PRIVATE EQUITY PERFORMANCE IMPROVEMENT

Pathway to Profitability Q&A Series: Cash Flow Forecasting

The private equity industry is facing unprecedented challenges amidst the current economic environment, with many portfolio companies struggling to maintain profitability in the face of slowing growth, increased competition, continued supply chain challenges, rising interest rates, and rapidly changing market conditions.

To help private equity funds and operating partners optimize costs and drive profitability, A&M has launched the "Pathway to Profitability" Q&A series. This series aims to address the biggest pain points in the industry and provide practical insights and solutions for private equity professionals.

Our experts will be sharing their expertise on key topics and providing actionable advice to help professionals succeed during these challenging times.

In this edition, we asked Managing Director, **Christopher Duggan**, to weigh in on the pain points he's discussed with his clients as it relates to **Cash Flow Forecasting**.

Q1 *How can I use cash flow forecasting to identify operational improvements and drive value creation in my portfolio companies?*

By implementing a cash flow forecast, you establish control in the business. A well-built cash flow model provides a holistic view of your businesses and highlights the future cash needs of the business. This visibility allows the management team to truly understand current state and what potential improvement levers will provide the greatest impact. Moreover, leveraging the cash flow model to drive ownership and accountability to the improvements will drive significant value creation. Whether it's optimizing inventory, improving collections or reducing expenses, cash flow forecasting provides the visibility and the insights you need to make informed decisions and drive value creation in your portfolio companies.

Q2 *In the current economic environment, how can cash flow forecasting help me manage risk?*

The biggest benefit of implementing a cash flow forecast in today's economic environment is eliminating surprises. With growth slowing and competition increasing, disciplined liquidity management is critical to monitor performance and identify any potential risks early. Cash flow forecasting can help you understand your cash position, identify potential risks, and take mitigating actions before they become problems. This level of control is critical for private equity firms and operating partners who need to manage risk and maintain profitability in a challenging economic environment.

Q3 *How can cash flow forecasting help me drive cultural change across my business and refocus on cash v. EBITDA?*

Implementing a cash flow forecasting process and instilling a cash culture can help drive accountability and instill disciplined liquidity reporting throughout your organization. By shifting the focus from EBITDA to cash, you can identify areas where cash is being tied up unnecessarily and take steps to free up those funds for investment or debt reduction. This cultural change can help your business become more efficient, leaner, and better equipped to weather economic challenges.

Q4 *How will cash flow forecasting benefit the profitability of my portfolio companies?*

Cash flow forecasting is a critical tool for organizations to manage their liquidity and financial stability. Our process involves understanding the business, constructing a model, identifying the key drivers and presenting potential actions to drive change. By regularly forecasting and analyzing cash flow, organizations can identify potential operational issues, plan for future investments and make informed decisions about capital allocation. It can also help to provide visibility and transparency into the liquidity outlook at the board level.

Q5 *How will business differentiators impact the cash flow forecasting model for the companies we invest in?*

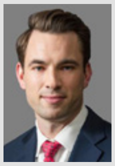
Cash flow forecasting models will vary from company to company and industry to industry. Complexity, industry, liquidity constraints, availability of information and automation and system integration are some examples of business differentiators that impact the forecasting process. For example, the size and complexity of the company will determine the level of detail at which you forecast certain line items.

Q6 *How can automation and system integration help with cash flow forecasting process?*

Incorporating automation and system integration can assist in improving the accuracy and reliability of cash flow forecasting by streamlining the process and integrating it with IT systems seamlessly. Depending on the size of your company, automation and system integration might be a requirement.

CONTACT US

Learn more about how we can help you with Cash Flow Forecasting



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With over 7,500 people providing services across six continents,we deliver tangible results for corporates, boards, private equity firms, law firms and government agencies facing complex challenges. Our senior leaders, and their teams, leverage A&M's restructuring heritage to help companies act decisively, catapult growth and accelerate results. We are experienced operators, world-class consultants, former regulators and industry authorities with a shared commitment to telling clients what's really needed for turning change into a strategic business asset, managing risk and unlocking value at every stage of growth.

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