The 4 Archetypes of the Private Equity CFO

YOUR INVESTMENT THESIS SHOULD DICTATE YOUR CHOICE OF CFO

> The Turnaround Specialist The Exit Strategist The Buyand-Builder The Standard-Setter

The seat of the chief financial officer (CFO) at a private equity portfolio company (portco) is among the hottest in business. They are responsible for helping the CEO execute the company's vision in accordance with their private equity (PE) firm's investment thesis, and for creating value for the fund's limited partners.

Among their many challenges, portco CFOs must execute complex transactions. **BDO's 2024 PE Portco CFO Outlook Survey** found that 21% of CFOs expect to pursue a carve-out or divestiture this year, and 33% expect to pursue a restructuring or reorganization.

Holding periods are short, patience is limited, and expectations are high. Accordingly, choosing a CFO tends to be one of the most important investment-related decisions a PE fund can make. Funds should align their choice of CFO with the lifecycle stage of their portco. To help with this process, BDO has identified the four most common archetypes of PE CFOs, using criteria based on the maturity of the company, conditions of the market, or state of the investment thesis.

Table of Contents



The Standard-Setter



ATTRIBUTES:

- Process-oriented thinker
- ▶ Hails from an accounting background
- Strong financial and operational improvement skillset
- Detail oriented

DESCRIPTION / RESPONSIBILITIES:

- Implementing controls
- Treasury management
- Budgeting
- Can balance risk vs. opportunity
- Experience building internal processes

LIFECYCLE STAGE:

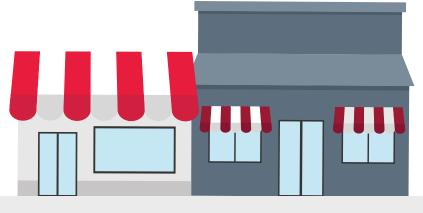
 The beginning of the investment lifecycle to transform and improve financial reporting and operational processes

INTERVIEW QUESTIONS:

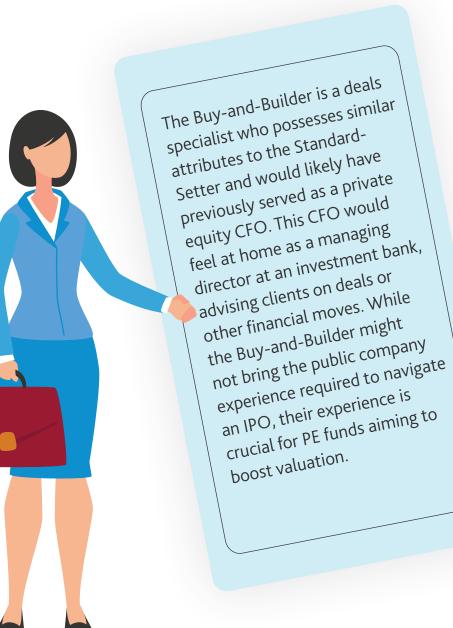
- Have you implemented processes at new companies?
- Have you worked with PE before?
- What KPIs are most important to you and why?

WHEN TO MOVE ON:

- You are expecting an uptick in deal volume
- You anticipate the company is experiencing cost of capital problems (perhaps due to changing market conditions)



The Buy-and-Builder



ATTRIBUTES:

- Creative thinker and problem solver
- May hail from an investment banking or financial planning & analysis background
- Prior experience as a private equity CFO
- Understands the high pace of work expected by PE
- Focused on KPIs

DESCRIPTION / RESPONSIBILITIES:

- Foundational CFO skills
- Experience executing add-on transactions to build scale
- A track record of successfully integrating small deals and overcoming challenges associated with digesting smaller companies
- Has a knack for fostering a strong rapport with the CEO and PE Leaders

LIFECYCLE STAGE:

 Middle of the investment lifecycle during the holding period in pursuit of value creation and top-line growth

INTERVIEW QUESTIONS:

- What is your M&A track record?
- ► What is your integration philosophy?
- When was a time you were challenged to blend the cultures of two companies, and was it successful?

WHEN TO MOVE ON:

When the conditions for a transformative deal/exit materialize, either due to incrementally built scale or market conditions



The Exit Strategist



ATTRIBUTES:

- Charisma
- Vision
- Soft skills (e.g., communication, high EQ)
- Experience as a public company CFO and/or taking a PE-backed company public
- Might have already built a reputation in their space

DESCRIPTION / RESPONSIBILITIES:

- Foundational CFO skills
- Deals & transactions prowess
- Experience with capital raises
- Debt offerings
- Communication with investors

LIFECYCLE STAGE:

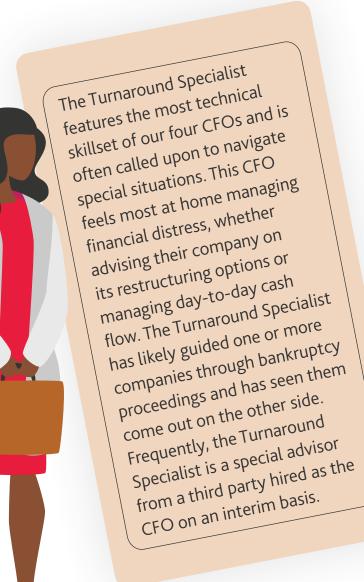
 End of the lifecycle to generate maximum value upon exit

INTERVIEW QUESTIONS:

- When was the last exit you facilitated and was it successful?
- How do you go about setting up an investor relations function?
- What do you believe is the biggest mistake a company typically makes before going public? How do you avoid it?



The Turnaround Specialist



ATTRIBUTES:

- Previous experience managing business turnarounds and restructuring
- Highly focused on operations
- Strong vendor relationships
- Experienced negotiator

DESCRIPTION / RESPONSIBILITIES:

- Improve liquidity
- Hyper-focus on cash flow
- Manage balance sheet
- Negotiate with vendors
- Stregthen IT system
- Manage lenders
- Manage to current and projected EBITDA

LIFECYCLE STAGE:

 Distressed entity or turnaround situation

INTERVIEW QUESTIONS:

- How would you prioritize debt restructuring, cost reduction initiatives, and capital allocation to optimize cash flow and profitability?
- What are the biggest drivers of success in the turnarounds you have managed?
- How do you create a culture of engagement that fosters productivity in a distressed situation?



The success of a private equity fund's investment in a portfolio company largely hinges on the CFO's performance. Initially chosen CFOs may be ideal for early goals, but market shifts might necessitate a change in CFO to adapt and succeed. Understanding the unique skills of different CFO archetypes is key for funds to make timely, effective leadership decisions.

We can offer valuable insights and strategies to help you address current challenges and opportunities including preparing for growth in 2024, executing deals in the high cost of capital environment, and addressing talent challenges.

When you're ready, we're here to provide the support you need. <u>Click here</u> to start a conversation.

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