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OFFICE OF THE CFO

WHERE'S MY MOIC?

The Cash Don't Lie

In the high-stakes world of private equity, Multiple on Invested Capital (MOIC) is the ultimate scorecard. During transformation periods, portfolio companies face a complex balancing act: driving growth while maintaining sufficient liquidity.

Within this context, cash flow serves as the undeniable measure of performance and value creation potential.

The Transformation Paradox

PE-backed companies frequently undergo significant transformation during the investment holding period. New leadership teams implement strategic initiatives, pursue bolt-on acquisitions, and restructure operations—all with the goal of building enterprise value. However, these same initiatives often create short-term earnings volatility and stress the balance sheet.

For CFOs navigating this landscape, the challenge is clear: How do you fuel transformation while ensuring liquidity resilience?

The Primacy of Cash Conversion

While adjusted EBITDA remains the headline metric for most PE portfolio companies, sophisticated investors and operators recognize that cash conversion is the definitive measure of financial performance. An organization demonstrating strong EBITDA growth, but declining cash conversion efficiency may be generating results that lack sustainability. It is essential to evaluate how consistently EBITDA growth translates to actual cash generation.

For middle-market CFOs, understanding and monitoring the Cash-to-EBITDA bridge is a critical skill during transformation periods. This isn't just an accounting exercise; it's a strategic lens for identifying value creation levers or cash drains. The Cash Conversion Cycle (CCC) quantifies the efficiency with which an organization converts investments in inventory and operational resources into cash flow from sales. During periods of operational transformation, this metric frequently experiences pressure as new processes are implemented, making it an essential area for diligent monitoring. Rigorous tracking of the operational factors that influence this metric is critical.

SELF-FUNDING: THE GOLD STANDARD

PE sponsors increasingly expect portfolio companies to self-fund transformation initiatives through internally generated cash flow. This expectation creates tension for management teams tasked with both transforming operations and maintaining strong cash positions.

Working capital optimization remains among the most accessible sources for generating internal funding. Middle-market companies typically have significant capital unnecessarily trapped in working capital inefficiencies. By implementing structured vendor management programs, customer segmentation strategies, and inventory optimization initiatives, organizations can unlock substantial liquidity without compromising operational performance.

Managing Through Metrics During P&L Volatility

During transformation periods, income statements frequently present an inconsistent narrative, exhibiting volatility as new initiatives are implemented, restructuring costs are incurred, and the timing of anticipated benefits becomes less predictable. Effective CFOs must develop and monitor operational metrics as leading indicators business performance. Consider whether your organization has identified the critical operational metrics that serve as reliable indicators of value creation.

Strategic CFOs implement zero-based transformation budgeting methodologies rather than incrementally building upon existing operational structures. This approach requires each transformation initiative to identify specific funding sources, establish quantifiable ROI thresholds, and institute stage-gate processes for additional investment based on validated results.

Metrics that Matter: Connecting Activity to Cash

The most successful portfolio company CFOs create clear linkages between operational metrics and financial outcomes. This alignment ensures that operational improvements translate directly to enhanced EBITDA and cash flow, even when the P&L shows temporary volatility. When transformation initiatives create short-term disruption, these established connections provide confidence that the underlying value creation mechanisms remain intact.

Production throughput improvements drive unit economics and gross margin expansion. As throughput increases, fixed costs are absorbed across more units, creating a direct and measurable impact on margins and leading to higher valuations. Customer acquisition costs related to customer lifetime value establish the expected payback period for growth investments. Employee productivity directly impacts SG&A as a percentage of revenue, while service level adherence influences working capital requirements.

This brings us to a critical question: How do you quantify the value being created through these operational improvements? The Ankura VICE (Value Identification and Creation Engine) analyzer provides a comprehensive framework for examining and quantifying value creation across multiple dimensions. By decomposing enterprise value into its key drivers, the VICE analyzer helps management teams and investors identify the highest-impact opportunities and track progress toward value creation goals.

When the Cash and Financials are Out of Sync

During transformation periods, discrepancies frequently emerge between financial reporting and cash reality, obscuring the true operational performance of the business and creating confusion for both management and investors,. Understanding this disconnect is essential for finance leaders navigating complex transformation initiatives.

Critical components of comprehensive cash flow management during transformation:

COMPONENT	PURPOSE	STRATEGIC VALUE
13-Week Cash Flow Forecast	Provides granular short-term visibility into cash movements, highlighting critical receipts, disbursements, financing items, and potential constraints	Enables proactive management of near-term liquidity, supports operational decision-making, and identifies early warning signals
Cash-to-EBITDA Bridge	Quantifies and explains the gap between reported EBITDA and actual cash generation, identifying working capital dynamics, timing differences, and non-cash adjustments	Creates transparency around cash conversion efficiency, highlights areas requiring intervention, and provides validation of EBITDA quality
Linkage to AOP/ Budget	Establishes formal connections between short-term cash dynamics and annual operating plan KPIs, drivers, assumptions, and commitments	Ensures strategic initiatives remain aligned with liquidity realities, validates planning assumptions, and confirms sustainability of transformation approach

Private equity investors scrutinize these elements intensely for several critical reasons. First, they provide early indicators of operational execution effectiveness before those results manifest in financial statements. Second, they reveal potential disconnects between reported financial metrics and economic reality. Third, they demonstrate management's command of the business and ability to navigate complex transformation initiatives while maintaining financial stability.

When the Cash and Financials are Out of Sync

For CFOs, constructing this cash flow narrative requires more than mechanical financial analysis; it demands a strategic understanding of the business model, operational rhythm, and value creation levers. Effective communication of this narrative includes:

- Contextualizing cash flow variances within the transformation journey
- Connecting short-term volatility to long-term value creation
- Demonstrating control over liquidity levers
- Providing transparency into potential risks and opportunities
- Maintaining credibility through forecast accuracy and proactive management

As portfolio companies navigate transformation, the CFO who masters this integrated approach to cash flow management establishes credibility with both the management team and investor base. This becomes particularly valuable when requesting additional capital or flexibility during critical transformation phases.

The Proactive Liquidity Management Approach

Scenario-based liquidity planning forms the foundation of effective cash management during transformation. Leading CFOs develop detailed 13-week cash forecasts under multiple scenarios, with clear identification of minimum liquidity thresholds, early warning indicators, and specific action plans triggered by liquidity shortfalls. Has your organization thoroughly stress-tested liquidity forecasts against plausible downside scenarios?

Capital structure flexibility provides critical breathing room during transformation. Forward-thinking CFOs work proactively with PE sponsors and lenders to create structures that accommodate transformation volatility, including delayed draw term loan facilities, accordion features in credit agreements, and covenant structures tailored to the transformation journey. Contingency funding plans identify potential sources of emergency liquidity before they're needed, such as non-core asset sales, securitization structures, sale-leaseback opportunities, and vendor financing arrangements.

The Buyer's Perspective on Cash Management Excellence

Evaluating a company's cash management capabilities is a critical component of a potential acquirer's due diligence process- not only assessing the cost of borrowing but also assessing cash flow predictability and disciplined management.

A target's demonstrated ability to generate consistent cash flow serves as compelling evidence of operational excellence and disciplined management. Historical cash flow performance is analyzed through multiple lenses:

Consistency through market volatility: Companies maintaining cash flow stability during industry-specific disruptions signal management's ability to implement effective countermeasures during challenging conditions. This creates confidence in the sustainability of performance post-acquisition.

Working capital efficiency: Superior working capital efficiency reflects operational discipline and attention to detail and can typically result in premium valuations compared to industry peers with suboptimal practices.

Cash forecasting accuracy: The ability to consistently produce accurate cash forecasts reflects sophisticated financial management processes and systems. This is particularly valued by financial sponsors who rely on predictable capital requirements when structuring acquisition financing.

Autonomous cash generation capability: Businesses generating sufficient operating cash to fund the majority of their growth initiatives without continuous capital infusions demonstrate operational self-sufficiency, which reduces execution risk for new owners and enhances overall investment attractiveness.

The Private Equity Investor Perspective

While portfolio company CFOs appropriately focus on operational execution, it is also essential to maintain alignment with the private equity sponsor's investment objectives.

Cash-on-cash returns have gained prominence. In the current market environment, dividend recapitalizations occur with less frequency, elevating the importance of cash generation during the investment period for fund-level return requirements.

Sponsors require substantive operational evidence to validate multiple expansion assumptions. Improvements in cash flow metrics demonstrate that operations and improving and EBITDA growth is sustainable. Key metrics to demonstrate how effectively a company converts its earnings into usable cash. include FCF Conversion Rate (FCF/EBITDA) and FCF Yield (FCF/Enterprise Value).

As investment holding periods have compressed, private equity firms have also increased scrutiny to the efficiency of incremental capital deployment. Improved operating leverage – and therefore higher incremental margins as revenue grows - demonstrates capital discipline, the ability to self fund initiatives, and eventually, higher valuations at exit

Financial Discipline and Value Creation

As portfolio companies navigate transformation journeys, the focus can easily shift exclusively toward adjusted EBITDA growth. However, disciplined financial management requires acknowledging that cash flow provides objective validation of financial performance, while profitability measures can be subject to interpretation and adjustment.

The most effective CFOs turn cash management into a competitive advantage—powering self-funded growth, preserving optionality, and commanding credibility with investors and buyers alike. For middle-market PE portfolio companies, this cash-centric approach represents the cornerstone of effective value creation strategy.

When investors evaluate their return on invested capital, the organizations that demonstrate robust cash conversion alongside EBITDA growth present the most compelling investment thesis. As you assess your organization's transformation strategy, consider whether your management metrics genuinely drive cash generation and enterprise value, or if they emphasize accounting outcomes that may not translate to sustainable performance.

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How Ankura Office of the CFO® Can Help

At Ankura Office of the CFO®, we address the complex challenges confronting portfolio company finance executives. Our team comprises experienced operators who have served in CFO roles during critical transformation periods and successfully navigated the competing priorities of growth, liquidity management, and value creation.

We collaborate with portfolio company leadership teams to implement effective solutions that deliver quantifiable results. Our methodology integrates comprehensive financial expertise with operational acumen, enabling us to establish clear connections between strategic initiatives and financial outcomes. Through proprietary analytical frameworks including the VICE analyzer, we assist organizations in quantifying value creation opportunities and developing structured implementation plans to realize that value.

Our cash flow management solutions specifically address the challenges of maintaining liquidity during transformation. We develop customized 13-week cash flow models, construct cash-to-EBITDA bridges, and create interactive dashboards with detailed drill-down capabilities that enable management to understand root causes of performance variances. These tools provide both management teams and investors with unprecedented visibility into cash dynamics, supporting more effective decision-making and strategic alignment.

Whether your organization is preparing for a transaction, executing post-acquisition initiatives, or optimizing for exit, Ankura Office of the CFO® provides the strategic guidance and implementation support required to maximize cash generation while developing sustainable enterprise value. In the current market environment, engaging an experienced advisor with comprehensive understanding of both operational complexities and investor requirements can significantly enhance investment returns.

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ELLIOT FUHR

Ankura Leader of Innovation and Ankura Office of the CFO® Founder

elliot.fuhr@ankura.com

As Ankura's Leader of Innovation, Elliot leads product and solution development efforts to preserve and create sustainable value. Elliot is the Founder of Ankura Office of the CFO® where he pioneered “finance-led” business transformation services and strategic finance and corporate advisory solutions to increase efficiency and effectiveness, minimize risk, and execute transactions.

ETHAN KARAS

Managing Director

ethan.karasr@ankura.com

Ethan Karas is a Managing Director at Ankura Office of the CFO® based in Boston with over ten years of experience assisting clients with complex financial and operational transformations. Ethan has provided advisory services to both public and PE-backed companies across a variety of industries regarding business plan assessments, budgeting and forecasting, liquidity management, treasury optimization, and other financial performance improvement initiatives.

ANDREW KOCH

Managing Director

andrew.kochr@ankura.com

Andrew Koch is a Managing Director in the Ankura Office of the CFO® based in Philadelphia. Andrew has partnered with middle market companies across a range of industries in transformation journey with an eye to liquidity for over 10 years.

RYAN PATRICK

Senior Director

andrew.kochr@ankura.com

Ryan Patrick serves as a Senior Director at Ankura’s Office of the CFO®, based in Dallas. Ryan has worked alongside executive leadership and management teams at both public Fortune 100 and privately held companies across a variety of industries. His primary areas of concentration include leading strategic finance transformations, cost reduction initiatives, and optimizing treasury operations and global cash management.

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