

# CFO Advisors – Client Spotlight

## Delivering Financial Solutions

In the first quarter 2015 CFO Advisors was contacted by a high volume QSR concept with 12 locations at the behest of an investment banking firm that the company was working with. At that time each location operated as a separate entity, including each managing a separate instance of QuickBooks. The client also had a management company, a real estate company and a commissary, all of which were disassociated from the others on QuickBooks (a total of 15 entities). Growth plans included 2 new locations opening in 2015, 2 additional locations under development scheduled to open in 2016, and 2 to 3 new locations each year going forward. CFO Advisors accepted an engagement with this company as both interim CFO and director of FP&A with initial efforts focused on revamping the company's accounting processes and procedures. The existing systems were not capable of supporting further growth, and would likely result in a lower valuation for the company. CFO Advisors activated a strategic plan that within 9 months dramatically improved and strengthened their financial systems and positioned them as an attractive investment opportunity.

### Initial Assessment

- Accounting staff was thin and not utilizing industry standards for reporting or procedures.
- COO was playing the role of both controller and CFO – and lacked the expertise and time needed to specialize in either.
- Consolidation of financials was nearly impossible with QuickBooks. Excel was being used to download and consolidate financials – a very laborious, time consuming and ineffective method for analyzing the business and communicating performance.
- Industry best practices were not being followed resulting in miscoding of costs and overstatement & understatement of key cost categories.
- Standard procedures were not being followed – inventory not being taken, payroll not being accrued in a scalable manner, commissary costs not being allocated accurately.
- Calendar year was being used rather than a more acceptable 52-53 week year (5-4-4 or 4-4-5 week quarters).

### Time Line

#### April 2015

CFO Advisors started the engagement and began implementation of the cloud based Intacct accounting system to replace QuickBooks. The company had already begun the use of QSR Online as their above house system and integrations were designed to feed Intacct.

#### May – September 2015

- Reworked chart of accounts to leverage industry best practices.
- Selected and implemented 52-53 week fiscal year (5-4-4).
- Migrated 10 years of prior year data from QuickBooks to Intacct in order to ensure comparable reporting.
- Setup an analytics function by first implementing receipt of data streams from 2 immediate sources into the newly created data warehouse.
  - o Above house system (robust operations tool QSR Online that polls from the POS daily and had been implemented at the beginning of 2015
  - o Broadline Distributor PFG
- Utilizing Tableau based CFO Rapid Fire analytics platform, CFO developed and deployed sales, labor and purchasing dashboards and trending analysis.
- Updated accounting policies and procedures to industry standard and restaurant GAAP allowing for the beginning of weekly financial reporting.

- Implement proper procedures to ensure that data was coded correctly, in accordance with industry best practices, which in turn ensured that the numbers were becoming very clean. Accomplished through second level of review initiative.
- Introduced concept of store level financials and store level EBITDA vs. company overhead, laying out the proper procedures to ensure that store level financials reflected pure store operating performance without allocations of overhead or other non store operating expenses.

#### More specifically....

- Weekly inventories were begun and financials adjusted.
- Commissary converted to a cost center rather than a profit center.
- Theoretical food & beverage costing implemented.
- Automated data feeds were created to simplify posting of daily sales information, vendor invoices, weekly inventory, rebate accruals and commissary billings.

#### September – November 2015

- As numbers became cleaner CFO Advisors began to implement multi faceted financial and operational reporting
  - o Dashboards and key performance indicator (“KPI”) reporting for internal use
  - o Industry standard reporting for external stakeholders and interested parties
- First budget adopted (2016) which has turned out to be materially accurate (given all of the changes that were made to data, structure, new accounting system, etc).
  - First five year plan created, adopted and put into use to provide ongoing rolling cash flow and LTM financials.



## November 2015

Attention turned to the ongoing capabilities of the existing management team to build and manage an internal accounting function. The decision was made to focus on building and operating restaurants and consequently CFO Advisors led the search for an outsourced solution. Consero Global was selected as the outsourced accounting company utilizing the company's systems and higher level finance/accounting personnel. This solution cost approximately half of what a minimal accounting staff would have, AND allowed the following:

- Repositioning of the individual serving as the company's bookkeeper to more robust tasks within the company.
- The company's COO to fully transition out of the accounting function to focus on higher value areas of the company (development, operations, etc).
- Move to new technologies that could simplify the financial systems even further. Included in these systems were electronic bill pay, document scanning, work flow and automated posting into the accounting system.
- Provide for better management of potential staff turnover and training.



## December 2015

The company had been using a local CPA firm to prepare both their taxes and compiled financials. After CFO Advisor's internal review of the company's tax filings and complicated structure, and in advance of the desired equity event,

CFO Advisors recommended that the company hire a higher profile CPA firm with a nationally recognized restaurant practice. The company hired Plante Moran to provide tax services as well as to provide Audit and Quality of Earnings services. This elevated service came with a cost, but the benefits were numerous. The result of the move on the tax front identified multiple issues that required the company to restate their prior year tax returns. The audit performed assisted CFO Advisors in ensuring that the company's financials were now in compliance with GAAP and all material issues identified and corrective action taken.

## September 2015 – March 2016

### Private Equity

- CFO Advisors led the company's private equity process on the financial side leading to a superior offer from a recognized private equity firm that was ultimately turned down by ownership.
- Company hired CFO Advisors permanently as CFO and to lead the FP&A function.

## January 2016 – current

- CFO Advisors began labor initiative by reviewing in detail how the company presently spends its labor dollars. CFO Advisors established labor goals and worked with client on determining/implementing effective labor management tools. Labor productivity and tracking of labor wage rates against expectations began on a weekly basis. Training of store management and senior team to understand and use this information is currently underway.
- Company implemented 2nd level budgeting process – setting 13 week goals for each new store.
- 2nd tier reporting process created by implementing more dashboards through the accounting system to bring both area directors and general managers into the financial conversation in a controlled and measured manner.
  - o Primary goal was to provide senior management with more self-service reporting on KPI's during the period rather than at the end of the period
  - o Secondary goal was to begin educating general managers on goal performance with weekly reporting that was accurate and tied the accounting numbers to the numbers being seen in the field
- Identified additional – non financial – data to obtain recurring feeds into CFO Rapid Fire, in order to paint a richer picture of performance. Such additional data includes mystery shop scores (all not just top box), guest feedback (including unstructured data

such as comments etc), and employee survey data.

- Began mentoring of the company's director of operations on the financial side of the business.
- Quarterly sales forecasting process begun to assist in identifying opportunities faster and stimulate more interactive marketing and operations conversations.

*The COO commented that he believed the systems that CFO Advisors implemented and the involvement of CFO Advisors and Plante Moran increased the multiple received by 2 (\$15 million increase in valuation).*

## Conclusion

Within 12 months this QSR Company went from an archaic, labor intensive and under performing financial system to one that is industry leading and highly effective. Integrated systems and customized, timely and accurate reporting provided management at all levels the ability to make effective decisions and reach goals. The company's accounting/finance system is now able to quickly expand with little incremental cost as the company adds new restaurants.

