Maximising value on exit

The role of the PE backed CFO

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Foreword

"The CFO has an absolutely pivotal role to play during an exit. Stripped back to the basics, it is all about evidencing the quality of the business."

Chairman

In 2013 we published "Survival of the Fittest", a piece of research undertaken within the private equity ("PE") community to understand how the role of the CFO had changed during the downturn. Those years were unprecedented times for CFOs. Many were stuck in the mid cycle facing longer holding periods, with little sign of an exit on the horizon. Today we are in fundamentally different times. Markets have been buoyed by the availability of finance, exit routes are open and years of pent up transactions are being released to the market. The role of the CFO is again changing. If you are a PE backed CFO there is a strong chance that you have either been through a transaction recently, or you will be leading your team and business through a transaction in the near future.

It is against this backdrop that we set out to ask in our latest survey what the CFO can personally do to maximise the price achieved through an exit.

First for some good news. CFOs can and do make a positive, and in some cases fundamental, difference to the value achieved on an exit. PE investors are in agreement on this point. CFOs should feel empowered to take the reins and make their mark. Their influence can be transformational, not only to the business and workforce, but to their personal wealth and career. But the message is not all positive – over half of PE investors believe that their CFOs only partly understand the role they should play during an exit process and are often left frustrated by a lack of awareness.

PE backed CFOs who are able to grasp the importance of their role through the exit will not only survive under the watchful glare of their investor, but also thrive. Stripped down to its most basic level, is there anything more important for CFOs to understand?

To help inform our views we conducted extensive interviews with PE investors, CEOs, Chairmen and CFOs, speaking to more than 130 people. We hope you find food for thought from our report and benefit from what we estimate to be approximately 750 years of combined experience in the people we interviewed. I would like to personally thank each participant for their time, their insight and openness.

Best regards

Emma Cox
Partner, Head of the PE Backed Programme

Methodology

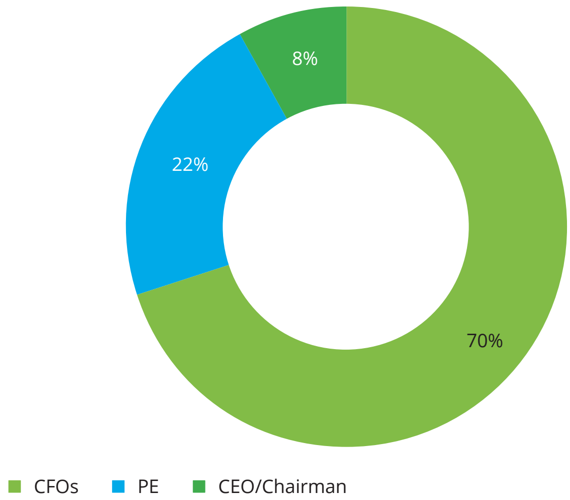
Our latest PE backed CFO research aims to explore the CFO's impact on value creation and their influence through the exit process, against the backdrop of improving market conditions and buoyant private equity activity.

The research comprises two parts: we gathered quantitative research to draw clear themes and discover how issues rank in terms of importance among the different respondents, and carried out extensive interviews with CFOs, CEOs, chairmen and private equity executives to gauge sentiment in this challenging environment.

We interviewed 131 people operating in multiple sectors across a wide variety of companies, both in the UK and globally.

We also used Deloitte's 'Four Faces of the CFO' model to determine how CFOs operated within different aspects of their role throughout the PE lifecycle:

Research participants 2015



The four faces of the CFO

Our research comes as more CFOs look set to undergo a change in ownership in the next two years and as the total value of private equity-backed exits in Europe has more than doubled since our last CFO report in 2013, driven largely by opening exit markets and rising confidence. The views of our respondents are presented in this report and we trust you find them insightful.

Executive summary

First in the creation and then realisation of value, the best PE backed CFOs play a central role in the exit process. In the quest for the maximisation of value on exit, it is clear from our research that the CFO needs to wear many different hats:

The bullish CFO

The CFOs we interviewed felt largely confident about current market conditions and buoyant about their exit prospects. With PE, IPO and trade routes open, confidence around potential multiples is riding high. It was also evident from our interviews with PE investors, CEOs and Chairmen that CFOs are considered to be integral to building value and at the centre of the exit work streams. CFOs should feel confident in their ability to influence value and achieve a successful outcome where they play their part effectively.

The credible and articulate CFO

CFOs recognise that there is a skill to articulating the business model and providing strong, credible evidence which supports the growth story. Our interviewees had no doubt that when this is achieved, it can materially impact value, providing potential buyers with the confidence and understanding to pay a price which meets the expectations of the company. The CFO has a key role to play in building the credibility of the business in the eyes of potential buyers.

The detailed CFO

Investors appreciate CFOs who are willing to roll up their sleeves and get involved in areas many non PE CFOs would not. This means remaining close to the detail and putting financial operations and stewardship first. CFOs who invest in their teams may be able to step away from the preparation of the numbers, but never from the responsibility. When it comes to the exit, the basics count. However, it was apparent from our research that CFOs have a desire to be released from the shackles of the day to day grind as stewards of the business and become business strategists. Yet be aware – there is a perception that where CFOs begin to play in the strategy they do this at the expense of being close to the detail and numbers.

Nonetheless if a CFO can master the stewardship role and, in addition, is able to think commercially and contribute to the strategy of the business, then they can be central to delivering tangible value.

The collaborative CFO

Our research highlighted two fundamental relationships that a CFO must build, firstly with the CEO and secondly with the PE investor. An effective CFO/CEO partnership is cited by both Chairmen and PE investors as one of the key enablers of effective wealth creation. Equally, CFOs who make the proactive effort to understand their PE sponsor are more likely to meet expectations, yet also benefit from the coaching and support that can be harnessed from this relationship. Where these partnerships are fostered the CFO can build powerful, value accretive relationships.

The forward thinking CFO

It is often said that exit planning starts from day one. However, there is more to exit preparation than taking pressure away from the transaction work streams. Careful exit planning which identifies and mitigates potential risks and exposures will defend against value leakage. Equally, creating an exit mindset within the management team can bring focus to the business. The CFO has a lead role to play in keeping the business focused on the end goal, challenging decisions and ensuring financial disciplines are in place to turn the strategy into a reality.

The resilient CFO

Make no mistake, PE is not for everyone. The CFO will be at the centre of the transaction and relied upon to be on their game and performing throughout. It takes a special breed of person to deal with the significant stresses and strains. Commonly our experienced CFOs referred to the need for personal resilience and an awareness of the factors that kept them performing at the highest level throughout.

Conclusion

The role of the CFO in driving value is multifaceted and will require the CFO to wear many hats. CFOs should be exit ready, aware of the importance of their influence and empowered to know that they sit in strong financial markets. If they can maintain the right levels of personal performance and focus on the drivers of value, CFOs have the ability to deliver game changing value not only to their business and their team but also in terms of personal achievement and success.

The role of the CFO

Maximising value on exit

36% OF COMPANIES ARE IN THE **'POST ACQUISITION'** **PHASE**, (HAVING RECENTLY BEEN ACQUIRED) COMPARED WITH **11%** IN 2013

56% OF PE HOUSES THINK THAT THEIR CFOS **'ONLY PARTLY'** UNDERSTAND THE ROLE THEY ARE EXPECTED TO PLAY DURING AN EXIT

HAVING **HIGH QUALITY MANAGEMENT INFORMATION** TO ENABLE DECISION MAKING IS THE MOST IMPORTANT FACTOR TO **MAXIMISE EBITDA**

45% OF CFOS EXPECT AN EXIT WITHIN **2 YEARS**

41% OF CFOS WERE ESTABLISHED IN THEIR ROLE BEFORE THE CURRENT PE OWNERSHIP

59% of CFOS expect to achieve a multiple of **10 or more** on exit

x10

EVIDENCING AND **ARTICULATING THE GROWTH STORY** IS A CRITICAL PART OF THE CFO'S ROLE DURING THE EXIT PROCESS

CFOS NEED TO BE **RESILIENT** IN ORDER TO COPE WITH THE PRESSURES OF THE EXIT PROCESS

32% OF CFOS HAVE BEEN IN THEIR ROLE **LESS THAN 2 YEARS**

CFOS AND THEIR PE INVESTORS **DON'T ALWAYS AGREE ON THE IMPORTANCE OF THE CFO** IN THE FORMATION OF BUSINESS STRATEGY AND THE CREATION OF THE GROWTH STORY

Based on the responses from our 2015 research

The bullish CFO

"The CFO is the glue – involved in everything and the point person throughout the exit."
CFO

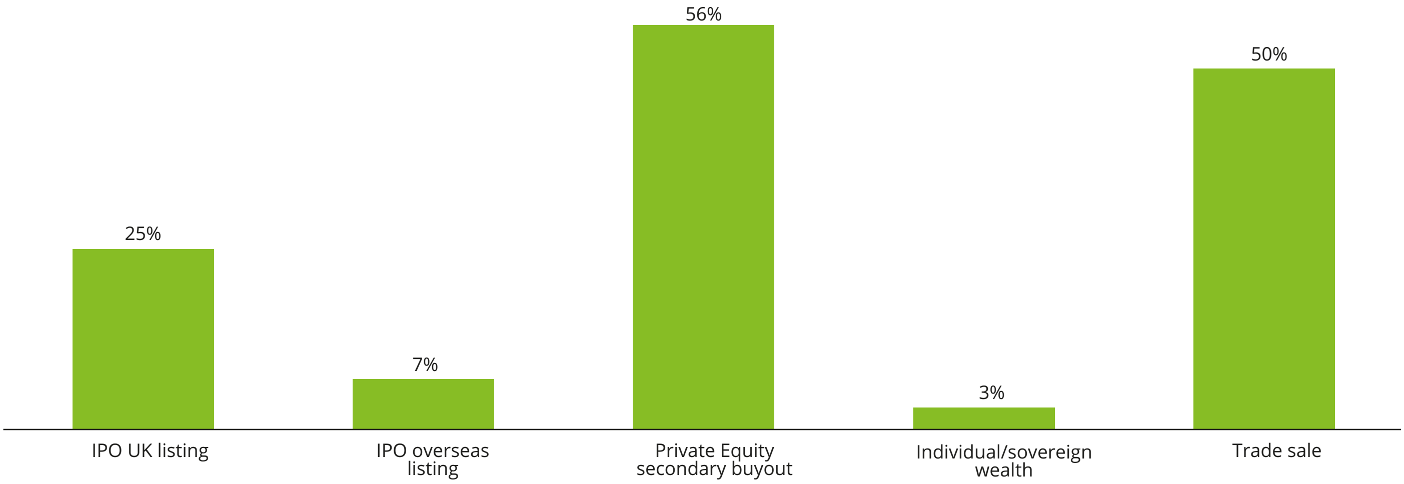
Taking the temperature across the population of CFOs we interviewed, the sentiment is clear – now is a good time to be a PE backed CFO. CFOs are feeling increasingly bullish when it comes to market conditions and their exit prospects. Compared to recent times they have a lot to be bullish about.

94% of CFOs felt that the current market conditions were either very or moderately attractive for an exit, and 96% of PE investors agreed. CFOs put this down to excess capital to invest, low interest rates and the sheer number of exit routes open for business. Raising funds through an IPO is also being seen as a realistic option by an increasing number of businesses, with over a quarter of PE backed CFOs considering this route. PE investors were equally buoyant about exit prospects.

Yet, it is clear from their sentiment that CFOs should expect in many cases to run a dual track process, keeping options open often right through to the latest possible moment. The advice here – prepare for the more onerous of your exit options. If an IPO is on the table then plan and prepare for it early. It is far easier to step down from an IPO state of readiness than to step up to one late in the process.

"The CFO has an absolutely pivotal role."
Chairman

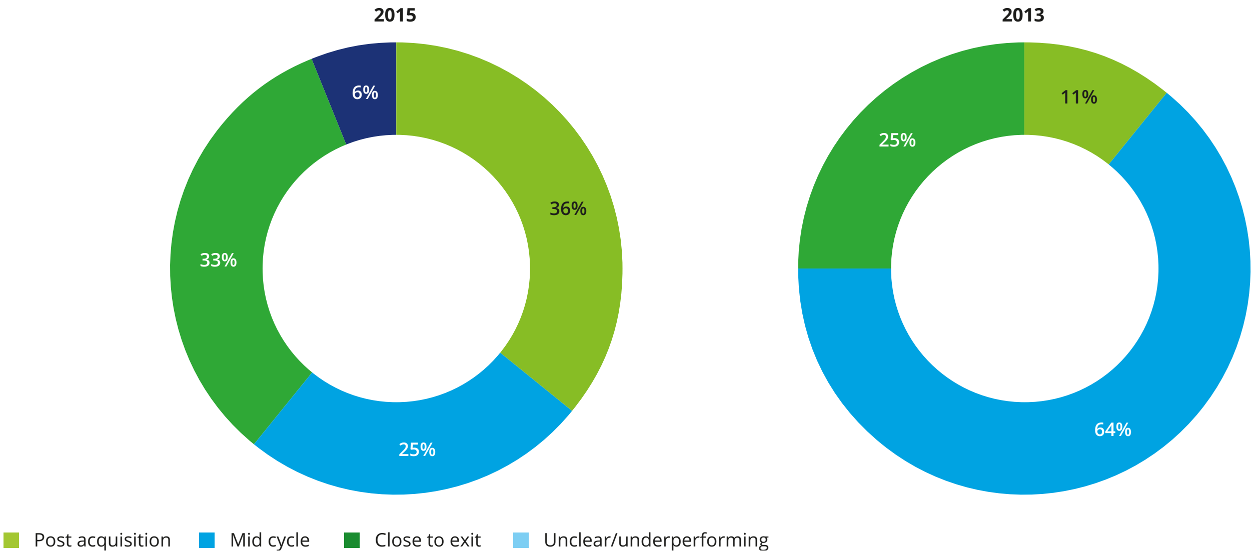
What do you believe the most likely exit route for your business to be?



"There is excess capital to invest and there are more people throwing around debt than you can shake a stick at."
PE investor

Following this positivity, it is hardly surprising that 33% of our CFOs consider themselves 'close to exit' (compared to 25% in 2013). A further 36% of CFOs had just been through an acquistion which represents a dramatic turnaround from 2013 when the same could be said for only 11%.

At what stage of the PE ownership lifecycle is your company?



"It would be unkind to say a CFO is a commodity, yet we know what we want from them and will closely monitor their performance after the deal. Lack of confidence in the CFO is never sustainable, it is relatively common for us to make a replacement."

PE investor

Not only do CFOs expect to exit, but the hope on valuation levels are riding sky high. An incredible 59% of CFOs expect a multiple of 10 times or higher, with over one in six expecting above 13 times. More surprising is that PE investors largely agreed, with more than half of investors setting their sights on a 10+ turn on the EBITDA.

Finally, for any sceptics that remain unconvinced about the ability of a CFO to influence the exit value. When asked, without exception all PE investors, CEOs and Chairman felt that CFOs can have a positive impact on the exit value. Furthermore 63% of PE investors and 61% of CFOs felt that, when they get it right, this impact can be material.

Beware of the honeymoon period

A third of the CFOs we interviewed were in the post-acquisition phase, being within 12 months post PE deal. This is a fundamental shift to 2 years ago when only one in ten CFOs were in the same place. So what does this mean? – A good number of you are currently enjoying the honeymoon period with your investor, where energy and optimism are riding high post-deal.

Our research tells us that this is the time during which PE houses commonly replace those they consider not up to the job; and the first 6-12 months is a key period for PE houses when assessing CFOs. If you find yourself here it is time to shine. Show transparency with the PE investor and be ruthless with accuracy of data, cash flow and working capital and above all show them you understand the long game – it is all about building value towards the exit.

The credible and articulate CFO

"The B+ CFO analyses and presents financial information. The A* CFO takes this further to present the information in the most attractive way which allows an investor to better understand and evidence the highest performing elements of your business, allowing a fuller price to be paid."

CFO

If the CEO is the salesperson through the exit, then buyers look to the CFO for balance, accuracy and credibility. Providing credibility which supports and underpins the investor story through clear evidence is essential and, our participants are clear, does impact value.

The best CFOs will play a proactive role in helping potential buyers get to grips with their business, clearly articulating the drivers of growth. Where this is done effectively it can give the buyer the confidence to pay a premium, and is perhaps the key way in which a CFO can influence the multiple. Extracting true organic and underlying growth, separating the performance of acquisitions and evidencing the positive impact that key management decisions have made upon the results is rarely time wasted. Do not expect the investor to uncover this, guide them through the story in the way you want it to be understood and support it with hard, credible evidence.

We asked our participants to consider the tools a CFO can use to maximise value, considering EBITDA and multiple separately. The role management information has to play is fundamental. When asked to select the most important ways in which a CFO can most positively impact EBITDA, PE investors, CFOs, Chairman and CEOs without exception chose high quality management information as their top answer.

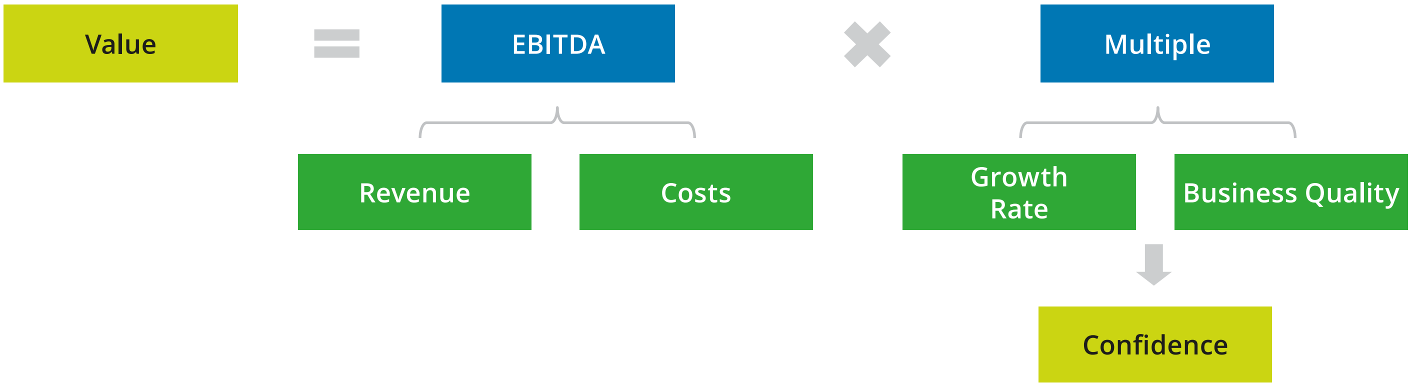
"In order to sell well, it has to be understood well."

PE investor

Further, PE investors selected management information as their top answer for maximising the multiple.

Accurate and understandable management information is the bedrock for any diligence process and CFOs should be close to the detail of the track record presented. Understand the trends, the anomalies and the drivers for the business shown within the management information and have clear and credible answers for the inevitable questions that will follow. However, the best management information will go much further than accurate historical financials. Management information should not be separate to the investor story, but instead a fundamental part of it. When designing your MI and Board packs, there needs to be clarity on the investor story in order to identify the relevant KPIs and drivers for growth. These should be prominent and reconcilable to external, audited information.

EBITDA vs Multiple



Ways in which a CFO can maximise EBITDA

Ranking	CFO View	PE Investor View	CEO & Chairman View
1	High quality management information to enable decision making	High quality management information to enable decision making	High quality management information to enable decision making
2	Formation of business strategy	Executing and integrating acquisitions	Cost control disciplines
3	Cost control disciplines	Cost control disciplines/return on investment disciplines	Understanding key growth drivers

“Often the CFO understands the business drivers but does not articulate them in the most attractive manner.”

PE investor

Once the data is in place, the story need to be articulately told. Depending on the exit process this will often mean road shows and endless investor presentations. Make no mistake, to be on show when the stakes are high will be demanding and stressful. It is also not particularly common to find CFOs who count excellent presentation skills amongst their tool kit.

The way in which the entire management team presents itself to potential investors is crucial and style and presence does make a difference. Our advice here – consider additional training such as personal coaches, and make sure that as a team you are well drilled and rehearsed.

Ways in which a CFO can maximise the multiple

Ranking	CFO View	PE Investor View	CEO & Chairman View
1	Creation of the growth story	Strong underlying MI and KPIs	Creation of the growth story
2	Provide evidence to support the growth story	Provide evidence to support the growth story	Provide evidence to support the growth story
3	Strong underlying MI and KPIs	Advanced planning for the exit process	Building relationships with markets and potential investors

“The quality of the management information is critical, it is the passage to a high multiple.”

Chairman

"I am looking for things that point to the quality of the business rather than just its scale. It we see these things then we will pay a premium."

PE investor

The big debate – EBITDA or multiple
It is commonly understood that CFOs have an important role to play in maximising EBITDA particularly when it comes to cost control. However, there is less agreement around the role of the CFO in influencing the multiple with many taking the view that it is the markets alone that drive the exit multiple.

Regardless of where you stand on this, it is important to have an awareness of what makes someone willing to pay a premium for a business. The view of the majority of the investors we spoke to is that a premium, or higher multiple, tends to come down to the quality of the business. In other words its resilience to external factors; the momentum and growth running through performance; mitigation of risks; IP or uniqueness, and market position compared to competitors to name a few. It boils down to the confidence that a business has the potential to outperform other assets or competitors. Understand these qualitative points of difference in your business, and then go further to evidence them, and you will be adding real value to the sales process.

The detailed CFO

"If the numbers slip during the process, you lose credibility, and lose competitive tension. The day job is very important during the exit process."

CFO

Time and time again, both by frustrated investors and experienced Chairman and CEOs, a clear warning was sounded through our research – no matter what happens, never take your eye off the ball and lose sight of the day job.

Regardless of the type of exit process, when the time comes it will be hugely distracting and absorbing, not just for the CFO but the entire senior leadership team. Through this period there is a real risk of sleep walking towards underperformance through failing to maintain the right disciplines which drive performance and accountability through the organisation. Whilst not always controllable, a drop in trading performance in the run up to exit is a frequent reason for killing off a deal.

For a CFO, when under scrutiny of diligence and new investors, there really is no excuse for allowing cracks to appear. Inaccuracy in the numbers or weaknesses in controls will take the gloss off credibility and in extreme cases can even result in potential buyers walking away.

It was clear from our 2013 research and again here, that first for PE investors is an expectation that CFOs stay close to the detail and deliver the basics – accurate numbers. This is the most common reason for CFOs being replaced prior to the exit and came out most prominently in PE house frustrations and fears when dealing with CFOs.

Interestingly, when asked to choose 3 ways a successful PE backed CFO can most positively impact EBITDA, the second most common answer, selected by 47% of CFOs, was 'formation of the business strategy'. This is where CFOs really feel they move into 'value add' and away from the day job. It is also where they want to be spending their time, aspiring to be given the opportunity to play a fuller role in building the business strategy, working seamlessly alongside the CEO. CFOs we interviewed often talked of a "promised land" – a place where they have finally implemented their system changes and have a fully functioning finance team, a place when they can move away from the detail and into the strategy.

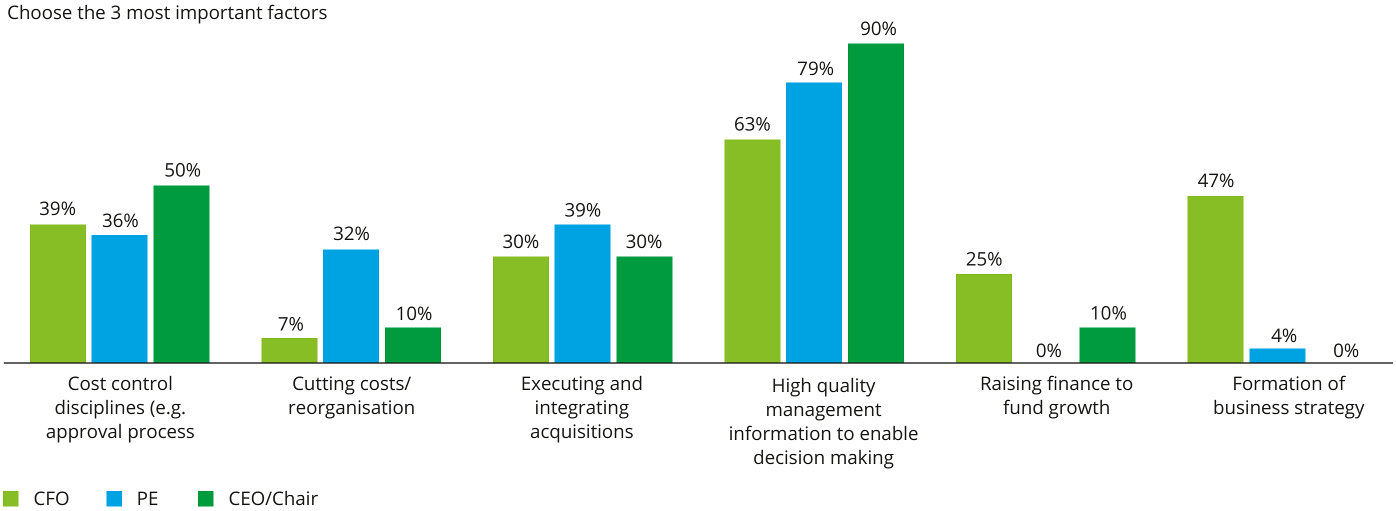
Before we get carried away – a word of caution. We have already heard that PE investors will not tolerate CFOs who move away from the detail and take their eye off the ball. Indeed, the results of our survey were even more emphatic here. When we asked the same question of our PE investors only 4% felt that CFOs should consider forming business strategy as key – the second bottom answer. Unfortunately for CFOs, CEOs and Chairman concurred. In our goal of reaching a consensus of the attributes of an effective CFO, it appears here that we may have come to an impasse.

"One issue is ensuring CFOs plan ahead to have the right amount of resource. CFOs often don't realise the burden that an exit process places on the finance team."

PE investor

In which ways can a successful CFO most positively impact EBITDA?

Choose the 3 most important factors

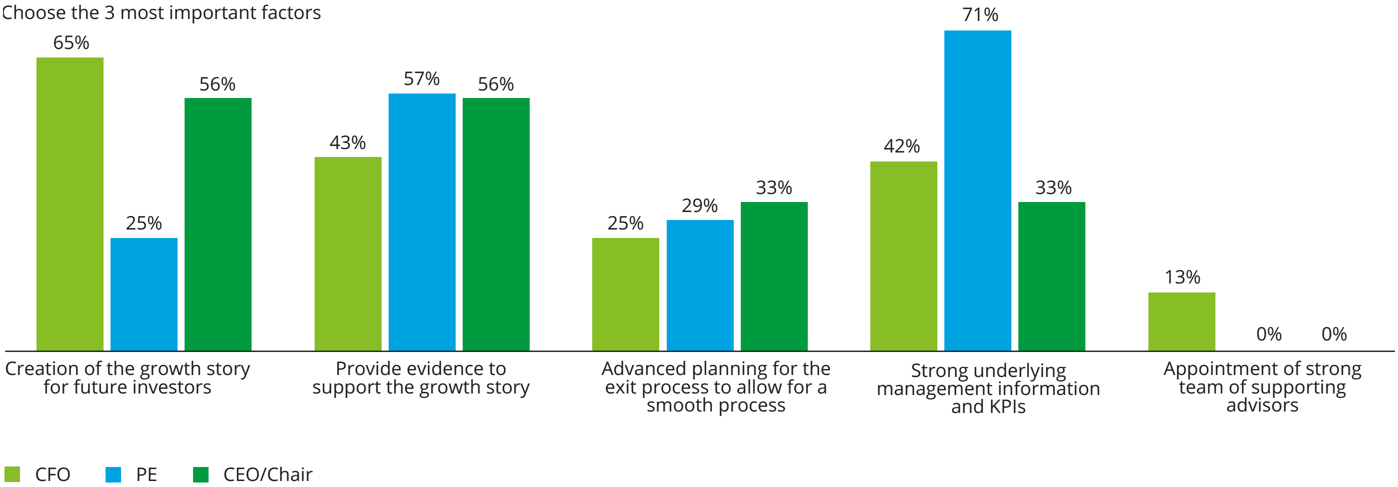


"The CFO should challenge the strategy and how it is applied, and confirm whether strategic decisions are supported by the financials, but should not determine the strategy themselves."

PE investor

In which ways can a successful CFO most positively impact multiple?

Choose the 3 most important factors



The real fear underlying this, particularly from PE investors, is that when CFOs are playing in the strategy, they are somehow doing this at the expense of the basics. For PE investors, accuracy and robust financial operation are the priorities and everything else is viewed as secondary. Yet it would be unfair to suggest that investors and board members do not value strategic CFOs, and indeed 'commercial CFOs' were considered hard to find and invaluable. It will be up to the CFO to prove that the stewardship and operator responsibilities are well and truly under control before focussing time and energy in matters of strategy.

We also picked up some clear differences between PE house styles on this point. Some recognise the value in strategic and commercial input, others see it as a real turn off. So the advice here: It is important to strike the right balance between stewardship and strategy. Know your PE house and build trust in the fundamentals before you stray into strategic matters.

It's a team game
The advice from Chairmen and CFOs specifically was to invest in a strong finance team. Whilst CFOs can never absolve themselves from ultimate responsibility in the financials, a strong team will at least allow them to start to add real value away from the day job and towards maximising value.

It was clear from our discussions that the position of the financial controller (FC) is critical and the CFO must have complete faith in the skills and commitment of their FC. Unfortunately, it was also clear that high quality FCs are often hard to source and harder still to retain in highly-pressurised situations when they are unlikely to be incentivised in the same vein as the CEO and CFO as part of the deal.

It is important to challenge yourself here – is your current FC up to the task; or is your strong FC a flight risk? If you have concerns in either of these areas, it is important to act and to do so quickly and decisively.

The collaborative CFO

In our 2013 research, the importance of the many relationships which the CEOs must build and maintain was a clear theme. Placing the lens on exit value for this current piece drew two pivotal relationships to the surface – firstly with the CEO closely followed by the PE investor.

Both Chairmen and CEOs referred frequently to the importance of an effective CEO/CFO team. This relationship should never be undervalued and is key for any business, PE or otherwise. The difference with PE – when the relationship is not operating effectively, things will rarely be allowed to fester. Expect your PE investor to step in swiftly, and often ruthlessly, to resolve the situation.

What is also clear from speaking to CFOs is that it is not always a relationship that comes naturally. CEOs can be the exact opposite in temperament to the CFO and so personalities will not always align. This is not necessarily a bad thing. Both PE houses and Chairman value highly a CFO who is able to stand up to the personality of the CEO and at times disagree. So be aware that there is value in being an effective 'sparring partner' to the CEO. Yet there is no blueprint for this relationship, with the strongest CEO/CFO partnerships often involving a high degree of overlap in roles. Regardless, where the respective value that each party can bring to the business is recognised it can build into a formidable partnership.

The effectiveness of the CEO/CFO relationship will never be more on show than when going through an exit process. The advice our respondents gave to CFOs was to have an open dialogue with the CEO to understand each other's personal objectives, particularly in the longer term.

"The CFO is like a centre back in football – they are independent but part of the team. The CFO needs to be focussed on the good of the company and at time can conflict with the CEO, therefore they need a strong backbone."

Chairman

A number of Chairmen refer to a delicate time in any exit process when the management team must figuratively walk across the table and sit with the incoming investors, effectively turning from part of the sales team to the continuing management team. The CFO and CEO need to be clear on when and how to do this and encourage candid conversations on their plans. If you have a strong independent Chairman, it can be invaluable at this stage to seek their counsel and guidance.

Equally consistent amongst all of the experienced PE CFOs interviewed was a recognition of the importance of the relationship with their PE investor. Indeed PE houses commonly tell us that they are in more frequent contact with the CFO than with the CEO or other member of the management team. The advice here is to be responsive and accurate but above all transparent. Encourage regular dialogue, ideally in person, and work on understanding each other's priorities. Also be open with the truth – good or bad. PE investors do not like bad news, but above all they hate surprises.

"The CEO and CFO have to be representatives of what the business has achieved and will achieve, as a team of two they need to lead the visual representation of this, presenting the story together – they are the shop window into the organisation."

Chairman

"We talk a lot about transparency – nasty surprises at the last minute are not welcomed. You will trash years of trust in an instant if you do this."

PE investor

An investor and a mentor

The relationship between the CFO and PE house does not all have to be one way. At key times in the lifecycle, PE investors can add a great deal of value and guidance. If the right underlying relationship is in place, your PE investor can act as a mentor, a coach and a guide through complexity.

CFOs should consider where they can gain from their investor's breadth of experience, particularly with regards to M&A and positioning for the exit. Asking the right questions in a proactive manner will often impress investors, after all your success is in their interest. When we asked CFOs how they can best be supported by PE investors the most common themes included informal advice on strategy; creation of the next investor story; guidance through fund raising; appointment of an independent Chairman; and the range of connections held by the houses, including advisors, suppliers and temporary finance professionals in the marketplace.

The forward thinking CFO

"Everything in PE is potentially up for sale all of the time."

CFO

Ask any PE backed CFO to name the key difference between their role and that of a non PE backed CFO and most will refer to the exit. From day one you know that your PE investor is but a temporary partner. This is not to say that they will not invest for the long term good of the business as they are fully aware that it pays to sell businesses which are positioned well for the long term. However, whether it is openly discussed or not, as soon as your new investors are in, most of them are already starting to think about how and when they will get out.

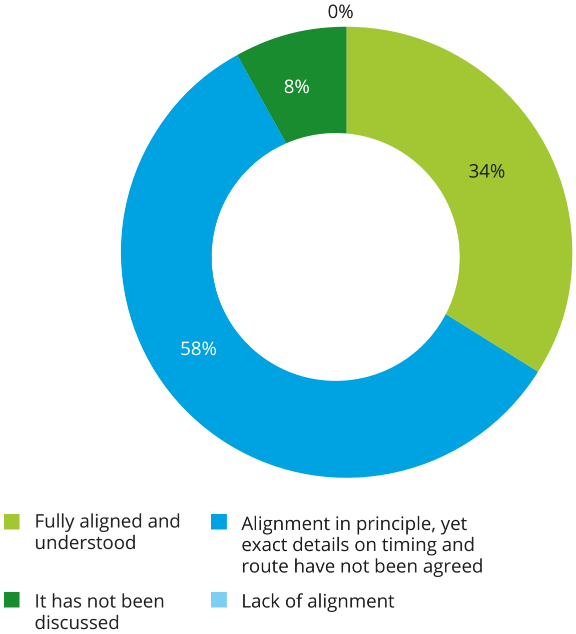
An exit mind-set is something that all successful PE CFOs need and is a theme that comes through clearly in our interviews, particularly in the frustrations voiced by PE houses. CFOs who can start making day to day decisions with the exit in mind, will be on track to making the right impression with their investor. More impressive still will be to get ahead of the curve and start to proactively prepare for the exit – rather than wait to be led through by the PE house. The PE house wants to know that you are a safe pair of hands and are able to deliver the finance work-streams required at exit. These might include an IFRS conversion, key appointments to the team, building a financial forecasting model, or embedding working capital improvements. But the point here is that readiness is not just about clearing work-streams out of the intensity of the exit process – PE investors and management teams agree that forward thinking towards the exit will actually make a tangible impact upon value.

There are two lenses to place on readiness – the first is a defensive one. What are the risks of value leakage in the organisation? Strong planning for an exit will bring these issues to the surface and allow time to build mitigations where possible. Where things cannot be wholly mitigated, the next best approach is to quantify or control.

"Planning for the exit starts on the day of acquisition."

PE Investor

Is there alignment between the PE house and management team about the route and timing of exit?



It is unwise to leave an open ended issue unresolved going into a sale process – and worse still hidden from your PE investor. If you do not identify and control issues on your terms, buyers will assume the worst and will reduce the price they are willing to pay. So plan ahead for the risks – and where appropriate seek external advice to support your position. As CFO you have a key role as the steward of the business, protecting value leakage. The more unknowns and nasty surprises you can take out of diligence the more effective you have been at doing your job.

"Going into bat with your fingers crossed behind your back never works. Diligence teams are sharp and will pick up on the issues."

PE investor

The other lens to put on forward planning is about positive value creation. This is partly about being in a general state of readiness to socialise information about the business, with well prepared and well drilled finance teams more likely to build confidence in the purchaser. However, the value in forward planning is about more than just clean diligence. Strong and understandable investor stories sell businesses and the best CFOs will work with the business early to infuse the story with substance and have the operations directors singing from the same hymn sheet.

Finally, it has been said that CFOs have an important role to play in keeping their CEO honest, and to challenge where appropriate. CEOs can have a tendency to go after the new and shiny initiatives, but the strongest CFOs act as the conscience of the organisation to keep the focus on the core operations and decide what areas will really deliver value at the exit. Part of this debate is as much about knowing what you are not going to do as much as it is what you will. This means planning ahead to know the things to have delivered as a business and baked in the EBITDA performance (e.g. cost improvements, integration of acquisitions), versus the things to prove in concept, leaving on the table for the next investor.

For instance, you may believe you can penetrate a new market and achieve profitable growth – deciding to prove this on a smaller scale to whet the appetite for future investors may be a better answer than ploughing resource into a new venture. This is where the CFO can challenge the PE view that CFOs shouldn't play in strategic matters, by being the disciplinarian and putting a financial lens on the strategy in order to deliver value.

There is one important caveat to such conscious and deliberate exit planning. The reality is as much as CFOs aim for a certain exit date, be aware that PE investors may have a different agenda. If the right offer presents itself to create value for their own investors, the PE house will rarely hesitate. So plan ahead and be a forward thinking CFO, maintaining an exit mind-set at all times as you never know when the time will come.

"We all know that numbers are not facts, they are judgements."

PE investor

The resilient CFO

"The exit process can get pretty intense, sometimes CFOs can't keep up."
PE investor

We readily talk about the importance of strategy, management information and financial models – but perhaps less so about the importance of personal resilience and performance. All eyes are on the CFO in the run up to the exit. In order to maximise value, CFOs need to be on their game and deliver consistently throughout this period.

Without exception, the experienced CFOs interviewed considered a change in ownership to be one of the most draining and demanding periods of their careers. The uncertainty of their future position, the financial prizes at stake, the scrutiny and spotlight of incoming and outgoing investors and the expectations of the team – it is not surprising that this can prove too much to bear for some people. To be absolutely clear, PE is not for everyone. It takes a special breed of individual who can last the course and deliver under intensive pressure.

"Get in the gym and get fit, because PE is not for wimps."
Chairman

But can this really impact the exit value? The answer from our research suggests so. Aside from the failure to build the business earlier in the lifecycle, an underperforming CFO will add tangible risk to the exit. This is not only in terms of the value achieved but whether a deal completes at all. The role is multi-faceted and requires considerable tenacity.

PE investors in particular refer to their nervousness of CFOs losing their heads. It is not surprising when you consider how integral they are to the exit.

"It's a very emotional time. The whole process. It is important to maintain professionalism and integrity."
CFO

It falls to the CFO to drive the team; hold multiple advisors to account; show clarity of thought in evidencing the investor story; answer prolific diligence questions; and instil confidence in the purchaser – no mean feat. PE deal teams tell us that they spend on average more time with the CFO than with any other member of the leadership team – they will be their window into the organisation and to provide confidence that there is real substance behind the sales pitch.

"Be prepared for pressure, aggressive attitudes and long hours."
CFO

So how do you prepare yourself for the onslaught ahead? The advice received through the research fell into three camps which are often overlooked but of critical importance.

- Tap into your support networks. The importance of mentors was a frequent theme, as was family and your allies in the organisation. A strong independent chairman will also have a role to play.
- Surround yourself with strong people. Time is a limited resource. Be clear on what you will personally do and where you will invest in your team or seek external support. The run up to an exit is not the time for penny pinching so plan to resource up ahead of time to reduce the burden on you and your team.
- Look after yourself. This is precisely the time when the things that keep you sane become vital. The run up to a transaction and beyond is often a long process of months and years. CFOs talked to us of the importance of health, nutrition and exercise. When the stakes are high you need to be on your game.

The message from PE investors and CFOs was clear. To maximise value, businesses need their CFOs on top form and operating at their peak.

Conclusion

If there ever was a good time to be a PE backed CFO, this is it. Market conditions are strong, growth capital is available and the likelihood of a short holding period and exit in the near term is high. CFOs have every reason to be bullish. Further, CFOs should have the confidence to know that they can and do have a recognised and valued contribution to make towards maximising value.

And where they play their role correctly, CFOs can fundamentally influence both the likelihood of a successful exit but also the value achieved. The role is highly demanding and not for the weak willed – but get it right and the results can be life changing.

CFOs have every reason to be bullish. Further, CFOs should have the confidence to know that they can and do have a recognised and valued contribution to make towards maximising value.

750 years of experience

We estimated that between them, our interviewees could boast over 750 years of experience operating in PE. Given this breadth of experience, we wanted to share as many of the responses with you as possible.

We asked them each **"What advice would you give to a non PE experienced CFO looking to get into PE?"**

We hope you enjoy reading the responses and find them both informative and entertaining.

"It is key to hit your numbers month in and month out – this is fundamental to building credibility."

"To work in PE you need to have drive and motivation, and the ability to deal with disappointment."

"Ensure you almost over report to your investor to instil confidence and give the sense you are in control. Once they have trust in your ability you will be given more rope."

"It is a high risk job, and there is a strong chance you won't make it. Do things you wouldn't expect to have to, things you may think below you."

"You need to exercise tight stewardship – focus on the whole financial story, build a team and create energy."

"A buyer's insight is limited to the data provided, so the more credible data you can provide the better."

"The CFO has a catalyst role within the business during the exit process – you need to be a leader through change and create confidence within the team."

"You need to convince a buyer they will make money."

"The CFO role is integral to the exit strategy as you are the one who stands behind the business plan and therefore ensures its credibility."

"A CFO should have the ability to isolate, identify and bring to the front the drivers of the business to help investors to understand the business properly (and ultimately pay a better price for the business)."

"Your role is to create the narrative about the history and future of the business and ensuring this links to the financials."

"Articulating the strategic and financial journey of the business is a key part of your CFO role."

"You need to be a very close team with the CEO."

"You need to make sure there are no skeletons in the closet and nothing to bite you later on."

"You are tasked with instilling confidence in the potential buyers of the company."

"When telling the story, you need to be like a politician and decide what you want to talk about, rather than answering questions."

"Forward planning is key. If you start planning when the process is being discussed, it's already too late."

"The numbers need to underpin the story you are telling to investors. You need to plan ahead, and in the years before an exit, tell investors what you plan to do, then make sure you do it, i.e. create a good track record."

"You are better off selling a more credible, "lower" story, than a less credible "higher" story."

"Having a granular financial model is key - you need to be able to give an investor 10 years of detail."

"Don't forget that everything in PE is potentially up for sale all of the time."

"The story is essential. You might have a great business, but if you don't have a growth story, the investor has nothing to buy."

"The success of the CFO comes down to whether the investors trust the management team or feel they have anything to offer – the starting point is usually no to both of these questions."

"You need to learn to cope without too much sleep! Shareholders can ask for whatever information they like at whatever time they like."

"Focus on cashflow, managing debt relationships and liquidity. You need an excellent relationship with your bank."

"If you gain their trust the PE house will develop you. They will demand their pound of flesh from you along the way though."

"Only do this job if you like a good argument!"

"Work on relationships with PE investors from day 1. Win their trust. tell them the truth, they appreciate good news as well as bad."

"Understand that the PE House is relying on you to safeguard their assets."

"You need to communicate regularly."

"Don't be afraid to ask the PE house for something back, e.g their expertise, or doors they can open via contacts."

"Be prepared to challenge your PE investor because the majority of them haven't ever run a business. Don't just accept what they say as being right, as they aren't always."

"Wear a suit of armour because demands from PE are totally different to other shareholders. You must understand how important cash and headroom is in a PE environment."

"In terms of MI, be prepared to roll-up your sleeves. PE-houses are data hungry and they want you to know everything, and focus on running the business for the first 2-3 years getting the systems right, making acquisitions and creating and building a fantastic business."

"There is a ruthless focus on the numbers."

"Be prepared for the intensity and pressure and timelines that private equity brings. But it is certainly worth it."

"It is a business role, not a numbers role, but your numbers have to be rock solid."

"Be prepared for a more demanding customer than you ever had in your career to date, who is very focused on the numbers and who may not necessarily "get" your business."

"PE is very demanding. Your shareholders are data hungry, and feeding them takes a lot of time and energy."

"You need to think of the business as a shareholder."

"You can't underestimate the demands and you need a rock-solid team under you to deliver it."

"You need to be prepared to roll up your sleeves, because it will never be a pure finance role."

"You can't easily sell a business if all the value has been stripped out. Thinking in this way is not a key strength of PE Investors."

"Be prepared to stand up for what you believe in."

"Good luck!"

Deloitte.

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