The power of Rapid Finance Diagnostics: A financial health check for businesses

Deloitte.

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Introduction

Picture this: A private equity firm is about to put the finishing touches on a company acquisition. The numbers look great on paper, but how can the PE firm be sure there aren't any proverbial skeletons in the portfolio company's financial closet? Private equity deals often move fast; there's a lot of pressure to close. Mistakes can be made, and they can be costly. Imagine buying a house and relying on just one inspector's opinion, bypassing a comprehensive examination of all its integral systems. Now imagine purchasing a company without doing the same due diligence. You might end up with a leaky roof in the form of delayed internal reports, a crumbling foundation manifesting as costly debt extensions, or the financial equivalent of faulty wiring: undiscovered material weaknesses in internal controls.

In private equity, driving higher returns can be a constant priority, and much of that success hinges on enhancing the value of portfolio companies. A significant component of this lies in the finance and accounting operations of these businesses.

However, the acquisition phase can present a unique challenge. Private equity firms often find themselves peering through a keyhole, trying to discern the full picture of a company's financial landscape. This limited visibility can leave important gaps in understanding, only to be revealed long after the ink on the acquisition deal has dried.

These post-acquisition surprises can be more than mere inconveniences; they're potential roadblocks on the path to value creation. To truly improve the value of a portfolio company, it's essential to identify and mitigate these risks early. Doing so can mean the difference between a smooth journey to increased returns and a bumpy ride filled with unexpected detours and costly pit stops.

Enter Rapid Finance Diagnostics—a sophisticated process designed to provide insights to illuminate the hidden corners of financial operations. Think of it as a high-powered financial flashlight, capable of spotting inefficiencies and risks that might otherwise lurk in the shadows. By accelerating the assessment of a company's financial and operational health, this diagnostic approach can allow private equity firms to shift from reactive problem-solving to proactive opportunity-seizing.

This isn't just about avoiding pitfalls; it's about identifying springboards. Rapid Finance Diagnostics can provide insights to firms to enhance both compliance and operational efficiency as well as positioning portfolio companies for stability. In essence, the insights gained from Rapid Finance Diagnostics can transform the post-acquisition phase from a potential minefield into a landscape of opportunity. By accelerating the process of assessing a company's financial and operational health, firms may be able to enhance both compliance and operational efficiency, positioning portfolio companies for sustainable growth and higher returns.

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Acquisition aftermath:
Strategies for robust financial integration

During the acquisition process, private equity firms can face a range of challenges that may hinder their ability to create value quickly and efficiently. One such pain point is often the accounting and finance readiness of portfolio companies, which may reveal significant gaps only after the acquisition is finalized.

During M&A transactions, private equity firms typically conduct high-level assessments—akin to viewing a financial landscape from 30,000 feet. While this aerial view provides a broad perspective, it often misses the details. Limited visibility into the operational intricacies of portfolio companies can leave firms vulnerable to surprises.

Consider these common accounting and finance issues as the hidden rocks beneath the seemingly calm surface of a portfolio company:

- Lack of expertise in accounting and financial reporting
- Limited automation or technology utilization leading to inefficient processes
- Inadequate or absent internal controls and review procedures
- Manual and inefficient financial close and reporting processes
- Inaccurate financial forecasting and poor financial management practices

These issues don't remain hidden for long. They tend to surface post-acquisition in ways that can derail even the most meticulously planned strategies, such as:

- Delays in performing financial close and reporting;
- Reduced confidence in the accuracy and reliability of financial statements;
- Inability to provide dependable financial forecasts;
- Unexpected external audit challenges and associated costs; and
- Higher operational costs due to inefficient organizational structures and technology deployment.

With sound strategies and guidance, these gaps can be identified early and even transformed into opportunities for enhancement. The key lies in moving beyond surface-level assessments to gain a comprehensive understanding of your portfolio company's financial DNA.

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Rapid Finance Diagnostics:
Improving financial operations for growth

In the fast-paced world of private equity, the post-acquisition period is like conducting a complex orchestra without rehearsal. Firms can face a steep learning curve, needing to harmonize things quickly to create a melody of streamlined processes, resolved issues, and increased investor value. Deloitte's Rapid Finance Diagnostic is designed to provide insights to private equity firms as they work to see that the finance and accounting functions of newly acquired entities hit the mark: cost-effectiveness, agility, and the ability to produce reliable, timely information. These key elements form the essential template for strategic decision-making and value creation.

Here's how it works:

- The Rapid Finance Diagnostic can act as a high-powered microscope, enhancing visibility into the finance and accounting functions of portfolio companies through a series of diagnostics that provide insights regarding the reliability of financial data and offer operational insights, benchmarking, and comparability across the organization.
- The diagnostic is informed by stakeholder interviews conducted by Deloitte seasoned professionals with key members of the portfolio company's finance team. These interviews provide a more holistic understanding of the company's financial operations, enabling private equity firms to identify potential audit issues, fraud risks, and process inefficiencies before they cause major disruptions.
- Through structured assessments and stakeholder interviews, the diagnostic provides important insights into financial reporting, audit readiness, and operational efficiency. By talking to the key leaders, you get the human side of the equation, not just the numbers and reports. It offers a feel for the company's culture and how they do things.
- What sets this diagnostic apart is its focus on actionable insights. It not only can identify issues but also can provide clear recommendations for improving processes, reducing costs, and enhancing transparency.
- This proactive approach can allow finance organizations to be positioned for greater efficiency and lower costs, while also supporting the long-term value-creation goals of the private equity firm.
- By benchmarking a portfolio company's finance function against industry standards, it can offer a roadmap for achieving greater efficiency and stronger compliance. It's about understanding what "good" looks like in a specific industry, how their financial close process stacks up against their peers, if they are using tech suited for their needs, if they have people with the skill sets needed in each role, etc. Are they ahead of the curve or falling behind? And then we can offer specific insights on how to improve.
- The Rapid Finance Diagnostic can equip private equity firms with the insights they need to optimize the finance and accounting operations of their portfolio companies. The result? A fine-tuned financial machine that can drive value for both the company and its investors.

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Preparing for financial discovery: What you’ll need

By keeping our asks lean, we work toward seeing that our diagnostic doesn't become another item on your already crowded to-do list. The primary ask is an hour or two from relevant stakeholders to meet and discuss the finance organization. In addition, we typically request the following:

- Organizational charts
- Audited financial statements and footnotes
- Trial balance
- IT system inventory
- Financial close calendar
- Financial close checklists
- Existing internal control information
- Recent internal audit reports
- Listing of any in-flight finance or IT projects/initiatives
- Recent audit findings
- Authorization/delegation of authority matrices
- Significant accounting policy documentation

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Constructing effectiveness after getting your diagnostic data

After Deloitte reviews the requested documentation and performs interviews with relevant stakeholders, we provide a final deliverable that includes the following (when applicable):

Opportunities and recommendations for the finance organization covering:

People: We provide industry benchmarking and can advise on the size of the finance and accounting organization, in addition to insights on the competencies of leaders in the finance organization.

Process: We provide insights and recommendations on existing business processes and controls within the organization to maximize efficiency and reduce risk.

Technology: We evaluate the existing systems and technology at the company and provide recommendations pertaining to IT systems and automation.

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Case studies: Rapid Finance Diagnostics in action

Let’s learn how Rapid Finance Diagnostics has affected real companies. Read the case studies below for examples.

Case study no. 1: Streamlining financial operations for a portfolio company

A portfolio company initially approached Deloitte seeking an IPO readiness assessment. During the discussion, it became clear that while the company was interested in preparing for a potential IPO, the immediate need was to address ongoing challenges in its close, consolidate, and report (CCR) process.

Because the company was facing inefficiencies in its financial operations, Deloitte recommended adding our finance and controls diagnostic to the project to tackle these pressing issues. Over several weeks, we worked closely with the company's finance team to conduct a deep dive into its CCR process.

We began by reviewing key documents and benchmarking finance personnel against industry standards to understand where possible gaps existed. Through a series of interviews and in-depth discussions with stakeholders and process owners, we were able to pinpoint areas where the company's financial processes were falling short.

As the diagnostic unfolded, we identified several opportunity themes and provided more than 20 targeted recommendations. These recommendations focused on improving the company's people, processes, and technology to streamline the CCR process.

By addressing inefficiencies and implementing changes, the company could significantly shorten its financial close timeline and improve the accuracy and reliability of its financial data and forecasts.

At the end of the engagement, the company walked away with a clear, prioritized list of actionable improvements. These recommendations not only were designed to assist with current challenges, but also were relevant to the company's broader strategy.

By implementing these changes, the company could build a more efficient finance function that could support future growth and success; music to any CEO's ears.

Case study no. 2: Improving close cycles in portfolio management

In another case, a portfolio company was struggling with an inefficient financial close process that was delivering unreliable data to the private equity firm that had acquired it. Recognizing the need for a more efficient and accurate close process, the company sought the guidance of Deloitte's practitioners to conduct a deep dive into its CCR operations.

Over the course of several weeks, we collaborated with the company's finance team to thoroughly assess its CCR process. We began by reviewing key documents and benchmarking personnel against industry standards. This gave us a clear understanding of where the portfolio company's operations lagged in comparison to its peers.

To get a full picture, we conducted a series of in-depth interviews with stakeholders and process owners across the organization, which helped us uncover the possible root causes of inefficiencies.

Our assessment revealed several opportunity themes and provided almost 30 targeted recommendations to address specific challenges with the portfolio company's CCR processes. These recommendations focused on improvements related to people, processes, and technology, all aimed at shortening the financial close cycle and increasing the accuracy and reliability of financial and forecast data.

The company gained a clear roadmap to rework its finance operations, enabling it to produce timely and accurate financial information that would meet the expectations of its private equity owners. These changes addressed the immediate concerns of the portfolio company and laid the groundwork for a more streamlined and effective finance organization going forward. The private equity firm got a clearer picture of its investment, and the portfolio company got the guidance it needed to improve. It was a win for everyone involved.

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Conclusion: Swift insights. Lasting impact. The value of Rapid Finance Diagnostics.

Many private equity firms often encounter significant challenges in assessing the finance and accounting readiness of newly acquired portfolio companies. Issues such as weak internal controls, unreliable reporting, and inefficient processes can lead to delays, audit surprises, and reduced confidence in financial data, which ultimately may hinder value creation.

Our Rapid Finance Diagnostic can provide insights to address these pain points head-on, providing private equity firms with clear, actionable insights for improving their finance functions early in the post-acquisition phase. By conducting in-depth diagnostics and benchmarking against industry standards, the diagnostic can identify inefficiencies, highlight risks, and offer tailor-made recommendations to enhance financial reporting and operational efficiency.

The Rapid Finance Diagnostic can be a powerful resource for any private equity firm looking to optimize portfolio performance, meet investor expectations, enable smoother integration, and weave greater financial intelligence into a company's DNA. It can uncover value creation opportunities and support smarter, more strategic decisions, ultimately driving higher returns for investors.

In today's competitive private equity landscape, where every advantage counts, the Rapid Finance Diagnostic can offer an important edge. Having accurate, timely, financial information can make a difference. By providing clear, actionable insights for financial optimization, it can enable private equity firms to act swiftly and decisively, turning potential challenges into opportunities for value creation.

Don't let hidden financial inefficiencies hold your portfolio companies back. Contact Deloitte today to see how our Rapid Finance Diagnostic can provide insights for your company to drive greater value across your investments. With our deep experience and innovative approach, you can transform your portfolio companies' finance functions into engines of growth and profitability.

Contacts

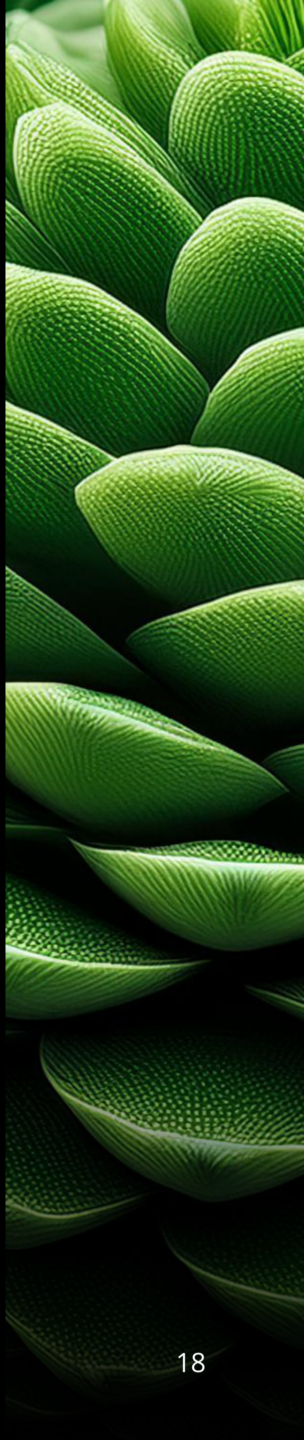
Bryant Huber
Partner
US Private Equity Leader
mehuber@deloitte.com
+1 973 219 4729

Kevin Krumm
Audit and Assurance Partner
kkrumm@deloitte.com
+1 614 229 4704

Jason Menghi
Audit and Assurance Partner
National Private Equity Leader
jmenghi@deloitte.com
+1 516 918 7842

Shashi Yadavalli
Consulting Principal
syadavalli@deloitte.com
+1 216 830 6727

John Reik
Audit and Assurance
Managing Director
jreik@deloitte.com
+1 614 228 4413



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