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OFFICE OF THE CFO

THE NEW VALUE CREATION PARADIGM

VALUE LEVERS THAT WORK IN TODAY'S ENVIRONMENT

Long gone are the days of Zero Interest Rate Policy (ZIRP) when cheap capital fueled a “beta wave” of growth.

Aggressive mergers and acquisitions strategies and a mentality skewed towards generating growth at any cost have given way to a backdrop of persistent inflation and “higher for longer” interest rates.

Organizations must be far more disciplined around growth investment, cost management, and capital planning.

With a laser focus on value creation, management and investors can adapt and innovate their approaches on the path to value.

Deconstructing the Value Creation Equation

Understand the levers to pull and adapt strategies accordingly to create value.

VALUE CREATION

MULTIPLE EXPANSION

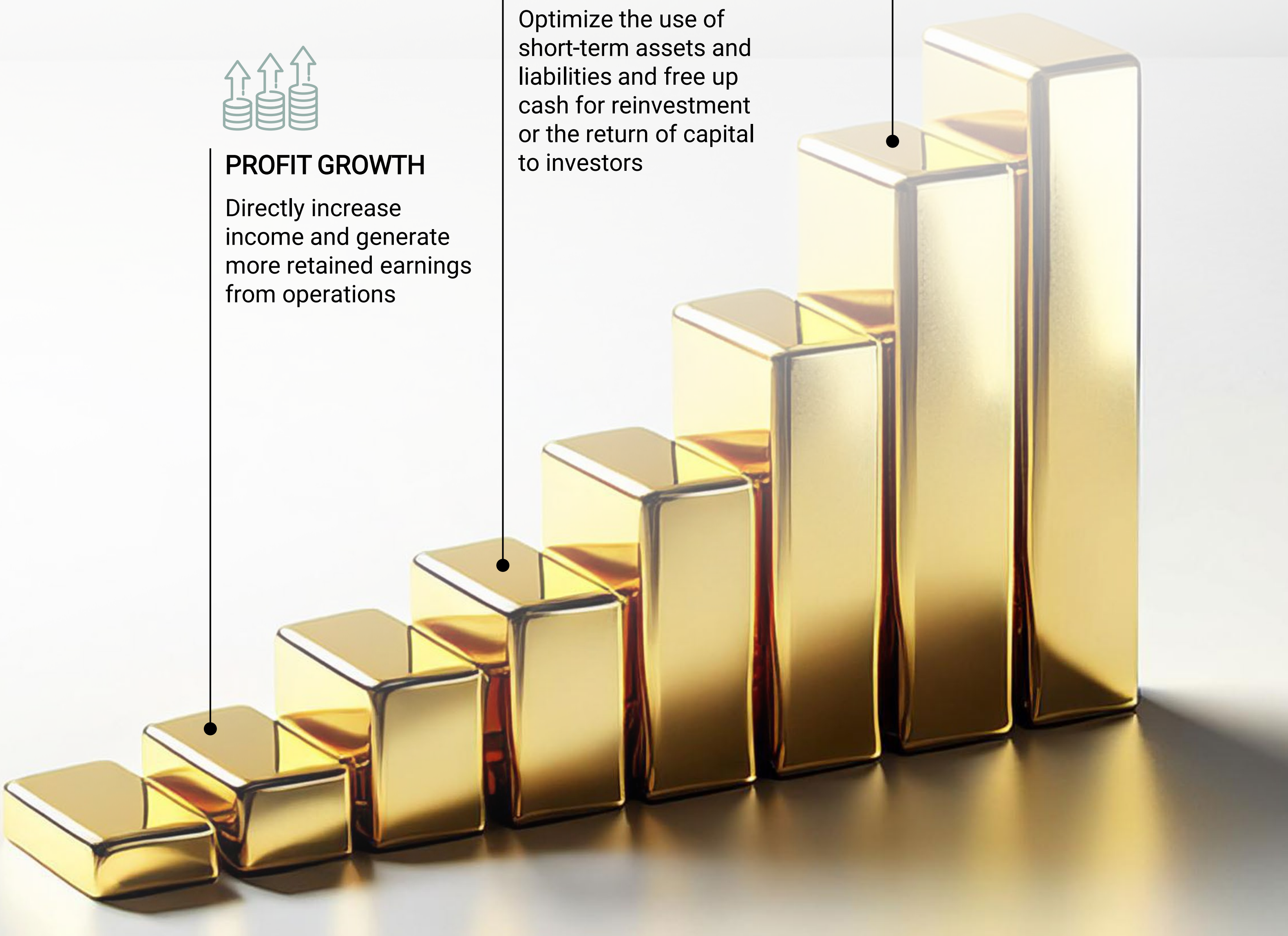
Increase the valuation multiple investors are willing to pay for earnings

WORKING CAPITAL MANAGEMENT

Optimize the use of short-term assets and liabilities and free up cash for reinvestment or the return of capital to investors

PROFIT GROWTH

Directly increase income and generate more retained earnings from operations



Profit Growth

Profit growth is the result of increasing revenues or optimizing costs.

Revenue growth is clearly essential, but increased competition, saturated markets, and geopolitical uncertainty can make it a challenge. The pressure to grow intensifies as the gap widens between incremental investment and the corresponding payback period.

Recently, cost efficiency and waste elimination have become the more efficient path to profit growth, particularly considering the high cost of capital and the unprecedented rise in production costs over the past four years. In addition, managers have a greater degree of control over their business as costs can be controlled proactively and savings can be realized immediately,

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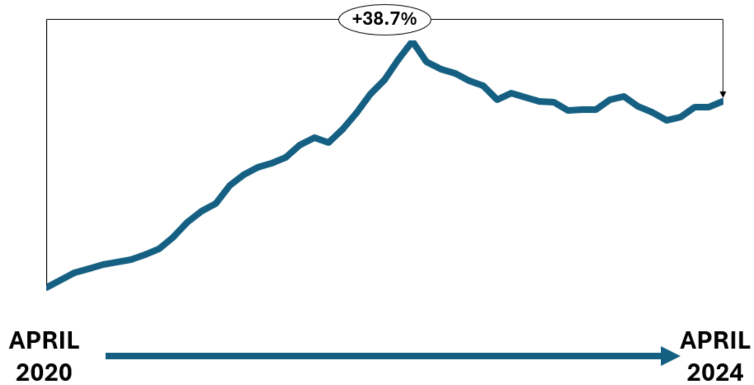


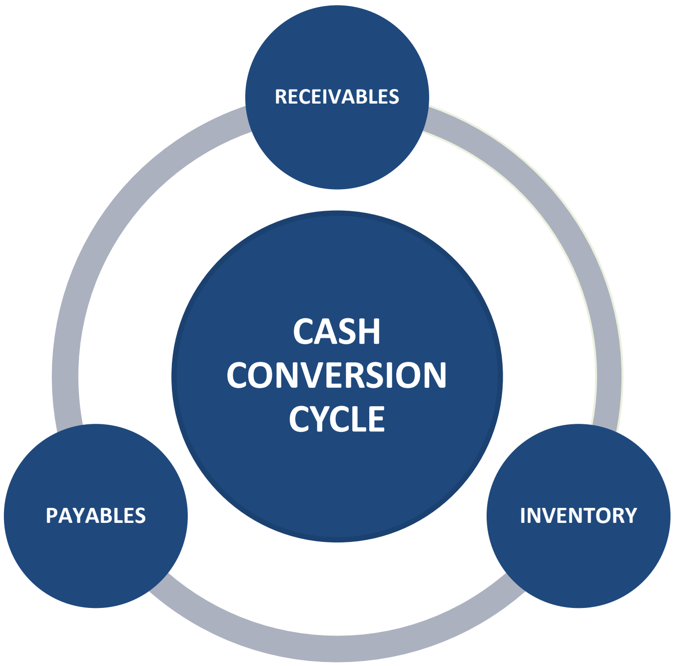
Data Source: FRED

A lean cost base protects margins even when revenue growth is challenging. It is imperative to continuously scrutinize cost structures, analyze spend anchored to the general ledger, and identify opportunities for efficiency gains. This may involve renegotiating supplier contracts, automating processes, or consolidating operations to achieve economies of scale.

	What to Do	Getting it Done
SIZE THE PRIZE	Focus on long-term savings opportunities, not the next earnings report. For each opportunity, identify the dollar savings with an associated timeline to achieve. A bottoms-up budget that aligns to granular spend reporting and to the Delegation of Authority will enhance visibility and cost control.	• Launch a zero-based budgeting process to identify what costs truly matter • Develop monthly spend reporting dashboards to track costs versus plan in real-time • Conduct a GL X-Ray® to identify hidden costs
DRIVE ACCOUNTABILITY	FP&A needs to partner with the business to help manage spend and hold budgetary owners accountable.	• Consolidate the number of P&Ls and accounts • Align roles and responsibilities with P&L ownership • Develop clear cost reporting with comparisons to forecast and prior year
TRACK PROGRESS	Incorporate savings targets into a multi-year plan and ensure that costs and savings are tracked through proactive reporting and variance analysis. While business conditions are constantly changing, management should remain steadfast in cost savings efforts.	• Develop a driver-based long-range financial model • Align management KPIs to savings targets • Implement dashboards that actively track progress and savings

Working Capital Management

New capital is not cheap in a high-rate, high-inflation environment. Improving the cash conversion cycle and freeing up cash for investment are increasingly vital. Effective management of the core drivers of working capital will allow businesses to self-finance more effectively and reduce reliance on external funding.



METRICS THAT MATTER

Industry Spotlight: Apparel Retail

Working Capital Driver	Industry Median	Best In Class
Days Sales Outstanding (DSO)	4 days	1 day
Days Payable Outstanding (DPO)	49 days	78 days
Days Inventory Outstanding (DIO)	105 days	55 days
Cash Conversion Cycle (CCC)	**60 days**	**9 days**

Data Source: S&P CapIQ
Note: Best in class reflects top metrics across all companies rather than one specific company

	What to Do	Getting it Done
UNLOCK TRAPPED CASH	Reduce DSO by improving collection processes, extend DPO without harming supplier relationships, and manage inventory levels (DIO) to prevent excess stock while meeting demand.	• Review vendor data and identify opportunities to extend payment terms • Review payables data to identify early payments; set up processes and training to root out early payments • Evaluate offering customer incentives for early payment • Keep inventory lean while ensuring there is adequate safety stock • Analyze product profitability and rationalize underperforming SKUs
MANAGE FREE CASH	Cash sitting on the sidelines is inefficient and generally not in the best interest of the company. Take advantage of the high-rate environment by investing free cash.	• Review treasury and money market investment opportunities and invest in funds that align to the risk/reward profile of the business • Evaluate internal business cases to identify projects that the company should invest in

Multiple Expansion

While a company's multiple is often influenced by short-term factors outside management's control (e.g., market perception, consumer health, international trade balances, and other macroeconomic factors), management can drive multiple expansion in the long run.

Achieving multiple expansion requires demonstrating strong, predictable earnings and meeting investor expectations on KPIs. Forecast accuracy, innovation, and strategic positioning in sustainable practices are key factors in management's success.

	What to Do	Getting it Done
IMPROVE FORECAST ACCURACY	Focus on strengthening forecast and budget processes to establish credibility, evaluate numerous business scenarios, and reduce the perceived investment risk.	• Establish a driver-based forecast model that aligns operational KPIs with financial performance • Analyze forecast variances to identify root causes and drive operational improvements to remediate issues • Continuously improve forecast models
FOCUS ON ESG	Demonstrate a commitment to ESG to enhance investor confidence and attract a premium valuation. Additionally, foster a positive corporate culture to improve employee morale and achieve higher productivity and retention rates.	• Listen to employees to understand their needs • Empower employees to drive progress towards issues that are important to them
COMMUNICATE STRATEGICALLY	Provide transparent financial disclosures that highlight headwinds (e.g., rising input costs), include actions taken to mitigate the associated impact, and demonstrate measurable progress in KPIs.	• Provide investors with a financial reporting package including core KPIs, variances, and commentary • Develop simple, meaningful investor presentations

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ankuraocfo@ankura.com | ankura.com/ocfo

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