

# Boston CFO Roundtable

August 2024



## Panel Takeaways

The Boston CFO Roundtable brought together 23 finance leaders from technology companies and partners from PE/VC firms for a panel discussion that first addressed the macroeconomic climate and its impact on fundraising. We then explored the key performance indicators (KPIs) most relevant for both operators and investors in today's economic landscape.



### Driving Efficient Growth Amid Revenue Slowdown and Difficult Fund Raising Dynamics

#### Private Market Dynamics

Participants noted that private markets slowed in 2023, with early to mid-stage VC taking the hardest hit, marking a shift from the exuberant "VC Factory Model" of 2018-2022. VC funds are facing increasing difficulty in attracting new capital from limited partners (LPs), resulting in a decline in both deal volume and total investment. At the same time, LPs are favoring large buyout funds, and until general partners (GPs) can exit assets quickly, raising new capital will remain difficult for many private equity (PE) funds as well. As a result, structured debt and equity are emerging as more attractive alternatives.

Slowdown in private markets can be attributed to:

- Liquidity Crunch: The sharp decrease in IPOs and M&A activity, that are key exit channels, has led to meager cash distributions to LPs.
- Slower Capital Deployment: Deal volume has dropped, while due diligence periods have lengthened. PE dry powder inventory has continued to increase as costly credit, uncertain economic environment and mis-matched valuation expectations continue to be a drag on capital deployment.
- Yield Market Shifts: Changes in interest rates have altered the relative attractiveness of private market investments.
- Equity Market Volatility: The "denominator effect" has impacted asset allocation strategies for institutional investors.

#### Operator-Investor Dynamics

Finance leaders shared how they are adapting their strategies in this evolving landscape:

- Increased Communication: CEOs and CFOs are in weekly contact with investors.
- Data-Driven Performance Management: Finance teams are KPIs and metrics constantly updated so they can provide investors visibility and drive internal decision-making on a moments notice.
- Growth and Margins: With entry multiples falling and higher financing costs, revenue growth and margin expansion are taking center stage for investors.

#### Strategic Financial Management

With a slowdown in spending on software impacting revenue growth combined with having to wait longer between bites of the fundraising apple, CFOs are adopting more conservative financial practices:

- Cash Management: Firms are focusing on intelligent spending, improved efficiency, and expense management.
- Extended Runway: Cost-cutting measures are being implemented to delay the need for additional funding rounds.

Overall, finance leaders discussed how this shift in the PE/VC ecosystem underscores the importance of adaptability and financial prudence, as both investors and companies navigate a more challenging growth and funding environment.

## KPIs that Matter Most for Tracking Growth and Raising Capital

### Become Data Driven

Participants shared that investors are expecting finance teams to operate with 'data room quality data' consistently. This rigor demonstrates transparency, operational excellence, and readiness for investment, aligning the company's practices with investor expectations.

### Quantitative Metrics That Matter

Investors and CFOs, unanimously identified four key performance indicators (KPIs) as key for setting targets and tracking performance: Net Retention Rate (NRR), Gross Retention Rate (GRR), LTV:CAC ratio, and Gross Margins.

A strong NRR indicates customer success, increased product adoption, and sustainable growth driven by existing customers. Consequently, a high NRR can significantly enhance a company's valuation, particularly for those experiencing rapid revenue growth. On another hand, GRR provides a more candid assessment of how downgrades and churn affect the bottom line.

Incorporating Gross Margins when calculating the LTV:CAC ratio, provides a more comprehensive view of customer value.

As investors value companies, they consider the Rule of X, highlighting that growth needs to remain the priority for businesses with adequate Free Cash Flow (FCF) margins. While efficiency is crucial for maintaining a healthy business, companies should not shy away from strategic, long-term investments that drive growth and secure / maintain a strong market position e.g.: R&D to develop new products or establishing robust partnerships.

### Measuring Performance By Cohorts

There was a consensus around the table on tracking quantitative metrics over time vs. point in time as "land and expand" and consumption-based pricing are becoming more and more common. Looking at monthly customer cohorts to track sales efficiency and assess customer value accretion over time is a much more effective way to capture and evaluate trends in business performance over time.

### Segmented Contribution Margins

Finance leaders shared the significance of digging deeper into metrics by strategic segments, be it by product, end markets or geographies. For example, tracking contribution margin by product would show how much each product "contributes" to covering fixed costs and ultimately profits.

### Industry Specific Benchmarking

Finance leaders advised against cross-industry comparisons (e.g., healthcare vs. software gross margins) due to differing cost structures and revenue models.

### Beyond Metrics and KPIs

When fundraising, panelists suggested presenting a strong narrative on the overall opportunity in terms of market size, growth vectors, product roadmap, team potential and plan to profitability. Panelists advised tracking key growth and margin levers and providing monthly insights to prevent end-of-quarter surprises. While KPIs and metrics are important to report on, a detailed narrative from the CEO and CFO on wins as well as losses along with drivers for both go a long way to win investor confidence.

## Thrive With the Right Strategic Partnership

As this year unfolds with its share of unknowns, FinQore is here to guide your business to growth and resilience. Together, we'll convert the year's uncertainties into avenues for strategic triumph.

Let's Connect

