



# USE OF EXECUTIVE TALENT AMONG MIDDLE MARKET PRIVATE EQUITY FIRMS

**BANCROFT  
GROUP, LLC**

Our Purpose: Helping Private Equity Investors Succeed

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# EXECUTIVE SUMMARY

The prevailing wisdom is that private equity firms are biased against using external talent. However, a recent survey found that most firms would use such talent more frequently if given the opportunity.

***"Firms wish they could employ more executive talent for due diligence and use them more often."***

# INTRODUCTION

In the world of private equity, people often assume firms have a bias against using external talent when doing the kind of research and analysis necessary for a successful deal. The prevailing wisdom is that most companies prefer to use in-house talent, particularly in the early stages of a transaction. However, a recent survey demonstrates that—rather than being opposed to executive talent—most PE firms would be happy to use them if they could, particularly in the due diligence stage of a transaction.

The survey was conducted in the fourth quarter of 2019, using online responses from 26 middle-market private equity firms. Most of the firms (73.1%) focused on multiple sectors, while nearly 27% focused on a single sector. Of the companies surveyed, 52% reported that the size of their last fund raised was \$500 million to \$1 billion; 20% reported that it was \$1.01 billion to \$1.75 billion; and 28% reported \$1.76 billion to \$2.5 billion. The study was sponsored by the Bancroft Group LLC in affiliation with Peter de Almeida.





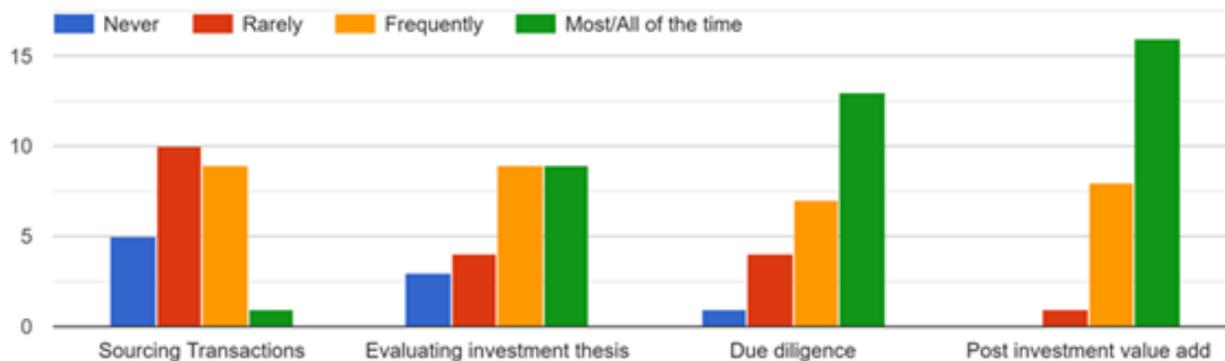
# CURRENT USE OF EXECUTIVE TALENT

Although many in the private equity field assume that firms prefer to use in-house resources, the survey found that the use of outsourced talent was quite common among middle market companies. Twenty-four of 25 respondents said they found operating resources/executive talent/knowledge to be valuable for their investment process. Likewise, 24 of 26 regularly use executive talent as part of their process. More than two-thirds of the respondents use expert networks regularly in the diligence process, with 46.2% reporting they use them at least 50% of the time. Only 15.9% reported that they never use expert networks.

A series of questions delved into a more detailed investigation of how this talent is used. As Figure 1 demonstrates, most respondents currently use executive talent for due diligence and post investment value add.

**FIGURE 1**

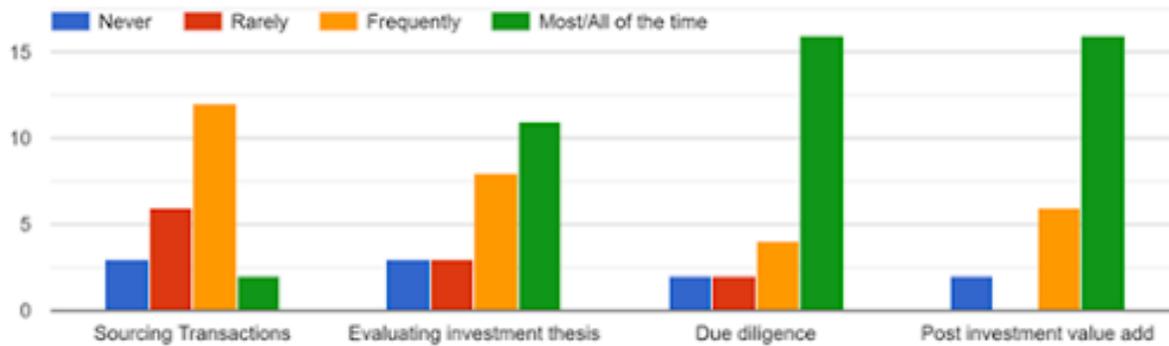
How do you use operating resource talent today?



Sixteen respondents report using executive talent for post investment value add “most/all of the time,” while thirteen say they use such resources for due diligence most/all of the time. In contrast, few respondents use executive talent for sourcing transactions—with fifteen reporting making use of such resources “never” or “rarely.”

## FIGURE 2

If you had unlimited resources, in what areas would you use operating resources?



**Evaluating Investment Thesis:** The number of respondents who currently use executive talent frequently to evaluate investment theses is approximately the same as the number who use them most/all of the time. However, as Figure 2 demonstrates, with unlimited resources on hand, more respondents would use such talent most or all the time. This suggests that resource limitations are the primary reason that firms do not call upon more external talent.

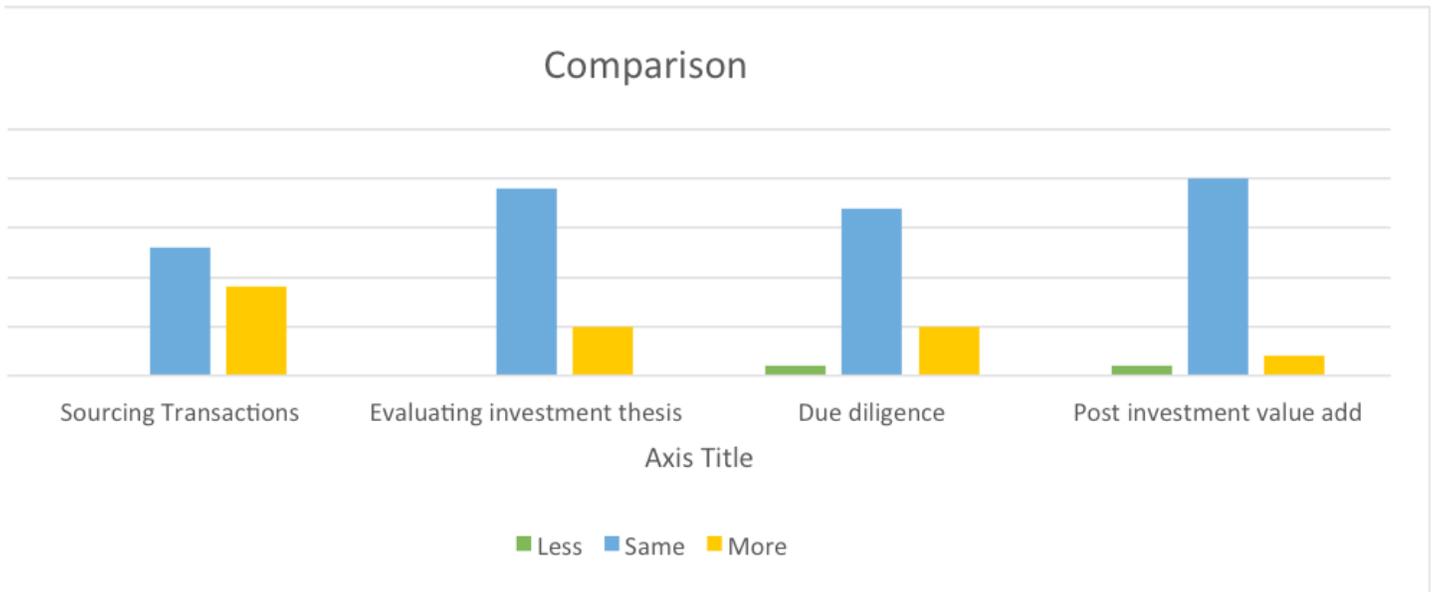
**Due Diligence:** This area showed the biggest gap between what respondents are doing now and what they would prefer to be doing, and the changing numbers for due diligence were the most dramatic of the four areas respondents were questioned about. Given unlimited resources, far more respondents would use executive talent most/all of the time while the number who would use them frequently or rarely decreased markedly. Clearly this is an area of unmet needs for respondents. Firms wish they could employ more outside talent for due diligence and use them more often.

**Post Investment Value Add:** This area already sees a lot of executive talent use, and the addition of unlimited resources would not substantially change that trend. Interestingly, the numbers of respondents who would use such resources for post investment value add frequently or most/all of the time in Figure 2 actually remain fairly constant compared to the numbers in Figure 1. However, this area already had the highest level of current executive talent use, so adding unlimited resources did not have a big impact on talent use. None of the respondents said they would use executive talent rarely in this area if they had unlimited resources.



**Frequency of Executive Talent Use:** Figure 3 shows the results of a question that addresses how much respondents would increase or decrease their use of executive talent if they had unlimited resources. Each individual respondent's change in response from current use to desired use was measured.

**FIGURE 3**



With unconstrained resources, firms would likely use executive talent to source transactions and evaluate investment theses to a greater extent. This suggests they would like executive talent to be more fully integrated into the entire investment process while today they are primarily used in the later stages.



## CONCLUSION

The results of the middle-market private equity firm survey are quite interesting and illustrate some of the challenges facing the companies in this sector. Demonstrably there is a gap between the reality of what these firms can do and what they would like to do. In particular, they would make more frequent use of executive talent if they could—particularly in the early stages of a transaction.

However, the survey does not demonstrate that these firms exhibit a strong bias toward the use of in-house resources. The results strongly suggest that the primary factor in not using external talent is the difficulty of quickly locating trusted individuals at a reasonable price -- rather than some inherent preference for in-house personnel. Outside talent extends a firm's ability to research and analyze transactions and work more efficiently. When performing a transaction, these firms clearly viewed experienced talent as a useful source of information and analysis—no matter where it came from.



***"In particular, they would make more frequent use of executive talent if they could—especially in the early stages of a transaction."***

# ABOUT THE BANCROFT GROUP, LLC.

The Bancroft Group team has spent decades learning what does - and doesn't - work in healthcare and in private equity. That's decades of launching businesses, raising and investing nearly a billion dollars capital for partner companies, weathering market downturns, and building a deep network of industry experts. They draw on their experience and work alongside their partners - private equity firms, executives, and operating companies - to determine what kind of support is necessary to make their investments a success. Then Bancroft connects them with a proven industry insider ready to deliver that support.

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**MIKE KELLY**  
Senior Advisor

Mr. Kelly has more than twenty-five years of experience in private equity. Most recently, he spent 24 years with Hamilton Lane, as a senior investment professional and investment committee member. Before joining Bancroft Group, Mr. Kelly conducted analysis on hundreds of private equity funds, managed dozens of relationships, and held several advisory board seats with top tier private equity firms. In addition, he worked with two start-up operating companies in the agricultural biotech and business services sectors. Mr. Kelly received an MBA from The College of William and Mary and a Bachelor of Science from Trenton State College (now The College of New Jersey).



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