INSIGHTS FROM THE
ACCORDION ROUNDTABLE

The CFO Perspective: Keys to Succeeding in a PE-Backed Environment

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The Office of the CFO is, arguably, the most challenging executive position within a portfolio company following an acquisition by a private equity sponsor. It is often fraught with unique challenges and tribulations that even the CEO or COO aren't subject to.

In recent Roundtables, we have examined issues pertinent to the private equity sponsor — such as **putting together the right team**, **driving value in a low-growth economy**, and **board meeting dynamics** — so for this edition we gathered a panel of PE-backed CFOs to dive deeper into the $64,000 Question: what are the keys to succeed in a PE-backed environment? Here are their insights.

Panelists

- **Ben Chrnelich, CFO of IPC, backed by Centerbridge Partners LP**
- **Bryan Carey, former CFO of Sunspire Health, backed by Kohlberg & Co.**
- **Graham Sayers, CFO of Caraustar Industries, backed by H.I.G. Capital**
- **Mike Evans, CFO of Renaissance Learning, backed by Hellman & Friedman**

COMMUNICATION IS AN ART AND A SCIENCE

The challenge of communication between a private equity sponsor and the management team of a portfolio company is as old as private equity itself. There are best practices, however, that CFOs can put in place to ensure the relationship starts off on the right track and stays constructive throughout the sponsor-management partnership.

"The CFO role sits somewhere between the operating team — which knows the business inside-out — and the private equity team — which thinks it does. How you manage both sides and bring them to the same understanding is the key piece of the puzzle."

- **Generate answers before questions are asked:** This is an all-encompassing directive — whether it's flagging business issues as they arise rather than when they're caught by the PE sponsor or staying on top of changes in the industry to steer the ship away from market headwinds, the more you can be the one who raises a hand first, the better. If you see areas where an investment thesis might run into hurdles, it's better to address those immediately rather than nine months down the line. Speaking of which…

- **Get on the same page early:** It's critical that the operating team and PE team are aligned early in the relationship. The effectiveness of communication between the two is often the major driving force in a successful partnership. Make sure that each disparate team is working with the same — or complementing — KPIs so you're all heading in the same direction.

- **Think like a sponsor:** The best way to anticipate stumbling blocks in your sponsor relationship is to think like one. That means no analytical questions are too small, no data point too peripheral, no financial model too immaterial. The key is to incorporate the sponsor's need for data with other elements of the business, such as what is happening behaviorally and organizationally within the company, to make sure those fundamentals are being included in the conversation.

"Sponsors need to know what else is out there in the landscape, but so does the business team."

Often, the fact that a private equity sponsor owns the company is important to only 10-15% of employees at the company. Being able to educate the day-to-day operating team about the structure of the organization and the outlook of the sponsors without taking the business off track or changing the long-term view of the business will help align objectives.

One way to make sure that the extensive due diligence the sponsor performs is shared with the appropriate stakeholders in the company is to have the sponsor present the findings to a group that includes the operating team. Explain to the sponsor that they have made a significant investment in the company and that, as such, it will be beneficial to them — and to the bottom line — to have the operating team on board.

THE RIGHT BALANCE BETWEEN URGENCY AND WASTE

One of the other topics that CFOs felt was a constant struggle was the seesaw between urgency and acting in a wasteful manner when responding to sponsor demands.

While the rigors of private equity ownership can be felt from day one (or even before day one arrives), the sense of urgency injected into the CFO's new day-to-day role can drift into activity for the sake of activity.

> *"At times, it felt as though a plan was made on a Monday, and if there wasn't some obvious progress being made by Tuesday, the team felt the need to do something different."*

One CFO at the Roundtable spoke of an episode where his team saw a small downtick in a key KPI, notified the rest of the company management team and their private equity sponsor, which resulted in a three-month data analysis exercise to track down the root cause of the downward shift. While the assignment led to interesting learnings about several mechanisms that drove that KPI, the CFO felt it wasn't necessarily the best use of the team's time and energy.

THE BUDGETING TUG-OF-WAR

The other back-and-forth that CFOs identified on the panel was between the structure of an annual budget and the flexibility and timeliness of a rolling budget, especially as market forces and unforeseen events come up throughout the year.

The question at hand: what is the best way to manage the budgeting process, especially within a private equity-backed environment? Our CFOs were torn as to what the right answer was.

On One Hand: Stay Nimble

One CFO shared that, because his business changes so quickly, he can only budget 30 days out. This poses significant challenges for the PE sponsor.

> *"At the start of the year, the company might be up for sale — and then minds change. Six months later we might be doing a refinancing — then not end up doing one. How do we build enough flexibility so that each month's view can be reworked? Not with an annual budget."*

In industries where prices for materials change constantly, the best forecast models may only be accurate a month out. As a CFO, you must plan for that reality and communicate that clearly to the sponsor.

On the Other Hand: Track Against a Watermark

Another CFO said he used the budget as his most important management process throughout the year.

> *"You need a true plan in place to hold colleagues accountable and to forecast how we can reinvest in the company. There needs to be an initial budget in place for planning, forecasting and benchmarking."*

By taking it as the as the watermark, you're able to track progress against it for your own purposes and for reporting to the sponsor. If you're ahead of plan you can bank it, and if you're behind you can figure out how to close that gap.

On the Third Hand?
A third CFO on our panel took the middle ground. He had eliminated the traditional annual budget process in favor of a more dynamic approach.

> *"Companies always get together for weeks around a conference table to think about what is going to happen a year later. What we're doing is a rolling monthly yearly forecast cycle so that by the time we get to the next 12 months, we've had a continual business planning adjustment process."*

One suggestion was a modular approach — take what you need to budget for and then figure out contingency plans for each in case of unexpected market conditions.

Conclusion: It depends. At the end of the day, whether you stick to a strict regimen of annual budgeting or you gravitate towards the flexible 'operating plan' probably has more to do with the kind of company you have, the industry you're in, and the company's management team, rather than the private equity ownership.

YOU CAN'T SPELL 'TEAM' WITHOUT 'FP&A'

What does the ideal team look like to ensure success in a private equity ownership situation?

Let's dissect that in two parts:
1. What is the ideal mix of skillsets that CFOs should be looking for?

Panelists agreed: bring in analytical backup as soon as possible. They suggested upgrading skills in the controller role, the corporate finance role and, perhaps most importantly, the FP&A role. The process of coming under private equity ownership is arduous and disruptive. The sooner you can hire — whether internally or outsourced — people with the investment banking or PE skills and background, who have the analytical horsepower to go head to head with the sponsor, the easier the process will ultimately be.

> *"Speaking the same language as the sponsor is always a big challenge, so we've focused on upgrading on FP&A. That's why we hired Accordion and it has made a huge difference for us."*

By addressing gaps in skillsets early, you can minimize the disruption that hits during an acquisition process so that the business is not derailed.

2. Once that team is in place, what are best practices in team management that will help me succeed?

The number one quality that CFOs on our panel highlighted brings us back to our first topic: communication. The importance of promoting dialogue between teams was not lost on any of our attendees — after all, if the deal team has a hard time communicating with and understanding the finance team, no one wins.

One method to get different teams on the same page: have the operating team sit down 1-on-1 with the deal team to explain the situation of the company in their own words — and have the finance team do the same with the investment thesis.

> *"What's happening with the workforce? What are partner relationships like? How are you optimizing how you operate versus optimizing how you analyze?"*

Interacting with a private equity sponsor means, almost by definition, the focus on output and hard data to influence business decisions, but our CFOs warned against losing sight of the softer side of talent development and organizational issues. By focusing exclusively on the output, you may miss the impact that subtleties in talent management and team structure have on success.

SKIMMING THE SURFACE

The complexities of life as a PE-backed CFO extend far beyond what can be captured in a morning's discussion, but it is clear that sponsor communication, department priorities, and team structure are top of mind.

What else would you add to the list of top concerns and issues for PE-backed CFOs? We'd love to continue the discussion.

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