News & Analysis

PE groups push through 100-day plans, relying heavily on portco CFOs

Corporate CFOs are being encouraged by PE sponsors to become more analytical, and provide value-creation input as the focus on delivering key milestones in 100-day plans intensifies, writes James Williams.

Elliot Cross - 23 March 2022

With global private equity M&A activity on fire last year, during which over 8,500 deals worth $2.1 trillion were announced, portfolio company CFOs can expect to have their hands full in 2022, as sponsors continue to put record amounts of dry powder to work.

As they do so, against a high valuation, high inflation backdrop, sponsors are rolling out their 100-day plans with a huge focus on strategic areas including leadership, investment, supply chain diversification, and ensuring CFOs have a clear grasp of the details, beyond merely financial data.

OpenGate Capital focuses its investment thesis on acquiring US lower middle-market companies across four verticals: industrials, technology, consumer and business services. With respect to its industrials strategy, assessing a target company's supply chain is a key element of OpenGate's 100-day plan.

"It's a topic impacting anyone in business today, particularly when you're focusing on the industrial space, as we do," comments Paul Bridwell, COO and managing director. "Our 100-day plan focuses on diversifying suppliers, engineering products that can support or utilize multiple sources, and actually shrinking the supply chain; i.e. if things were previously coming from India, China, can we find local sources, even if pricing is not the same?

"It's no longer just a price game and [asking] 'where can you get the highest quality at the lowest price globally?' Now, it's a case of, 'can you even get the stuff'?"

Bridwell has spent his whole career globalizing supply chains, particularly in Asia, to achieve diversification, quality and lower cost. Now, for the first time ever, he is looking at the world through a different lens.

"There may come a point in time when it costs too much to move supplies across the Pacific. Container rates are $16K to $17K/container versus $2K/container in normal times. As a result, we are looking at supply chain options in places like Mexico, as well as domestically," he adds.

Paul Bridwell

Core elements

Immediately post-acquisition, sponsors will stress the importance of formalizing financial reporting and forecasting processes with management teams as they put strategic growth plans into effect. Sponsors executing buyouts in the upper middle-market and large-cap market need to take the wider macro environment into account, given that many of the businesses they acquire already operate in multiple geographies.

This is less critical to lower middle-market sponsors, where the focus of underwriting deals tends to be more on business performance and less on multiple expansion or financial engineering.

"What this has shown throughout numerous market cycles is that business performance is how we achieve growth, as it is not uncommon for earnings to double or triple during our investment period," says Chip Baird, co-founder and managing partner at GreyLion Capital.

Chip Baird

"By the same token, the macro backdrop is not something that we can ignore, we just have not seen the need to change our strategy as a result of high valuations. We are trying to find companies where we can apply our 'LIFT' playbook and change the DNA of the companies, which ultimately will drive the outcome."

The LIFT playbook that Baird refers to is based around the implementation of various systems and processes that it identifies with management during the due diligence phase.

"We guide our diligence and first 100-day plan with this playbook, where we focus on the elements of Leadership, Investment, Flexibility, and Technology that together with management we think will best position the company for long-term success," explains Baird.

The four elements of LIFT include:

- **Leadership** – Ensure each management team has the proper supporting talent to maximize growth
- **Investment** – Re-invest significant P&L and balance sheet capital into business and infrastructure to support future growth
- **Flexibility** – Use debt conservatively to create flexibility; consider minority investment opportunities
- **Technology** – Ensure partners have best-in-class technology, systems and processes

At VSS, a private markets investor that focuses on lower middle-market companies in the information, business services, healthcare and education industries, the 100-day plan has three core elements. The first ensures that the right team is in place. Oftentimes, additions are made to the corporate team in order to increase business capacity, or strengthen the collective skill set to accelerate growth.

"Typically through add-on acquisitions, we have to upgrade or add to the CFO's department and we often find that sales needs to be invested in," explains Jeffrey Stevenson, managing director.

With the US labor market adding 467,000 jobs in January and the prospect of further wage inflation, building the right team post-acquisition, and delivering a clear strategic vision, is something that sponsors will want to see clear evidence of from CEOs.

"In all our 100-day plans, there are many open positions and many potentially open positions," confirms Bridwell. "Some people survive and make it and want to be there, others want to retire. What I'm seeing is more of the latter. As a result, retention and compensation becomes a huge issue."

The second element of VSS's plan is to put in place a growth plan, driven largely by bolt-on acquisitions. This, says Stevenson, involves identifying targets "and having a system and a process to evaluate those targets. We work with the management team hand-in-hand, bringing our experience of having done 400 add-on acquisitions with 100 different portfolio companies to the table.

"The third element of our plan would be accountability, building out the metrics for the business and the KPIs and having a dashboard, where the company and its management have the right tools to drive down accountability. Accountability has got to be driven down within the organization."

Transparency and alignment

Dashboards are something that GreyLion Capital uses to measure and monitor their progress on implementing change during the first 100 days. "Creating these shared KPIs with management is one of our top priorities post-close. Also, establishing compensation plans consistent with the KPIs and dashboards creates alignment between GreyLion and management on the value creation plan," says Baird.

Data-driven pricing analysis and optimization is another important aspect for sponsors to consider in those crucial early weeks post-acquisition. In the current market volatility, companies that might have been gross margin positive two months ago could today find they are at breakeven or gross margin negative. This is pushing sponsors to ensure they receive financial and operational data from CFOs as close to real-time as possible.

"Transparency is huge," states Bridwell. "We have to get all of our companies as quickly as possible into our OGX data environment so that we have transparency on margin, price, and all kinds of operational metrics. Whereas price analysis (pre-covid) was an optimization lever that we performed at the end of the 100 days, now it's moved up in the plan with respect to capital/margin preservation."

When assessing the CFO, therefore, one of the key questions sponsors such as OpenGate Capital are putting into their 100-day plans is: Does the CFO have access, on a timely basis, to critical information inside the company beyond financial information?

"We're looking for an understanding of the critical metrics in the business around performance that we all agree on; whether that's cash flow, churn rate, things like that. And we then build out the appropriate dashboards in our workbench in order to track them," says Bridwell.

Clear information flow is not only central to the CFO successfully delivering key milestones in the first 100 days, it also goes a long way to assuaging a sponsor's concerns around timeliness.

Stevenson says that at VSS the finance team aims to receive KPIs on a weekly, or even daily basis: "Ultimately, we want it to be as close to real time as we can get. Monitoring those KPIs are going to tell us long in advance how the next week and month and quarter will turn out."

"The CFO function these days is so embedded in everything, in terms of the supply chain, purchasing, pricing," opines Bridwell. "It's becoming more of an analytics function as opposed to just purely a financial function."