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PERTH  
LEADERSHIP INSTITUTE

**MANAGEMENT DUE DILIGENCE FOR  
PRIVATE EQUITY**

Valuation comes from management behavior

6/11/2014

## Perth’s Behavioral Proforma™ Program for Management Due Diligence

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## Perth's Behavioral Proforma™ Program

### Behavioral Proforma™ Program Overview

- Behavioral method to predict portfolio profitability
- Psychometric assessments for senior managers of portfolio companies
- Predicts behavioral propensity to create capital and shows likely profitability and financial outcomes of each manager and management team
- Goals: forecast likely profitability outcomes based on management behaviors

### The Behavioral Proforma™ Program Framework

1. **Based on innovative behavioral financial framework:** Unique to Perth Leadership Institute; based on 10 years of research and extensive field validation. Results published in two books and numerous articles. Approach used in large companies worldwide for leadership selection and development
2. **Uses formal, online psychometric assessments:** Three core psychometric assessments:
  - a. Financial Outcome Assessment (FOA): Shows Financial Signature of individuals and teams and propensity to make or lose money.
  - b. Executive Outcome Assessment (EXOA): Shows business outcome of individual managers and teams.
  - c. Corporate Financial Outcome Assessment (CFOA): Shows financial outcome of company and degree of alignment or otherwise between individual managers and teams, and the company.
3. **Results in Behavioral Proforma™:** Behavioral data used to prepare a proforma income statement and valuation based on a proprietary approach. This provides normal income statement whose results don't use historical financials but instead behavioral data from the Perth assessments.

### The Draw for Private Equity

1. **Alternative profitability analysis:** completely independent of historical financials; provides alternative view of profitability and valuation outcomes based on totally different set of parameters allowing for different perspective on future.
2. **Identify profit sleepers and dogs:** New way of identifying CEOs and senior managers who are likely to underperform or fail; and unrecognized high-performers. Handlers and others can also make suggestions
3. **New approach to succession planning:** Not just dependent on head-hunters whose goals might not be aligned with yours. Allows behavioral characteristics to be tailored to particular markets, products and levels of evolution.

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4. **Shows business as well as financial outcomes:** Links business and financial outcomes so that there is a clear and commonsense way of seeing how the financial results happen. Executives choose their own X-factors
5. **Shows degree of alignment or otherwise between top managers and company financial goals:** Gives private equity portfolio managers another way to assess the extent to which portfolio company management is aligned with the company and portfolio program.
6. **Provide financial insight into management resumes:** Often resumes are misleading, airbrushed or misleading. The Behavioral Proforma™ Program provides a penetrating way to unreported or concealed issues in manager resumes that are not intrusive since assessments are totally opt-in on the part of managers.

## The Draw for Company Management

1. **New way to improve their own performance:** CEOs and managers can find out more about themselves and how to improve, if this is included in the program design.
2. **CEO has new way to assess direct reports:** The Behavioral Proforma™ provides them with a way of identifying and hiring talent that has financial outcomes required by the company. These may also get time off if they display the right commitment
3. **Provide new type of leadership development and performance improvement to senior managers:** CEOs can offer a career benefit to their managers that is different to anything else they will have ever seen or experienced.

## The Assessment Process

1. **Time involved:** Between 1-3 assessments, usually 3. Take 15 minutes each. Assessment taken online.
2. **Privacy:** Totally opt-in. Managers know they are taking the assessments.
3. **Reports:** These can be provided only to portfolio manager or also to company managers; this depends on program objectives. Reports are generated immediately on completion of assessments.
4. **Analysis:** This is completed by Perth later based on results of assessments. This results in the preparation of a Behavioral Proforma™ report for individual managers and the team, if that is also required.

## Benefits of the Behavioral Proforma™ Analysis

1. **Directly comparable to traditional financial proforma:** Same categories so the two are directly comparable.
2. **Financial metrics:** Normal categories:
  - a. Revenue
  - b. COGS
  - c. Gross margin
  - d. ExpensesEach of these in absolute amounts and percentages of revenue.
3. **Market averages:** Proforma is standardized against the particular financial metric averages for the particular market and SIC code.
4. **Address different behavioral scenarios:** Addresses a number of behavioral scenarios:

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- a. If manager relies on past behavior
  - b. If manager relies on natural behavior
  - c. If manager changes to recommended or optimum behavior.
5. **Valuation:** Proforma shows different valuation outcomes for different valuation scenarios.
  6. **Sensitivity:** Proforma allows for sensitivity testing based on varying different behavioral and market metrics.

## Optional Training and Coaching for Management

1. **Following types of training can be integrated into Behavioral Proforma™ Program if required.**
  - a. Leadership development
  - b. Business acumen training
  - c. Innovator identification
  - d. Active agility training.
  - e. Training for HR professionals in business acumen selection and development
2. **Following types of coaching can be integrated into Behavioral Proforma™ Program if required:**
  - a. Individual coaching for performance improvement
  - b. Onboarding program for optimum financial and profitability alignment
  - c. Outplacement program for future job placement