Tesorio™

Guide to Cash Flow Performance for PE-Backed Companies

Mastering the Art of Cash Flow Management for Sustainable Growth

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Introduction

For PE-backed companies, capital is the lifeblood of growth and success. Effective cash flow management isn't just a strategy—it's a necessity.

As Finance leaders, you navigate a landscape where every decision, every investment, and every strategic move is scrutinized for its impact on the bottom line. In this environment, understanding and optimizing cash flow performance is paramount.

This guide is designed with your unique needs in mind, offering practical insights and actionable strategies to enhance cash flow management. Whether you're grappling with the complexities of forecasting, mitigating cash flow risks, or evaluating technology solutions, this guide aims to provide clarity and guidance to help you navigate the challenges ahead.

Throughout the following sections, we'll delve into the fundamental principles of cash flow management, explore common challenges faced by finance leaders, and offer best practices and real-world case studies to inform and inspire your approach.

At the heart of it all lies the recognition that cash flow isn't just a financial metric—it's a strategic imperative. By mastering the art of cash flow management, you can unlock opportunities for growth, enhance investor confidence, and chart a course towards sustainable success.

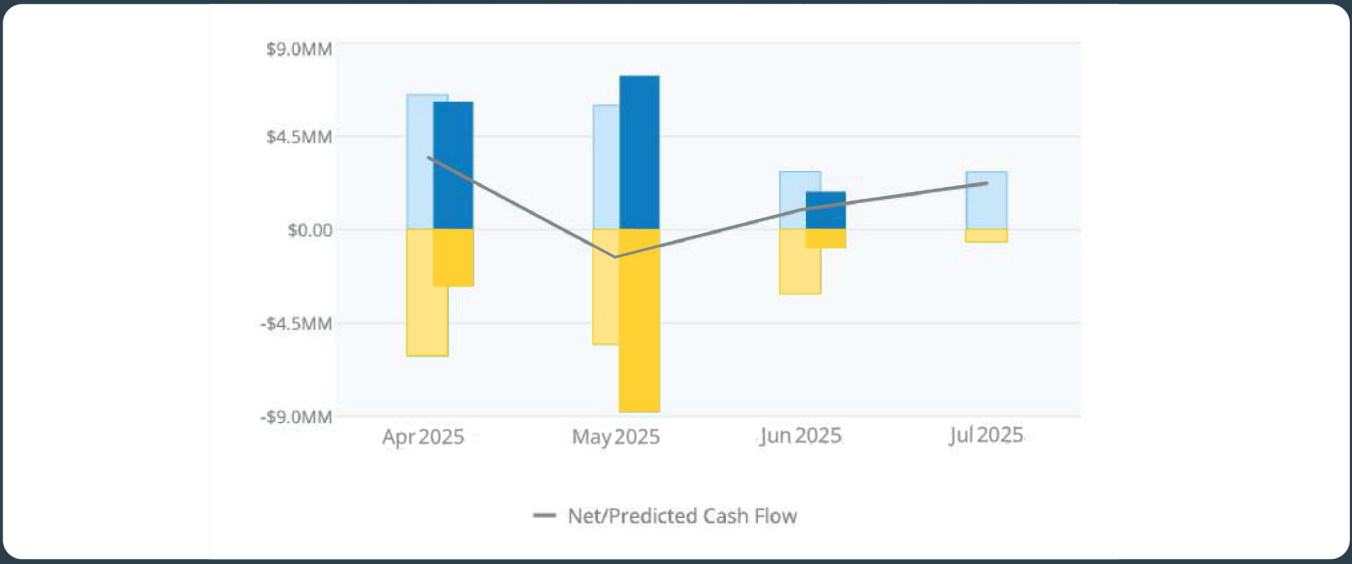
Understanding Cash Flow

Cash flow isn't just about the total amount of cash coming in and going out. It's also about the timing of those cash flows and their alignment with your company's strategic objectives. For example, a company may be profitable on paper, but if it struggles to collect receivables or manages inventory inefficiently, it can still face cash flow constraints that hinder its ability to operate effectively.

As Finance leaders, your role is to not only monitor cash flow but also to understand the underlying drivers and dynamics that influence it. This means diving deep into the operating, investing, and financing activities of your business to identify areas of strength and opportunities for improvement.

You're all acutely aware that cash flow isn't just a financial metric—it's the pulse of your organization's financial health. Understanding and managing cash flow effectively is essential for making informed decisions, driving growth, and maintaining investor confidence.

At its core, cash flow represents the movement of cash in and out of your business over a specific period of time. While profit may be the ultimate goal, cash flow is the fuel that keeps your operations running smoothly. It's what enables you to pay suppliers, meet payroll, invest in growth initiatives, and ultimately, generate returns for your investors.



Operating cash flow

reflects the cash generated or consumed by your core business operations. It's a key indicator of your company's ability to generate cash from its day-to-day activities and is often used to assess profitability and sustainability.

Investing cash flow

represents cash flows related to investments in assets such as property, plants, and equipment, as well as acquisitions or divestitures. Understanding your company's investing activities is crucial for evaluating its growth strategy and capital allocation decisions.

Financing cash flow

encompasses cash flows related to borrowing, equity financing, and dividend payments. Monitoring financing activities is essential for managing debt levels, optimizing capital structure, and maintaining strong relationships with investors.

By gaining a deep understanding of these cash flow components and their interrelationships, you can better assess your company's overall financial performance and make strategic decisions that drive long-term value creation. It's about more than just managing the numbers—it's about understanding the story they tell and using that insight to shape the future of your organization.

Challenges in Cash Flow Management for PE-backed Companies

Everyone at PE-backed companies operates in a fast-paced and dynamic environment where cash flow management presents unique challenges and complexities. While the infusion of private equity capital can fuel growth and expansion, it also introduces a host of considerations that must be carefully navigated to ensure the long-term success of the business.

Pressure to deliver rapid growth and returns on investment

Private equity investors typically have finite investment horizons and expect to see tangible results within a relatively short time frame. This can create tension between the need to invest in long-term strategic initiatives and the imperative to generate immediate cash flow and profitability.

Tip: Tesorio streamlines the collections process, helping PE-backed companies accelerate cash inflows and improve working capital management. By reducing the time it takes to collect payments from customers, companies can enhance their cash flow and liquidity, which is essential for servicing debt and funding growth initiatives.

Debt financing

The capital structure of PE-backed companies often includes a significant amount of debt financing, which can impact cash flow dynamics in several ways. High levels of debt may result in increased interest payments and debt service obligations, placing additional strain on cash flow and liquidity. Moreover, the need to service debt can limit the flexibility of the company to pursue growth opportunities or weather economic downturns.

Tip: Tesorio provides real-time visibility into cash flow, enabling PE-backed companies to better understand their liquidity position and forecast future cash needs. This can be particularly valuable for companies with significant debt obligations, as it allows them to proactively manage cash flow and ensure they have sufficient funds to meet debt payments and other financial obligations.

Uncertainty

Another challenge stems from the inherently cyclical nature of many industries in which PE-backed companies operate. Economic fluctuations, market volatility, and changes in consumer behavior can all impact cash flow patterns and create uncertainty for CFOs and VPs tasked with managing liquidity and working capital.

Tip: Tesorio lets you compare AR and AP forecast performance at various points in time. Leverage AI to analyze what is driving the variance in a period.

Exit strategy

The exit strategy of a PE investment—whether through an IPO, sale to another company, or recapitalization—can significantly impact cash flow management considerations. The timing and structure of the exit will influence decisions regarding capital allocation, debt repayment, and distribution of proceeds to investors, requiring careful planning and coordination among stakeholders.

Tip: Tesorio's platform integrates seamlessly with existing accounting, ERP, and financial systems, allowing PE-backed companies to leverage their existing infrastructure and workflows while still benefiting from advanced cash flow management capabilities. This makes it easier for companies to adopt Tesorio and realize value quickly without disrupting their operations.

Competitive landscape

The competitive landscape and evolving regulatory environment further complicate cash flow management for PE-backed companies. CFOs and VPs must stay abreast of industry trends, compliance requirements, and emerging risks to ensure that their cash flow strategies remain robust and resilient in the face of change.

Despite these challenges, effective cash flow management remains a critical priority for PE-backed companies. By proactively addressing these complexities and leveraging innovative strategies and technologies, leaders can position their organizations for sustainable growth and success in an increasingly competitive marketplace.

Key Performance Indicators (KPIs) for Cash Flow

Having the right metrics to track and analyze cash flow performance is essential for making informed decisions and driving strategic initiatives. Key Performance Indicators (KPIs) serve as vital signposts, providing insights into the health and efficiency of your organization's cash flow operations. Understanding and monitoring these KPIs can empower you to identify areas of strength, pinpoint areas for improvement, and drive sustainable growth.

Here are some key KPIs that are particularly relevant for cash flow management in PE-backed companies:

KPI	Description	Significance
Operating Cash Flow Margin	Measures the proportion of revenue converted into operating cash flow.	Indicates efficiency in generating cash from core business activities.
Free Cash Flow (FCF)	Cash generated after accounting for capital expenditures.	Reflects financial health and ability to repay debt or reinvest.
Cash Conversion Cycle (CCC)	Time taken to convert investments in inventory into cash inflows from sales.	Shorter CCC indicates efficient working capital management and improved liquidity.
Days Sales Outstanding (DSO)	Average number of days to collect payment after a sale.	Lower DSO suggests effective accounts receivable management.
Days Payable Outstanding (DPO)	Average number of days to pay suppliers.	Higher DPO improves cash flow by extending payment terms.
Working Capital Ratio	Compares current assets to current liabilities.	Higher ratio indicates sufficient liquidity to meet short-term obligations.
Debt Service Coverage Ratio (DSCR)	Ability to generate cash flow to cover debt obligations.	DSCR > 1 indicates adequate cash flow for debt servicing.

By monitoring these key KPIs and understanding their implications for your organization's cash flow performance, you can gain valuable insights into its financial health, identify areas for improvement, and make informed decisions to drive sustainable growth and profitability.

Cash Flow Forecasting Techniques

In private equity, where uncertainty is the norm and agility is key, cash flow forecasting plays a crucial role in enabling leaders to anticipate future cash needs, identify potential risks, and make informed decisions to ensure the financial health and stability of their organizations.

Cash flow forecasting involves projecting future cash inflows and outflows over a specified period, typically ranging from weeks to months or even years. By accurately predicting cash flow dynamics, you can proactively manage liquidity, optimize working capital, and mitigate the impact of financial shocks or disruptions.

Here are some common cash flow forecasting techniques used by PE-backed companies:

1. **Direct Cash Flow Forecasting:**
   Direct cash flow forecasting involves estimating future cash inflows and outflows based on known and expected transactions. This approach relies on historical data, sales forecasts, budget projections, and other relevant information to predict cash flows with a high degree of accuracy. Direct forecasting is particularly useful for short-term planning and operational decision-making.

2. **Indirect Cash Flow Forecasting:**
   Indirect cash flow forecasting, also known as the balance sheet method, involves projecting cash flows by analyzing changes in balance sheet accounts such as accounts receivable, accounts payable, and inventory. By forecasting changes in these accounts over time, CFOs and VPs can estimate the impact on cash flow and identify potential cash flow gaps or surpluses.

3. **Rolling Cash Flow Forecasting:**
   Rolling cash flow forecasting involves updating cash flow projections on a regular basis, typically monthly or quarterly, to reflect changes in market conditions, business performance, and other relevant factors. By continuously refining and updating forecasts, CFOs and VPs can adapt to changing circumstances and ensure that their cash flow projections remain accurate and reliable.

4. **Scenario Analysis:**
   Scenario analysis involves creating multiple cash flow scenarios based on different assumptions or conditions, such as best-case, worst-case, and most likely outcomes. By analyzing the potential impact of different scenarios on cash flow, CFOs and VPs can identify risks, evaluate contingency plans, and make informed decisions to mitigate potential adverse effects.

5. **Sensitivity Analysis:**
   Sensitivity analysis involves assessing the sensitivity of cash flow projections to changes in key variables or assumptions, such as sales volume, pricing, and operating expenses. By quantifying the impact of changes in these variables on cash flow, CFOs and VPs can identify areas of vulnerability and prioritize risk mitigation efforts accordingly.

6. **Cash Flow Modeling:**
   Cash flow modeling involves using mathematical models and algorithms to simulate and predict cash flow dynamics under different scenarios and assumptions. By leveraging advanced modeling techniques, you can gain deeper insights into the drivers of cash flow and develop more accurate and robust forecasts to support strategic decision-making.

Best Practices for Improving Cash Flow Performance

In the world of private equity, optimizing cash flow performance is essential for ensuring the financial stability, growth, and success of your organization. As leaders in PE-backed companies, mastering the art of cash flow management requires a strategic approach, a proactive mindset, and a commitment to continuous improvement. Here are some best practices to help you enhance cash flow performance:

1. Streamline Accounts Receivable Processes:

Accelerate cash inflows by streamlining accounts receivable processes, such as invoicing, billing, and collections. Implement automated invoicing systems, offer incentives for early payment, and establish clear payment terms and policies to expedite cash collections and reduce outstanding receivables.

Tip: Tesorio's market-leading solution for AR automation is proven to accelerate cash inflows. Learn more here.

2. Optimize Inventory Management:

Minimize inventory carrying costs and improve cash flow by optimizing inventory management practices. Implement just-in-time inventory systems, monitor inventory turnover ratios, and identify slow-moving or obsolete inventory to free up working capital and improve liquidity.

3. Optimize AP:

While you can't always control AR, you can control AP. By closely monitoring your payables, you can slow down payments when needed to meet targets. You can also negotiate favorable payment terms with suppliers and vendors to extend payment terms, negotiate discounts for early payment, and consolidate purchases to leverage economies

Tip: Tesorio Cash Flow Management has features that allow you to meet cash flow targets by adjusting scheduled pay dates to slow down payments.

4. Manage Working Capital Efficiently:

Optimize working capital management by balancing the trade-off between liquidity and profitability. Identify opportunities to reduce excess working capital, such as extra inventory or idle cash, while ensuring that sufficient liquidity is maintained to support day-to-day operations and strategic initiatives.

5. Monitor Cash Flow Metrics:

Regularly monitor key cash flow metrics, such as operating cash flow margin, free cash flow, and cash conversion cycle, on a regular basis to track performance, identify trends, and spot potential issues early. By staying vigilant and proactive, you can address cash flow challenges promptly and implement corrective actions to maintain financial health.

6. Implement Cash Flow Forecasting:

Implement robust cash flow forecasting processes to anticipate future cash needs, identify potential shortfalls or surpluses, and make informed decisions to optimize cash flow performance. Leverage historical data, sales forecasts, and scenario analysis to develop accurate and reliable cash flow projections that support strategic planning and risk management.

Tip: Tesorio Cash Flow Management automates cash flow forecasting and gives you a consolidated view of all inflows and outflows in real time.

7. Reduce Operating Expenses:

Identify opportunities to reduce operating expenses and improve cost efficiency without sacrificing quality or performance. Analyze cost structures, benchmark against industry peers, and implement cost-saving initiatives, such as outsourcing non-core activities or renegotiating contracts, to free up cash flow and improve profitability.

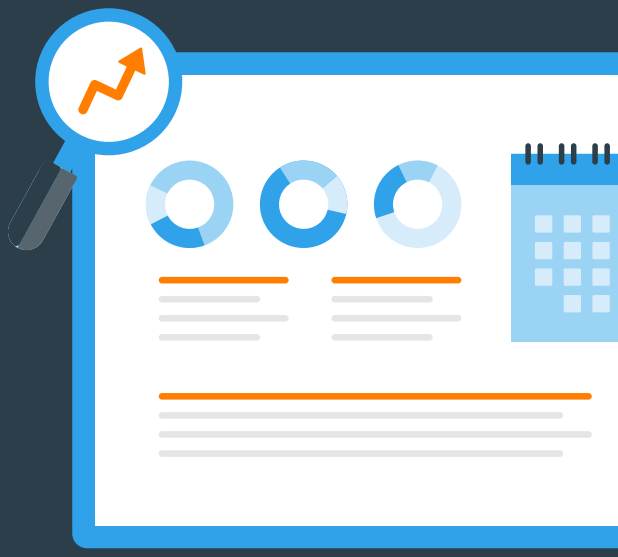
8. Invest in Technology and Automation:

Invest in technology and automation solutions to streamline financial processes, improve efficiency, and enhance visibility into cash flow operations. Implement cash flow management software, integrated financial systems, and automated reporting tools to simplify tasks, reduce errors, and accelerate decision-making.

"Tesorio provides a real-time visiliblity of the forescasting cash flow, also the automation helps to reduce the hours of manual work and allow to focus on key accounts that will impact the business. Tesorio empowers AR analysts to optimize collections processes, make data-drive decisions to enhance overall financial performance."

Tesorio Review on G2.com

Read the full review



Technology and Tools for Cash Flow Management

Today, data is abundant, and the expectation is that decisions are made in real-time, leveraging technology and innovative tools for optimizing cash flow management and driving sustainable growth. Embracing technology can empower you to streamline financial processes, improve efficiency, and gain deeper insights into your organization's cash flow operations. Here are some key technologies and tools that can help you achieve these objectives:

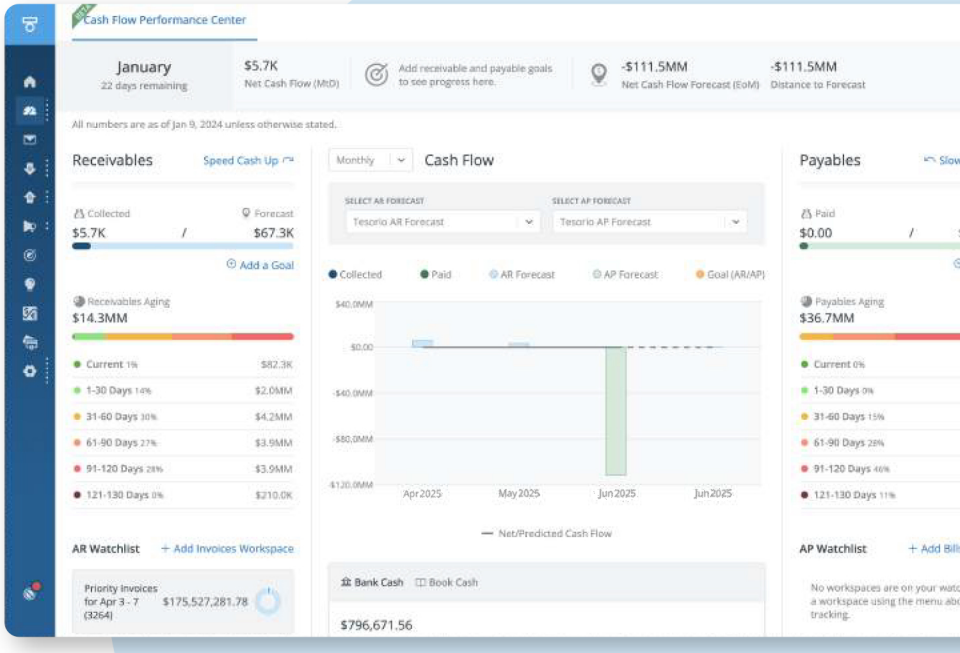
AI:

You can't talk about cash flow management solutions today without talking about AI. Artificial Intelligence is revolutionizing cash flow management by providing advanced analytics, predictive modeling, and automation capabilities that enable organizations to optimize their cash flow performance with unprecedented accuracy and efficiency. AI-powered algorithms analyze vast amounts of financial data, identify patterns and trends, and generate actionable insights that help CFOs and VPs make informed decisions and anticipate cash flow needs. By leveraging AI, organizations can streamline cash flow forecasting, identify opportunities for cost savings and revenue enhancement, and mitigate financial risks in real-time. As AI continues to evolve and mature, it will play an increasingly important role in shaping the future of cash flow management, driving innovation, and unlocking new possibilities for organizations in the dynamic landscape of private equity.

Tip: To learn more about how Tesorio is innovating and transforming finance with AI, check out tesorio.ai.

Cash Flow Management Software:

Cash flow management software provides a centralized platform for monitoring, analyzing, and forecasting cash flows in real-time. These systems aggregate data from multiple sources, such as accounting systems, bank accounts, and financial statements, to provide a comprehensive view of your organization's cash position and liquidity. By automating cash flow tracking and reporting, CFOs and VPs can save time, reduce errors, and make more informed decisions to optimize cash flow performance.



Integrated Financial Systems (ERPs):

ERPs are invaluable tools for finance organizations to collect and store financial data. For many finance teams, they are one of their largest technology investments. Since they aren't made with cash flow performance in mind, you should ensure that your cash flow management software seamlessly integrates and has a bi-directional sync so data can flow in and out. By doing this, you will get more value out of your ERP.

"With Tesorio plugging directly into Netsuite, I am able to quickly analyze an entire GL, identify cash triggering transactions and build a cash flow forecast based on this data. Working at the GL transaction level becomes extremely powerful when identifying variance drivers in cash flow forecast models. Understanding the underlying source transaction causing the variance provides a framework to determine ongoing trends and patterns in the business that impact cash movements, rather than having to work backwards from bank statements to unpick the accounting entries."

Senior Treasury and Financial Performance Manager at Onfido, a TPG company

Connected Finance Operations

When all your finance data is aggregated and structured, you can realize the benefits of AI and automation

Automated Invoicing and Billing Systems:

Automated invoicing and billing systems automate the invoicing process, from generating invoices to sending reminders and tracking payments. These systems eliminate manual tasks, reduce administrative overhead, and accelerate cash collections by ensuring that invoices are sent promptly and payment reminders are issued automatically. By streamlining accounts receivable processes, you can improve cash flow, reduce days sales outstanding (DSO), and enhance customer relationships.

Expense Management Solutions:

Expense management solutions simplify expense tracking, approval, and reimbursement processes, helping organizations control costs, enforce policies, and improve compliance. These solutions automate expense reporting, provide real-time visibility into spending, and facilitate reimbursement through direct deposit or electronic payment methods. By streamlining expense management workflows, you can reduce processing times, minimize errors, and optimize cash flow.

Forecasting and Analytics Tools:

Forecasting and analytics tools enable organizations to create accurate cash flow forecasts, analyze trends, and identify potential risks or opportunities. These tools leverage historical data, statistical algorithms, and predictive modeling techniques to generate forecasts, scenario analysis, and actionable insights that support strategic decision-making. By leveraging advanced analytics capabilities, you can anticipate cash flow needs, optimize resource allocation, and mitigate financial risks more effectively.

Tip: Tesorio helps you understand where your cash balances are forecasted based on projected inflows and outflows in order to manage liquidity for your business needs.

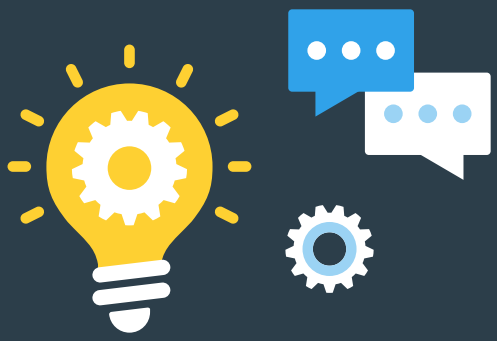
Banking and Treasury Management Platforms:

Banking and treasury management platforms provide advanced cash management capabilities, such as cash concentration, liquidity forecasting, and risk management. These platforms integrate with banking systems and financial institutions to automate cash management processes, optimize cash balances, and minimize idle cash. By centralizing cash management activities and optimizing liquidity, CFOs and VPs can improve cash flow efficiency, reduce borrowing costs, and enhance financial performance.

AR Automation Software:

AR automation software is a vital tool for optimizing cash flow management and accelerating cash collections. By automating key aspects of the accounts receivable process, AR automation software enables organizations to streamline operations, reduce manual effort, and expedite cash inflows. By leveraging AR automation software, CFOs and VPs in PE-backed companies can gain greater control over their accounts receivable processes, optimize cash flow, and drive sustainable growth.

By embracing technology and leveraging innovative tools, you can transform cash flow management from a reactive, time-consuming process to a strategic, data-driven initiative that drives growth, innovation, and competitive advantage.



About Tesorio

Tesorio provides finance leaders with the industry's first AI-driven connected finance operations platform, designed to empower business partners and drive growth while maintaining capital efficiency. By aggregating, structuring, and analyzing real-time primary source data, Tesorio delivers actionable insights and automates workflows for collections, cash application, and cash flow forecasting. Unlike platforms that stop at data reporting or point solutions that address only parts of the cash flow process, Tesorio offers end-to-end intelligent automation and enhances cross-functional collaboration. This enables finance leaders to effectively manage cash flow, optimize payment timing, and make strategic decisions that propel the business forward.

Tesorio's Connected Finance Operations Platform:

Tesorio is revolutionizing finance operations with its Connected Finance Operations platform, where every action drives impactful results. Our platform seamlessly integrates AR Automation and Cash Flow Management, ensuring that each step taken in AR Automation—whether collecting a large invoice or receiving a promise to pay date—updates the cash flow forecast in real-time. With all finance data connected, AI helps provide actionable insights, enabling businesses to act swiftly and strategically. With Tesorio, you gain not just visibility, but the power to act, optimizing cash flow and reducing inefficiencies through real-time, data-driven decisions. Embrace operational efficiency and long-term success with Tesorio.

"Tesorio has been a breath of fresh air that our siloed teams desperately needed.

It's allowing better internal communication between GTM (customer success) and our Accounts Receivable team.

Instead of spending time going back in forth in Google Sheets, Tesorio's commenting capabilities allows for better and easier communication."

★★★★★

Tesorio Review on G2.com

Tesorio™

Conclusion

Mastering cash flow management is essential for the success of PE-backed companies, and leveraging the right technologies and tools is key to achieving this goal. From understanding cash flow dynamics to implementing best practices and leveraging advanced technologies such as AI, Finance leaders have a range of strategies at their disposal to optimize cash flow performance, drive sustainable growth, and navigate the complexities of the private equity landscape.

By adopting a proactive and strategic approach to cash flow management and embracing innovation, organizations can unlock the full potential of their financial resources and position themselves for long-term success in an increasingly competitive marketplace.

As you embark on your journey to enhance cash flow performance, Tesorio can help. In fact, we work with Carlyle, Francisco Partners, TPG and dozens of PE firms to help their portfolio companies unlock cash from working capital and automate cash flow forecasting.

Learn more at www.tesorio.com or email us at connect@tesorio.com

"Tesorio provides an organized space allowing us to focus on higher priority clients and efficient cash flow."

Tesorio™