KPMG

# Navigating the portfolio company lifecycle

## Key questions to ask the finance team

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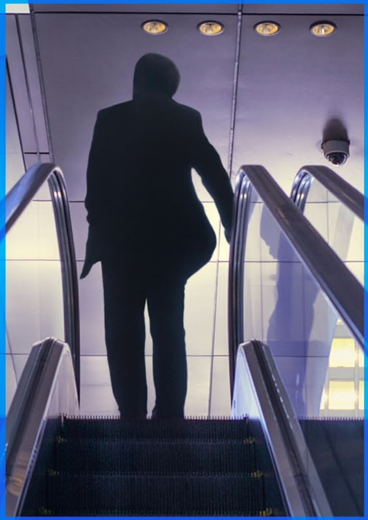

For private equity portfolio companies, the path from acquisition to exit involves a series of important financial decisions. C-suite leaders must navigate a landscape of complex accounting rules that can directly affect financial performance, debt covenants and, ultimately, the value realized upon exit.

## Why management and audit committees should take note

For management and audit committees, these accounting issues are not just technical compliance exercises; they are fundamental to the success of the private equity investment. Our new Hot Topic publication, *From Acquisition to exit*, is an essential resource for leadership teams, providing a clear roadmap through the technical challenges you'll face at every stage. Proactively addressing the complexities of acquisition accounting, share-based payments, SEC reporting and internal controls is critical for maintaining the reliability of financial reporting and ensuring a smooth, successful exit. A failure to navigate these areas can lead to earnings volatility, broken debt covenants, and significant delays or value erosion during an IPO or sale, directly affecting the return on investment.

## Questions for your finance team

Our detailed **Hot Topic** covers a broad range of topics that may be applicable to your company's unique circumstances

### Is our deal structure affecting our bottom line?

The intricate legal structure common in PE deals directly affects US GAAP earnings, debt covenants, and how future transactions are accounted for. A thorough understanding is essential to avoid unforeseen accounting hurdles when combining businesses or preparing for an exit.

*See Sections 1.1, 1.2, 1.4 and 5.3*

### Is our internal control environment truly business-wide, or just a finance-team checklist?

An effective and SOX-compliant internal control environment requires proactive engagement across multiple functions like IT, legal, and sales, as well as with external auditors. This cross-functional collaboration is critical to building a system that can withstand the rigors of a public exit.

*See Section 3.3*

### Are our incentive plans driving performance, or just creating future earnings volatility?

The structure of compensation awards, especially their repurchase features, determines their accounting classification. Missteps can lead to liability treatment and significant earnings volatility, which can impact debt covenants and complicate financial narratives.

*See Sections 2.1, and 2.3.10*

### Are our teams (Finance, Legal, Tax, HR) aligned, or are we creating risks in the silos between them?

Critical financial reporting outcomes, from evaluating M&A to understanding all provisions of a compensation plan, require deep collaboration across multiple internal departments. Proactively managing these dependencies is crucial for accurate accounting.

*See Sections 2.1 and 5.3*

### Are we making 'private company' decisions today that will cost us time and money during a future exit?

Preparing for a public offering is a pervasive, resource-intensive process that affects the entire organization. Decisions made early in the investment lifecycle, including which accounting standards to adopt, must align with the ultimate exit strategy to avoid costly and time-consuming rework later.

*See Sections 3.0, 3.1, and 3.2*

## For more info

Visit our Portfolio companies Hot Topic page to get the latest guidance.