

The Strategic CFO: Unlocking Value in Middle-Market Private Equity Portfolio Companies

Overview

Mid-market private-equity-backed companies face unique challenges and opportunities that require a transformative approach to financial leadership and budgeting. The CFO's role is crucial in not only managing finances but also steering value-creation initiatives that align with the strategic goals of the PE firm. This white paper delves into the evolving role of the CFO, best practices for financial planning, budgeting, and analysis, liquidity management, and actionable turnaround strategies that foster growth and maximize company value.

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1. The Evolving Role of the CFO in Private Equity

CFOs in PE-backed companies today are expected to move beyond traditional finance functions, contributing as strategic partners in achieving the PE firm's value-creation goals.

This expanded role includes:



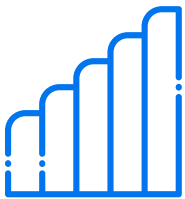
Aligning Financial Strategy with Investment Goals

The CFO translates the PE investment thesis into a clear, actionable financial strategy.



Driving Data-Driven Decisions

By leveraging analytics, CFOs can identify areas for improvement, manage risk, and ensure decisions align with long-term goals.



Preparing for Scalability

CFOs structure operations to support growth, facilitating smoother acquisitions and eventual exits.



Insight:

To thrive, middle-market CFOs must act as operators and strategists, aligning financial health with the PE firm's aggressive growth objectives.

2. Best Practices in FP&A for Middle-Market Private Equity Portfolios

Effective financial planning and analysis (FP&A) is fundamental in aligning the portfolio company's operations with PE investment goals.

By implementing rigorous FP&A processes, CFOs can:



Utilize Rolling Forecasts

Quarterly updates based on real-time data allow CFOs to anticipate challenges and adjust plans proactively to address the changing environment.



Implement Scenario Planning

Modeling best- and worst-case scenarios helps CFOs prepare for economic fluctuations and operational shifts.



Track Targeted KPIs

Targeted KPIs need to align with the investment thesis and value-creation plans to contribute meaningfully to the company's growth.



Standardize Reporting

Reporting needs to bridge any gaps between middle management, the executive team, and the PE group to ensure alignment and drive success.



Best Practice

Frequent, transparent communication with PE sponsors on FP&A insights keeps expectations aligned and strengthens stakeholder trust.

3. Cash Flow Management and Liquidity Optimization

Effective cash flow management is vital for sustaining growth in middle-market PE-backed companies. CFOs play a central role in ensuring liquidity and funding critical initiatives without excessive leverage.

Key strategies include:



13-Week Cash Flow Forecasts

Short-term cash forecasting provides insights into liquidity peaks and valleys, essential for timely decision-making.



Working Capital Optimization

By improving accounts receivable, inventory management, and payables cycles, CFOs can free up capital for growth.



Cost Management Initiatives

Identifying inefficiencies, reducing vendor costs, and negotiating favorable terms directly EBITDA and cash flow.



Capital Structure Planning

The right debt-equity balance allows the firm to fund growth while controlling costs and maximizing IRR to investors.



Key Insight:

CFOs establishing robust cash flow processes empower companies to capitalize on opportunities and weather financial shifts confidently.

Cash Distribution to General Partners
\$0,355
\$0,560
\$0,565
\$0,570

Current with our distribution to unitholders on

Following us to make cash distributions to our unitholders is a distribution of Available Cash as defined in our partnership agreement. Available Cash is defined as cash and cash equivalents, net of capital borrowings made after the end of the quarter, less expenditures, future debt service obligations, and other commitments.

Income (loss) per unit
Basic and diluted
Distributions paid per unit

Cash Flow Data:
Net cash provided by operating activities ... \$ 241,134 \$ 149,641 \$ 184,000

\$	(0.62)	\$	1.40	\$	1.63
\$	2.31	\$	2.73	\$	2.14

4. Case Studies of Financial Transformations Led by Mid-Market CFOs

Case Study 1

Strategic FP&A Implementation for Enhanced Growth

A middle-market portfolio company achieved a 20% EBITDA improvement within a year by implementing rolling forecasts and aligning departmental KPIs with PE value-creation goals. This enhanced real-time decision-making and optimized resource allocation.

20%
EBITDA
improvement

\$5m

for expansion
without
increasing debt

Case Study 2

Liquidity Optimization for Sustained Growth

In a manufacturing firm, the CFO applied a 13-week cash flow model to manage liquidity and streamline working capital cycles, freeing up \$5 million for expansion without increasing debt. This proactive approach supported sustainable growth.

Case Study 3

Operational Turnaround Through Cost Optimization

A PE-backed services company faced profitability issues until its CFO introduced cost-control measures and renegotiated vendor contracts, resulting in a 15% reduction in operational expenses. This turnaround strengthened the company's financial position, preparing it for a successful exit.

15%
reduction in
operational
expenses

Actionable Insights for Private-Equity-Backed Companies

For CFOs in PE-backed companies, a proactive, strategic approach to financial leadership can drive growth and enhance value creation.

Key takeaways include:



Adopt Agile FP&A Practices

Regularly adjust financial plans to align with evolving market conditions and PE firm expectations.

Relevant Tools: Budget, Actual vs. Budget, Rolling Forecast



Prioritize Cash Flow Management

Maintain liquidity by optimizing working capital and leveraging short-term cash forecasts.

Relevant Tools: Three-Statement Rolling Forecast, 13-Week Cash Flow



Engage with PE Sponsors

Transparent, frequent communication with PE sponsors ensures alignment on financial strategy and identifies emerging risks or opportunities.

Relevant Tools: Reporting Packages, Strategic Plan



Focus on Operational Efficiency

Streamline processes to reduce costs and improve profitability, especially when preparing for acquisitions or exits.

Relevant Tools: Spend Cube, Org Health Reporting



Leverage Data for Strategic Decision-Making

A data-driven culture enables better forecasting accuracy and supports evidence-based decision-making.

Relevant Tools: KPIs and OKR Dashboards

Conclusion

The role of the CFO in mid-market private-equity-backed companies has expanded, with a strategic focus that influences growth, profitability, and the achievement of exit goals. By refining FP&A processes, optimizing liquidity, and implementing cost controls, CFOs can unlock significant value and align operations with PE investment objectives. As PE firms seek higher returns, the strategic CFO remains essential to maximizing enterprise value and ensuring financial health.

Impact Point Co.

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