

CEO Search: Two Clear Front-Runners – A Case Study

Case Study: CEO Search at Innovate Manufacturing Solutions

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Special Meeting of the Board of Directors of Innovate Manufacturing Solutions (“IMS”)

Meeting: March 27, 2025, 5:00 PM

A. ISSUE AND ASSIGNMENT

David Chen, 65, Chief Executive Officer of Innovate Manufacturing Solutions (IMS), is retiring as of December 31, 2025. Following an extensive executive search conducted by Board Options, IMS’s Board has narrowed the candidate pool to two highly qualified finalists. While both candidates possess exceptional leadership qualities and relevant experience, their backgrounds, compensation histories, and leadership styles present distinct considerations.

The Board Chair and the Chair of the Compensation Committee have convened this special meeting to solicit input from all Board members on the selection and compensation of the new CEO. As a Board member, you were involved in the initial interview rounds and believe the search committee has effectively identified the two most promising candidates. Prior to this meeting, you have been provided with comprehensive information on the finalists, including their backgrounds, experience, and compensation expectations.

Your Task:

As a Board member, you are tasked with:

1. **Selecting the best candidate:** Evaluate each finalist based on their qualifications, leadership style, and alignment with IMS's strategic goals and culture.
2. **Developing a competitive compensation package:** Determine an appropriate compensation package for the selected CEO, considering:
 - Current IMS CEO compensation (David Chen)
 - Market competitive compensation for CEOs in comparable companies
 - The qualifications and experience of the selected candidate
 - IMS's business needs, leadership requirements, and culture
 - The candidate's current compensation expectations and requirements

B. BACKGROUND

Company Overview:

- Founded in 1995 in Littleton, MA IMS is a leading provider of advanced manufacturing solutions, specializing in 3D printing and precision engineering.
- With manufacturing facilities in San Francisco, Chicago, and Raleigh, IMS serves a diverse client base, including Fortune 500 companies across various industries.
- IMS has experienced significant organic growth in recent years, driven by its innovative approach to manufacturing and its commitment to customer-centric solutions.
- The company is targeting 20% revenue growth over the next three years and aims to establish itself as a global leader in the rapidly evolving advanced manufacturing sector.
- IMS is a privately held company with the two original founders as majority shareholders.
- The company has no immediate plans for an IPO or acquisition.

Financial Performance:

- Revenue: \$310 Million
- Gross Margin: 55%
- Adjusted EBITDA: \$82 Million
- Operating Income Margin: 7.5%
- Most recent YOY revenue growth of 15.2% compared to an industry average of 2.5%

Market Dynamics:

- The 3D printing manufacturing market presents significant growth opportunities, driven by technological advancements and increasing demand for customized and innovative solutions.
- IMS's early entry into this market and its focus on innovation have provided a strong competitive advantage.
- The market is highly competitive with the emergence of new technologies and agile competitors.
- The average revenue growth for new entrants in the market has been substantial, exceeding 85% over the past three years.

Leadership and Culture:

- David Chen, the current CEO, has successfully led IMS for the past 19 years, fostering a culture of innovation and employee engagement.
- The leadership team, which includes the CFO, CTO, CSO, and SVP of Operations, has a strong history of collaboration and success.
- Employee retention is high, with an average annual voluntary attrition rate of 3.1%.
- David Chen plans to fully retire and will not be involved in the company following his departure.
- The current leadership team has limited experience in mergers and acquisitions.
- It is critical to retain the current leadership team members for the foreseeable future.

CEO Compensation:

- **David Chen's Compensation:**
 - Base Salary: \$425,000
 - Incentive Target: 55% of Base Salary
 - Last FY Incentive: \$208,750 (49% of Base Salary)
 - Total Cash Compensation: \$633,750
 - Last LTIP Award Value: \$255,000 (60% of Base Salary)
 - LTIP Target: 70% of Base Salary
 - Total Direct Compensation: \$888,250
 - Ownership: 1.5%

Market Compensation:

- Based on a peer group analysis of publicly traded companies with similar revenue and industry characteristics, the typical CEO compensation mix is 50% base salary and 50% short-term incentive compensation.
- David Chen's current compensation is at or below the 30th percentile of the peer group in all components except his ownership is above the 50th percentile (see Section E for peer detail)

Summary of Peer Group Detail found in Section E

	Revenue	Base Comp	Short-term Incentive	STI % Base	TCC	LTIP	LTIP % Base	TDC	% Shares Owned
25th Percentile	72.1	\$474,063	\$479,000	85%	\$755,934	\$221,354	46%	\$954,605	0.5%
50th Percentile	168.9	\$531,612	\$515,000	100%	\$996,222	\$637,108	116%	\$1,347,439	1.2%
75th Percentile	316.2	\$581,846	\$591,760	100%	\$1,119,781	\$1,249,963	213%	\$1,910,103	4.1%

C. DISCUSSION QUESTIONS

Candidate Assessment & Strategic Fit:

1. Which candidate would you select and why? Specifically address how the candidates' *strengths and weaknesses* align with IMS's strategic needs and cultural context.

Compensation:

2. How did compensation considerations *influence* your decision?
3. Given IMS's strategic goals and the current market conditions, what is the *appropriate balance* between fixed (base salary) and variable (bonus, LTI) compensation? Justify the chosen mix.
4. Considering market data, internal equity, and the chosen candidate's experience and potential, what is the *appropriate* total direct compensation package? Provide specific figures for:
 - Base salary
 - Annual bonus target (% of salary)
 - Long-term incentive target (% of salary)

Performance Measurement & Contractual Elements:

5. What *key performance indicators (KPIs)* should be used to measure the CEO's performance for both the annual bonus and LTI awards?
6. Beyond base salary, bonus, and LTI, what other *key considerations* should be included in the offer letter? Be specific about:
 - Sign-on bonus/equity award (if applicable) and rationale
 - Severance package structure and conditions
 - Key terms of the employment contract (e.g., term, restrictive covenants)
 - Relocation expenses and support
 - Any other perquisites or benefits

D. CEO Candidate Summary

Overall Interview Assessment:

- A search committee was established, and all potential candidates have been interviewed by the full Board of Directors and key members of leadership. These two finalists have the required skills and experience to perform the CEO role, i.e., both have led significant successful business transformation initiatives, have had P&L experience (\$200M+) and are well known in the industry.
- The Chief People Officer raised a concern that Candidate #2 may not be the right cultural fit given an “abrasive” leadership style (based on her interview with the candidate and acknowledgement by one other leadership team member who interviewed the candidate).

Candidate #1: Dr. Anya Sharma

- **Current Role:** Chief Executive Officer at a leading manufacturing company
- **Experience:** Is a 2x and current sitting CEO, well respected by industry peers and colleagues, and has had experience in both prior CEO roles successfully acquiring and integrating companies. She has been at her current company for 7 years and does not have any reason to leave. She was not actively looking at the time she was contacted by the search firm. Her current company is private equity owned; \$250M revenue and will eventually be merged with another similar sized organization in 3-5 years (in her opinion).
- **Motivation:** Has expressed that she “has one more CEO role left in her before she considers retirement”. She was not looking to make a move but taking headhunter calls for the right opportunity. The opportunity to lead the transformation from traditional manufacturing to AI enabled is very appealing and like a position she held previously in her career.
- **Compensation Expectations:** Interested in a competitive compensation package with a focus on long-term value creation and equity participation. “Significant” equity ownership is a must if she is to make a move from her existing CEO role.
- **Location:** Currently resides in San Francisco, CA, lives with her husband and is open to relocating.
- **Current Compensation:**
 - Base Salary: \$450,000
 - Bonus Target: 70% of Base Salary
 - LTI Annual Award: 100% of Base Salary
 - Unvested Stock Value: \$600,000

Candidate #2: Ricardo "Rick" Vargas

- **Current Role:** Division President of a \$700M publicly traded manufacturing company
- **Experience:** He has led the turnaround of his business unit to become the leading revenue generating division in the company. He has been the lead on several acquisition and divestiture teams in his current role and prior experience. He has been at his current company for 3 years. He is a CEO succession candidate in his current company in a 5–7-year timeframe.
- **Motivation:** Sees the IMS role as an opportunity to accelerate his path to become a CEO.
- **Compensation Expectations:** He has expressed that the overall compensation has to be “significant” in order to make a move from his current company.
- **Location:** Currently resides in Boston, MA, married with children in high school. He wants to stay in the Boston area.
- **Current Compensation:**
 - Base Salary: \$400,000
 - Bonus Target: 50% of Base Salary
 - LTI Annual Award: 50% of Base Salary
 - Unvested Stock Value: \$350,000

Candidate names are fictitious for this case study and do not represent any individual known or unknown.

E. Market Assessment Detail

	Revenue	Base Comp	Short-term Incentive	STI % Base	TCC	LTI	LTI % Base	TDC	% Shares Owned
3D Systems Corporation	\$488.1	\$849,800	\$850,000	100%	\$1,699,800	\$5,268,229	620%	\$6,968,029	0.6%
Amtech Systems, Inc.	\$113.3	\$345,662			\$345,662			\$345,662	1.2%
AstroNova, Inc.	\$148.1	\$459,251	\$367,401	80%	\$826,652	\$688,872	150%	\$1,515,524	5.7%
AXT, Inc.	\$75.8	\$479,000	\$479,000	100%	\$958,000	\$221,354	46%	\$1,179,354	6.1%
CPI Card Group, Inc.	\$444.5	\$500,000	\$400,000	80%	\$900,000	\$166,906	33%	\$1,066,906	3.5%
Desktop Metal, Inc.	\$189.7	\$580,000	\$493,000	85%	\$1,073,000			\$1,073,000	6.9%
Eastern Company, The	\$273.5	\$519,443	\$515,000	99%	\$1,034,443	\$511,350	98%	\$1,545,793	0.4%
Hurco Companies, Inc.	\$227.8	\$587,383	\$591,760	101%	\$1,179,143	\$1,249,963	213%	\$2,429,106	1.5%
Intevac, Inc.	\$52.7	\$549,994	\$550,000	100%	\$1,099,994	\$637,108	116%	\$1,737,102	1.2%
One Stop Systems, Inc.	\$60.9	\$448,023			\$448,023			\$448,023	0.1%
Organovo Holdings, Inc.	\$0.4	\$543,781			\$543,781	\$73,921	14%	\$617,702	1.2%
Proto Labs Inc.	\$503.9	\$600,000	\$600,000	100%	\$1,200,000	\$4,061,591	677%	\$5,261,591	0.4%