

Where's My MOIC?

Is the Story Supported by the Numbers?

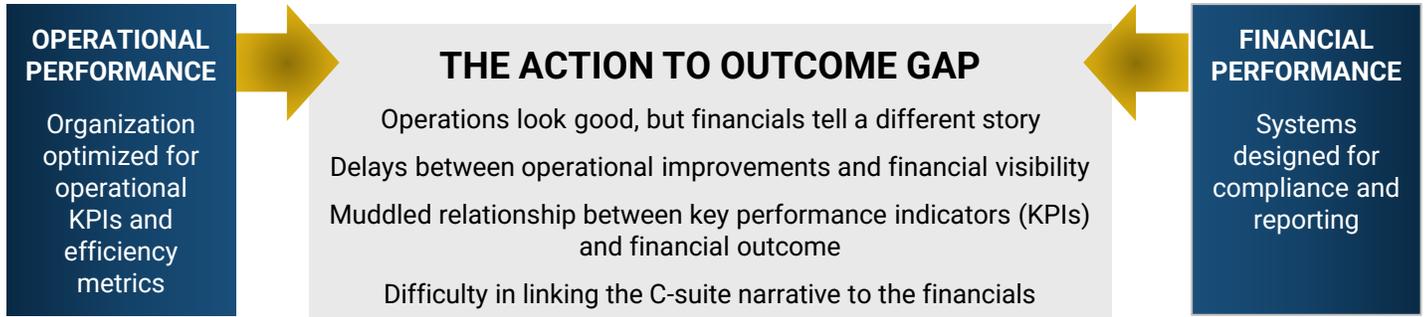


As companies become more complex, private equity (PE) sponsors continue to raise the bar for CFOs. With stronger tools than ever before, real-time data, dashboarding capabilities, and more, sponsors expect CFOs to serve as key partners in helping them connect operational and financial performance — and ultimately maximize returns and drive Multiple on Invested Capital (MOIC).

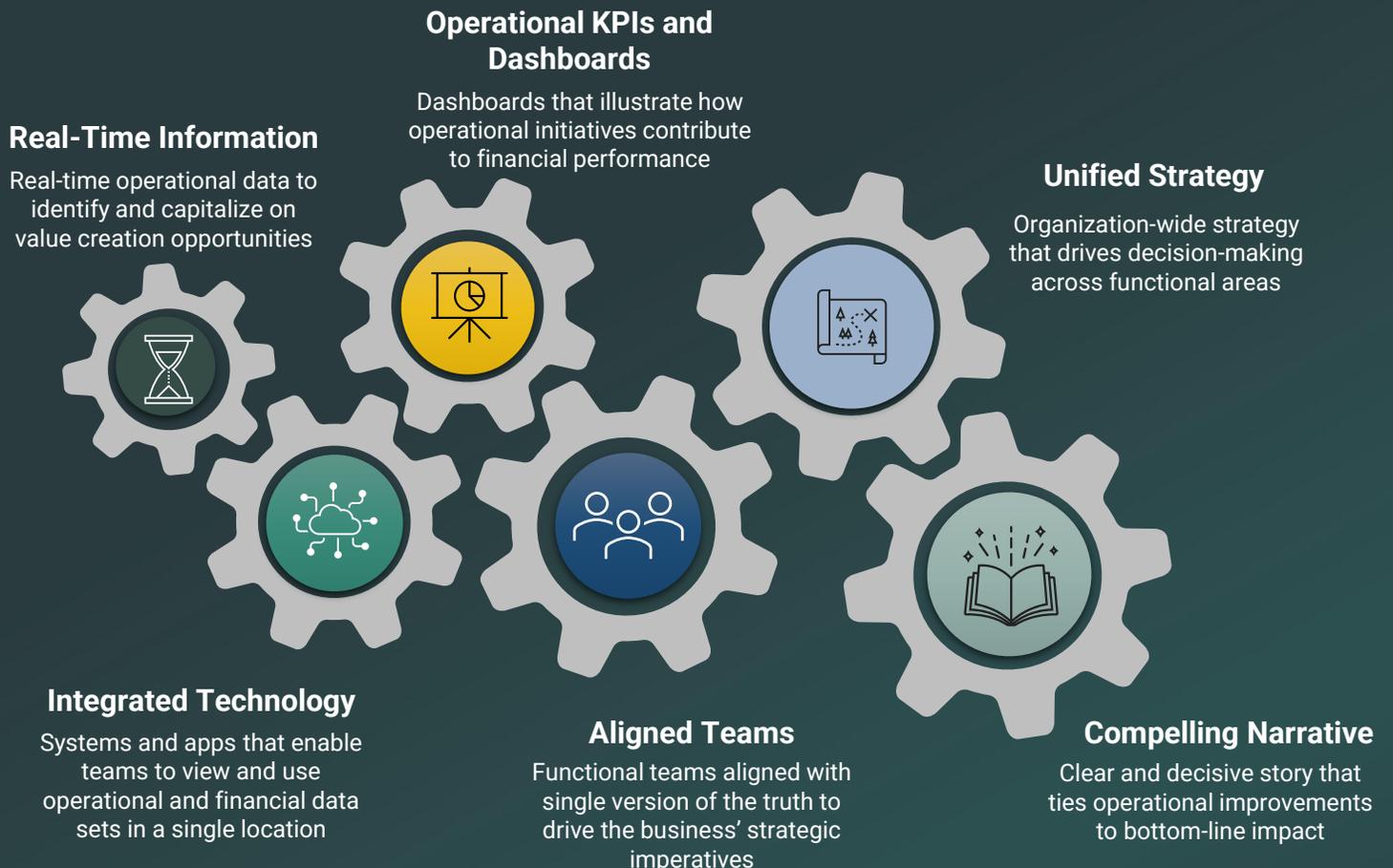
Consider your own organization. Can board members clearly see how specific operational changes affect EBITDA within the same reporting period? Do the numbers support the narrative? When they do not, time is spent chasing facts instead of focusing on new opportunities to create value.

The Transparency Gap

The disconnect between operational narratives and transparent financial reporting represents one of the most addressable value creation opportunities in today's PE landscape. Often, sponsors and board members are stuck trying to navigate operational and financial information that tell different stories. This gap exists not due to operational failures or financial mismanagement, but rather because of lack of alignment and/or structural challenges.



What CFOs Need to Tie Operational and Financial Performance





Real-Time Information

Seamless access to operational data empowers CFOs and their teams. Finance teams equipped with real-time operational data can support efficient resource allocation, identify cost savings opportunities, detect potential financial risks, and create strategies to navigate challenging market conditions. With this information, CFOs can make agile financial decisions for the benefit of the organization as a whole and maximize the company's value.

COMMON CHALLENGES

- Lack of standardized operational data
- Operations team is a bottleneck for data
- Data is housed in multiple systems
- Data quality is poor and data must be cleaned frequently prior to analysis
- Multiple team members are responsible for various pieces of operational data

WHAT YOU CAN DO

- ✓ Empower finance team to play a role in owning/managing operational data sets
- ✓ Establish accountability for data sets across finance and operations
- ✓ Break down finance and operations silos
- ✓ Establish feedback loops between teams
- ✓ Agree on data governance standards



Operational KPIs and Dashboards

Visualization of target metrics and goals fosters collaboration. Access to the same information enables operations and finance teams to work together to analyze how operational actions are impacting financial performance. Additionally, visual dashboards present metrics in an intuitive format that allows quick insights.

COMMON CHALLENGES

- Finance team has not played a role in the establishment of operational KPIs
- Operational KPIs are legacy metrics and have not been updated
- Different teams use different KPIs
- KPIs are not accessible on a regular basis, and are often stale when available

WHAT YOU CAN DO

- ✓ Standardize KPI definitions
- ✓ Clarify KPIs that will be used across finance, operations, and other teams
- ✓ Hold quarterly cross-functional meetings to review KPI frameworks and refine
- ✓ Encourage teams to suggest new KPIs that support more in-depth analysis



Integrated Technology

It is critical to unify disparate operational and financial data sources and provide CFOs, as well as finance and operations teams, with a holistic view of performance across the organization. Without integrated tools, operational excellence occurs in isolation from financial planning, creating missed opportunities for value optimization. With a single system or tool, finance teams can seamlessly analyze operational KPIs and use that information to forecast performance.

COMMON CHALLENGES

- Operational data is managed in a separate system and only by the operations team
- Finance does not have a complete picture; only what is shared with them
- Lags in operational data provided

WHAT YOU CAN DO

- ✓ Establish integrations between systems
- ✓ Identify key finance team members who can have viewing access to operations system, and vice versa



Unified Strategy

A single strategy ensures operations, finance, and other teams are working toward shared objectives. With operations often focused on efficiency metrics and process improvements and finance often focused on forecasting, liquidity, and compliance, silos can develop; however, teams aligned around a single go-forward path are best positioned to make decisions that drive value for the business.

COMMON CHALLENGES

- Misaligned goals in finance/operations
- Inconsistent decision making
- Uncoordinated plans and slower-than-anticipated timelines for projects
- Lack of clear direction lowers morale and impacts productivity

WHAT YOU CAN DO

- ✓ Establish shared mission and objectives
- ✓ Establish decision-making protocols; align teams around protocols/processes
- ✓ Conduct quarterly strategy sessions with teams to confirm alignment



Aligned Teams

Functional teams aligned with a single version of the truth help ensure the organization can take advantage of value creation opportunities. When information is transparent, teams rally around a single strategy, have forums to communicate, and are well positioned to collaborate and maximize value creation opportunities.

COMMON CHALLENGES

- Poor communication and siloed teams
- Misaligned incentives and KPIs within finance and operations teams
- Ownership of certain data sets or processes is not clear
- Operations' slow data delivery impacts finance's ability to produce timely reports

WHAT YOU CAN DO

- ✓ Establish forums for finance and operations to regularly communicate
- ✓ Clarify roles and accountability
- ✓ Enable earlier access to data sets / information sharing
- ✓ Develop timelines to support execution of activities involving finance and operations



Compelling Narrative

By explaining the underlying drivers of value creation, CFOs drive the unifying message of how business actions impact strategy. The finance team must explain the behaviors in the business – not just the financials. Taking hold of this narrative fundamentally changes the discussion between management and the Board, helping to unlock a focus on the future, not simply explain the past.

COMMON CHALLENGES

- Sponsors do not understand how metrics relate to strategy
- Teams do not provide context for metrics; metrics cannot speak for themselves
- Teams overemphasize individual metrics vs. the role metrics play in telling the story
- Reporting does not drive action

WHAT YOU CAN DO

- ✓ Tie all KPIs to strategy/business goals
- ✓ Focus on financial and strategic implications of operational trends
- ✓ Focus on actions that will follow and share information about actions with sponsors

5 Questions CFOs Should Ask Themselves

1 DATA INTEGRATION

How many days elapse between when your operations team reports a significant improvement and when that improvement appears in your financial reporting?

2 METRIC ALIGNMENT

Are the finance, operations, and IT teams using the same KPIs? Are the teams aligned to the corporate strategy that has been established?

3 EBITDA and CASH TRANSPARENCY

Am I able to address the bridge from EBITDA to cash flow and explain how operational improvements are converting into liquidity and sustainable value?

4 DECISION MAKING

Are decisions being delayed due to insufficient system integration across finance and operations? Is real-time operational data available to the finance team?

5 VALUE CREATION FOCUS

During the last meeting with sponsors, what percentage of time was spent explaining historical variances versus discussing future value creation opportunities?

The typical monthly review presentation summarizes financial performance and operating metrics. Frequently, however, the story falls flat as management teams have difficulty explaining the specific underlying actions that drove the outcomes. The integrated message falls apart under detailed questioning. This points to an opportunity for most CFOs — **build a system of information tools that focus on the links between action to outcome**. Being able to clearly explain what happened allows for the discussion to quickly move to “what are we going to do about it” — thus strategically positioning CFOs to drive value creation and MOIC.

CASE STUDY

Driving EBITDA Improvement through Finance-Operations Alignment

A manufacturing company had recently been acquired by a global PE firm.

After the acquisition, the board and senior leaders quickly saw a gap between the company's monthly financial results and what business leaders were reporting from the field. The financial reports were hard to understand and showed little connection to actual operating performance, even though many metrics were being tracked. As a result, board members struggled to assess past performance, had less confidence in forward-looking forecasts, and were limited in the guidance they could provide. Financial reporting was further complicated by industry-specific accounting rules and a complex entity structure with a high volume of internal transactions. In addition, the company did not have a shared set of definitions for its KPIs, including how each metric was calculated or how often it was reviewed.

Ankura created a KPI dictionary and reporting approach that gave both the executive team and the board clear visibility into financial performance and showed how financial results tied back to operational metrics.

- Financial statements were rebuilt to provide consolidated, segment-specific, and location-specific income statements.
- The KPI dictionary captured financial and operational metrics, definitions, and source data in a common place, which helped the organization align to a common set of performance measures.
- Dashboards and data visualizations were directly integrated into the company's systems and used to support reporting and analysis of financial and operational performance.
- A comprehensive transition plan served as a reference and training guide for the new reporting solution.

THE RESULT

- Sustainable solution for ongoing financial reporting that served as a source of truth
- Consistent set of financial reports and visuals for monthly and quarterly operating reviews
- Simplified reporting processes, resulting in significant time savings for finance and accounting organizations
- The company was able to see customer- and product-level profitability for the first time
- Profitability analyses identified cost savings that, when realized, would increase EBITDA by 3%
- Executive conversations shifted from what happened to what should we do

How Ankura Office of the CFO® Can Help

Ankura Office of the CFO® works with CFOs and sponsor-backed management teams to better connect operational performance to financial results, helping organizations clearly show how execution translates into EBITDA, cash flow, and MOIC. We partner with finance, operations, and IT to align operational KPIs to strategy, improve access to timely and reliable data, and bring operational and financial information together in ways that support decision-making. By strengthening reporting, improving transparency, and helping CFOs clearly explain what is driving results and what actions come next, Ankura OCFO® helps leadership teams and boards spend less time reconciling the numbers and more time focused on value creation.



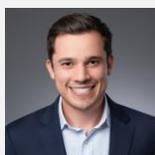
ELLIOT FUHR
Senior Managing Director
elliott.fuhr@ankura.com



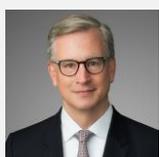
ELLIOT SAVOIE
Senior Director
elliott.savoie@ankura.com



DAVE OWEN
Senior Managing Director
dave.owen@ankura.com



MATT ROJAS
Senior Associate
matt.rojas@ankura.com



ANDREW SKOBE
Managing Director
andrew.skobe@ankura.com

Ankura Consulting Group, LLC is an independent global expert services and advisory firm that delivers services and end-to-end solutions to help clients at critical inflection points related to conflict, crisis, performance, risk, strategy, and transformation. The Ankura team consists of more than 2,000 professionals serving 3,000+ clients across 55 countries who are leaders in their respective fields and areas of expertise. Collaborative Lateral Thinking That Delivers™, hard-earned experience, expertise, and multidisciplinary capabilities drive results and Ankura is unrivalled in its ability to assist clients to Protect, Create, and Recover Value™. For more information, please visit, ankura.com.