

The 4 Archetypes of the Private Equity CFO

YOUR INVESTMENT THESIS SHOULD
DICTATE YOUR CHOICE OF CFO



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



The Standard-Setter is the CFO for PE funds looking to set a strong financial foundation at a company that is founder-owned. This CFO would likely feel at home as a partner in a middle-market accounting firm. The Standard-Setter will bring accounting and financial rigor and operational improvement to a company that may have immature or unsophisticated financial reporting systems.

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



The Buy-and-Builder is a deals specialist who possesses similar attributes to the Standard-Setter and would likely have previously served as a private equity CFO. This CFO would feel at home as a managing director at an investment bank, advising clients on deals or other financial moves. While the Buy-and-Builder might not bring the public company experience required to navigate an IPO, their experience is crucial for PE funds aiming to boost valuation.

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



The Exit Strategist is the premier option for PE funds looking to execute a transformative deal for their portco. This CFO feels most at home speaking directly to investors or presenting on quarterly earnings calls. The Exit Strategist brings many foundational and M&A skills to bear, but combines them with experience in taking a company public as well as executing the complex financial transactions often required to run a fully scaled public company.

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

The Turnaround Specialist features the most technical skillset of our four CFOs and is often called upon to navigate special situations. This CFO feels most at home managing financial distress, whether advising their company on its restructuring options or managing day-to-day cash flow. The Turnaround Specialist has likely guided one or more companies through bankruptcy proceedings and has seen them come out on the other side. Frequently, the Turnaround Specialist is a special advisor from a third party hired as the CFO on an interim basis.

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
- ▶ Strengthen 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. [Click here](#) to start a conversation.

Our purpose is helping people thrive, every day. Together, we are focused on delivering exceptional and sustainable outcomes and value for our people, our clients and our communities. BDO is proud to be an ESOP company, reflecting a culture that puts people first. BDO professionals provide assurance, tax and advisory services for a diverse range of clients across the U.S. and in over 160 countries through our global organization.

BDO is the brand name for the BDO network and for each of the BDO Member Firms. BDO USA, P.C., a Virginia professional corporation, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. For more information, please visit: www.bdo.com.

© 2024 BDO USA, P.C. All rights reserved.

