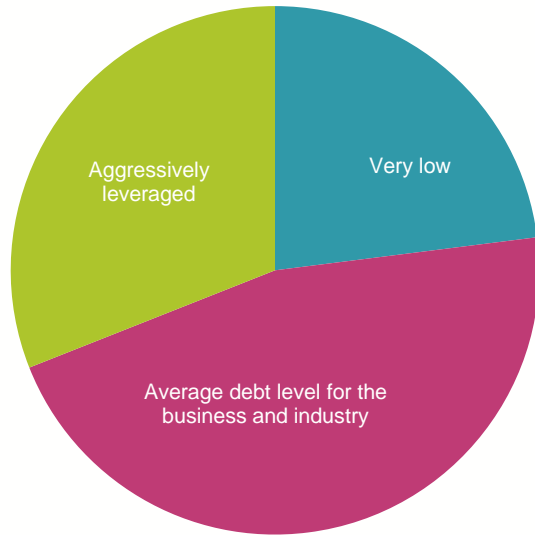
What industry best describes your Company?



/ SURVEY RESPONSES: SECTION II, COMPANY PROFILE

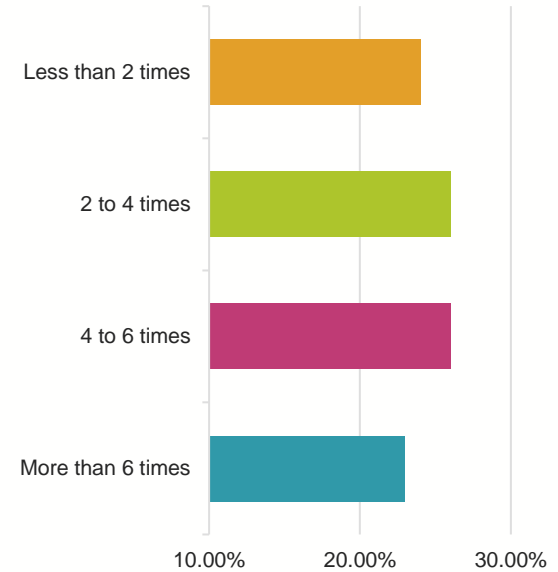
10

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



11

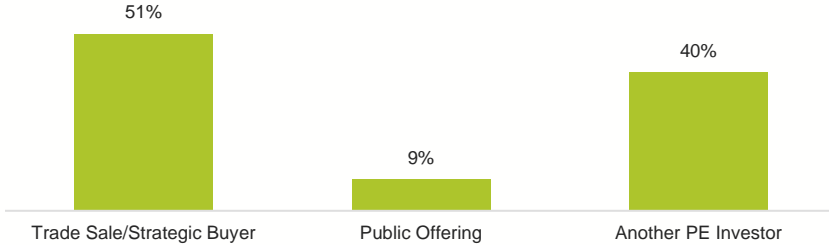
For its most recent reporting period, what was the approximate multiple of debt to trailing 12 months EBITDA?



/ SURVEY RESPONSES: SECTION II, COMPANY PROFILE

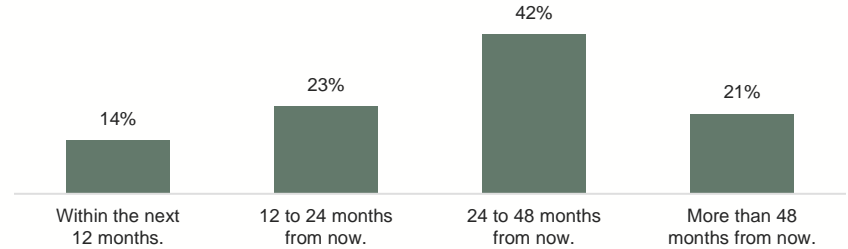
12

What is the most likely exit for your current investor?



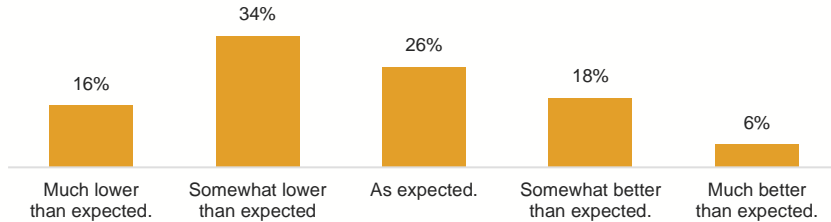
13

When do you anticipate an exit?



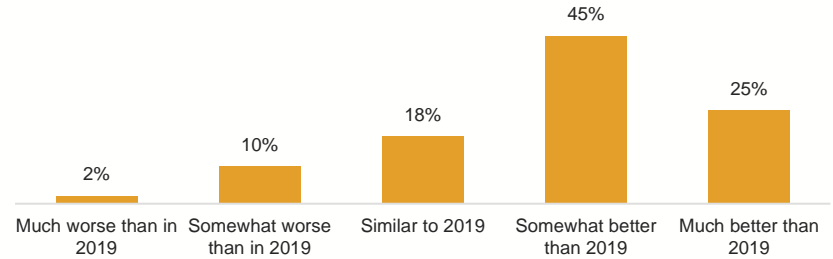
14

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



15

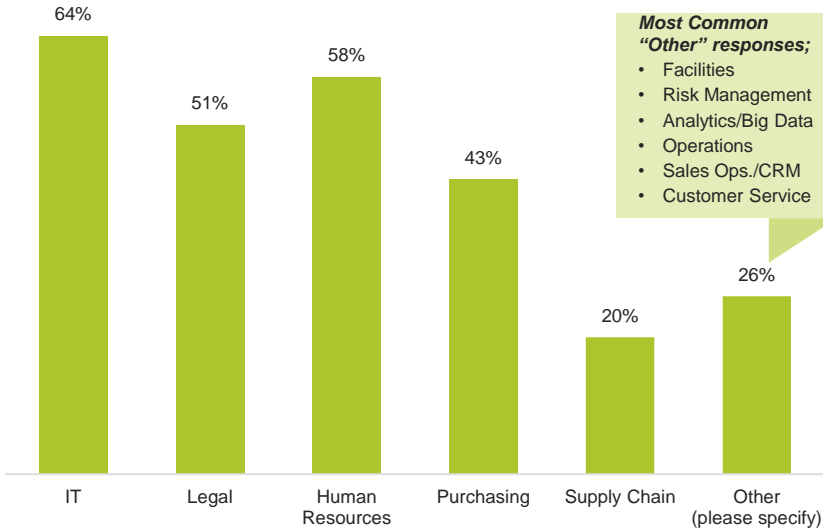
Looking forward to 2020, how will operating results compare to 2019 results?



/ SURVEY RESPONSES: SECTION III, CFO ROLE

16

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

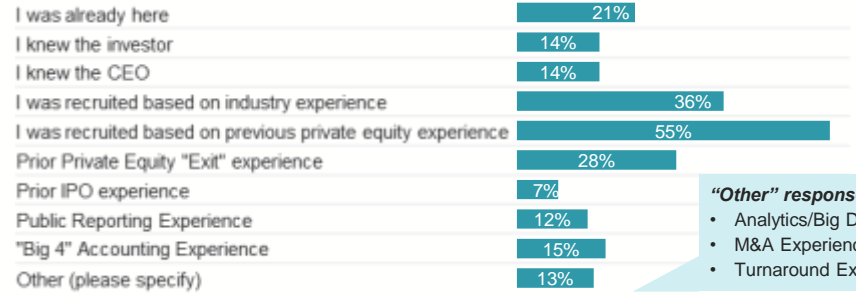


Most Common "Other" responses;

- Facilities
- Risk Management
- Analytics/Big Data
- Operations
- Sales Ops./CRM
- Customer Service

17

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

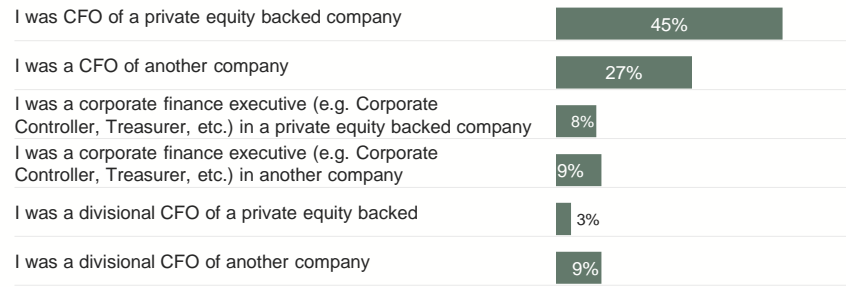


"Other" responses;

- Analytics/Big Data
- M&A Experience
- Turnaround Exp.

18

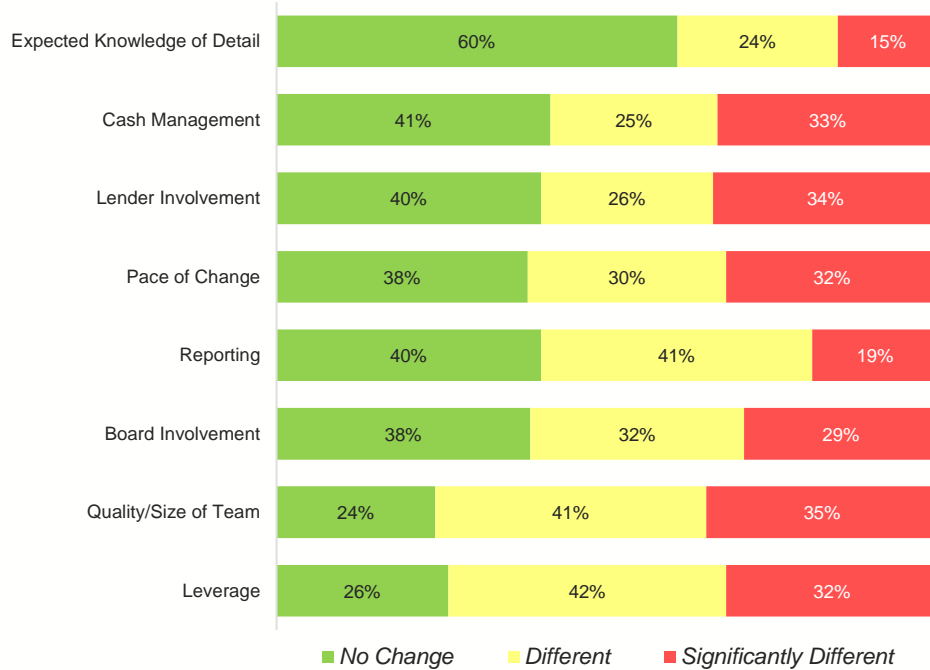
What best describes your previous experience?



/ SURVEY RESPONSES: SECTION III, CFO ROLE

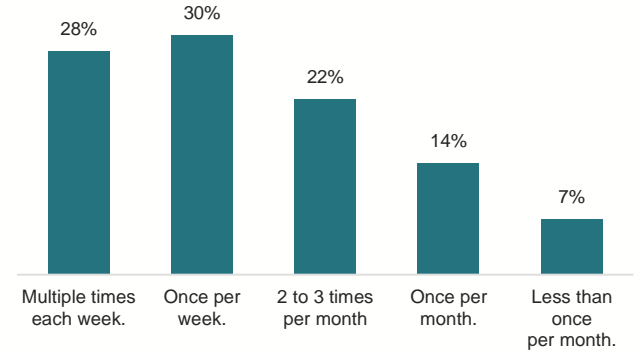
19

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?



21

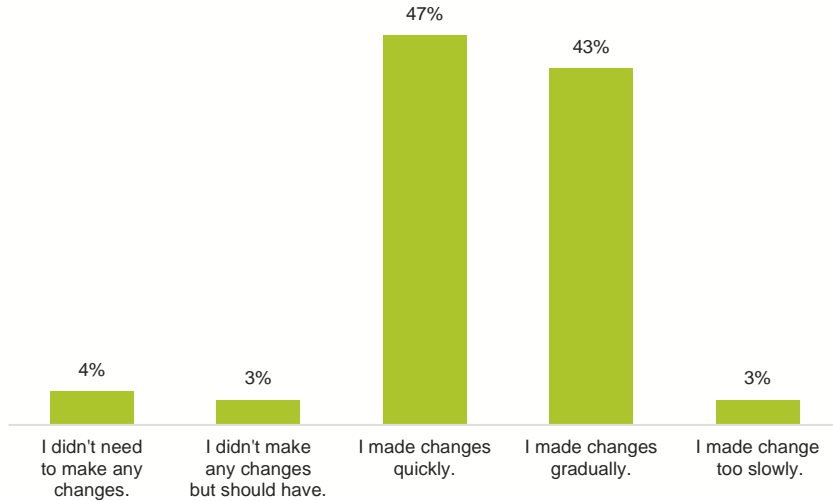
What else could your investor be doing to support you?



/ SURVEY RESPONSES: SECTION III, CFO ROLE

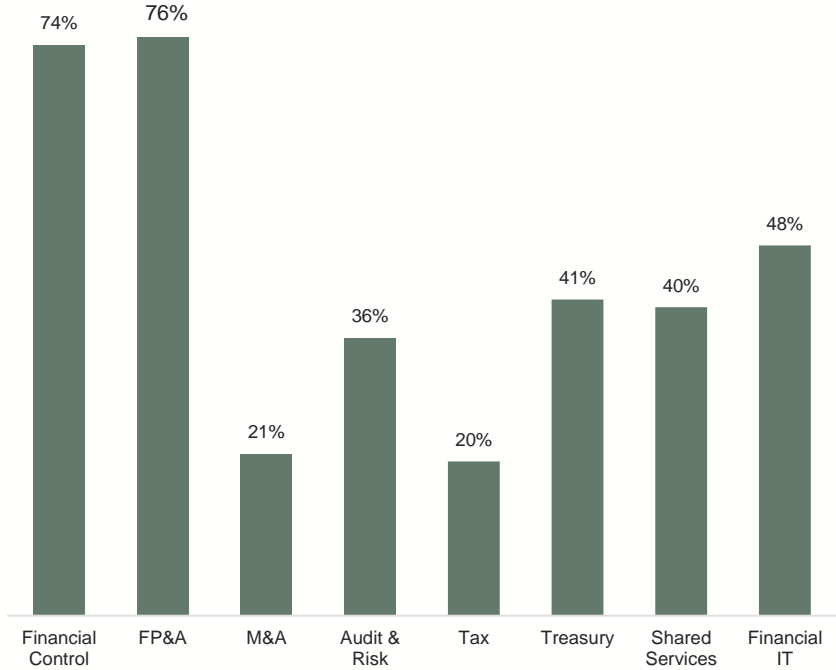
22

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



23

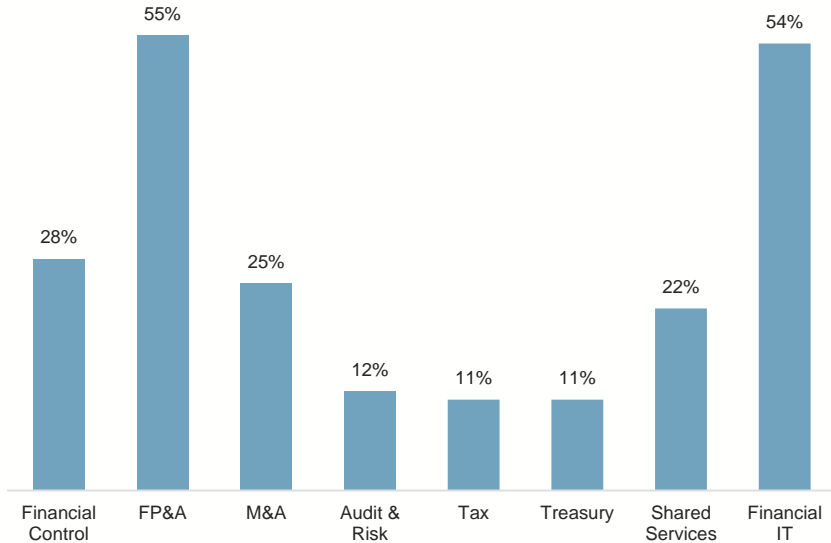
In what areas have you made changes to your team since taking your current role? (Check all that apply.)



/ SURVEY RESPONSES: SECTION III, CFO ROLE

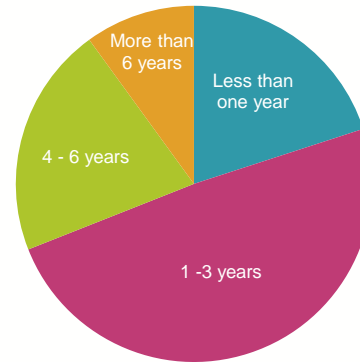
24

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



25

How long have you worked for your current organization?



/ SURVEY RESPONSES: SECTION III, CFO ROLE

26

Which of the following best describes your situation;

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

50%

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

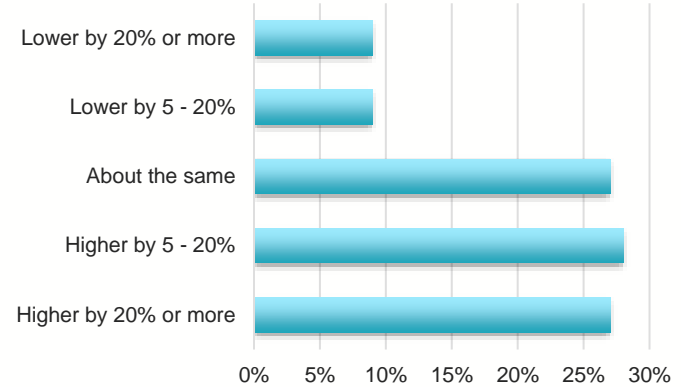
27%

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.

23%

27

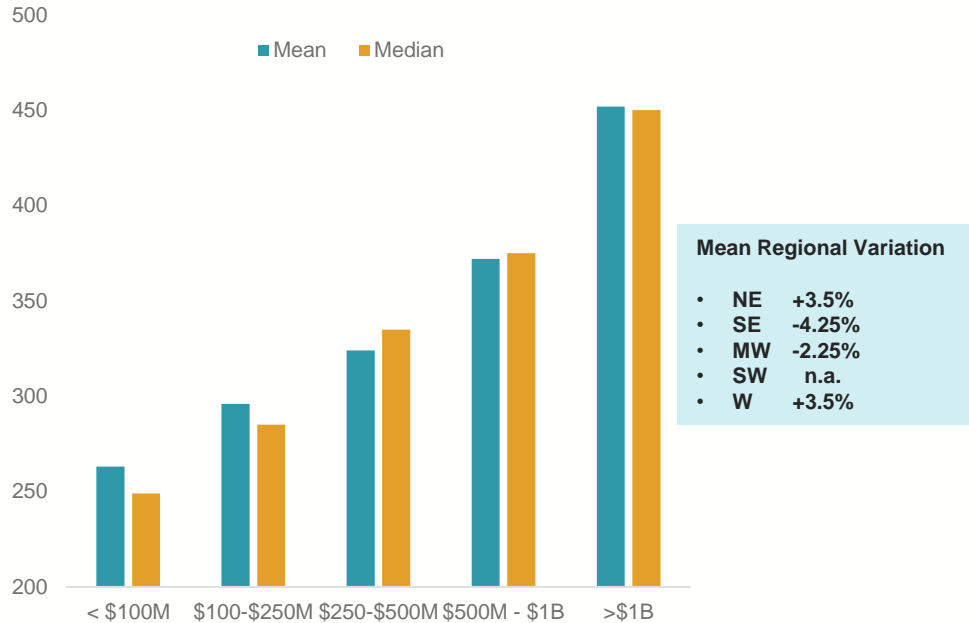
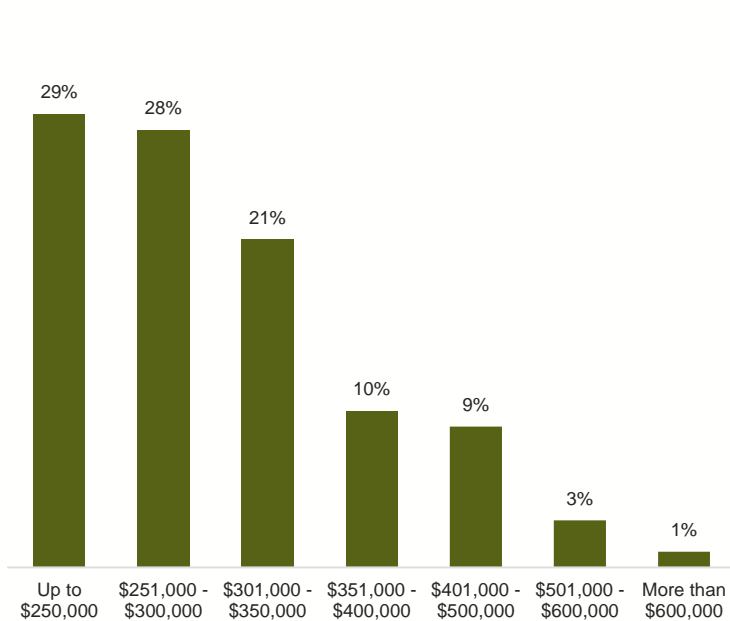
How does your current cash compensation (base & target bonus) compare to your last role?



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

28

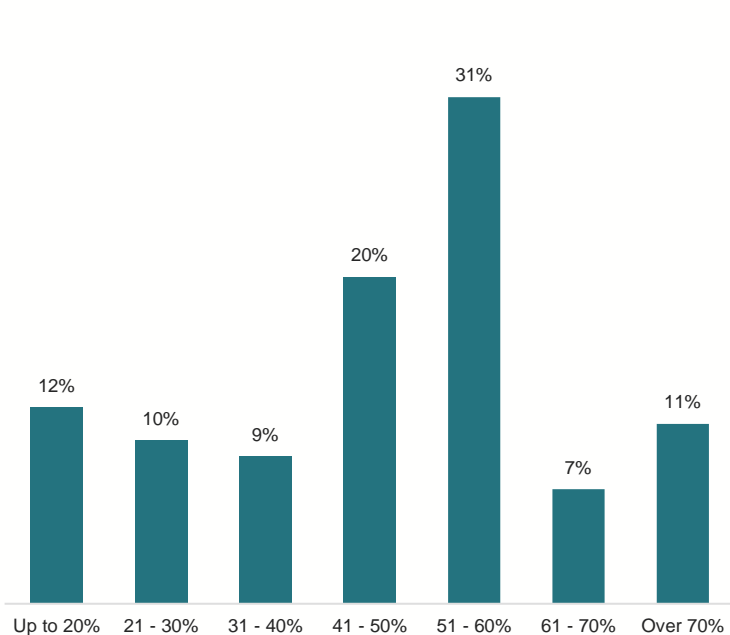
What is your current base salary? (Overall distribution and median and mean by revenue)



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

29

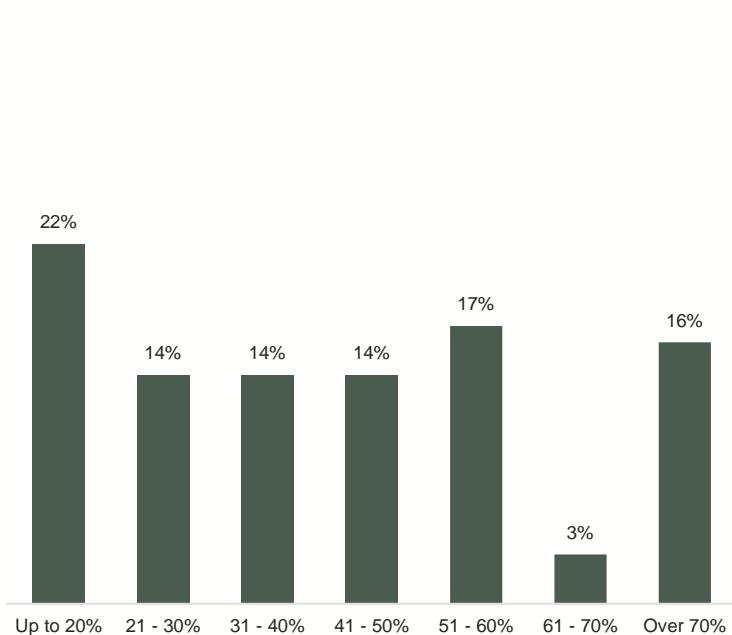
What is your current target annual bonus? (Overall distribution and mean/median by revenue.)



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

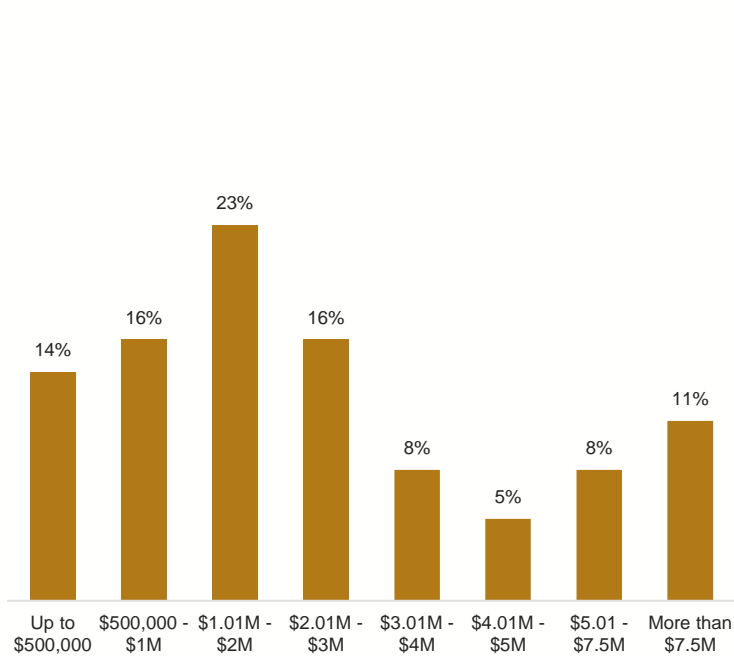
30

What do you expect your actual annual bonus to be this year (for 2019, paid in 2020)? (Overall distribution and mean/median by revenue.)



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

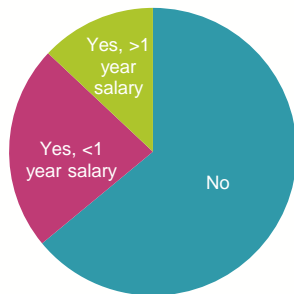
31 If your equity delivers against the expectation of the investment thesis, what gross proceeds (000's) do you expect at exit? (Overall and mean/median by revenue)



/ SURVEY RESPONSES: SECTION IV, CFO COMPENSATION – EQUITY

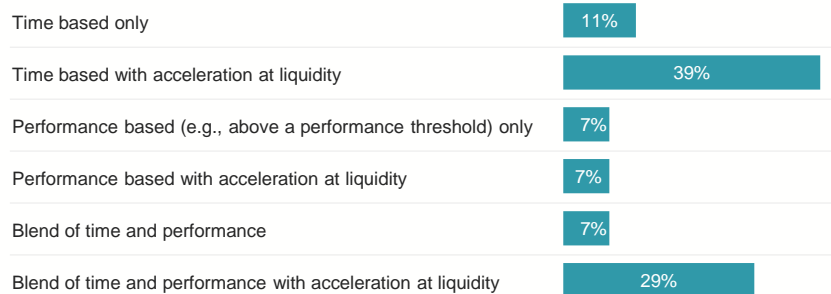
32

Did you invest your own capital in the Company?



33

How does your equity vest?



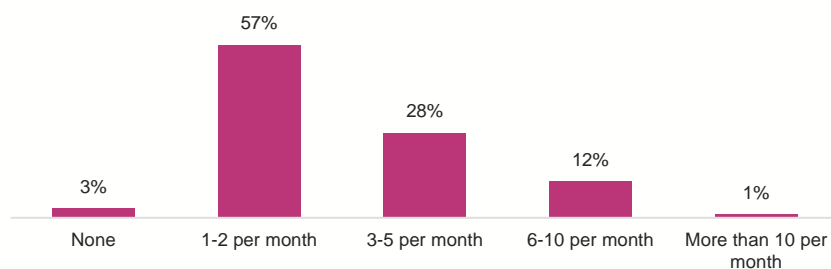
34

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



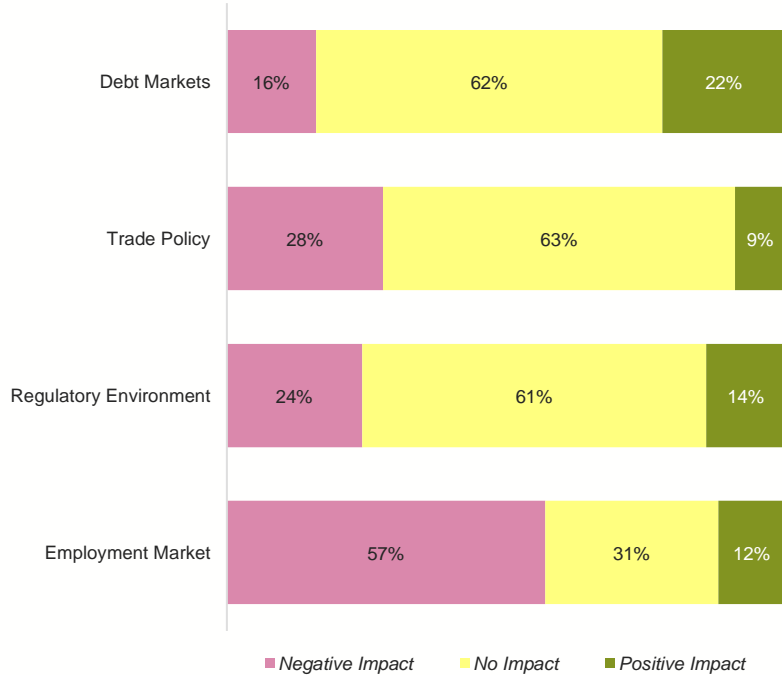
35

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”)?

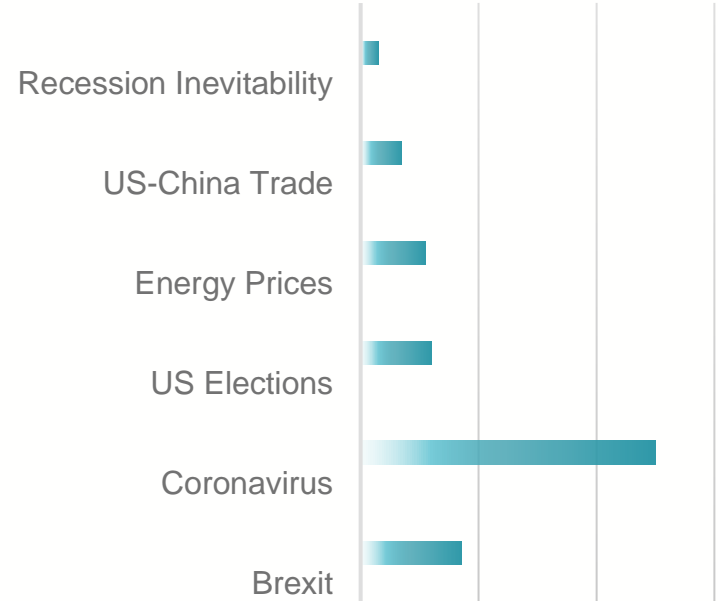


/ SURVEY RESPONSES: SECTION V, CFO PERSPECTIVE

36 How do you anticipate the following will impact your business in 2020?



37 What other outside factors do you anticipate will affect your business in 2020? (Listed include all those scoring 5% or higher)





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