Private Equity/Venture Capital

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April 2012

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More Than Just Capital: Anthony Zecca Provides Insight on Private Equity Today

In the U.S. middle-market, the challenge for private equity firms is not fixing broken companies, but helping healthy companies grow faster. To do so, requires more planning, more effort, and more skill— indeed, it is much more than just capital.

In the first of a three-part conversation, entitled "More Than Just Capital," led by Privcap's David Snow, Anthony Zecca, managing partner of Cohn Consulting Group, a division of J.H. Cohn LLP, joins Richard Leonard, managing director of Angelo, Gordon & Co., and Béla Szigethy, co-CEO of Riverside Company, to share insights on how private equity firms are transforming themselves to meet the challenges of the changing middle-market investment opportunity. During the panel discussion, Anthony points out that middle-market companies are asking, "How can I rely on my private equity partners now to bring more than money?" He says, "Because it's not about money anymore, it's about how do I grow the business and how do we all share in a bigger pie?"

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Click here to access the first segment as well as a Q&A with Anthony on "Solutions in the Middle-Market." In the Q&A, he says, "As far as a field of opportunities, J.H. Cohn has many companies who are potential candidates for private equity investment."

Once you click on the link, you will need to complete a short registration form to get free to access the video program, a full transcript, and an audio version, as well as Privcap's archive of thought leadership content.

Privcap delivers valuable context for private capital investment through videos, podcasts, articles, and supporting content, allowing investors to make better decisions and achieve greater success in the private capital asset classes. ■

Guest Contributor

What it Takes to be a Successful CFO for a Middle-Market Company Backed by a Private Equity Firm

by Phil Dubinsky, CPA, CEO of recruiting firm Thoroughbred Private Equity Partners, LLC

In the private equity world, the portfolio company's chief financial officer plays a critical role in the growth and success of the company. The CFO serves as an advocate for both the chief executive officer as well as the private equity firm, ensuring adherence to the strategic plan and focus on performance and value drivers.

Through my experiences recruiting and matching the best CFOs for portfolio companies combined with feedback from my work with partners of private equity firms, I believe the formula for success comes down to the following five key components:

1. Hands-On With an Understanding There Is an Exit Strategy for the Future

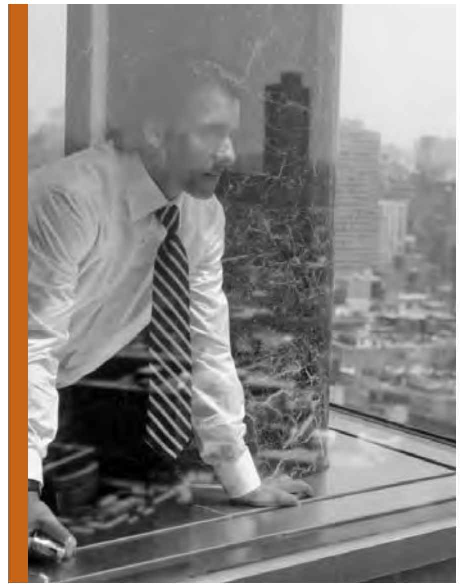
Middle-market portfolio company environments are entrepreneurial so private equity firms look to retain CFOs who are willing to roll up their sleeves and do the work rather than traditional corporate type CFOs who may be accustomed to delegating the work to their controller and a larger staff. Private equity firm sponsors are looking for financial executives who possess a sense of urgency and ownership—treating the business and its money as if it was their own business or their own household expenditures and then be able to deliver on it. These attributes are crucial given that most private equity firms look to exit within five years of their initial investment.

2. Proactive and Passionate Leader for the Business

As a key partner to both the CEO and the private equity firm, a CFO for a portfolio company must be a passionate advocate for the business and help keep the company focused on executing key priorities. Within the private equity industry, the professional in the CFO role must be a proactive leader who is willing to help drive the business agenda by owning the numbers, but also by keeping the CEO on his or her toes. This includes "playing devil's advocate" by challenging the assumptions and identifying weaknesses in forecasts coming from the business units. In addition, the best CFOs are able to thrive on change, solve problems, have the capability to take the business vision to execution, and deliver above-average results coupled with excellent communication and consensus-building skills to keep multiple constituencies content.

3. Above-Average Technical Skills That Can Be Transferred to the Business

While strong technical expertise would include profit-and-loss management, cash flow forecasting, and debt restructuring experience, the CFO is also typically the key player in driving value creation and improving cash flow and operational performance. A top-notch private equity CFO will be in the best position to identify opportunities to improve profit margins, cash-flow, and EBITDA; alert the CEO and private equity partners to potential problems meeting debt covenants; and challenge the organization to improve business performance. To be effective, the CFO must be comfortable with cost cutting, driving synergies, and divesting non-core assets, while at the same time improving margins and looking for top-line growth opportunities. Partners in private equity firms expect their portfolio CFOs to fully understand how the day-to-day operations work and to get involved in operations.



4. The Ability to Manage the Company Toward the Exit that Creates the Most Value

At the end of the day, revenue is the growth driver. The CFO is responsible for ensuring the business continues to grow, and the most successful CFO helps to drive profitable sales. This is accomplished when the CFO is in the trenches with the sales and operations departments so he/she can report benchmarks and metrics to improve margins and profitability. In addition, the CFO plays a role in ensuring that the business plan is being followed, which is paramount for the investment model, whether it is managing the business or preparing the company for sale.

5. The Ability to Be a Proactive Partner with the Private Equity Firm

Given that board members hold the CFO accountable for performance, it's paramount that the CFO be able to handle a good deal of scrutiny. Strong consensus-building skills are necessary to be able to report to the board, in detail, regarding the operations of the business. Patience is also a virtue as many private equity firms expect extensive information gathering and analysis, which usually result in a tendency to deliberate longer with the goal of finding the perfect solution. Sticking to the facts, and providing meaningful financial information to anticipate the needs of the board of directors and private equity investors, is critical for success.

Conclusion

Private equity firms need to prioritize the capabilities, skill sets, and personal characteristics needed in a CFO, keeping in mind the firm's investment strategies. It is important to consider the existing skill sets and the cultures that reside in both the portfolio company and the private equity firm as well as what crucial previous industry experience or strategic change is required. While private equity firms may normally prefer a CFO who has prior experience as a CFO for a portfolio company backed by private equity investors, at the end of the day, the emphasis should be on CFOs with the right mix of experience, core competencies, and passion for the company's success. The recruiting process should focus on those CFO candidates who have the ability to wear many hats, possess speed and energy, and who understand that an exit strategy exists as well as the importance of helping grow top-line revenue of the portfolio company. ■

Guest contributor Phil Dubinsky is the CEO of Thoroughbred Private Equity Partners, the nation's only recruiting firm specializing in placing hands-on CFOs and controllers specifically in middle-market portfolio companies backed by private equity investment firms. Phil can be reached at 973-270-6394 or pdubinsky@thoroughbredpepartners.com. For more information, please visit www.thoroughbredpepartners.com.

J.H. Cohn Forms Capital Markets Advisory Consortium

To provide our clients and contacts with a variety of ideas and insight on accessing and deploying capital, J.H. Cohn has formed the Capital Markets Advisory Consortium. We will be teaming with a select group of boutique investment banks that are recognized thought leaders that advise corporations, private equity groups, financial institutions, and investors participating in the small and medium enterprise marketplace. The initial member is CoveView Advisors LLC headquartered in Stamford, CT, an independent corporate finance advisory firm.

One of our areas of focus is the evolving Private Company Marketplace ("PCM"). As it becomes increasingly difficult for emerging companies to obtain capital, the PCM could one day offer a viable source and an alternative to IPOs. Pending U.S. legislation supports the growth of this market by, among other things, increasing the shareholder and assets thresholds for SEC filing and enabling middle-market companies to obtain capital from up to 1,000 investors while reducing filing requirements. J.H. Cohn is watching the progression of the PCM movement and participating in dialogue with market innovators and interested investors. For companies following this migration with interest, we can offer updates, insight on how companies could prepare, and access to organizations and market leaders spearheading the movement to develop this alternative capital source.

Through the Capital Markets Advisory Consortium, we will provide updates on developments related to this and other capital markets activities. ■

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