

The CFO Playbook

What it takes to succeed in a Private Equity
portfolio company.



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Contents

+	Foreward	
+	The Foundations	
	The framework for success	5
	Technical competencies	6
	Leadership competencies	7
	Your top three areas of focus	8
+	The CFO in Transition	
	First 100 days – get the plan right	10
	Your role in value creation	11
	Key deliverables	13
+	The Right Team for Success	
	Team capability	15
	High performing finance teams	16
	Performance & Potential	17
+	The Recap	
	Wrap-Up	19
	Ed Michelsberg – Managing Partner	20
	The Emu difference	21
	References	22
	Get in touch	23

Foreword



I read a quote once that described Private Equity as a 'marathon of many sprints'. Being the Chief Financial Officer in a PE portfolio company requires you to be both strategic and operational and you're often required to wear many hats - from the data expert, agile and insightful decision maker, influencer, challenger, and an extraordinary financial leader tasked with identifying opportunities that can improve the company's valuation at the time of exit.

Throughout my 23-year executive search career, I've had the pleasure of working with many Private Equity backed companies and CFOs within everything from an ASX business to a multinational offshore subsidiary. Having a highly analytical mindset will put you in great stead, yet truly excelling in your role will require something extra.

Over the last few years, the CFO role has evolved significantly from being a financial gatekeeper to a more business-oriented role as an adviser and a strategic partner to management. With new owners, a different style of Board, a unique set of stakeholders, and the key focus being on capital deployment, cash, and profit, everything is happening in double time so the need to 'go the extra mile' is critical.

For most, all of this equates to an incredibly rewarding career in Private Equity. A career in PE offers the promise of large financial rewards along with an experience of entrepreneurship in some ways.

Within this playbook, you will find strategic tips on how to get the best start in your role as a CFO in a Private Equity portfolio company, from a framework to set you up for success, to the critical first 100 days, to getting the right team together.

To compile this report, we backed up our own experience and knowledge with qualitative insights, speaking to a group of CFOs within our networks who currently work in Private Equity. We have provided many insights into what it takes to not only survive but thrive in this incredibly fast-paced environment.

Whether you're a CFO entering the world of Private Equity or long established in your role within a portfolio company, this playbook will provide some key insights.

With thanks,

Ed Michelsberg
Managing Partner, Emu Search

The Foundations



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The framework for success

+ Know the economics at play

Your primary responsibility will be to understand the company's income statement, balance sheet and cash flow, as well as its debt covenants. Cash flow reporting will become more regular than in most typical operating-company environments. You will need insight into the finer details of what generates value and costs, investigating fixed and variable costs to expose what matters most in the company's operating leverage.

+ The right team capability

It's important to figure out which existing employees can lead, and empower them to deliver. Who in your team has the capability to drive value-creation initiatives and help transform the company? Remember it's the skills that matter, not the job title. Your finance team will need to be able to educate the other departments to speak and think commercially to aid a productive working environment.

+ Be the source of truth with data

Own the data and ensure it is cleansed, you will need a reliable fact base for unraveling new and powerful opportunities for value creation. Having good data readily available; along with the required talent for extracting and analysing data is fundamental for capitalising on value creation opportunities.

+ Lead the transformation agenda

You're key to keeping the overall transformation on track, holding overly optimistic CEOs and inwardly focused business-unit leaders to account. It's KPIs to monitor. What gets measured gets done, so it is fundamental to the success of the transformation to identify the key value drivers. And deliver monthly business reviews with leaders in all functions.

Technical competencies



Value creation is key. So is driving operating excellence and supporting strategic decisions as the company scales. Being both strategic and operational is critical while serving as a business partner across various functions/divisions. All of this is happening while you are implementing systems and processes to ensure the company gets to the next stage.

Accounting / Controllership

- ASIC & Financial Reporting
- Governance
- Tax
- Internal Audit & Risk

Business / Operational Finance

- Budgeting
- Forecasting & Analysis
- Management Reporting
- Business Partnership
- Strategy / Corporate Development

External

- Treasury
- Debt & Equity Capital Markets
- Investor Relations
- Credit Agency Relations

Leadership competencies

Key Leadership Competencies

The investment theses will require the company to grow and evolve in new and different ways so the CFO will have a building mentality and align the team appropriately to drive major change across the organisation, whilst establishing a continuous improvement culture.

Change Management

Characterised by a high sense of urgency, a bias for rapid change and continuous improvement, and a strenuous avoidance of negative surprises. Have a demonstrable track record of consistently delivering significant year-over-year improvements in financial results.

Performance Orientation

Need to be creative and capable of thinking broadly about business issues – not just financial ones – in order to contribute to the bigger picture. Strategic orientation is particularly relevant when the investment thesis calls for inorganic growth.

Strategic Acumen

A strong team leader, with a proven track record of building high-performing finance teams and driving accountability for achieving measurable shareholder value.

Team Leadership

You need to be able to influence the firm's decision-making process. The ability to build relationships across the organisation and position finance as a business partner will enable sound decision support. Externally, the CFO will align with shareholders to communicate accurate and timely financial information.

Collaboration & Influence

Your top three areas of focus

+ Get the basics right

- Know your numbers - deliver accurate numbers, financial reporting, internal control, and compliance
- Have your own house in order - high-quality management information, cash, and working capital management, and define and develop the finance function

+ Be a business partner

- To create the most value for the company, be an adviser and a strategic partner to the CEO and spend the majority of your time as a catalyst and strategist
- Spend time advising the business to enable sound decision making
- Invest your time in understanding the business

+ Build the right team

- It's imperative that you have the right capability in your team to deliver on your objectives and create value for the company
- Identify the key roles that you need to have a strong and successful finance function and undertake a capability assessment to highlight any gaps
- Where you have gaps, commence recruiting for those roles

The CFO in transition



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First 100 days – get the plan right

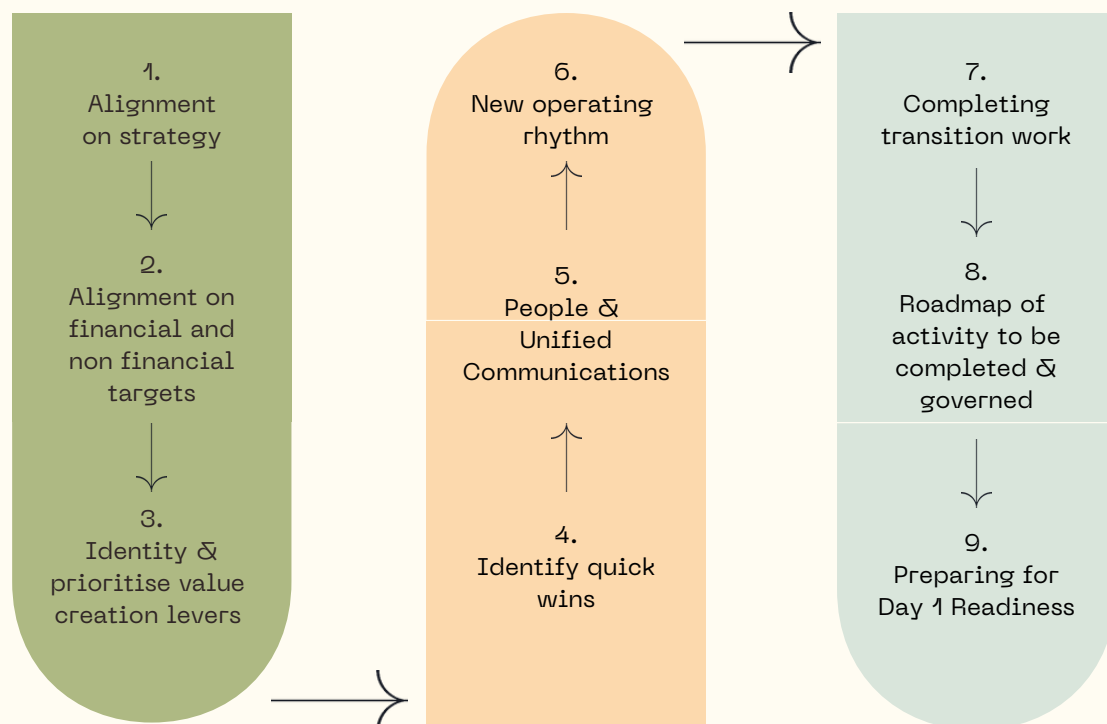


A properly executed plan creates urgency, sets expectations, and builds the foundation necessary for growth.

It is important to get the first 100 days right as it provides management with a rapid start on what needs to be achieved. It also enables management to clearly communicate changes to employees to ensure alignment on the following:

- Strategic and financial objectives
- Key value creation levers
- Key activities required to deliver on the key initiatives
- Key metrics to measure success

There are nine key steps for the first 100 days:



Your role in value creation

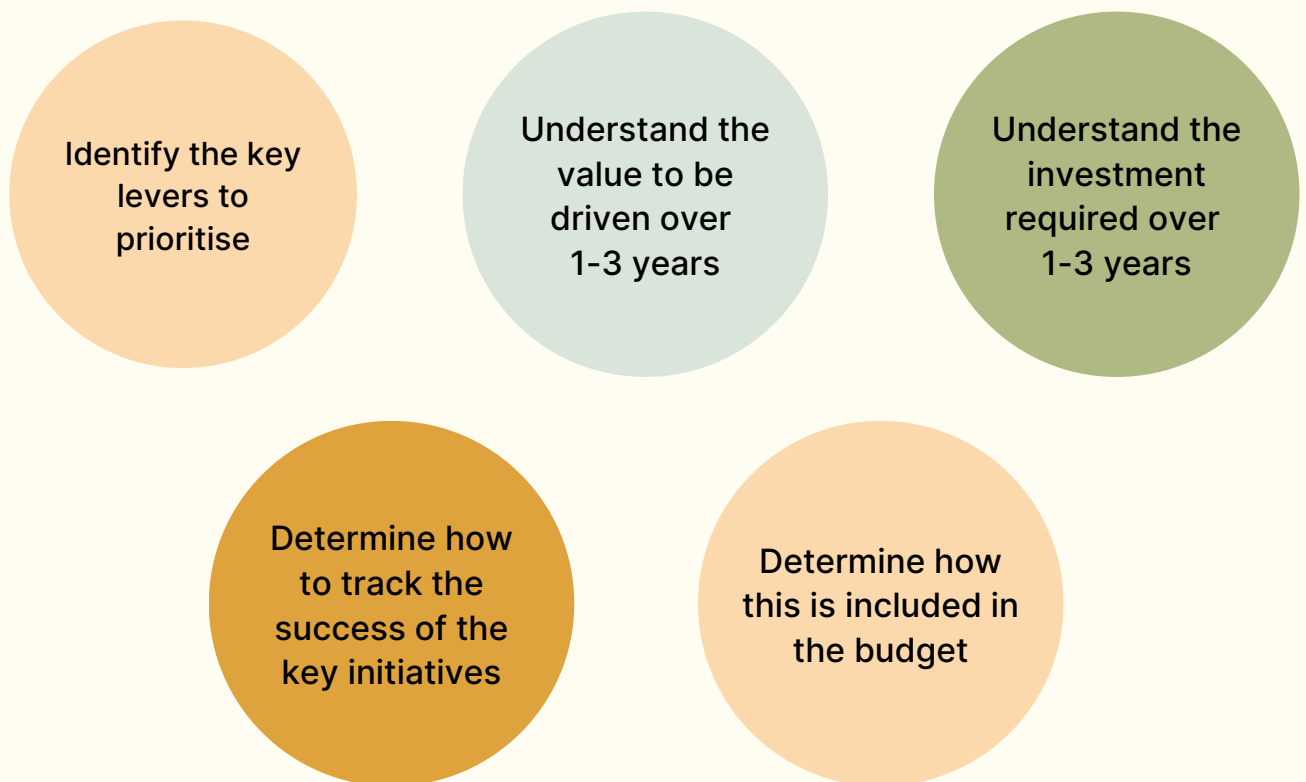


There is a significant amount of work that needs to be completed in the first 100 days of the transition by Finance.

The majority of activities required in the first 100 days are the responsibility of Finance as you focus on the change agenda. These activities are focused around:

- Changes to how Finance operates and;
- Strategic activities to create value for the company.

Value creation is an important part of the first 100-day focus. The CFO needs to work with the business to execute on this process:



"The skills and knowledge that make a CFO successful in more typical operating environments become table stakes in the PE world, in which borrowed capital means the risks are larger, the time to show results is shorter, and the scrutiny from investors is more intense."

McKinsey & Company.



Key deliverables



The 100 day plan includes numerous outputs. The four noted below are the key deliverables required.

1. Financial Budget

- The translation of a strategy into a business plan that is represented as a set of numbers.
- It will be for a period of 1-3 years and includes an income statement, balance sheet, and cash flow statement and 3 way model.
- The budget helps allocate resources to different departments and activities and manage the cash flows of the business in an effective way to meet the strategic objectives for the period.

2. 3 Way Model

- Connects the income statement, balance sheet, and cash flow statement into one dynamically linked financial model.
- The model includes assumptions and drivers which are used to build the forecast in the 3 financial statements.
- The model is built in a single tab format. This model is the foundation on which more advanced financial models are built.

3. Managing Cash Flow

- This includes managing debt, covenants and operational working capital.
- Closely monitoring and managing working capital is critical to ensuring the company's cash flow position is maximised.

4. Board Meeting

You need to work with management to determine the construct of the Board; Chair and NEDs. The material for meeting will include:

- Update on aligned strategy and business plan.
- Update on value creation initiatives.
- Customer pipeline.
- Performance of key financial and non-financial metrics.
- Financial performance against budget.
- Update on investment required.
- Risks and mitigation plan.

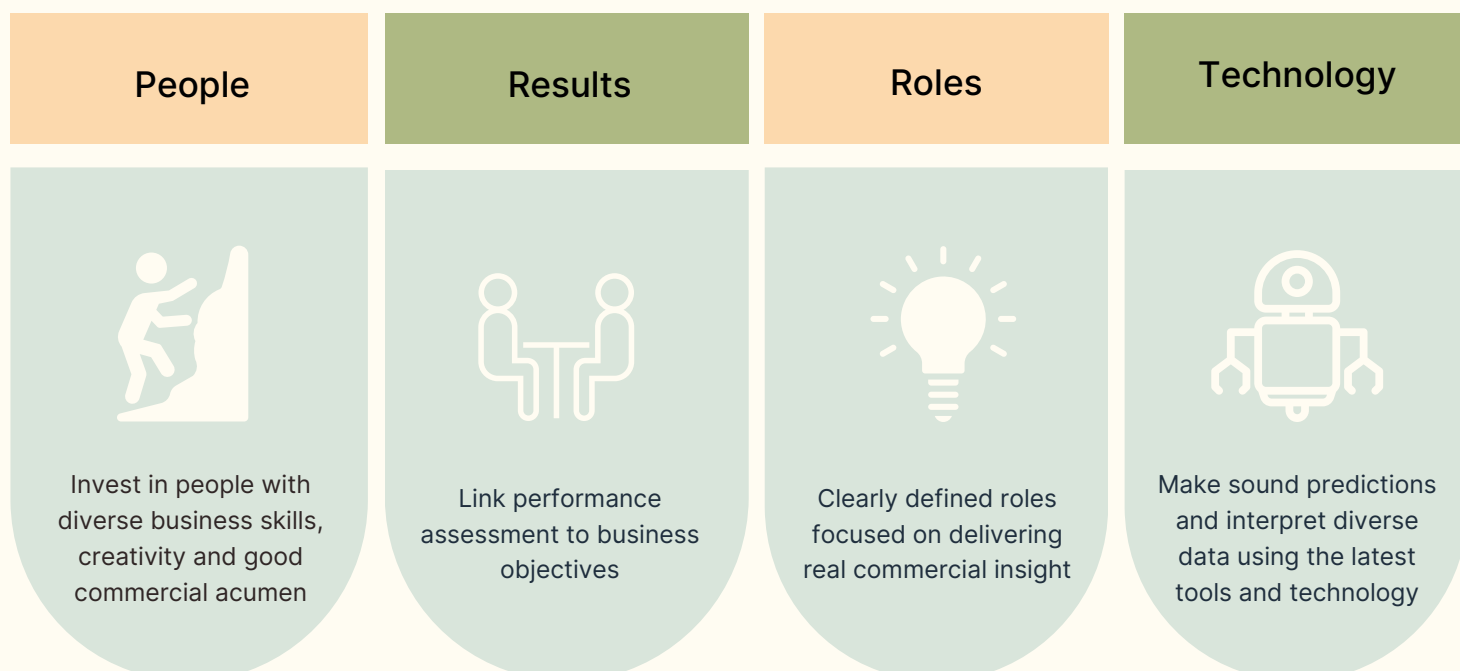
The right team for success



Team capability

Finance is vital to driving growth and business transformation. The role of the finance team has evolved from being custodians of financial information to becoming a vital part of a company's ability to drive growth and business transformation

The elements to succeeding as a business partner



It is important that the finance team partner with the business and participate as advisors in the decision-making process to identify and mitigate risk, accelerate growth and generate higher returns on investments.

Business partners will need to be agile, less risk-averse, and open to testing new processes, technologies, and ways of working.

Even CFOs who pride themselves on their people and talent-management skills often face challenges in PE-owned companies. Getting your team right is of the utmost performance.

High performing finance teams

- + **Diverse capability backgrounds**

You need to have the right mix of technical and professional capabilities. To build a great team, you need people from a range of backgrounds, who think differently and can challenge each other while still working as a unit.
- + **High emotional intelligence (EQ)**

Your EQ is the level of your ability to understand other people, what motivates them, and how to work cooperatively with them. Having a team with high EQ will mean they are more self-aware and will have the ability to communicate and bring people along the journey with them. The finance department needs to be able to not only understand budgeting and investment priorities but must sell the need for these to other parts of the business. A finance team with high EQ will be able to prioritise without ruffling too many feathers.
- + **Strategic focus and advisors**

The finance team has a vital role in communicating with the rest of the leadership team to bring a business-wide vision for growth alive. The finance team needs to be forward-thinking and working towards achieving a company's overarching strategy not just focusing on tactical tasks. Successful finance teams recognise the importance of continually mining data to analyse and uncover insights and then using these to inform decision-making for the future.
- + **Continuous improvement mindset**

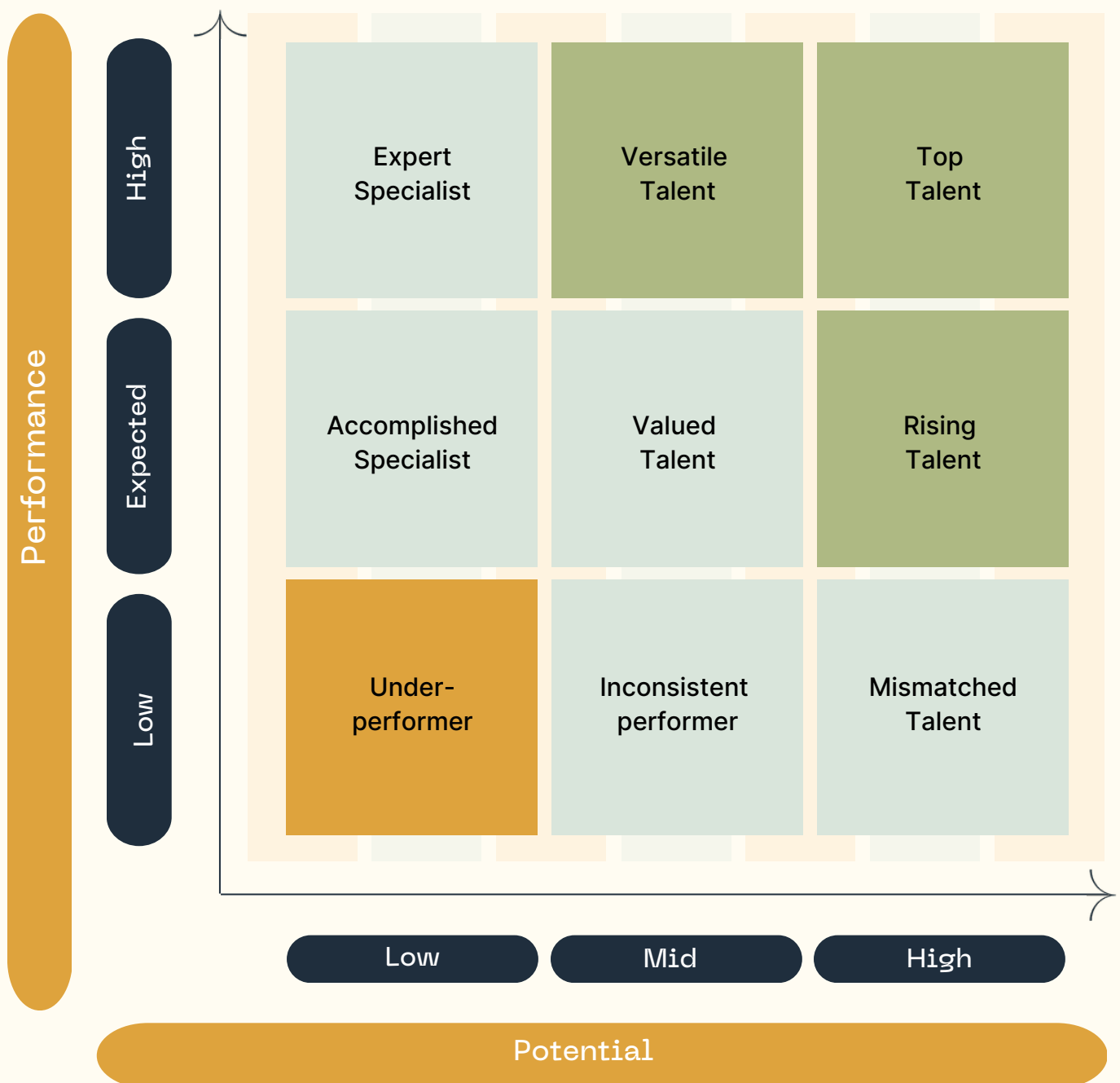
A successful finance team will be continuously looking at ways to improve efficiency and effectiveness – simplification.
- + **Holistic view**

Great finance teams don't just stick to the numbers; they take a holistic view as to how their function fits into the broader business model and how it can impact other areas. A good finance team will work closely with other functions to align goals, strategy, and information sharing.
- + **Top talent**

For the finance function to deliver, it is important to create capacity for your top talent to provide them with the opportunity to focus on generating value for the organisation.

Performance & potential

+ This 9 box matrix will help you identify your top talent. Two fundamental measures of talent are used: performance and potential.



The Wrap-up



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Re-cap

- Understand your role and how it needs to drive value, starting with the primary levers for value creation.
- Get your house in order and particularly, get the basics right quickly including the economics at play, talent gaps in the team, and a reliable fact base all while actively leading the transformation.
- Act as a business partner and leverage strategic insights. Become the CEO's (and PE Funds) right arm, offering critical answers to strategic questions.
- Be razor sharp when it comes to the numbers.
- Focus on a year-long growth plan to control costs and improve operations.
- Expectations are high given CFOs often share a similar professional background to those in a PE portfolio company. Be prepared to give 120%+.
- Establish key relationships quickly with the C-suite and create a stellar team to ensure you have a reliable network and presence within the organisation.
- Know the differences between managing people, processes, and performance.
- Be bold in holding other leaders to account, making sure their investment decisions align with the company's priorities, and do this free from bias.
- Carrying out every aspect of your role will set you up for success in future C-suite positions.

Ed Michelsberg, Managing Partner

Ed specialises in executive search for Private Equity, recruiting C-Suite leaders for their portfolio companies.

Evident in his 23 years of global executive search experience are Ed's values of integrity, mutual respect, and transparency.

Ed works closely with Founders and CEOs of portfolio companies at all stages of the investment cycle. From interim solutions, executive search and talent mapping (pre and post deal), to business introductions as a source of deal flow. Ed often supports clients to achieve the best outcome before the deal is even done. He understands the critical need for responsible investing and by bringing a truly consultative and human-centric approach, many regard him as a highly engaging, trustworthy, and insightful search partner.

Ed's ability to connect executive leaders' ambitions and attributes to the right opportunities is reflected in his deep network. He is also well versed in all things related to CFO roles, whether that be in SMEs, large businesses, private equity or ASX-listed companies.



The Emu difference

Our agile search method and 'always on' communication, means solving problems together at pace – for extraordinary results.

100%
success Rate

84%
repeat business

4.9/5
client satisfaction

Services

- + Executive Search
- + Board Appointments
- + Interim Management
- + Talent Mapping & Insights

PE clients

Recent Search Assignments for Founder-led & Private Equity firms

Company names have remained confidential for client privacy reasons

- Chief Financial Officer | Tech / Entertainment | \$450K
- Chief Financial Officer | SaaS EduTech | \$400K
- Chief Financial Officer | Online Energy Retailer | \$400K
- Chief Financial Officer | B-Corp consumer goods | \$300k
- Chief Financial Officer | Australian FMCG distributor | \$350k
- Chief Financial Officer | eCommerce | \$350K
- Chief Executive Officer | PropTech SaaS | \$600K
- Chief Executive Officer | Tech Infrastructure | \$600K
- Chief Executive Officer | Food Retail | \$550K
- Chief Operating Officer | B2B SaaS Energy Sector | \$500K
- Chief Product Officer | Consumer Products | \$360k
- Chief Customer Officer | SaaS Data Company | \$400K
- Chief Customer Officer | Entertainment Technology | \$300K
- Chief Customer Officer | Tech Infrastructure | \$450K
- Chief Marketing Officer | Consumer Products | \$375k
- Chief Marketing Officer | Technology | \$300K
- Chief Marketing Officer | FinTech | \$300K
- Chief Marketing Officer | Wagering | \$400K
- Chief Marketing & Product Officer | Entertainment | \$400K
- Chief Marketing Officer | FMCG | \$350K
- Chief Technology Officer | PropTech | \$300K
- Chief Technology Officer | HealthTech SaaS | \$300K
- Chief Technology Officer | Retail | \$450K

References



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- Jo Hands, CEO, Whiteark for her incredibly vast knowledge on this topic and permission to use snippets of her previous work for this Playbook.
- The many CFO's who work in PE portfolio companies we spoke to for critical insights into their leadership roles.
- 'The PE company CFO: Essentials for success', May, 2020, McKinsey & Company.
- 'The role of a CFO in Private Equity' February 2019, Deloitte.

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