Accordion's Nick Leopard Advises Action Plan for CFO Who Has a New PE Owner

By Nick Leopard, Founder & CEO of Accordion
September 2016
Mergers & Acquisitions

Here are 5 steps the CFO should take in the first year with a new PE sponsor

Over the past 20 years, private equity has shifted from a focus on financial engineering as a core returns driver to one based on fundamental strategic and operational improvement. This brings with it burgeoning expectations on the portfolio company chief financial officer to drive operational and financial efficiency and proactively develop related analytics and KPIs to track, report, benchmark and course correct.

CFOs of private companies are expected to be financial scorekeepers — closing the books every quarter and releasing financial statements on time — but the expectations skyrocket under private equity ownership. PE-backed CFOs are expected to improve foundational operational and financial processes, such as stakeholder/board reporting, budget forecasting and cost optimization, as well as key operational and technical accounting practices, such as IPO readiness, SOX compliance and GAAP/IFRS conversions, all while serving as strategic business partners to stakeholders across the entire organization.

With roles expanding and expectations mounting, what should the CFO of a company recently acquired by a private equity firm look to accomplish in the first year? Here are five objectives to get started:

1. Collaborate with the PE sponsor to chart a value creation plan

A PE-backed CFO will often be pulled in a dozen different directions at the beginning of a new sponsor relationship. Whatever the battle, CFOs must have goals in place so they can stay focused on mission-critical objectives, even when smaller tasks arise on a day-to-day basis.

The first step is to map out the short-, mid- and long-term goals for the company in the new context of PE ownership. To do so, the CFO must sit down with the private equity sponsor to gain an understanding of their investment rationale (where they saw potential) and their vision for operational advancements (where they saw areas for improvement), and then collectively establish a strategic direction for the company with pertinent operational and financial milestones. This is often referred to as a value creation plan.

Once the private equity sponsor and portfolio company management team are aligned on strategic priorities and goals for the business, determine which metrics to track and set targets for growth and margin enhancement.

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2. Set up a monthly board reporting package

Once the 100-day value creation plan is set up, the CFO should create a reporting package that outlines the metrics, milestones and KPIs that are being tracked. Constructing and vetting this reporting package early on is critical to bridging the investment thesis and findings from due diligence.

Optimal reporting packages should be built jointly by the PE sponsor, portfolio company management team and the board. Collectively defining key metrics at the start of the partnership is important to the benchmarking process and in determining what 'success' looks like to all parties involved. Management teams new to private equity ownership may not know what "great" looks like to a sponsor until the metrics delineate expectations. These metrics should also enable the management team and sponsor to tie operational and financial objectives together and ensure the team is aligned on how to marry the two.

A monthly reporting package can spur consistent dialogue about the company's opportunities and short-comings — an important step to hitting deadlines, building trust and maintaining momentum. It's also critical to allowing the PE firm's deal team members to effectively communicate and assuage concerns among their own internal and external constituencies.

3. Cultivate a strong relationship with the PE sponsor

For better or for worse, the CFO's role is one of the most highly-scrutinized functions within a new portfolio company — after all, a PE team "speaks" finance and is likely more comfortable with numbers than they are with warehouse operations, supply chain logistics or any other function in a company. Because of this, a sponsor may be in greater communication with the CFO than even the CEO. While this emphasis on the financials can add pressure to the relationship, the ongoing dialogue offers the CFO an invaluable opportunity to step up as a leader within the company. To the extent a CFO can use time with the sponsor to give them insight into how different areas of the company are performing, that is a powerful role to play.

Keep in mind, it is the CFO who says that "everything is great" each month who gives sponsors the most fear. By offering full transparency into initiatives and metrics, the CFO will be better able to keep tabs on areas that are consistently falling short and address problems before they become irreversible. Speak up early and often — it can mean all the difference in being able to course correct at the first sign of smoke or going up in flames.

4. Get a grasp of performance data

Asking the right questions and having data-substantiated answers is critical to identifying the root causes of challenges and quickly proposing solutions. Often, PE-backed CFOs track significant quantities of data, yet fail to share actionable insights with the management team or board. While intentionally inundating sponsors with data can help keep management teams at bay in the short-term, it is not a viable strategy over the longer term. The only way CFOs can drive the business forward is by continually collecting, analyzing and synthesizing KPIs to uncover what's working, what isn't and where there are gaps to exploit and opportunities to leverage.

Ultimately, the metrics tracked should go beyond just the financials to offer concrete insights to leaders across the business, from sales to HR to operations. Leveraging data to craft a customized value creation plan that touches all aspects of the business and is regularly tested against key performance metrics will empower the CFO to see how the business' different priorities are interconnected and create value across the entire organization.

5. Roll with the punches

PE-backed CFOs must expect pressure, manage deadlines and be agile enough to adapt when unexpected challenges arise. Having a contingency plan is critical so that when a problem is revealed, a solution already exists. Acting quickly can help you overcome a stumbling block instead of falling back to step one.

CFOs must also be willing to move at the pace required to achieve strategic priorities, able to shift course at a moment's notice and set the business on a new path when necessary — even if it requires ripping the Band-Aid off and going back to the drawing board.

Communicating frequently during "peace times" is a great way to foster a trusting relationship among CFO and sponsor that will empower the team to make meaningful decisions and pivot strategy quickly when issues arise.

In it for the long haul

Creating a strategic, multi-year action plan for the business and developing a working relationship with the sponsor is not going to happen overnight. In fact, it usually takes at least six months for the CFO to have a good handle on operations and develop a clear vision for the future.

There's no silver bullet that guarantees success in a relationship between PE-backed CFO and PE sponsor. However, it's safe to say that CFOs will have the best chance at fostering a productive, trusted and lasting partnership by proactively and collectively mapping business goals, communicating candidly and frequently, consistently tracking against targets, and translating data into actionable insights to drive the business forward.

Author
Nick Leopard is founder and CEO of Accordion, a financial consulting firm focused on executing value-creation initiatives for private equity firms at their portfolio companies, particularly within the office of the CFO.