

Expectations for the CFO from an owner and board perspective

Deloitte CFO Agenda Aarhus 2014

25 September 2014



Agenda

Introduction to Odin Equity Partners

Value creation in Private Equity

The CFO role from an owner and board perspective

Introduction to Odin Equity Partners

Odin Equity Partners

- Odin Equity Partners (“Odin”) was founded in 2005 as the first independent Private Equity fund in Denmark with focus on smaller and medium-sized enterprises.
- We manage two funds with a total commitment of DKK 2.2bn. Our investors include several Danish pension funds and international investors.
- Odin’s geographic focus is Denmark, Southern Sweden and Northern Germany. We do not have a specific industry focus.
- We invest in niche companies with revenue of DKK 200-500m typically as the first institutional owner.
- Our objective is to build stronger, bigger and better companies through step change in revenue and profitability.
- We have carried out 16 platform investments (currently 12 in the portfolio) and completed numerous add-on investments to these.
- In short, our aim is to be the preferred partner for businesses and business owners who are considering succession or generational changes.

About me



- I joined Odin in Feb06 and was named Partner in Nov10 and Managing Partner in Mar14
- I head up our internal Investment Committee and sit on the board of a number of our portfolio companies.
- Before joining Odin Equity Partners, I was at The Boston Consulting Group advising corporate clients on strategic development.
- Before BCG, I worked 8 years for Shell International with focus on corporate M&A and business development.
- I hold a MSc in Business Administration and Commercial Law from Copenhagen Business School.

Odin currently manages 12 portfolio companies in a variety of industries

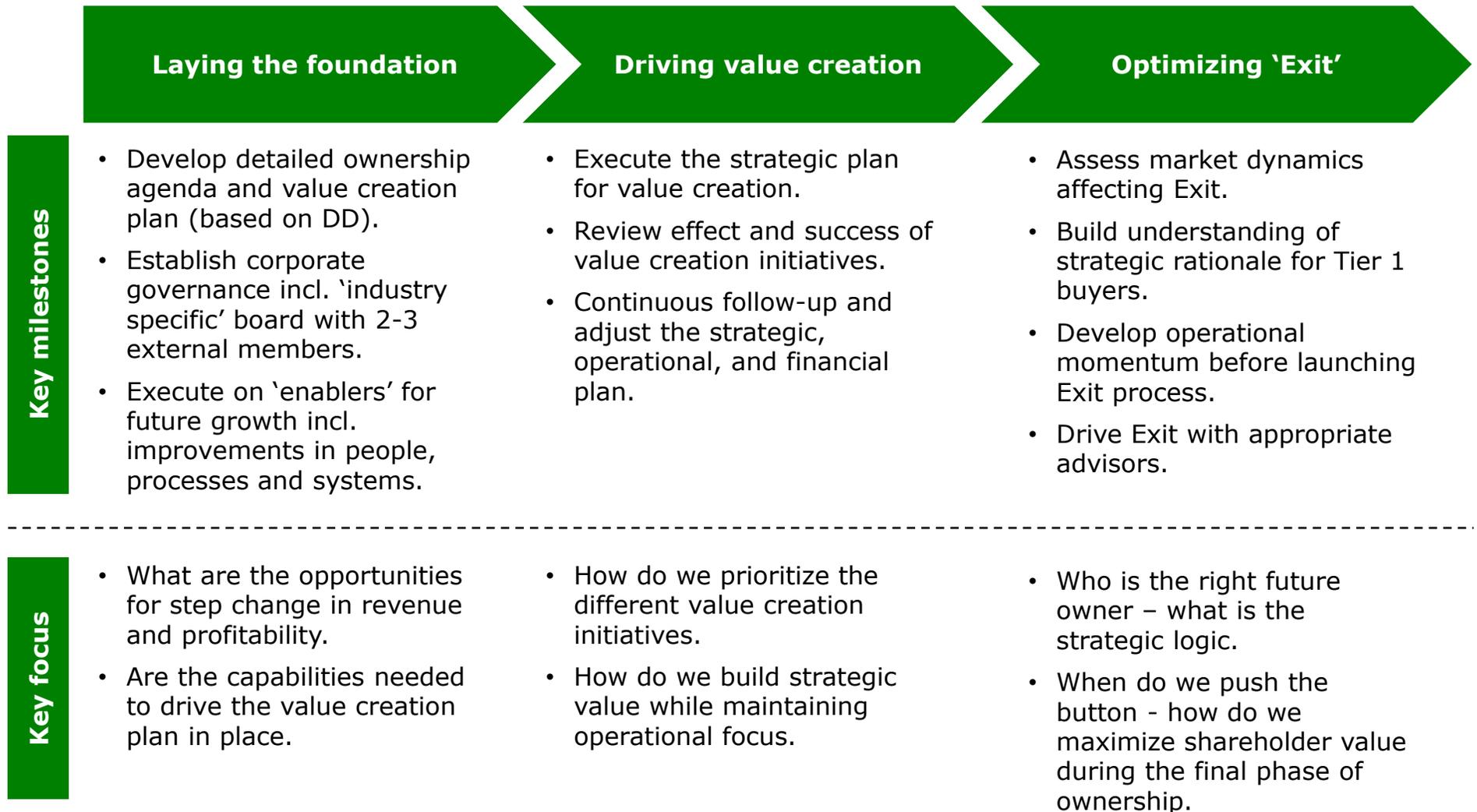
Fund 1



Fund 2



We define our ownership period in three phases with distinct milestones and key focus areas



Agenda

Introduction to Odin Equity Partners

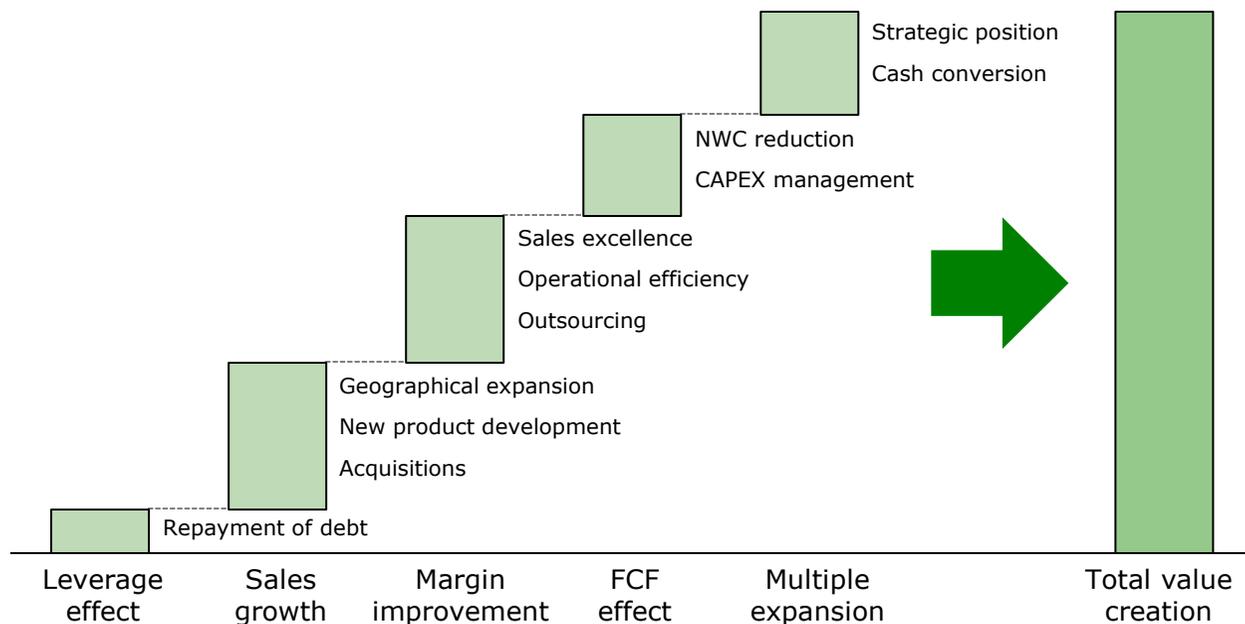
Value creation in Private Equity

The CFO role from an owner and board perspective

Generically, value creation in Private Equity can be grouped in five main drivers

Generic private equity case

ILLUSTRATIVE



Examples of initiatives

Sales growth:

- Geographical expansion
- New product development
- Acquisitions

Margin improvement:

- Sales excellence
- Operational efficiency
- Outsourcing

FCF effect:

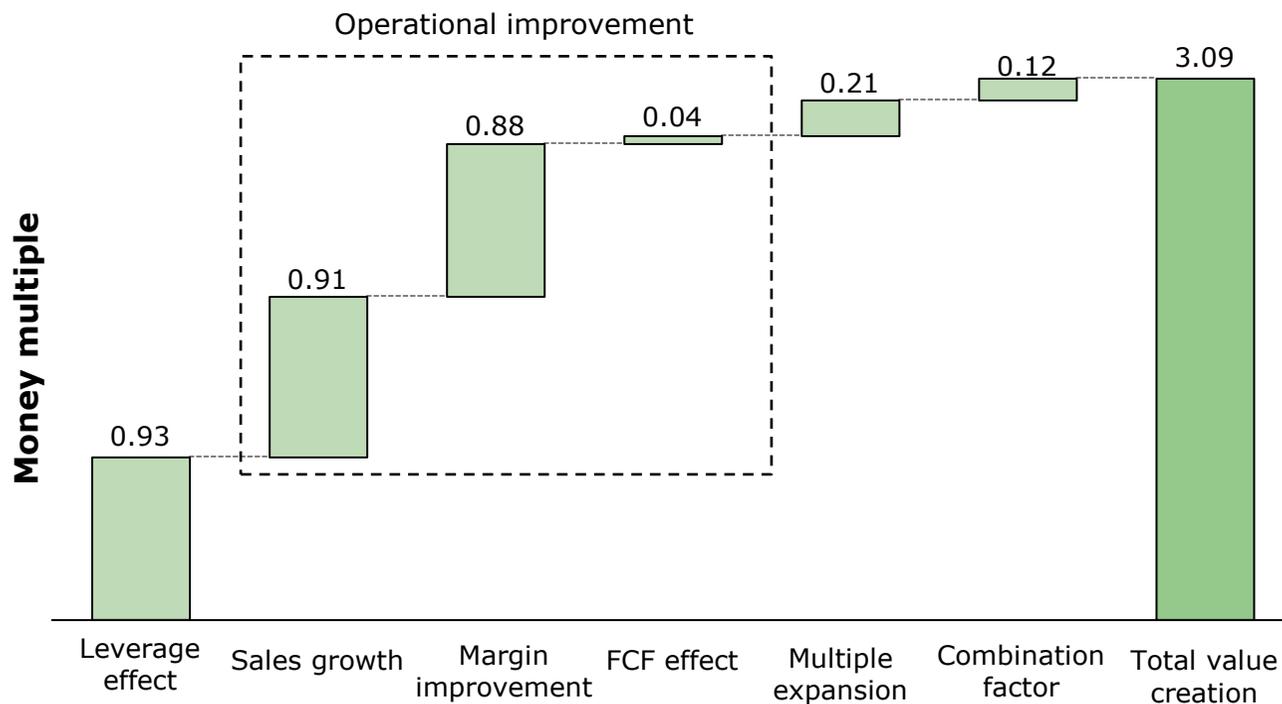
- NWC reduction
- CAPEX management

Multiple expansion

- Strategic position
- Cash conversion

The latest Capital Dynamics study (2013) of Danish PE investments highlights operational improvements as the key drivers of value creation

Value drivers for companies owned by Danish PE funds



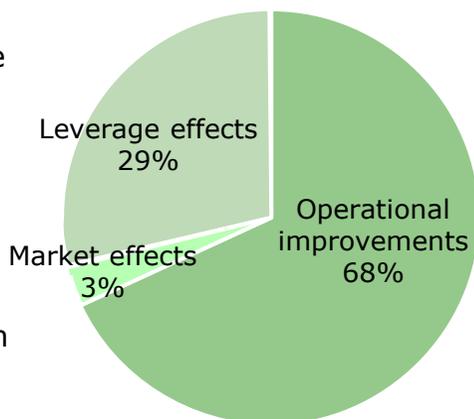
Highlights

- The sample consist of 64 Danish PE exits between 1995 and 2011.
- The average holding period in the sample was 4.6 years.
- 63% of the value was created by operational improvements.
- 30% of the value was created by leverage effects.

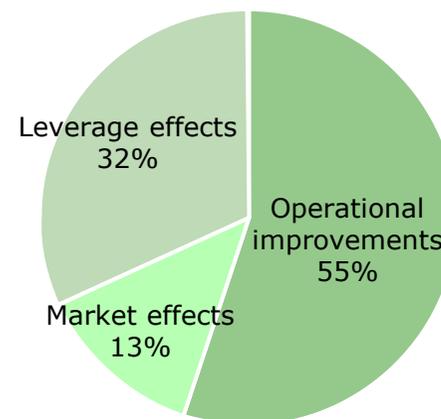
Operational improvements are more important for value creation in smaller vs larger investments and Danish vs European funds

Value creation in small vs large deals in Denmark

- Danish deals with an enterprise value below EUR 100m
- Value creation in the smaller companies relied more on operational improvements than larger deals

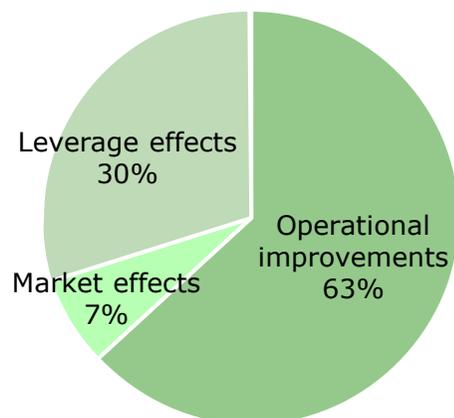


- Danish deals with an enterprise value above EUR 100m
- Value creation in the larger companies relied less on operational improvements than smaller deals

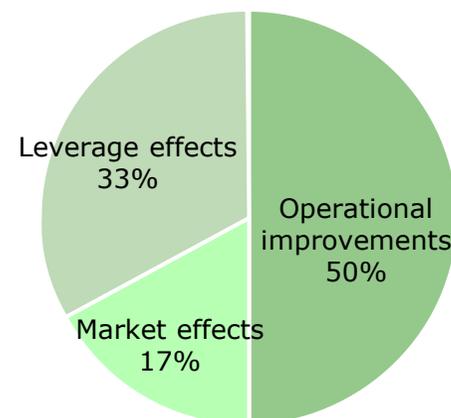


Value creation in Danish vs European funds

- Exits from Danish PE funds
- Value creation in Danish funds is mostly due to operational improvements



- Exits from European PE funds
- Value creation in European funds is mostly due to operational improvements as well, however, less so than in Danish funds



Agenda

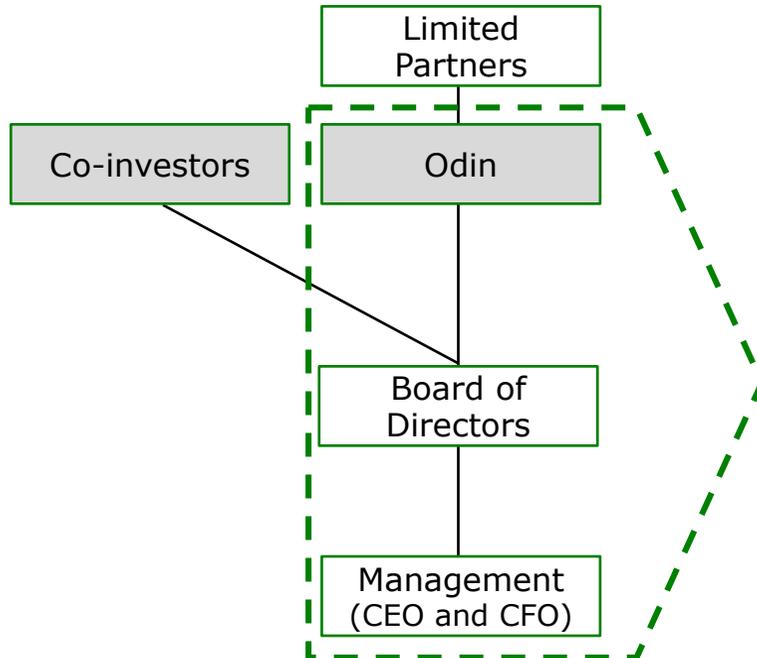
Introduction to Odin Equity Partners

Value creation in Private Equity

The CFO role from an owner and board perspective

The CFO plays a vital part of the governance model

Governance structure

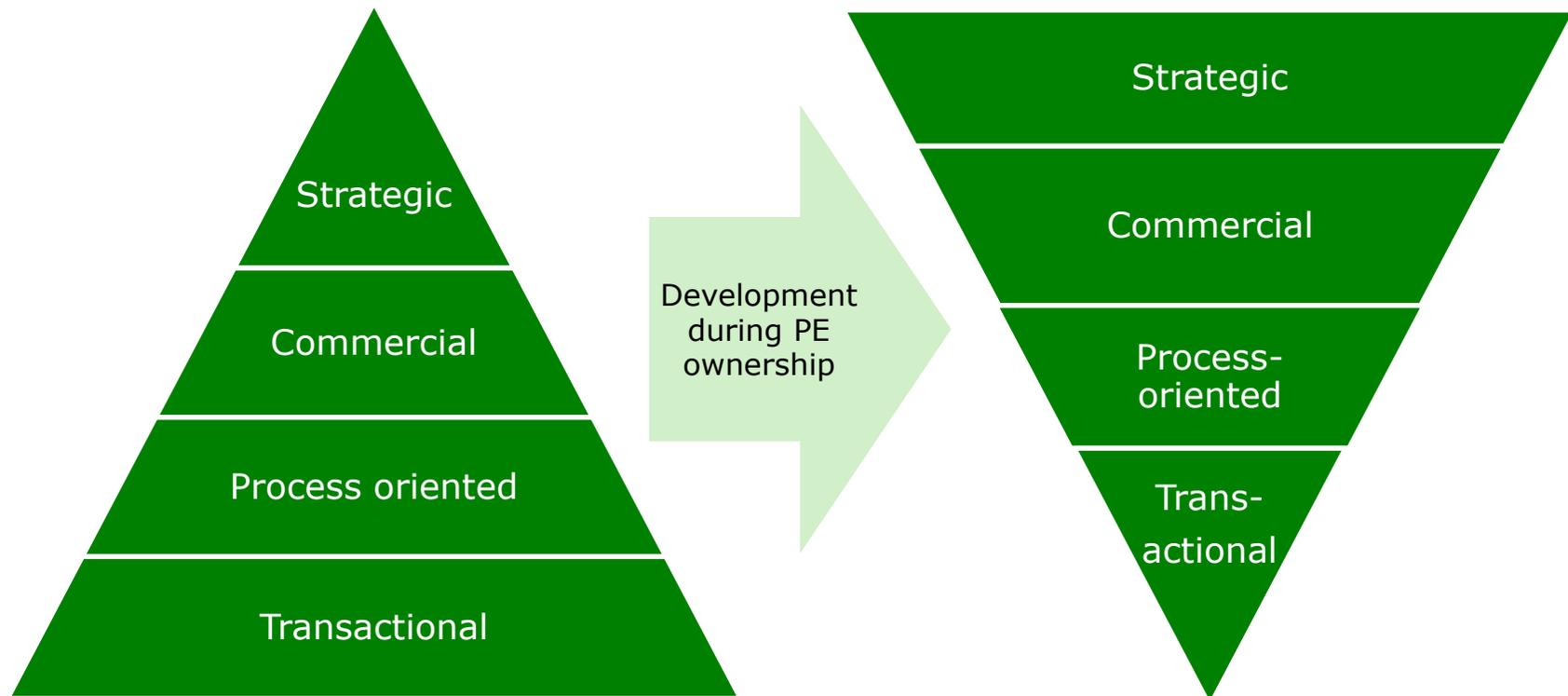


Key stakeholders



The role of the CFO changed considerably during our ownership period going from 'Transactional' to 'Strategic'

- There are distinct differences in the skill set that is required from the CFO in the initial ownership period, during the growth phase, and at exit.
- The required skill set is under continuous development from an initial focus on the basics of the CFO role, such as controlling/reporting, to focusing more on building processes and systems to finally becoming a commercial and strategic partner to the CEO.



When 'Laying the foundation' Odin and the board seek 'The Accountant' and when 'Optimizing Exit' we look for 'The Strategist'

	Laying the foundation	Driving value creation	Optimizing 'Exit'
CFO tasks	<ul style="list-style-type: none"> • Ensure speedy and accurate financial information. • Develop enhanced reporting package, incl. risk mgt. • Establish relationship with financial partners. • Strengthen internal processes to fully leverage professional board. • Support development of strategic plan. 	<ul style="list-style-type: none"> • Continuously control operational performance. • Drive increasing efficiency in financial processes to lower NWC and capital employed. • Support the prioritization of value creation initiatives, incl. development of KPIs. • Communicate financial progress to stakeholders, incl. shareholders and debt providers. 	<ul style="list-style-type: none"> • Support the CEO in preparing the organization for Exit. • Understand market dynamics to assist in assessing timing. • Engage with advisors to build strong Exit story. • Manage the due diligence process together with CEO and Odin.
Skill set	<ul style="list-style-type: none"> • Deep understanding of financial performance. • Focus on structure and processes. • Ability to motivate back office staff and influence strategic direction. 	<ul style="list-style-type: none"> • Ability to fully understand the business. • Driver of change. • Focus on operational and financial risk and reward. 	<ul style="list-style-type: none"> • Strong strategic understanding of the business. • Strong communicator both internally and externally. • Ability to step in as CEO when needed.
	The Accountant	The Financial Consultant	The Strategist

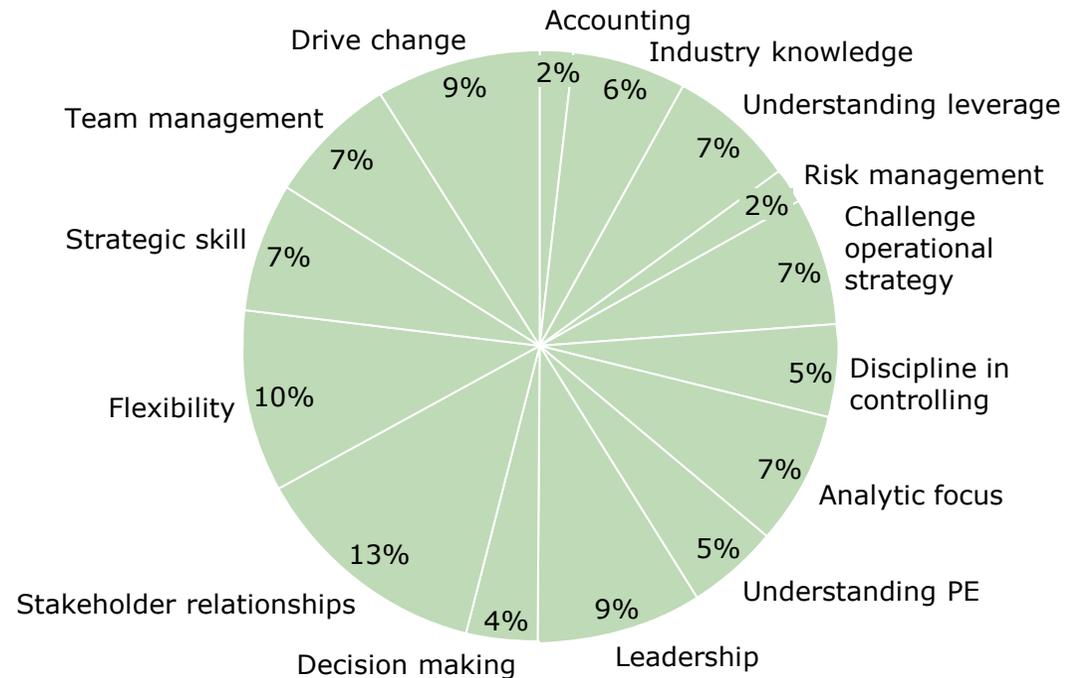
A recent study by Deloitte (2013), emphasises the diverse skill set sought from the CFO in the different phases of PE ownership

PE backed CFOs' priorities for next 12 months



Most important attributes of a PE backed CFO

PE backed CFO views on the most important attribute for a PE backed CFO



Very few CFOs possess all competencies sought throughout the ownership period and hence ~70% are replaced between Entry and Exit

Key take aways

- **In PE, the governance model ensures alignment between Odin, the board and management (CEO and CFO).**
- **Value creation in a Danish setting, centers around sales and margin improvements. The smaller the investment, the more important are operational improvements.**
- **In small and medium-sized companies, the role of the CFO changes throughout the ownership period from 'transactional' with focus on basic finance functions to 'strategic' with a focus on operational improvements.**
- **The CFO must deliver on the specific tasks in each phase of ownership, which requires a very diverse skill set.**
- **Very few CFOs have the skill set needed across all phases and consequently, ~70% of CFOs in companies with PE ownership are replaced between Entry and Exit.**
- **I can only recommend you to continue broadening your skill set and/or ensure superior operational competencies in your finance organizations from the beginning of the 'journey with PE'.**

---- Thank you for listening ---