

The Data-Driven CFO

How information is redefining the finance role



The Panelists

Kevin Masse
TA Associates

Dave Noonan
RSM US LLP

Shahriyar Rahmati
Comvest Partners

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The Data-Driven CFO

Key Findings

1. Armed with game-changing data tools, CFOs can be key partners in adding value
2. During due diligence, gap analysis should also be applied to the finance team
3. Keep in mind that when the deal is done, the finance team is exhausted
4. GPs should collaborate with CFOs on the value-creation plan
5. Planning prevents wrong turns with new technology platforms

The Panelists



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1

ARMED WITH GAME-CHANGING DATA TOOLS, CFOs CAN BE KEY PARTNERS IN ADDING VALUE.

Many CFOs now play an important role in value creation at private equity portfolio companies. Equipped with powerful new tools for data analysis, they're helping to make vital business decisions and to drive their companies toward success.

CFOs can now be “more strategic and savvy thanks to a proliferation of very sophisticated tools, from corporate performance management to business intelligence, even tools to help with little things like consolidations and closed process management,” said Dave Noonan, a principal at RSM US.

Shahriyar Rahmati, managing director at Comvest Partners, called today's CFO “the quarterback of the portfolio company in a lot of ways,” noting that the CFO is often the eyes and ears of the CEO and a key partner in planning strategy based on data. “Organizations have lots of data,” he said. “Payroll, ERP, CRM systems—they spit out data all over the place. The question is: Is there somebody sitting in the middle of that data who understands the business, understands what everybody is trying to get done, can think about it in a rigorous way and then drive it using the technologies that are out there?”

And shift gears as the company accelerates. At the early stages in a company's evolution, CFOs have to pull the levers to fuel growth. Then, as a company matures, the CFO's focus turns to profitable growth and helping management make informed decisions, not only around opex but around sales, resource deployment and other functions.



Curing a Toothache

Shahriyar Rahmati
Comvest Partners

Rahmati recalls working with a leveraged dental clinic that was leaving money on the table. Patients would come in when they had an emergency, like a broken tooth. They would pay a few hundred dollars for the initial treatment, but often would not return afterward for follow-up care. When this happened, the clinic would miss out on \$3,000 to \$5,000 of additional work that it might have done—and that patients likely needed.

This untapped revenue was hidden in financial charts in the clinic's filing cabinets. “By taking those charts and moving them from paper to electronic and making them visible throughout the entire organization, the company was actually able to use a central out-bound call center in combination with patient financing to make it more affordable to get those people back into the dental centers,” said Rahmati. “The results were massive from an enterprise profitability standpoint.”

The dental practice was ultimately able to delever, perform a large dividend recap and complete an acquisition. And it was all accomplished with the proceeds that came from making a single investment in data technology and putting in place a process that wasn't there before.

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At this point, good CFOs kick it up a notch and become “data ninjas,” said Kevin Masse, chief portfolio officer at TA Associates. “They’re sitting at the nexus of all these different points of information, pulling it together, analyzing it and teasing out the key takeaways so the rest of the management team can be more productive and impactful to the business. That’s where I’m seeing the CFO role evolving and it’s driving a ton of performance.”

2

DURING DUE DILIGENCE, GAP ANALYSIS SHOULD ALSO BE APPLIED TO THE FINANCE TEAM.

These days, when GPs partner with the management team of a portfolio company to form a plan for value creation, the plan should involve the CFO’s access to data. GPs should look at the CFO’s current data practices and figure out ways to optimize them so that the management team can gather and analyze the data they need to compete better.

“Step one is traditional gap analysis,” Rahmati said. “It’s figuring out what the financial team do today and how effective it is, and then what they need. What are the key levers in the business? What does our investment thesis hinge upon? How do we work backward with management from that thesis to the few very key levers that the management team needs lots of insight and visibility around? It’s usually connecting those that gives us a framework that we drive to over time with that management team.”

Often a company’s data capabilities are all over the board. “Typically, they’re not very sophisticated,” Noonan said. “Typically, they’re disjointed. Over time, they add third-party applications to solve point needs and those are difficult to integrate and harness data from.”

Fixing these problems is an efficient way to add value, Noonan added. “We try to map where all the gaps are and, once the deal closes, we get into a deeper assessment phase and come up with a road map that lists solutions to close the gaps and meet the investment thesis, then a budget and timeline to execute against.”



A Healthy Solution

Dave Noonan
RSM US LLP

Noonan recalled working with a healthcare services business that had about 40 different sets of books in clinics around the country but had no way to pull them all together. Time was of the essence because the company was trying to prepare itself for an acquisition by a private equity firm.

Each clinic closed its books on its own. Some did it monthly. Some did it quarterly. Some only annually. So the PE firm didn’t have any real way to value the business. The firm simply could not get a good handle on what the company would look like going forward if it made the investment.

So the firm called in RSM and Noonan. “We consolidated the financial system and put in a nice reporting layer on top of it,” he said. “We were able to bring all the data together on a monthly basis, close the books in seven to 10 days and give the PE firm some financials that they could actually sink their teeth into.”

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3

KEEP IN MIND THAT WHEN THE DEAL IS DONE, THE FINANCE TEAM IS EXHAUSTED.

Before embarking on any new initiatives, GPs might want to give the finance department a few days off, since, in the weeks leading up to the close, the CFO and team have been running flat out.

“There’s not a lot of sleep going on,” Rahmati said. “Then the deal closes and in comes the firm, resources ablaze, energy there, capital invested and ready to go. And what about the finance team? They’re tired, right? Now think about all the different initiatives we’re trying to execute: whether it’s a plant reconfiguration, investment in new products, a commercial enhancement, enablement of new strategies—all of those touch the finance team. So one of the arts of our role is to find all the things that stack on top of them and not kill them, because the risk-management element of this is huge. If you can do something over the course of six to nine months, you have a much higher probability of getting it right than racing to get it done in an arbitrarily short time frame.”

4

GPs SHOULD COLLABORATE WITH CFOs ON THE VALUE-CREATION PLAN.

A successful value-creation plan requires buy-in. The way to get it from the finance team is to give them input. “We share diligence reports with our CFOs,” Masse said. “We’re very candid. And then we ask them to do an assessment on their business—strengths, weaknesses, what are the areas of need from a technology perspective, team perspective, work-flow perspective? We collaborate with our teams. We’re not prescriptive.”

Management teams, including finance people, work better when they have at least part ownership of a plan. They also have to understand it. “Think about something as simple as debt,” Rahmati said. “A lot of the family-owned companies we buy are low-leverage, cash-rich businesses. Then we apply leverage post-transaction, one or two tiers of debt, sometimes a revolver, different reporting requirements,



A Consulting Conundrum

Kevin Masse
TA Associates

Masse once worked with a software company that operated a sizable professional services organization generating about \$90 million in revenue. That sounds like a lot, but in fact the organization was lagging far behind industry benchmarks—and no one could figure out why. The consulting engagements simply were not generating the kind of profit margins that the firm expected.

The CFO was mystified. He couldn’t find the cause of the problem in real time. And, if and when he did pin it down, it was too late, because the project was done and the consultants have moved onto their next engagement.

“So we implemented an HR system that manages workflow inputs on an hourly basis,” Masse said. “That enabled the company to manage utilization in real time. So, if a particular resource is not fully utilized, the company can put that person back into the pool to be redeployed on another project.”

By simply creating that awareness, the company was able to free up utilization and improve its professional services margin by about 10 percent.

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covenants, a definition of EBITDA that they have absolutely no understanding of necessarily. So we go to them bearing gifts, condensing that 163-page credit agreement into the five to 10 pages that really matter and walking them through it.”

New technologies help here as well. For a reasonable cost, a PE firm can now implement web-based tools that link to any number of databases, pull disparate data together and deliver simple, elegant visualizations to the management team. Better still, having this sort of rigor in place adds dramatically to the value of the company.

5

PLANNING PREVENTS WRONG TURNS WITH NEW TECHNOLOGY PLATFORMS.

It’s one thing for a private equity sponsor to come into a portfolio company and install a world-class data system for the financial team. It’s another thing for that team to actually adopt that new data platform and get the most of it. Fortunately, there are steps the sponsor can take to promote success.

“It’s a pretty preventable mistake,” Rahmati said. “If you built the system or you explained why the system was being put in place and did it in conjunction with your management team, you almost inevitably go through the why as you’re putting it in. You don’t wake up on day three of the investment and there’s a terrific ERP system for them under their Christmas tree. It took a lot of work to get there.”

Another important step is to get the functional line leaders involved in the implementation process early. “Make sure they see the changes that are being made and they understand how the system is going to be utilized and operated, whether it’s ERP or some sort of a BI solution,” Noonan said. “If they understand how it’s going to be used and their role in accessing data, by the time you go live it’s not a big bang, it’s not a two-week training exercise to teach people how to get an invoice out the door.”

Every new system is also an opportunity to assess how a company is doing what it’s doing, to make recommendations and to import new potential, Masse said. “We get excited when we implement new systems, not only because it’s going to enable a new capability for a company but because it’s an opportunity to drive performance improvement in the business.” ■



Expert Q&A

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What is your approach to helping clients create value?

Noonan: When you look at how to create value, you really look into three pillars. It's either cost or money, risk and time. If you look at really any risk profile—and especially for private equity—it's can I make more money or save more money in the process? Can I mitigate any risk associated with the business? That starts all the way with financial due diligence and tax structuring as well as IT and security. If you can get to an investment thesis quicker and execute a transaction quickly, that just means better returns for my investors. So that's typically how we approach the value-creation program in general.

How does RSM approach IT due diligence, specifically?

Noonan: We spend most of our time in four areas. We look at the IT organization and the controls of that organization to ensure that those resources are appropriate to service the environment. Then we examine the infrastructure itself—everything from the data center to the email systems, the LAN/WAN design. We then look at the business applications that support the business and make sure they are contemporary—and scalable—to meet the investment thesis. Lastly, we evaluate the security environment to make sure that there are no risks associated with security and privacy. ■

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