

The background of the entire page is a complex, abstract network of white lines and dots on a teal-to-white gradient. The network is densest in the upper right corner and becomes sparser towards the bottom left. The dots represent nodes, and the lines represent connections between them, creating a web-like structure.

HEIDRICK & STRUGGLES

PRIVATE EQUITY PRACTICE

2016

North American Operating Executive

Compensation Survey

Introduction

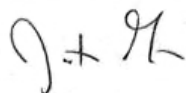
Heidrick & Struggles is pleased to present our *2016 North American Operating Executive Compensation Survey*.

We invited operating executives working in private equity to participate in an online survey on compensation and received 169 complete responses. All compensation data is self-reported.

In addition to questions on compensation, we asked respondents to provide information on their background, the scope of their role, and how their firm is structured. We analyzed the level of cash and non-cash compensation (carry, equity, etc.) according to professional level, as well as most recent fund size and total assets under management (AUM). In addition, we asked how their compensation packages are determined and funded.

We look forward to discussing our findings with you.

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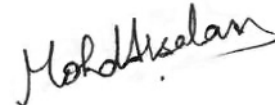
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On Confidentiality

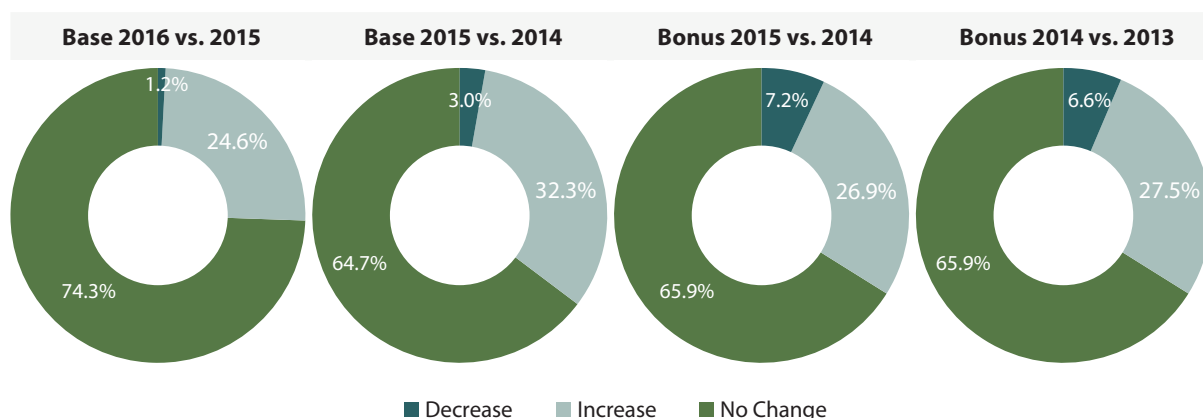
This survey has been conducted on an anonymous basis for individuals and their employers, and Heidrick & Struggles has removed all information relating to identity from the data on compensation.

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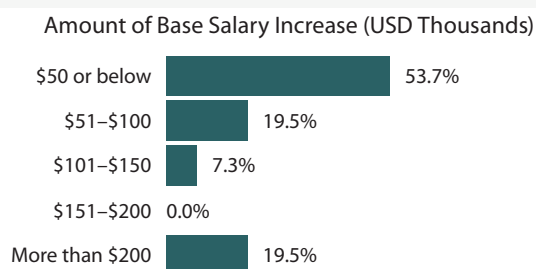
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General Observations

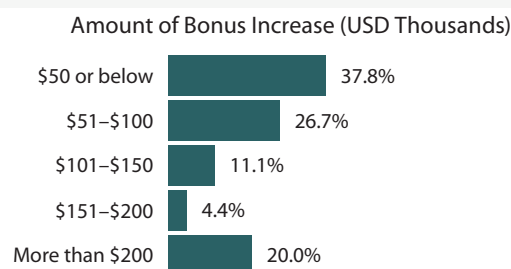
Despite the recent boom in private equity firms hiring operating executives to focus on value creation, compensation remained stable in 2016. The vast majority of operating executives reported no change in their base salary from 2015 to 2016 and overall cash compensation (base + bonus) from 2014 to 2015.



Breakdown of Respondents Reporting an Increase in 2016 Base Salary



Breakdown of Respondents Reporting an Increase in 2015 Bonus



Half (50.9%) of surveyed operating executives are employed by the GP while 27.5% are self-employed and 21.6% are employed by a separate legal entity or the operating company.

Overall, 37.5% of respondents identified themselves as industry generalists, and 54.9% reported that they are functional generalists. Of those that did report a speciality, 27.5% focused on industrials and 14.2% were finance experts.

More than a third (35.2%) of operating executives received their cash compensation exclusively from the GP management fee, while 20.6% received their cash compensation from portfolio company oversight fees and 14.8% had their time billed directly to portfolio companies. The remaining survey respondents received their cash compensation from a mix of the three.

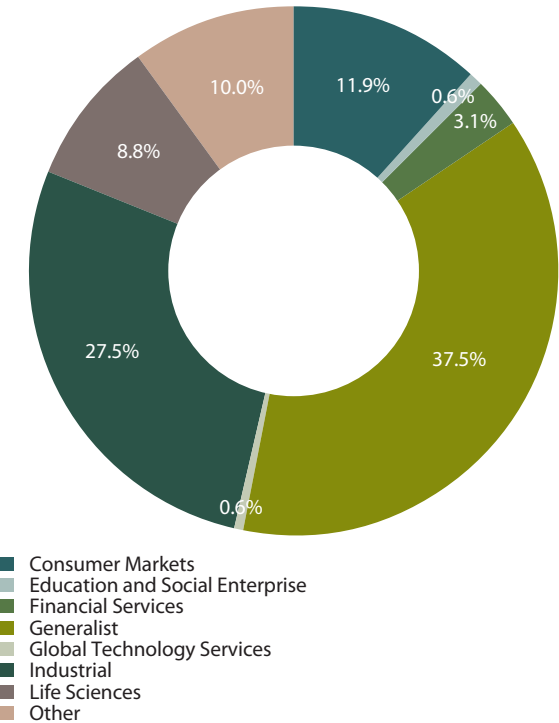
For operating executives with discretionary bonus plans, only 17.7% received a bonus based on firm performance while 41.1% received a bonus that was entirely discretionary. Alternatively, 42.8% of operating executives with formulaic bonus plans received a bonus based on individual performance and 37.1% received a bonus based on firm performance.

Only 12.6% of the survey respondents were previously employed by the GP, reversing the trend of GPs hiring operating executives from successfully exited portfolio companies.

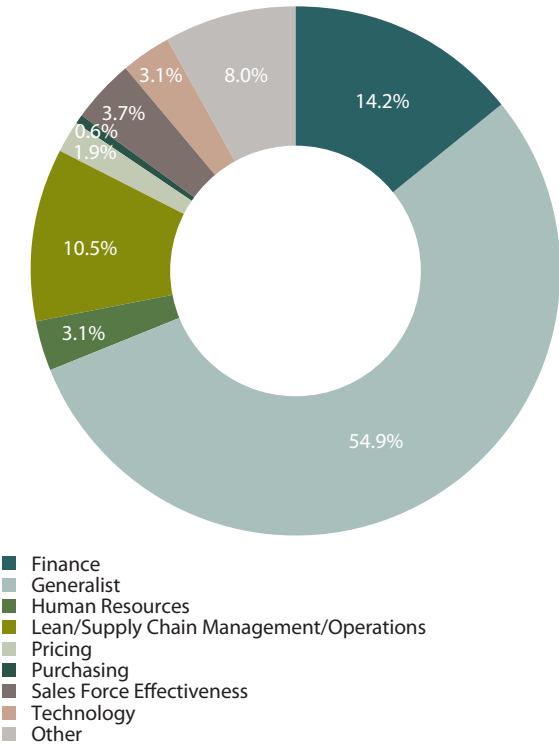
The largest responsibility of operating executives was due diligence, closely followed by driving value creation initiatives and 100-day/value creation planning. Deal sourcing and execution ranked lowest in operating executives' responsibilities.

Profile of Respondents

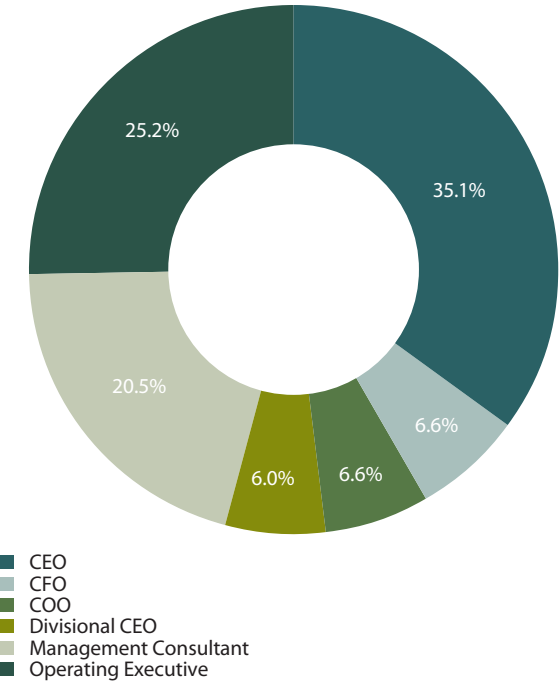
Industry Focus



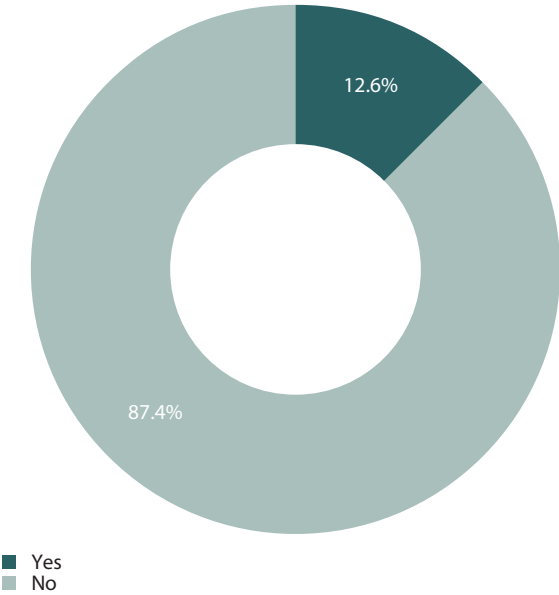
Functional Expertise



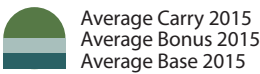
Prior Role



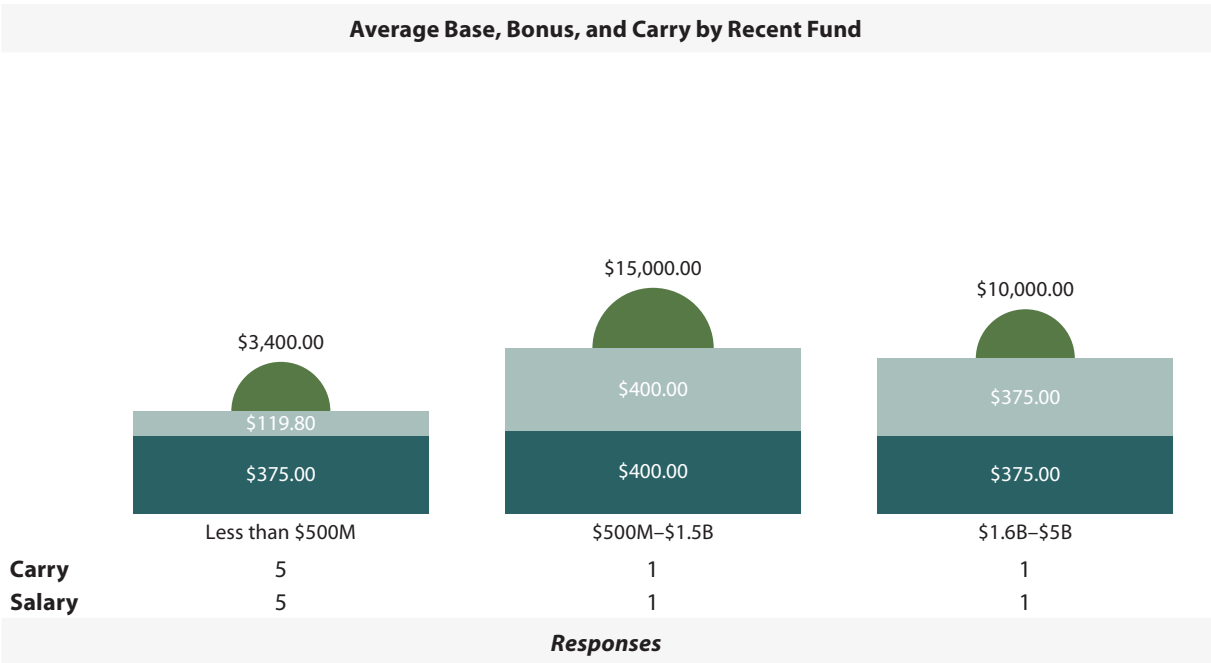
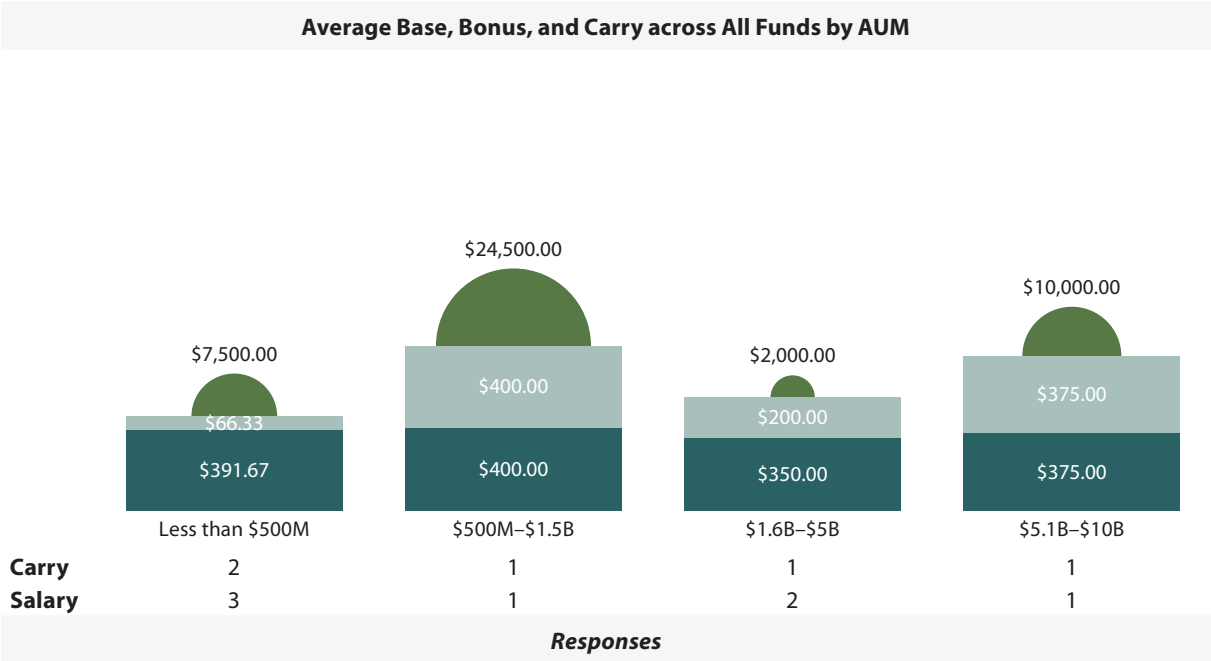
Previously Employed by Current GP



Firm Leader



Managing Partner, President, etc.




Carry—Dollars at Work: The expected return on total carry participation across all vehicles, based on achieving a net 2x return (above hurdle and after fees) in a vehicle charging a 20% performance fee.

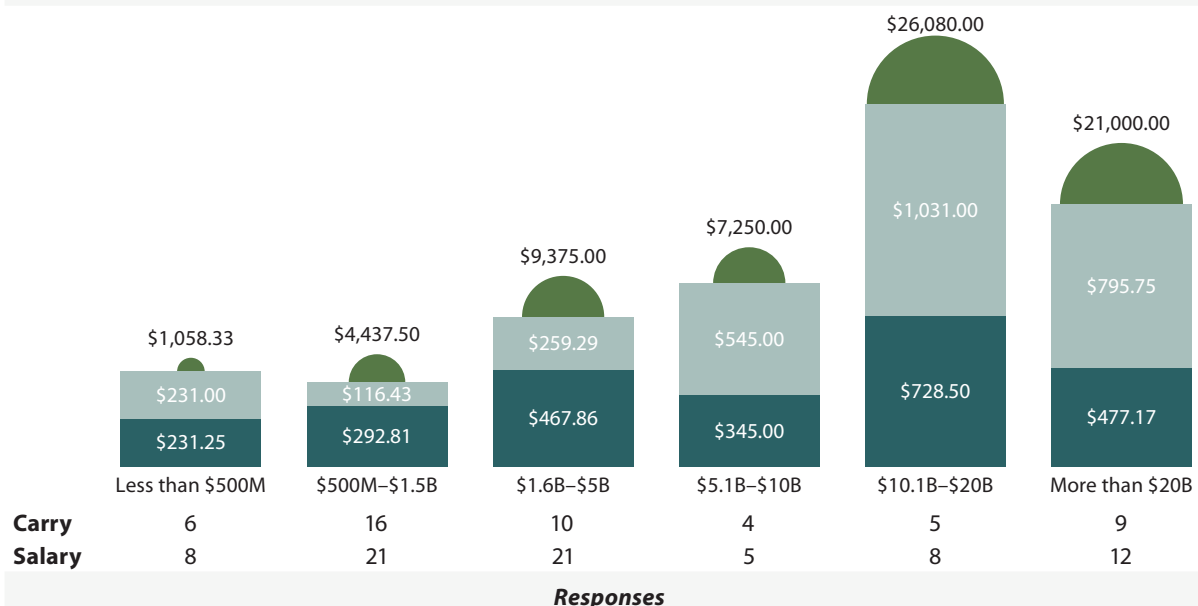
All compensation figures are in USD thousands

General Partnership Level

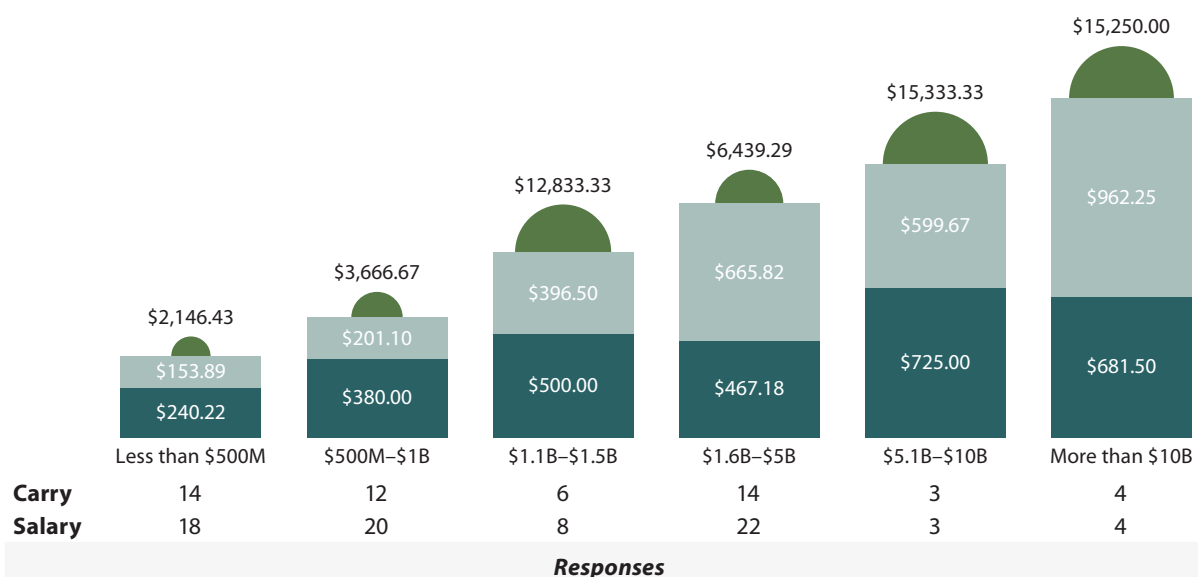
Operating Partner, General Partner


 Average Carry 2015
 Average Bonus 2015
 Average Base 2015

Average Base, Bonus, and Carry across All Funds by AUM



Average Base, Bonus, and Carry by Recent Fund



Carry—Dollars at Work: The expected return on total carry participation across all vehicles, based on achieving a net 2x return (above hurdle and after fees) in a vehicle charging a 20% performance fee.

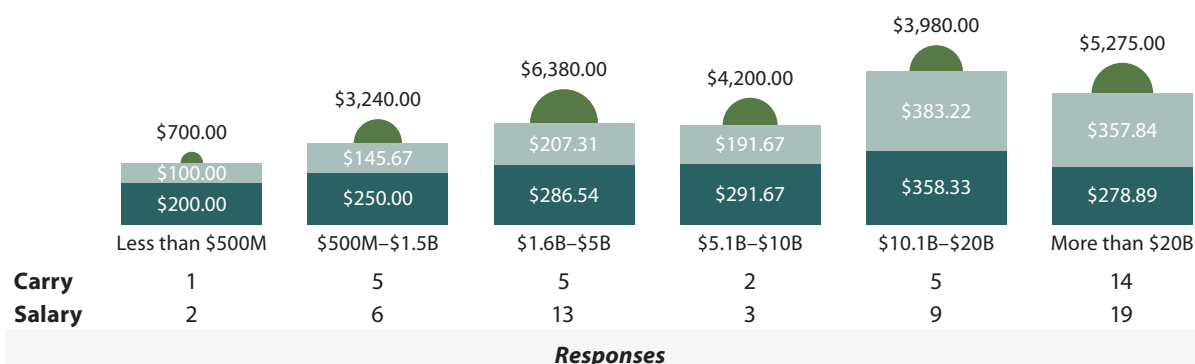
All compensation figures are in USD thousands

One Step Below General Partnership Level

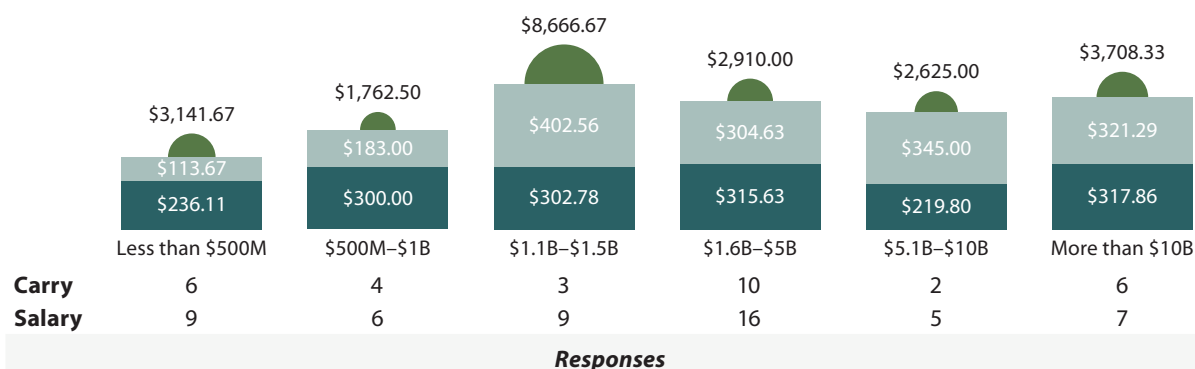
Average Carry 2015
Average Bonus 2015
Average Base 2015

Operating Principal, Operating Executive, Director of Portfolio Operations,
Operations Director

Average Base, Bonus, and Carry across All Funds by AUM



Average Base, Bonus, and Carry by Recent Fund



Carry—Dollars at Work: The expected return on total carry participation across all vehicles, based on achieving a net 2x return (above hurdle and after fees) in a vehicle charging a 20% performance fee.

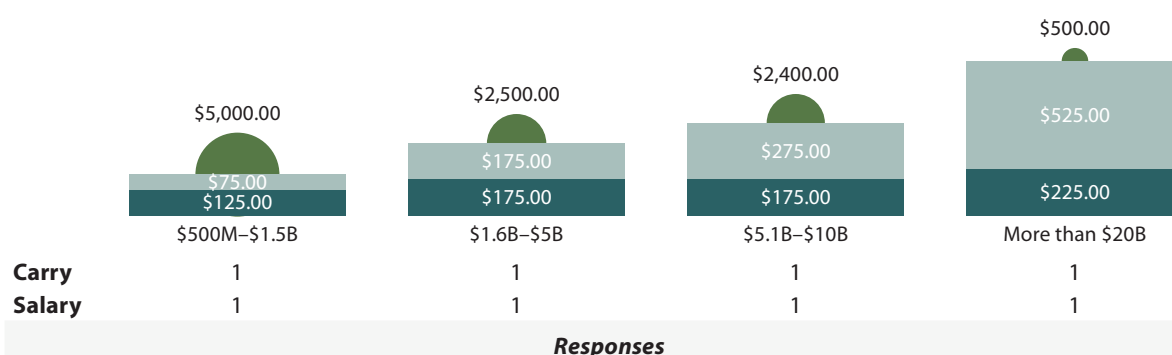
All compensation figures are in USD thousands

Two Steps Below General Partnership Level

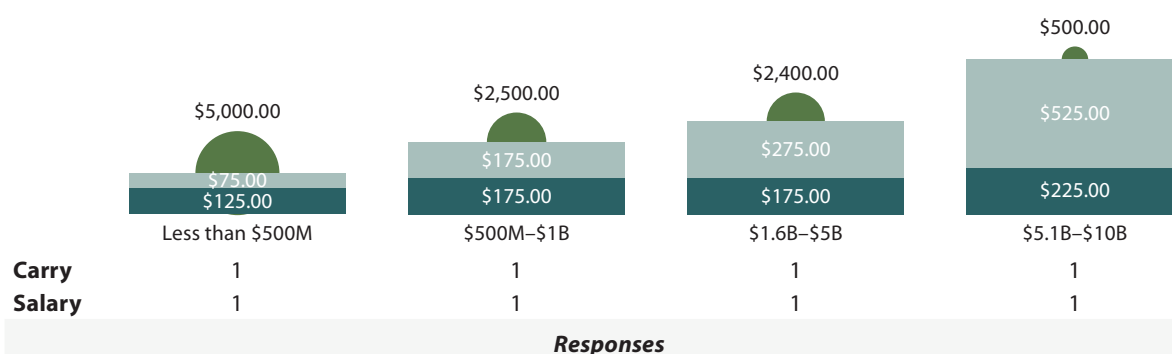

 Average Carry 2015
 Average Bonus 2015
 Average Base 2015

Vice President, Associate, etc.

Average Base, Bonus, and Carry across All Funds by AUM



Average Base, Bonus, and Carry by Recent Fund



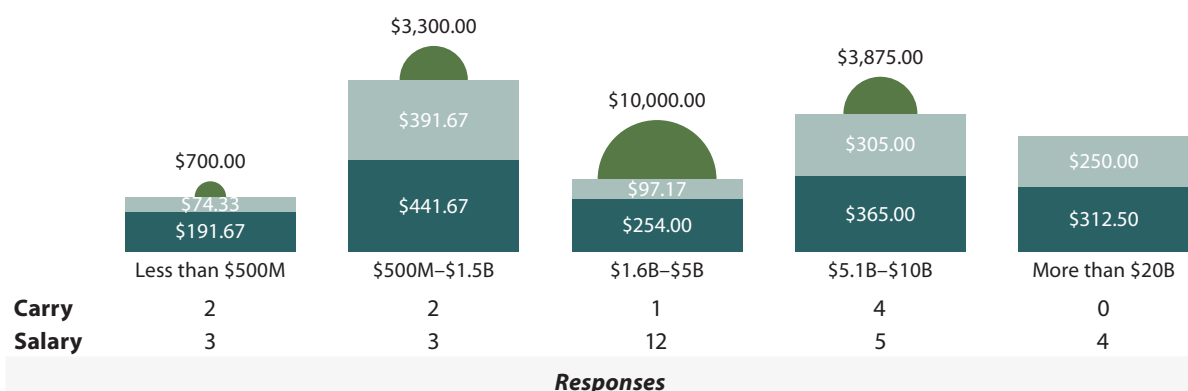
Carry—Dollars at Work: The expected return on total carry participation across all vehicles, based on achieving a net 2x return (above hurdle and after fees) in a vehicle charging a 20% performance fee.

All compensation figures are in USD thousands

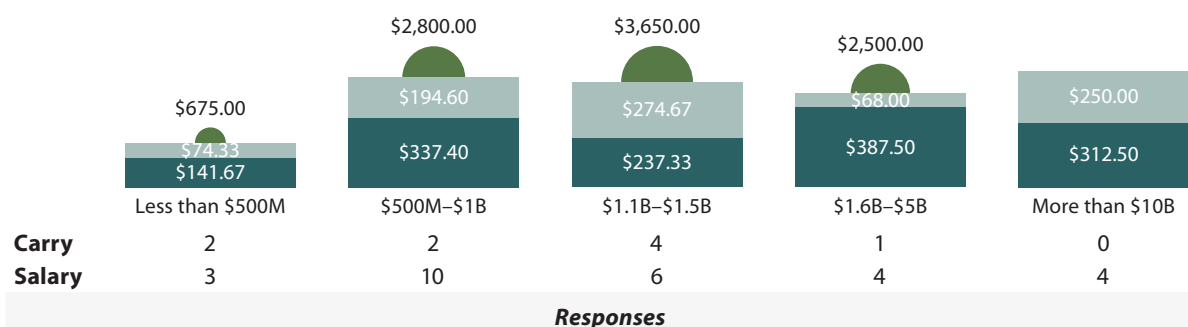
Senior Advisor, Executive Advisor, etc.


 Average Carry 2015
 Average Bonus 2015
 Average Base 2015

Average Base, Bonus, and Carry across All Funds by AUM



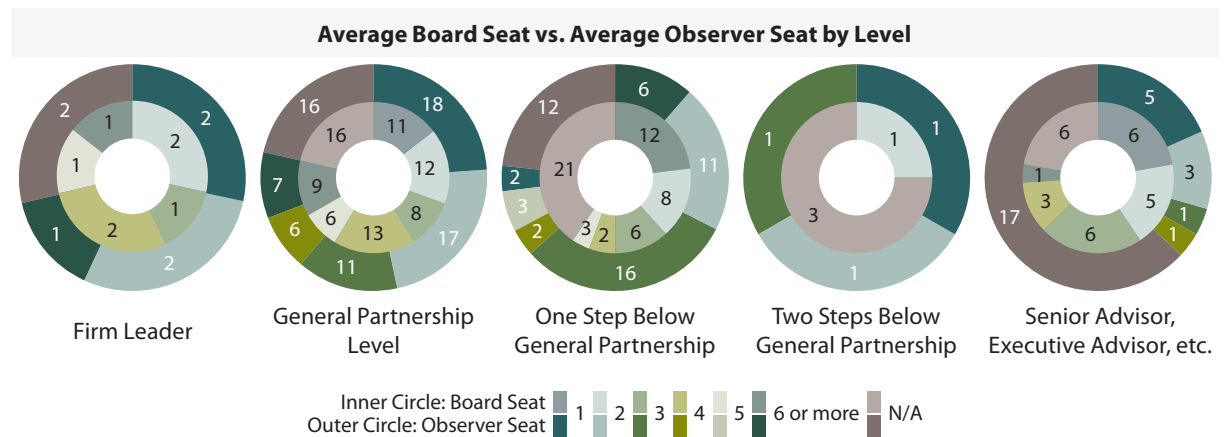
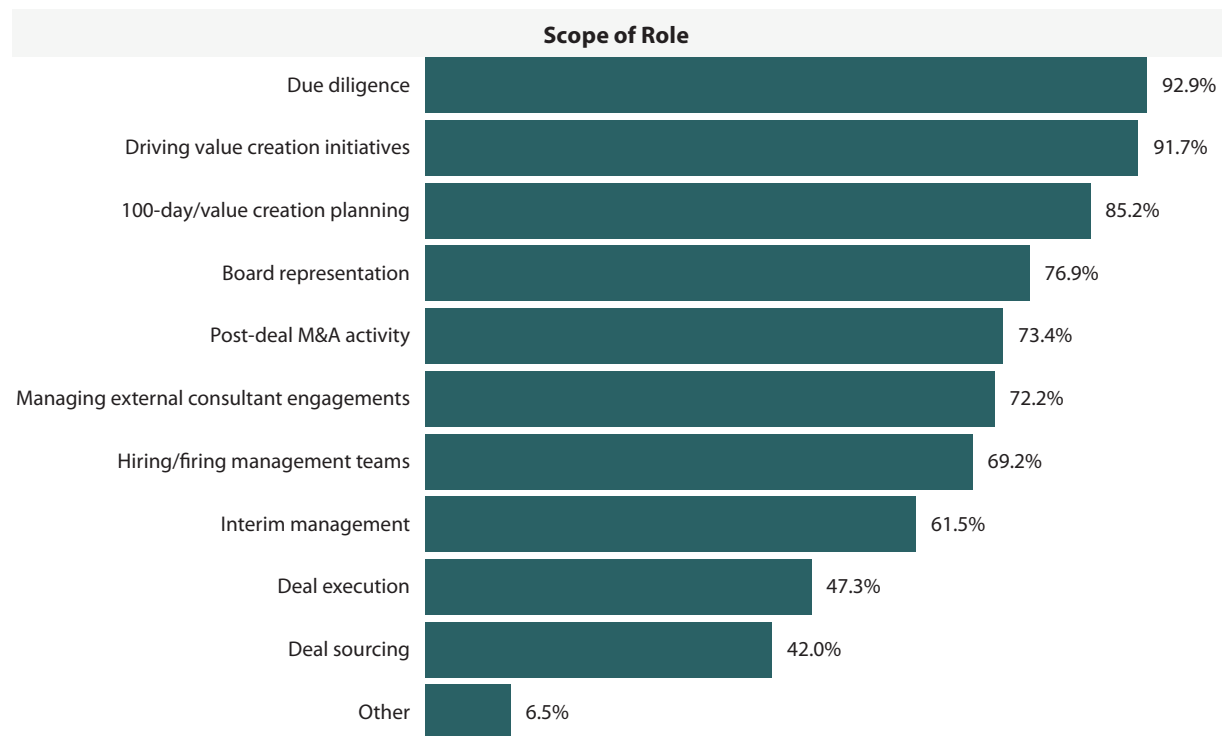
Average Base, Bonus, and Carry by Recent Fund



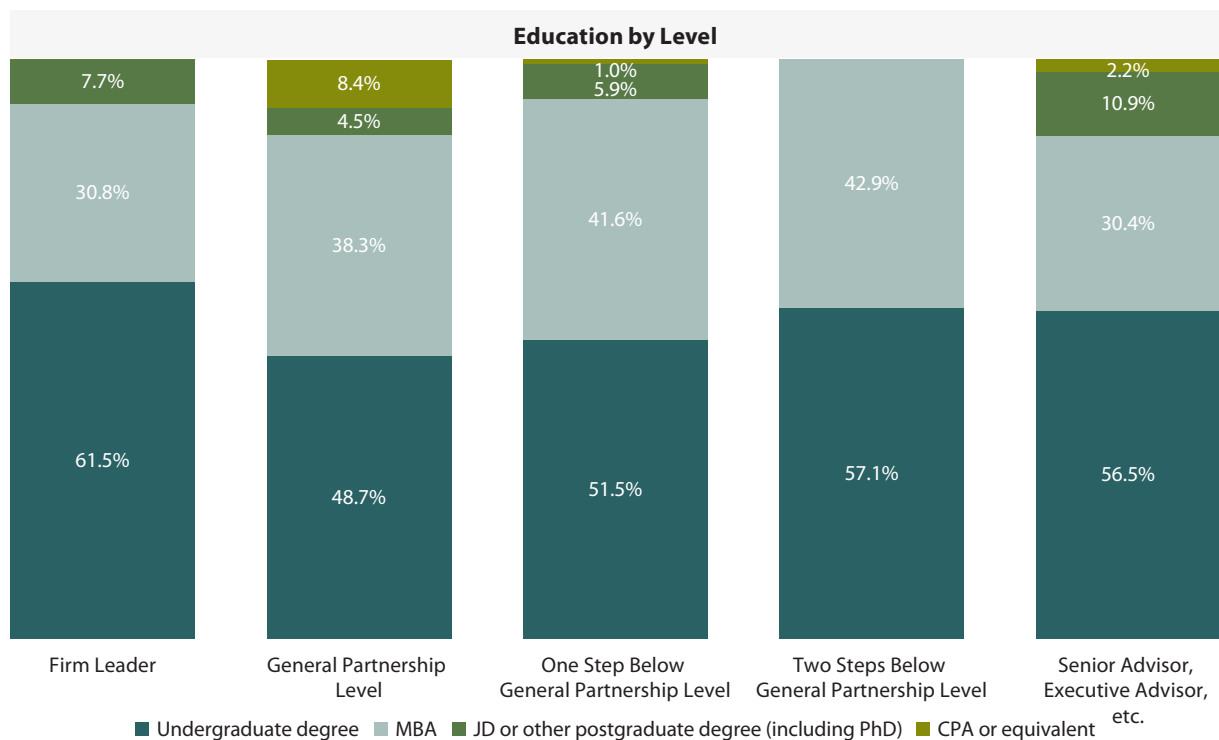
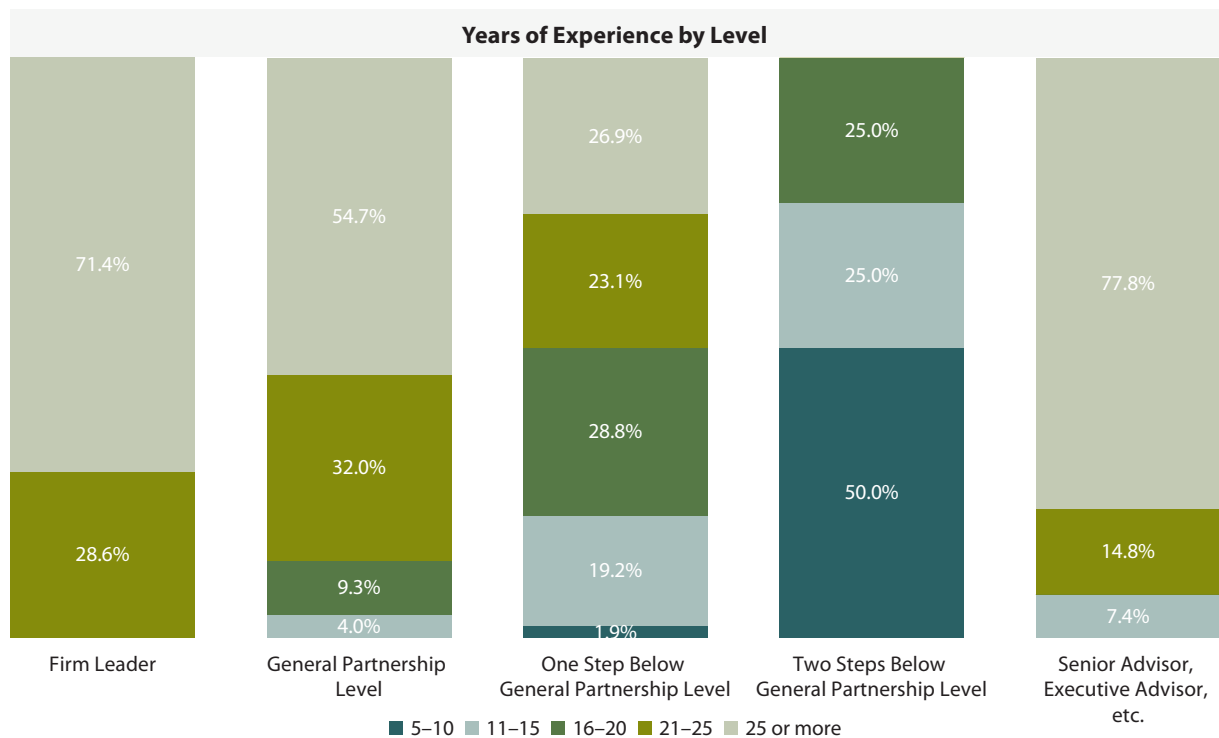
Carry—Dollars at Work: The expected return on total carry participation across all vehicles, based on achieving a net 2x return (above hurdle and after fees) in a vehicle charging a 20% performance fee.

All compensation figures are in USD thousands

Scope of Operating Executive Role and Board Representation



Years of Experience and Education

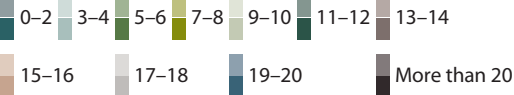


Firm Structure

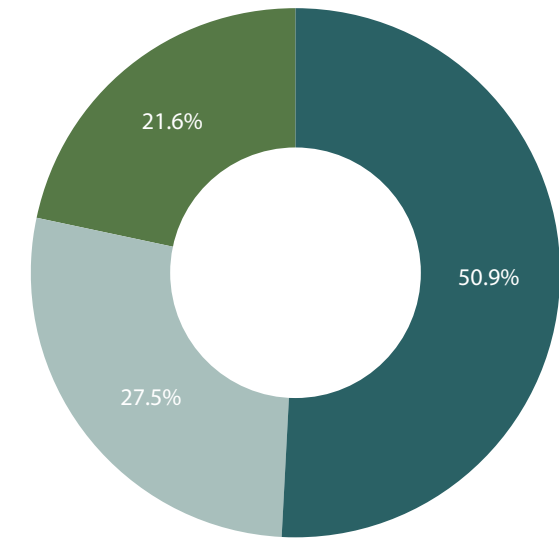
Number of Full-Time Operating Executives Employed by Firm



Inner Circle: Multi-strategy LP/GP alternative investment group
Outer Circle: Single-strategy LP/GP investment partnership

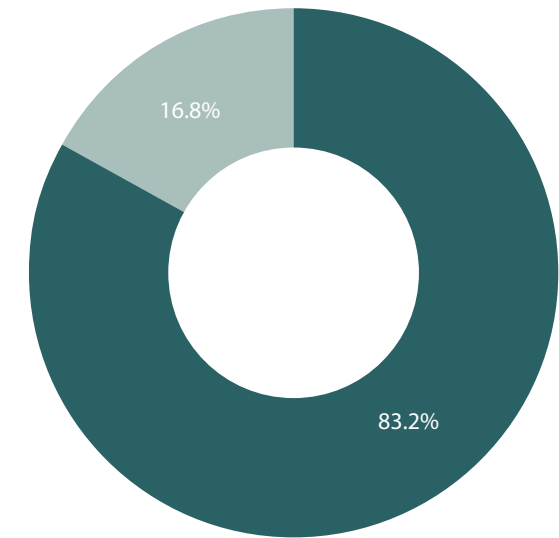


Operating Executive Employer



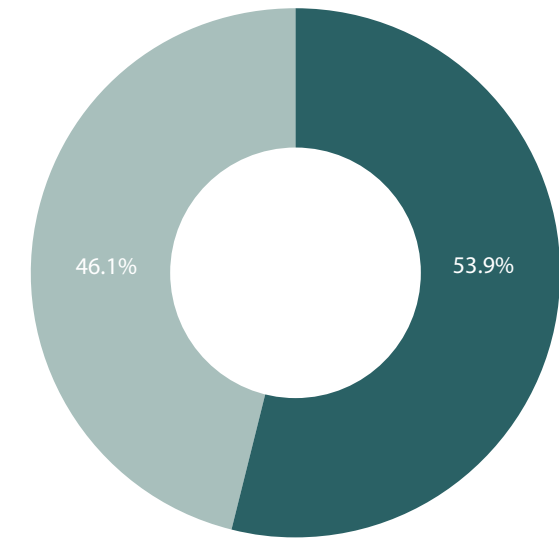
General Partner
Self-employed
Separate legal entity/operating company

Full-Time vs. Part-Time Employment



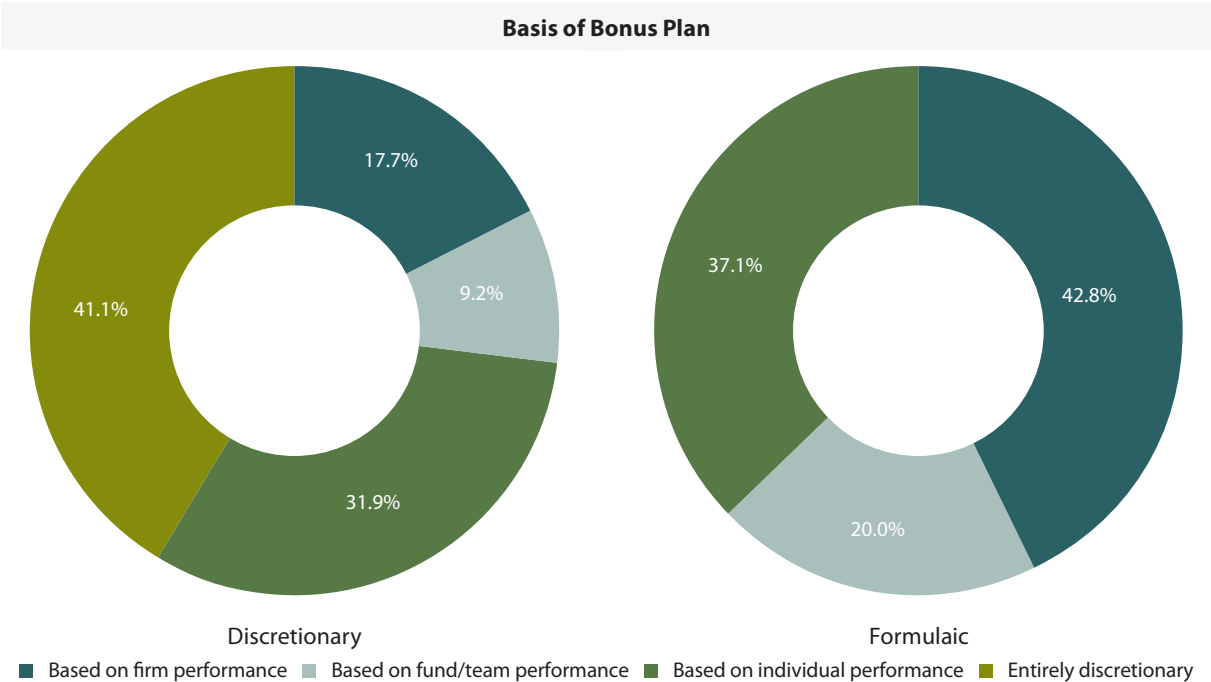
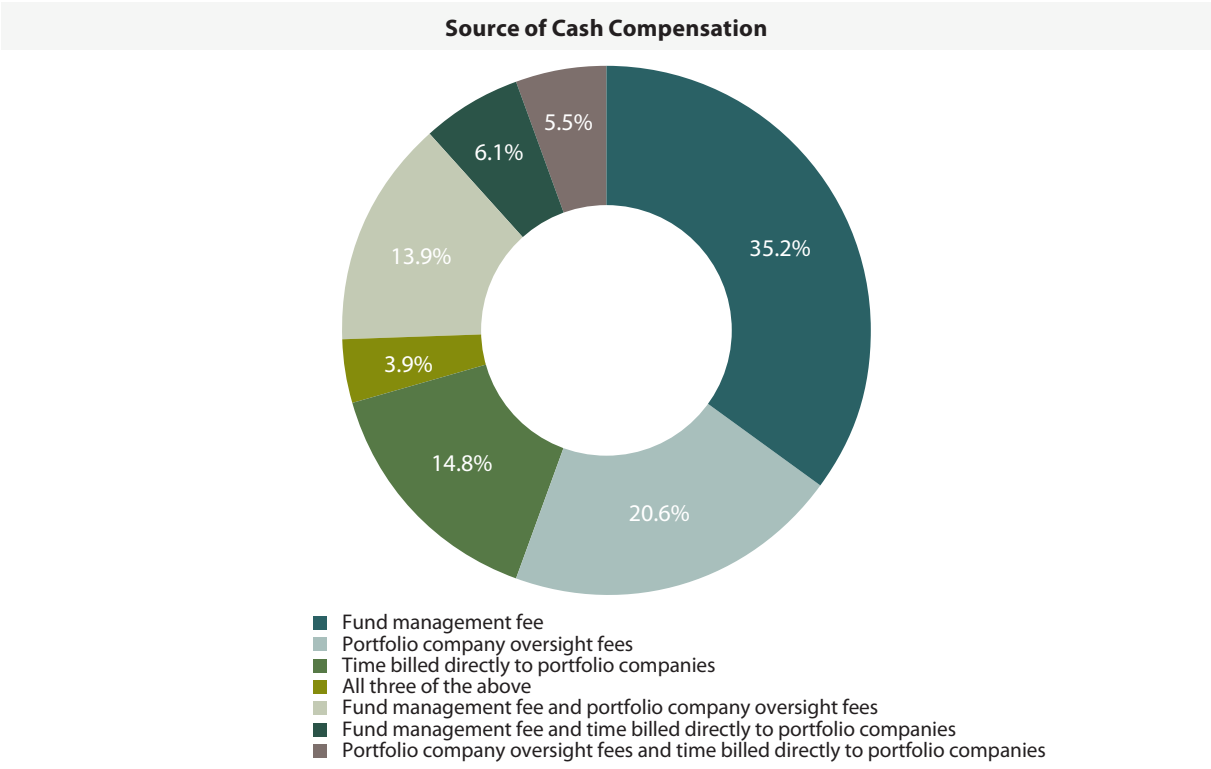
Full-Time
Part-Time

Path to Becoming Partner or Managing Director



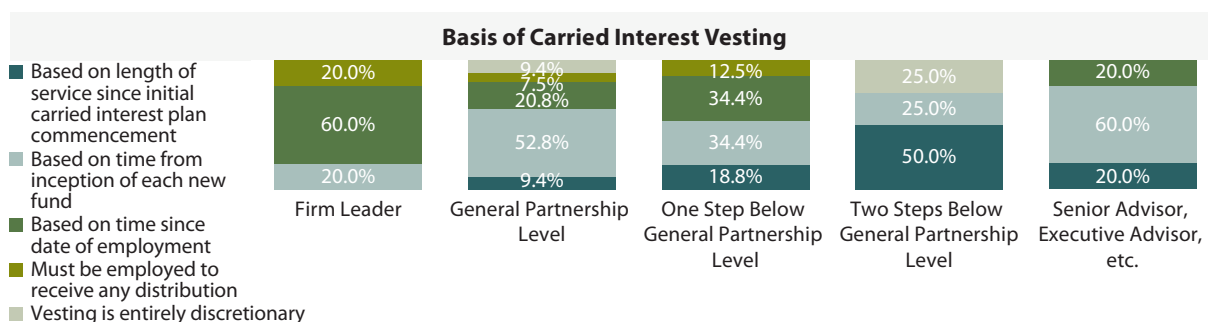
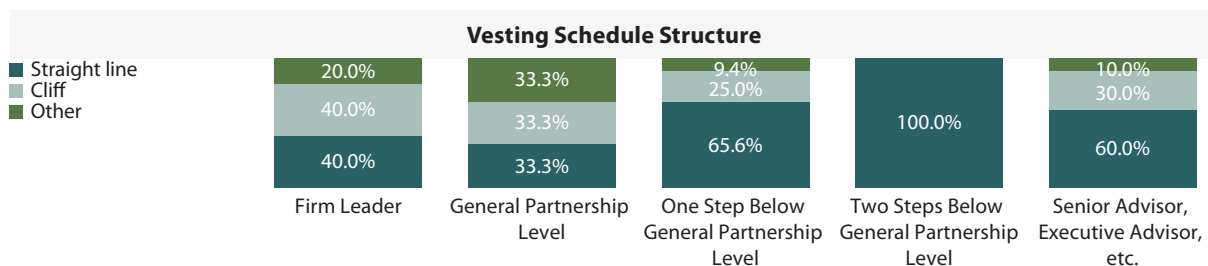
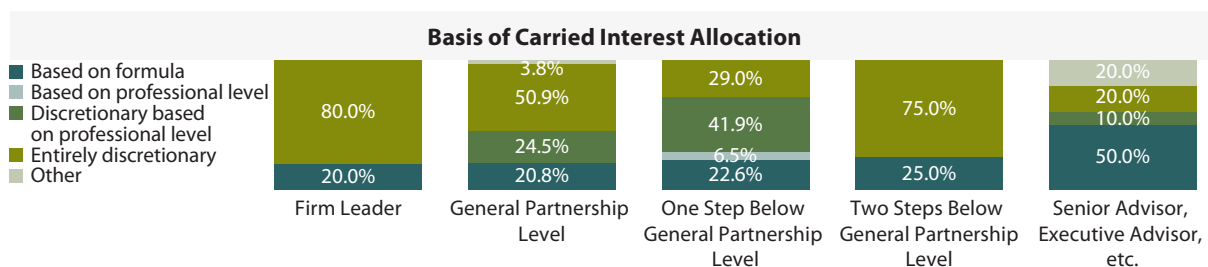
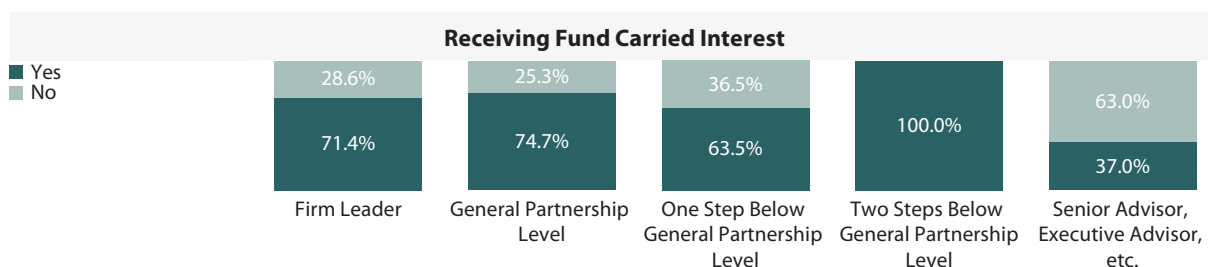
Yes
No

Funding Cash Compensation



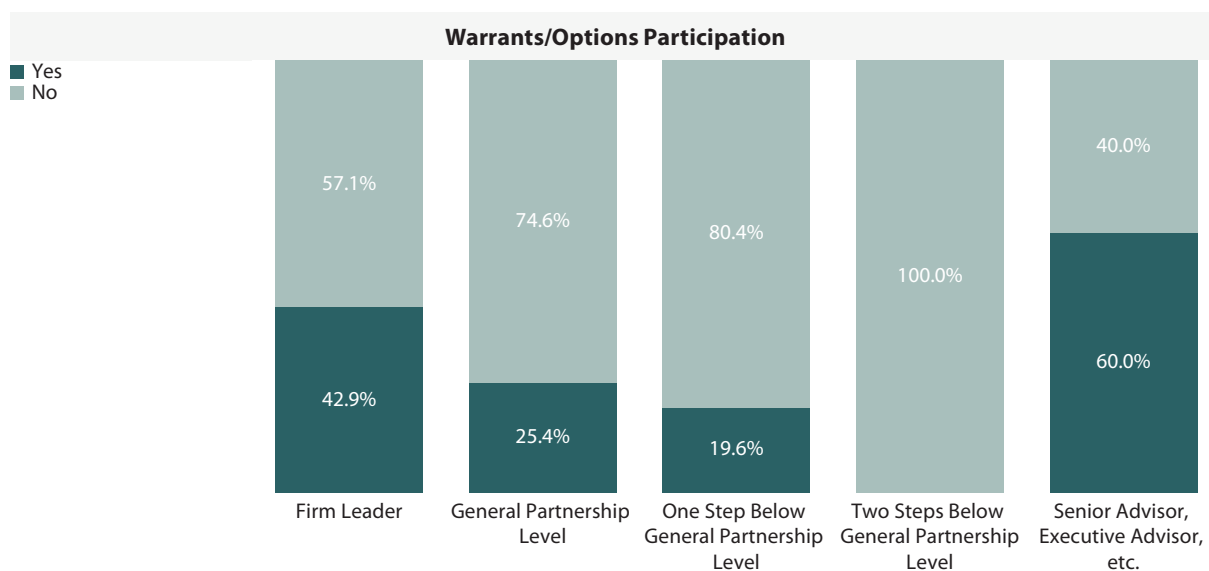
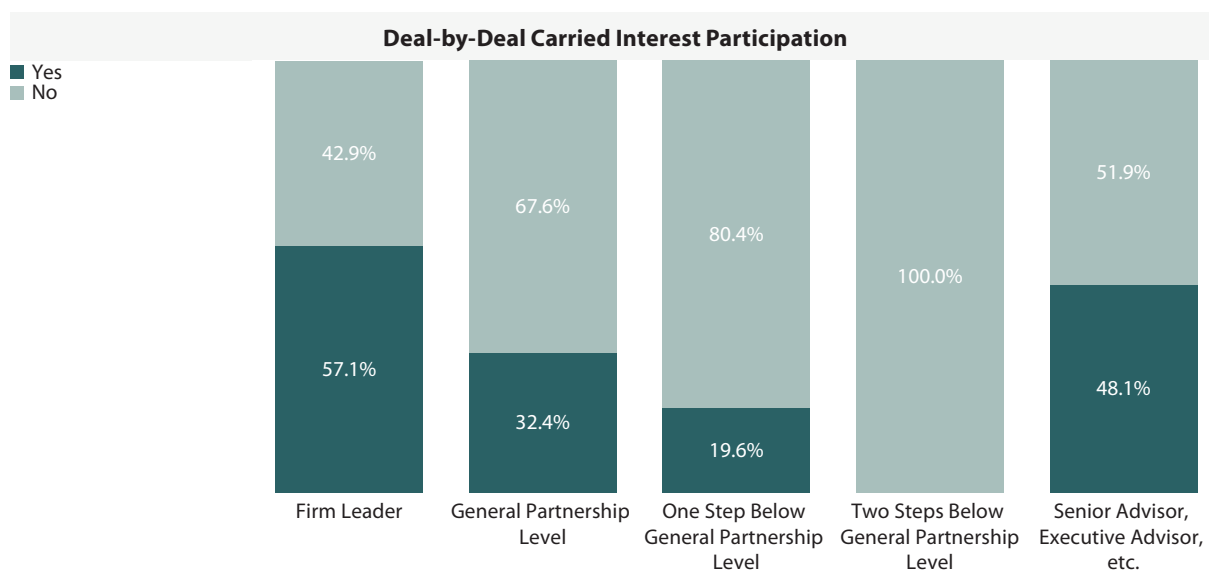
Carried Interest Plans

	Firm Leader	General Partnership Level	One Step Below General Partnership Level	Two Steps Below General Partnership Level	Senior Advisor, Executive Advisor, etc.
Average Carry Dollars at Work—Most Recent Fund					
Value (USD Millions)	8.40	6.55	3.39	2.60	2.45
Time (Years)	5.40	5.07	4.66	5.25	4.20
Average Carry Dollars at Work—All Funds					
Value (USD Millions)	10.00	9.78	4.72	2.60	3.35
Time (Years)	5.40	5.07	4.66	5.25	4.20



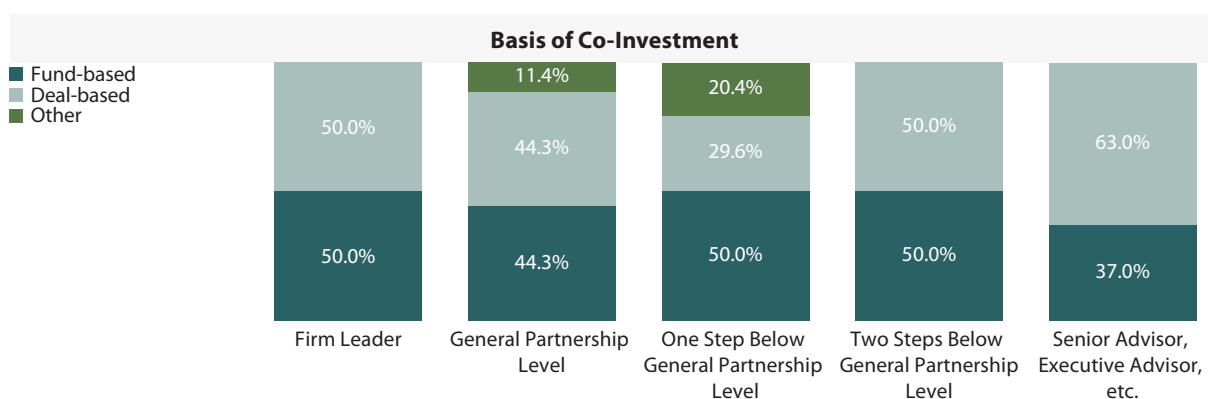
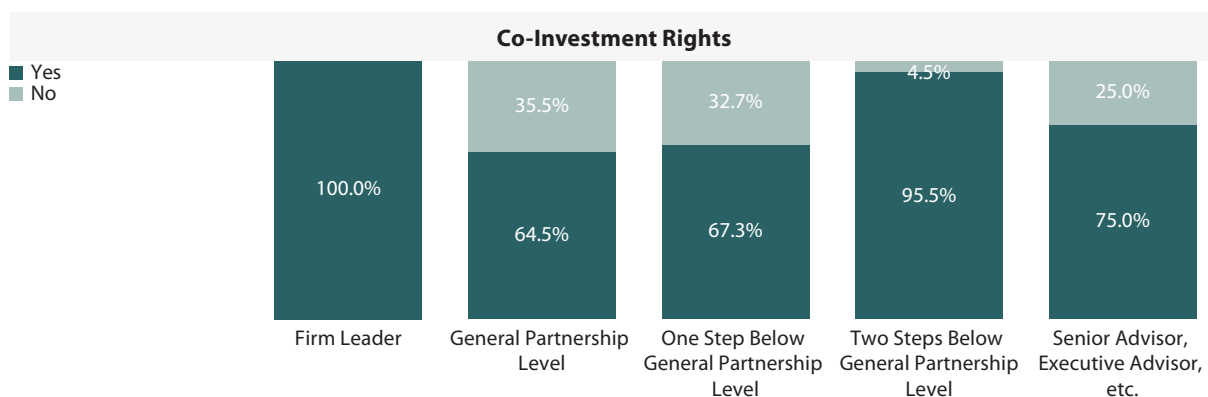
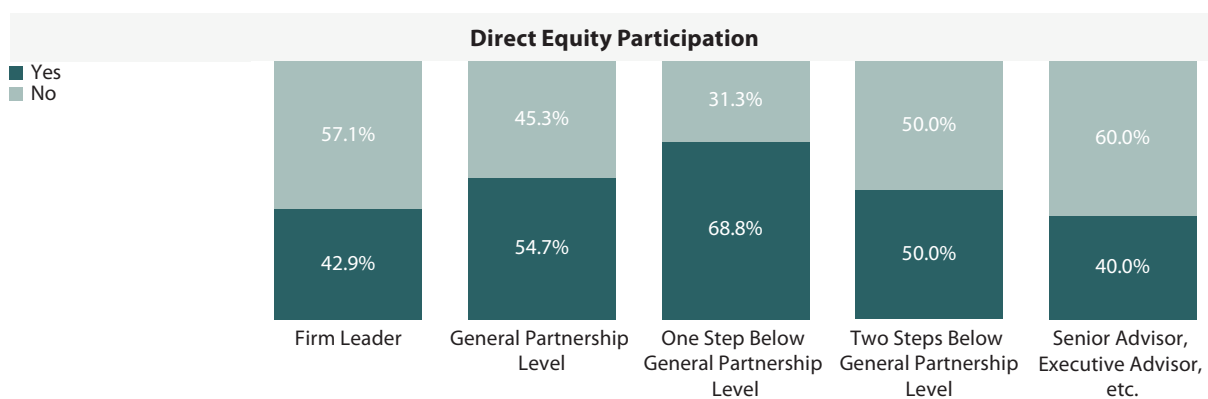
Deal-by-Deal Carried Interest and Warrants/Options

	Firm Leader	General Partnership Level	One Step Below General Partnership Level	Two Steps Below General Partnership Level	Senior Advisor, Executive Advisor, etc.
Average Deal-by-Deal Carried Interest					
Value (USD Millions)	6.00	3.18	1.46	0.00	2.28
Time (Years)	4.75	4.10	4.20	0.00	3.82
Average Warrant Participation Based on Company Achieving Base Case Targets					
Value (USD Millions)	5.90	2.76	1.63	0.00	1.52
Time (Years)	4.00	4.18	4.22	0.00	4.00



Direct Equity Participation and Co-Investment Rights

	Firm Leader	General Partnership Level	One Step Below General Partnership Level	Two Steps Below General Partnership Level	Senior Advisor, Executive Advisor, etc.
Average Cumulative Equity Participation Based on Company Achieving Base Case Targets					
Value (USD Millions)	7.00	1.54	0.62	0.65	1.53
Time (Years)	2.50	4.00	3.60	4.00	4.18



Private Equity Practice

Heidrick & Struggles' global Private Equity Practice combines a deep understanding of private equity markets with world-class expertise across all major industries and functions to provide a broad range of value-adding services.

We pride ourselves on finding top private equity management talent by recruiting investment professionals, operating partners, and other essential senior managers who support financial growth. Additionally, we work with private equity-backed portfolio companies to bring innovative services designed to meet today's challenges while securing the leadership needed to deliver on tomorrow's strategies.

Our expertise includes due-diligence support, pre- and post-acquisition executive search, leadership assessment, proactive introductions, and the construction of advisory boards for both private equity firms and their portfolio companies. With more than 80 consultants in 50 offices around the world, our team includes functional experts in areas such as technology and operations, financial officers, human resources, marketing, compliance, risk, and legal infrastructure. Our blend of search and consulting services enables us to develop long-term strategic partnerships that build winning leadership teams and create substantial value.

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HEIDRICK & STRUGGLES

Heidrick & Struggles is a premier provider of senior-level executive search, culture shaping, and leadership consulting services. For more than 60 years we have focused on quality service and built strong relationships with clients and individuals worldwide. Today, Heidrick & Struggles' leadership experts operate from principal business centers globally.

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CHANGE THE WORLD,
ONE LEADERSHIP TEAM
AT A TIME®

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