



PRIVATE EQUITY PERFORMANCE IMPROVEMENT

# Pathway to Profitability Q&A Series: Liquidity Management

The private equity industry is facing unprecedented challenges amidst the current economic environment, with many portfolio companies struggling to maintain profitability in the face of slowing growth, increased competition, continued supply chain challenges, rising interest rates, and rapidly changing market conditions.

To help private equity funds and operating partners optimize costs and drive profitability, A&M has launched the “Pathway to Profitability” Q&A series. This series aims to address the biggest pain points in the industry and provide practical insights and solutions for private equity professionals.

Our experts will be sharing their expertise on key topics and providing actionable advice to help professionals succeed during these challenging times.

In this edition, we asked Managing Director, Christopher Duggan, to weigh in on the pain points he’s discussed with his clients, as it relates to **Liquidity Management**.

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## Q1 *How can PE firms address some of the common challenges they face in managing portfolio companies’ liquidity?*

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One of the common challenges faced by PE firms in managing liquidity is the lack of reliable and transparent cash flow forecasting. This can lead to misaligned expectations and potential cash shortfalls, which can be detrimental to the company’s operations and valuation. A&M can help address this challenge by developing reliable and transparent forecasting models, such as 13-week or 26-week direct cash flow forecasts. Additionally, we can help develop dynamic liquidity forecast models that evaluate a range of possible liquidity scenarios. We can also install processes to improve cash forecast accuracy by linking the cash flow forecast to the latest thinking views of collections and spend, reconcile EBITDA to cash and identify any leakage.

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## Q2 *How can effective liquidity management benefit portfolio companies?*

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Effective liquidity management can provide several benefits for portfolio companies, including improved cash flow, increased financial flexibility, enhanced investor confidence and greater ability to pursue growth opportunities. By optimizing working capital, improving cash forecasting and management processes, and releasing trapped cash, portfolio companies can increase their ability to weather financial challenges and capitalize on opportunities for growth expansion and value creation.

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## Q3 *How do we identify and release “trapped cash” in our portfolio companies?*

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“Trapped cash” refers to working capital that is tied up in excess inventory, slow-moving receivables, or other inefficiencies in the company’s operations. Our firm can help identify and release trapped cash by assessing working capital needs and current usage, driving tactical cash improvement, and developing and implementing working capital optimization plans focused on order to cash and procure to pay. We can also develop working capital tracking tools to monitor progress and ensure that the improvements are sustainable over the long term.

## Q4 *How can we optimize our portfolio companies' working capital for strategic business shifts?*

Strategic business shifts can have a significant impact on working capital requirements, and it is important for PE firms to understand, plan and proactively implement changes to working capital management to best manage the impact from these shifts. A&M can help PE firms calculate the needed changes to working capital from potential business transformations and develop and implement working capital optimization plans to achieve the desired outcomes. We can also prioritize actions based on value and operational difficulty and develop working capital tracking tools and reporting cadence to monitor progress and adjust as needed.

## Q5 *How can we optimize and assess our working capital needs to improve cash flow?*

Our approach to working capital optimization includes assessing your current working capital needs and usage, as well as identifying potential areas for improvement in the business. We use historical trends and benchmarks, process mapping, and other tools to diagnose issue areas and identify potential improvements. From there, we prioritize actions based on value and operational difficulty, working with management to develop and implement an action plan that includes short-term tactical actions and longer-term structural improvements to working capital management, cash processes, personnel and cash culture. We also track progress and provide regular reporting to ensure sustained improvement.

## Q6 *How can we ensure that we have reliable cash flow forecast for our portfolio companies, especially in situations that require a rapid response?*

We can help you develop a 13-week direct cash flow forecast that is reliable, transparent, and dynamic. We do this by creating a bottoms-up forecast that clearly identifies key assumptions and drives accountability with the management team. We also initiate processes to improve cash forecast accuracy, reconciling EBITDA to cash and identifying any leakage. We also develop dynamic liquidity forecast models that provide an accurate picture of your current and near-term cash position. Our approach is fact-based, objective and hands-on, working closely with management and PE sponsors to implement a strong cash culture within the business and drive sustained performance improvement.



## CONTACT US

Learn more about how we can help you  
with Liquidity Management



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With over 7,500 people providing services across six continents, we deliver tangible results for corporates, boards, private equity firms, law firms and government agencies facing complex challenges. Our senior leaders, and their teams, leverage A&M's restructuring heritage to help companies act decisively, catapult growth and accelerate results. We are experienced operators, world-class consultants, former regulators and industry authorities with a shared commitment to telling clients what's really needed for turning change into a strategic business asset, managing risk and unlocking value at every stage of growth.

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