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PRIVATE EQUITY

Interim Manager:
The Perfect Fit for Private Equity Investments?

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WHEN FAILURE IS NOT AN OPTION

INTERIM MANAGER: THE PERFECT FIT FOR PRIVATE EQUITY INVESTMENTS?

Experiences and Opportunities for the Deployment of Interim Managers in Portfolio Companies of Financial Investors

Private equity managers, in times when it seems that every company is being sold through a structured auction process, are searching for new solutions to meet investors' return expectations despite the high purchase prices for acquired investments up to the point of exit. Are interim managers a good option for private equity firms in implementing operational and strategic value creation measures?

CHALLENGING MARKET ENVIRONMENT FOR PRIVATE EQUITY MANAGERS

The downward trend in the European private equity sector continued from 2022 into 2023. In total, 12% fewer transactions took place across Europe in 2023, with the total transaction value declining by 32%, equivalent to €124 billion. In Germany, Austria, and Switzerland (the DACH region), transactions involving private equity investments decreased by 15% compared to the previous year (Source: PwC, Private Equity Trend Report 2024).

In a survey, a majority of private equity managers cited uncertain economic and geopolitical conditions, persistently high capital costs, and securing financing as their greatest challenges.

This negative trend persisted into 2024: in the first half of 2024, the number of transactions in the DACH region fell by an additional 23% (Source: Roland Berger, Private Equity DACH, State of the Region: H1 2024).

Still High Purchase Prices and Investors' Return Expectations?

Private equity investors operate on a temporary ownership model. Within four to six years, the acquired companies are expected to deliver adequate equity returns for investors, private equity partners, and participating MBO/MBI managers.

Value creation is supported by private equity investors through active involvement on advisory boards and supervisory boards of portfolio companies. Ambitious and professional private equity managers, however, do not rely solely on value creation derived from deleveraging or multiple expansion. Due to high valuation levels—double-digit EBITDA multiples are now more the norm than the exception—private equity managers must demonstrate greater creativity and preparation before acquisitions to justify high purchase prices to investment committees.

Beyond strategic value creation measures—such as buy-and-build strategies—financial investors are increasingly initiating systematic operational value creation programs immediately following the successful acquisition of target companies or at the latest, during preparation for the exit.

To implement these operational value creation programs, private equity firms are now recruiting not only former management consultants or investment bankers but also managers with extensive experience as operational executives and advisors. These managers focus on operational value creation levers in areas like procurement, administrative costs, production, and internationalization.

Implementation specialists within private equity firms often rely on external management consultants or, increasingly, on interim managers to realize operational value creation potentials.

Interim management refers to the temporary deployment of external executives at the first or second management level to take on short-term leadership responsibilities or manage projects independently of the organizational hierarchy.

INTERIM MANAGER: TEMPORARY EXECUTIVES

Interim management, or the conscious temporary staffing of a senior management position, is becoming increasingly popular in Europe. Interim managers take on roles as managing directors, department heads, or project leaders - often in special situations - to address resource shortages or a lack of expertise. These assignments typically last six to twelve months, or up to three years in complex restructuring projects.

The interim management market in Europe is experiencing steady growth in 2024. The UK and France are leading interim management markets, with growth rates of 6–8% and 5–7%, respectively, driven by demand in sectors like finance, technology, healthcare, manufacturing, and energy. Key trends include increased reliance on interim managers for restructuring, digital transformation, and handling executive gaps, as well as greater adoption by SMEs for cost-effective leadership solutions. The market outlook remains positive, fueled by the need for experienced leaders to navigate economic uncertainties and deliver measurable value.

In 2024, the German Interim Management Association (DDIM) estimates that around 12,000 interim managers are active, double the number since 2014, generating an annual revenue of approximately €2.9 billion (revenue in 2014: €1.4 billion). Unlike traditional management consultants, who provide external, independent services with concepts and implementation recommendations but no decision-making authority, interim managers often assume entrepreneurial responsibility, with about 9% working at the executive management level.

In 2024, interim management project assignments related to insolvency-related restructurings, reorganizations, and turnarounds have significantly increased in Germany, according to a study by the DDIM (German Interim Management Association), and now account for approximately 16% of interim manager mandates. Demand for interim managers was particularly high among clients from the machinery and plant engineering sector (18%), the automotive supplier industry (13%), the retail and food industries (8%), and the construction sector (5%).

DEPLOYMENT OF INTERIM MANAGERS IN FINANCIAL INVESTORS' PORTFOLIO COMPANIES – ACTIONS SPEAK LOUDER THAN WORDS AND SLIDES

But in which situations does the deployment of an interim manager make sense for a private equity firm - and when does it not?

Addressing Vacancies or Weaknesses in MBI or MBO Team

Shortly after the closing of a deal, it often becomes apparent that the CEO, CFO, or another executive does not align with the private equity culture. The speed and scope of changes required to enhance the value of private equity portfolio companies often overwhelm managers, particularly those without prior private equity experience.

Additionally, acquisition financing and the associated interactions with debt-financing banks represent a novel and often stressful situation for many corporate managers, one they may not be equipped to handle. A common mistake in such scenarios is holding on to overburdened managers for too long.

The short-term deployment of an interim manager allows financial investors to address leadership vacancies while searching for a long-term replacement. This temporary solution ensures that critical value creation and restructuring measures are implemented, laying a solid foundation for the incoming MBI manager.

The short-term deployment of an interim manager offers financial investors the opportunity to bridge the leadership vacancy in the portfolio company, gain more time to identify an optimal medium- and long-term replacement with an MBI manager, and negotiate a contract with the appropriate incentives for the long-term solution without time pressure. Quality and compatibility, not only short-term availability should be prioritized when selecting the medium- and long-term replacement for the executive, who should ideally remain in place until the exit or beyond.

At the same time, the interim manager can implement the urgently needed restructuring and reorganization measures within a few weeks or months, providing a foundation for the subsequent MBI manager and making their work easier.

Interim Management in Restructuring Situations

In cases where portfolio company managers fail to meet business plan targets or risk breaching banking covenants, deploying an interim manager as Chief Restructuring Officer (CRO) is often the best solution. A CRO is tasked with steering companies out of existential liquidity and profitability crises, coordinating stakeholders, and preventing insolvency or liquidation.

The Chief Restructuring Officer ("CRO") is an interim restructuring executive or board member tasked with guiding a company out of an existential liquidity and profitability crisis.

This is achieved by steering and implementing the restructuring process and coordinating stakeholders to prevent the company's insolvency or liquidation.

For debt financing banks, the deployment of an external interim manager as a Chief Restructuring Officer ("CRO") - someone with the proven track record and extensive experience in managing critical corporate situations and the ability to rebuild trust - is typically the preferred solution in the event of a covenant breach. If private equity investors take proactive initiative early in such situations, without pressure and before intervention from the banks, they can stabilize the company and improve relations with the banks through an interim manager who is also trusted by the financial institutions.

An interim manager with extensive experience as a Chief Restructuring Officer can quickly regain the trust of the banks by focusing on the right priorities. These include not only creating a restructuring plan within a few weeks, but also implementing immediate liquidity-securement measures, such as improved working capital management and short-term cost reductions. Additionally, they can initiate cultural shifts within the company to drive necessary changes.

In such a crisis, even the most sophisticated presentations with detailed analyses and recommendations from renowned consultants alone are typically insufficient. Measures to achieve short-term and sustainable improvements in liquidity, profitability, and performance must not only be identified but also immediately implemented by an experienced, hands-on manager within the organization.

Implementation of Strategic Measures by Private Equity Firms

Experienced interim managers can provide valuable external implementation expertise in executing strategic value enhancement measures- such as the integration of acquisitions within a buy-and-build strategy, the carve-out and divestment of business units or subsidiaries, vertical integration, or the internationalization of the portfolio company's business model.

Integrating an acquired company, establishing a new facility in Asia, or opening a new sales office in the United States typically does not fall within the standard repertoire of a manager. Costly mistakes can be avoided by engaging interim managers who have practical experience and proven expertise in these special situations.

After successfully completing the integration of acquired companies, the sale of non-core assets, the smooth relocation of a facility, or the opening of a new sales office domestically or abroad, the interim manager can step away from the organization.

Exit Preparation

The use of interim managers is also advisable when preparing a company for an exit. In most cases, the management teams of portfolio companies lack exit experience.

Many levers and value enhancement opportunities that can lead to higher EBITDA and cash flow - and thus a higher IRR and money multiple for the private equity investor - can be identified and implemented by an experienced interim manager even just months before the exit.

This approach allows the managers of portfolio companies to focus on day-to-day operations and their customers, while the interim manager prepares the exit internally and systematically implements value-enhancing measures within a program office framework.

Interim managers engaged in the situations described above represent temporary and extraordinary expenses in accounting terms, which do not negatively impact the operational and sustainable results shortly before the exit.

SELECTING THE RIGHT INTERIM MANAGER

The success of an interim manager depends not only on their deployment in the right situation but also on the selection of the right personality. Numerous professional intermediaries, known as providers, assist clients in selecting the appropriate interim manager.

However, private equity managers themselves bear the responsibility for selecting a suitable interim manager for their portfolio company. Therefore, private equity managers should carefully evaluate candidates for interim manager roles through personal interviews and diligent background checks with references and former clients of the shortlisted interim managers.

CHECKLIST

SELECTION CRITERIA FOR THE RIGHT INTERIM MANAGER FOR PRIVATE EQUITY MANAGERS

- ✓ *Does the interim manager understand the culture of a private equity-led company and have they successfully worked in portfolio companies of private equity firms?*
- ✓ *Can the interim manager demonstrate success in the specific business situation (e.g., restructuring, internationalization, performance improvement, transformation, achieving exit readiness, post-merger integration, facility relocations, etc.) in an operational leadership role (e.g., as interim CEO)?*
- ✓ *Does the interim manager possess a comprehensive combination of operational, strategic, and especially financial expertise?*
- ✓ *If the interim manager is deployed as a Chief Restructuring Officer in crisis situations, does he have extensive experience in dealing with banks (workout departments), implementing measures from IDW S6 reports, and liquidity management?*
- ✓ *Is the interim manager action-oriented ("hands-on") and does he avoid merely delegating tasks to (potentially overwhelmed) employees within the client company?*
- ✓ *Does the interim manager possess the necessary personal skills, such as assertiveness, leadership experience (C-level), negotiation skills, resilience, conflict resolution, and decisiveness?*
- ✓ *Does the manager demonstrate high social intelligence to persuade and motivate executives, employees, and works councils in the company to embrace and support structural and cultural changes?*
- ✓ *Does the interim manager have the communication skills and personality to earn the trust of other key stakeholders (e.g., shareholders, supervisory and advisory boards, banks, trade credit insurers, unions)?*

CONCLUSION

Interim managers are temporary executives. Private equity investors are temporary owners. In summary, interim managers are an excellent solution for private equity managers and their portfolio companies in special situations that require immediate action, as they deliver short-term implementation success and contribute to measurable improvements in the profit and loss and cash flow statement.

However, the key to success of interim management in a private equity-led company lies in selecting the right interim manager - one who fits the company, the current challenge, and, most importantly, the culture of the private equity firm.

ABOUT EXECUTIVE INTERIM PARTNERS



Founded in Munich in 2005, **EXECUTIVE INTERIM PARTNERS** (EIP) is a leading organization and owner-managed partnership of experienced interim managers at the C-level, specializing in special situations that require immediate entrepreneurial action.

EXECUTIVE INTERIM PARTNERS consists of seasoned top-level managers at the executive and board level, who guide companies back on track, successfully manage special situations, and capitalize on opportunities. Unlike management consultants and intermediaries (providers/recruitment consultants), EIP partners personally take on temporary responsibility as interim executives or board members in your company to successfully implement restructurings, turnarounds, complex transformations, corporate sales, or M&A transactions.

The partners of **EXECUTIVE INTERIM PARTNERS** support you and your company as an interim manager, especially in special situations that require immediate entrepreneurial action, such as

- Restructurings
- Liquidity crises
- Refinancing/Recapitalizations
- Exit preparations and company sales
- Value enhancements/ Exit readiness
- Company acquisitions and integrations (PMI)
- Complex transformations
- Strategic corporate crises/Revenue and growth crises
- Operational turnarounds
- Leadership crises or leadership vacuums
- Digitalizations

All partners of **EXECUTIVE INTERIM PARTNERS** have a proven track record as managing directors and board members - as interim managers or in permanent positions. Approximately 80% of our mandates result from executive functions as interim managing directors or board members (e.g. as CEO, CRO, CFO, COO, CDO, or CSO).

Clients of **EXECUTIVE INTERIM PARTNERS** are medium-sized family businesses, corporations and portfolio companies of private equity firms.

ABOUT THE AUTHOR



Michael Hengstmann is the founder of and Managing Partner at Executive Interim Partners.

He is also a co-founding partner and Co-CEO at Management Capital Holding AG, a private equity firm investing in medium-sized companies.

Prior to joining Executive Interim Partners, Michael was a Partner and Managing Director at AlixPartners, the leading consulting firm for restructuring and turnarounds.

Before that, he was a Partner and Managing Director at One Equity Partners, previously the captive private equity fund of J.P. Morgan.

Michael started his professional career at a family-owned company. He later was Project Manager at Arthur Andersen and Partner and Managing Director at LEK Consulting.

Michael has more than 20 years of experience in executive management roles and complex restructuring mandates, specializing in interim management for operational and financial restructuring.

Michael served as interim Chief Restructuring Officer (CRO), Chief Executive Officer (CEO) and Chief Operating Officer (COO) in several German and international companies with a track record in successfully restructuring, refinancing and turning around companies in special situations.

He is serves and has served as Chairman or Member of the Supervisory Board at several companies in Germany and abroad.

Michael earned his Master of Science in Management with Excellence at Hult International Business School in Cambridge/USA (formerly Arthur D. Little School of Management) studied Business and Administration at the Universität of Duisburg/ Germany.



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