NARRATIVE
FINANCIAL MANAGEMENT

CASE STUDY

# BALANCE SHEET TRANSFORMATION

Insights help B2B firm to double its borrowing capacity for acquisitions.

## SITUATION

A national B2B services firm had completed several small acquisitions and was ready to consider a relatively larger acquisition that would require outside capital. Discussions with their retail bank indicated their borrowing capacity was lower than desired as a result of the company's balance sheet characteristics.

## OPPORTUNITY

Growing businesses don't always give sufficient thought to their balance sheet or often fail to consider the effect their early policy decisions can have later. Consequently, contract structure and employee benefit decisions, as well as the revenue-recognition methods, can all have a serious impact on the balance sheet a few brief years after the policy decision was made.

## ACTION

Our fractional CFO developed a plan to improve the Client's balance sheet characteristics based on an analysis of the existing balance sheet. The plan involved:

- Realigning employee benefits
- Reallocating capital
- Renegotiating key contracts

The CFO—experienced with this type of transformation—accessed a network of experts in the relevant areas and rapidly worked alongside executive leadership, internal accounting personnel and external legal advisors to execute the plan.

## BENEFITS

Within six months, all balance sheet ratios of interest had dramatically improved—all were superior to the positive end of the range desired by the bank. As a result, the Client was able to borrow and move forward with larger acquisitions than previously targeted.

## DISCUSSION

In this particular case the Client was already accounting on accrual and had their financial statements compiled by a local CPA firm. This firm was an excellent provider of accounting services and the Client had been paying for its ongoing advisory services for years. The unique nature of these balance-sheet proposals and outcomes, however, called for a multidisciplinary approach.

In order to identify and implement such changes, an understanding of a company's business; and of its position and objectives is also necessary. The CFO can generate tremendous value by understanding the interaction between the different areas and across the business, as in this example.

This case study is based on an ongoing fractional CFO engagement to provide oversight of the Client's accounting, tax, financial planning and analysis, and its treasury management functions. Engagements like this are a very cost-effective way of accessing a sophisticated financial perspective. This case describes one of several valuable outcomes to the Client over the course of the engagement. These fractional engagements typically last until a client has grown enough to necessitate a full-time CFO.

NARRATIVE FINANCIAL MANAGEMENT

NARRATIVE FINANCIAL MANAGEMENT, LLC
858-367-9739 | info@narrativefm.com | www.narrativefinancialmanagement.com