



# CASH FLOW MANAGEMENT

## DESCRIPTION

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- Refers to the company's ability to effectively manage cash inflows and outflows to ensure it can meet its financial obligations.
- Strong cash flow management ensures that the company has enough liquidity to handle operational costs, investments, and debt.
- Weak cash flow management can lead to financial strain, missed growth opportunities, or insolvency.

## WHY PRIVATE EQUITY CARES

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- PE firms look for businesses with strong cash flow management as it reduces financial risk and ensures the business can fund its operations and growth.
- Effective cash flow management makes it easier for a buyer to forecast future performance and supports post-acquisition investment plans.

## IMPACTS ON SELLER

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- **Strong Cash Flow Management:** Higher valuation due to predictable cash flow and financial stability.
- **Weak Cash Flow Management:** Lower valuation due to risks associated with liquidity issues, high debt levels, or inconsistent cash flow.
- **Cash Flow Improvements:** Buyers may offer a lower purchase price if cash flow is weak but could be open to investing in improving liquidity post-sale.

## EXAMPLE

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Factors	Weak	Medium	Strong
<b>Cash Flow Predictability</b>	Erratic, difficult meeting obligations	Occasional liquidity issues	Stable & predictable
<b>Valuation Impact</b>	-15-30% discount	-10-15% discount	+0-10% premium
<b>Buyer's Risk Perception</b>	High	Moderate	Low

