



COMPANY CULTURE

DESCRIPTION

- Refers to the shared values, beliefs, and behaviors that shape how employees interact and work together.
- A strong culture promotes collaboration, high performance, and employee retention, while a weak culture can lead to inefficiencies, high turnover, and low employee satisfaction.
- Can be measured using employee retention rate.

WHY PRIVATE EQUITY CARES

- PE firms prioritize company culture because a strong, positive culture contributes to employee satisfaction, performance, and retention, all of which affect the company's value and future growth.
- A positive culture reduces operational risks and helps the company adapt to changes and challenges more effectively.

IMPACTS ON SELLER

- **Strong Culture:** Higher valuation due to the business's ability to retain talent and execute efficiently.
- **Weak Culture:** Lower valuation due to concerns over high turnover, low morale, and inefficiency.
- **Cultural Misalignment:** Potential discount if the company's culture is misaligned with potential buyers' values or expectations.

EXAMPLE

Factors	Weak	Medium	Strong
Employee Retention Rate	<60% annually	60-80% annually	80%+ annually
Valuation Impact	-20-40% discount to EV	-10-20% discount to EV	+0-10% of EV
Buyer's Risk Perception	High	Moderate	Low

