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THE NEW M&A CFO

How Should Chief Financial
Officers Add Value In The
M&A Experience?

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The role...

...of the Chief Financial Officer (CFO) has shifted dramatically over recent decades, from what was once the head of the accounting team, to an incredibly strategic and value-adding position. Through candidate/client discussions, analysis of our mandates, and additional research, I've gained insight into the evolution of this pivotal role.

This shift is evident across various functions, but most notably within M&A. Far from just checking the numbers at the beginning and end of the process, the modern CFO plays an instrumental role throughout the entire processes of deal origination and integration.

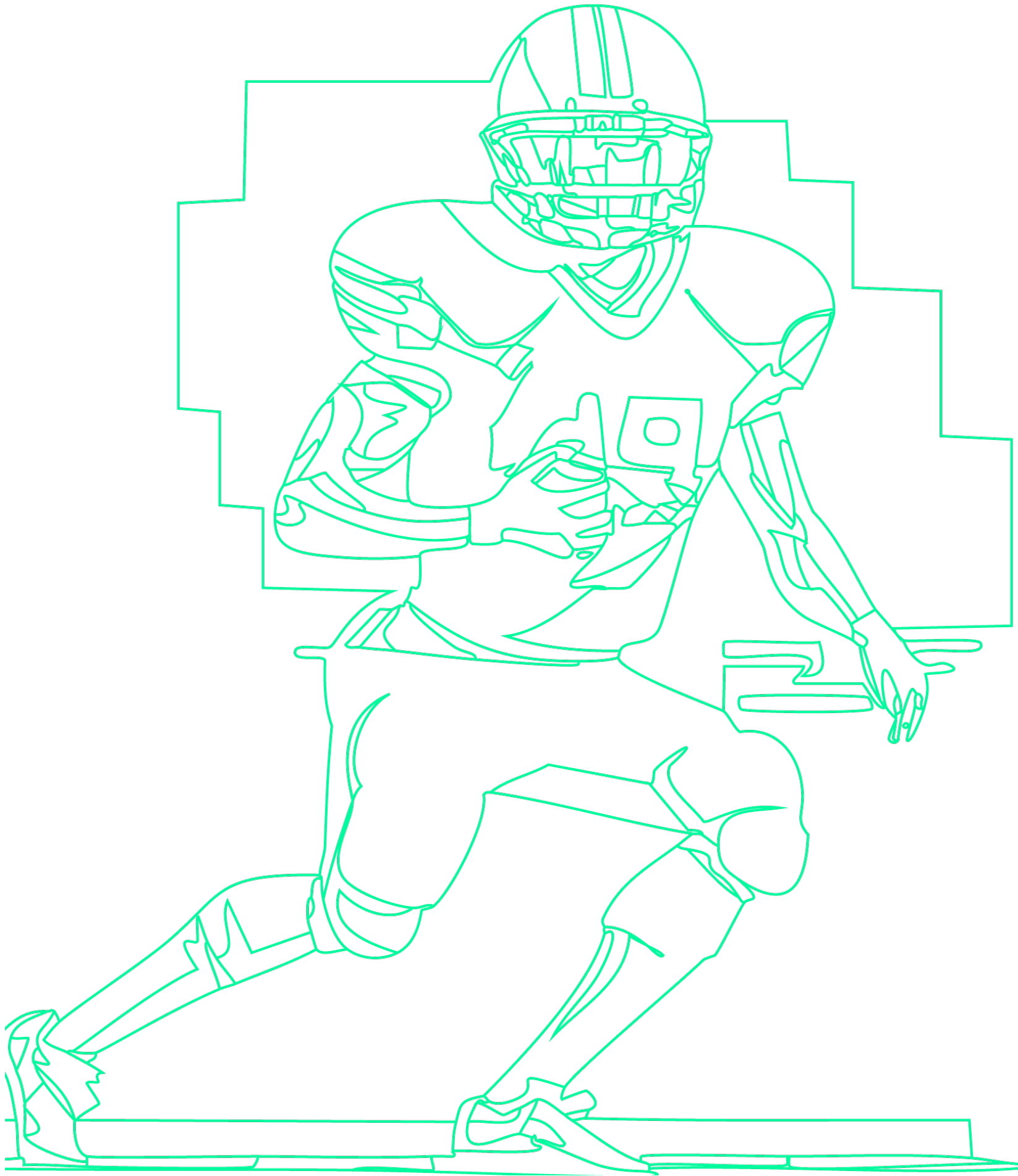
From speaking to hundreds of CFOs in 2024 alone, it's become evident that the majority are genuinely enthusiastic about M&A activities. Many prioritise M&A experiences on their CVs as it's seen as a clear pathway to recognition. What truly excites CFOs about M&A extends beyond financial outcomes; it's the challenge and thrill that these ventures bring to the table. For many, M&A has gone from being an 'element' of their role to being at the forefront of their thinking.

In our 2024 edition of The Global Report, former Mintec CFO Tom Smith wrote an incredible article relating to the role of the CFO and the importance the position plays in a growth journey to buyout. For a variety of reasons, most CFOs nowadays love M&A; it's a potential quicker route to serious scale, added complexity and challenge, financial benefits from getting to exit, meeting new businesses and broadening one's skills set.

The role of the M&A CFO is not without its challenges, the emotional pressure placed upon a CFO within an M&A driven environment, especially under tight Private Equity 3-5 year deadlines, is often overlooked. It's a hard and often lonely position, with pressure coming from many directions and the responsibility of making decisions that can often impact careers and therefore lives.

This article shines a light on the many elements of the modern day CFO and their role within M&A.

From speaking to hundreds of senior finance professionals at a CFO level in 2024 alone, I've noticed how enthused the vast majority of CFOs actually are by M&A activities.



DEAL
QUARTERBACKS

Senior managing director with Accenture Strategy, J Neely, calls the modern CFO in M&A a “deal quarterback”; they set expectations and deliver the operations of the combined entity.

How Do CFOs Impact M&A?

The modern CFO has been described as the “deal quarterback” courtesy of Accenture Strategy’s J Neely within M&A; they set expectations and deliver the operations of the combined entity.

Pre-Deal: Strategy and Planning

CFOs play a vital role in the planning and integration of both buy and sell-side M&A. When evaluating a potential deal, the insights of the acquiring company’s CFO are pivotal in determining its value addition. Likewise, the CFO of the selling company plays a significant role in assessing the proposed deal’s viability. Once both CFOs are satisfied with the potential benefits outweighing the risks, they are able to pitch the deal to stakeholders, including investors and senior leadership. This will involve carefully mapping out its potential benefits and communicating these persuasively.

Integration: cost, revenue & systems

Closer CFO involvement throughout integration pays. Whether it’s a ‘roll up’, PE backed serial acquirer, carve-out or transformational single piece of M&A; feedback from my discussions is that the CFO needs to be involved in the integration. However, the CFO needs to delegate effectively to balance the increased workload. There is a business still to be run.

Without a team solely dedicated to integrations, the process will eat into the CFO’s time for running the day-to-day. It is important to be realistic about the timeline for integration and synergy realisation. As part of this delegation, the M&A CFO understands that systems integration is a much longer and expensive process, will plan properly and hire in experts rather than deploying a management accountant with generalist ERP knowledge.

The impact of CFO involvement in the integration process is particularly significant in the realisation

of revenue synergies. McKinsey’s analysis highlighted that 67% of CFOs with hands-on involvement in the interaction achieved a minimum of 90% of their projected synergy realisations.

Capital management, valuations, and relationships

Extensive capital management and deployment is one of the biggest differentiators within an M&A focused CFO’s remit, especially in a true buy and build or roll-up model.

Keeping the business adequately lean, gaining efficiencies through automation, first class cash flow forecasting and modelling become key. The recent increase of debt has only added to this.

Their focus is on not over-paying – the best investors back great teams but they also tend to get the valuation right. The CFO is the custodian of the business and therefore its capital – this means they need to stay strong if they feel there is pressure being applied to invest poorly in overvalued assets. The CFO and their team also play a huge role in managing banking relationships, private equity investors and corporate finance advisors.

Whenever a potential deal is being considered, the insight of the CFO of the acquiring company is key to determining whether or not it will add sufficient value to the acquirer.

“The impact of CFO involvement is especially significant when assessing revenue synergies.

67% of respondents with high CFO involvement said that revenue synergies had met 90% or higher of their expectations, compared to 32% of those with no CFO involvement — a difference of 35 points (compared to 32 for cost synergies). “

*Source: **McKinsey (2020)** The One Task the CFO Should Not Delegate.

Post-Merger: Talent, Culture, and Quantifying Success

When I speak to CFOs who are experienced in M&A, they tell me that one of their primary focuses during the M&A process is on avoiding value destruction.

M&A can be a huge value driver, but if the integration, people management, or due diligence isn't done correctly, it becomes the biggest value decreaser.

Talent retention and cultural cohesion might sound like jobs for the Chief People Officer, but there are sound reasons for the CFO to be actively involved.

Firstly, CFOs are often best-placed to identify which employees or functions to retain and which to release after a merger. Clarity of thought is crucial here: the CFO's thorough understanding of the potential synergies of the deal dictate who needs to be retained and who needs to be released.

Secondly, employees know this, and as such, the CFO can be a reassuring figure to communicate any organisational changes.

They'll be trusted as the direct source of truth, and as such are ideally placed to communicate between senior leadership and the wider business.

In the uncertainty that follows any M&A process, this clarity of thought is invaluable in focusing hearts and minds to unlock the full potential value of the deal.

As one CFO told me, CFOs are constantly thinking about value-creation post-deal. Throughout the implementation of a merger, the best CFOs will take it upon themselves to monitor the key metrics of its success.

Kim Hendil Tegner, Partner and CFO Programme Leader at Deloitte, says that CFOs should even “consider taking on the role of integration catalyst and take responsibility for parts of the value creation plan” themselves.

“CFOs are constantly thinking about value-creation post-deal. Throughout the implementation of a merger, the best CFOs will take it upon themselves to monitor the key metrics of its success. “

Is a Background in M&A a Must-Have for CFOs?

There's no doubt that the experience of going through a merger or acquisition, either buy-side, sell-side, or both over the course of a career, will add a lot of strings to a CFOs bow.

Experience in M&A, either in a senior financial role or as part of a consulting team will teach aspiring CFOs valuable lessons, in evaluating cash flow, understanding operational finance, and navigating deal processes. All of these are important skills for the modern CFO.

Experiences and Traits of the Best CFOs for M & A Driven Businesses Are:

-Ability to thrive in ambiguity and remain calm under pressure, maintaining pace and decisiveness of thought.

-Flexibility and focus amongst challenges and opportunities brought by M&A, particularly forecasting and planning.
- Ability to lead and influence across finance and all other functions.

-Experience within transformations, turnarounds and leveraged situations.

-Strong levels of emotional intelligence and understanding of the softer skills of leading people.

-Previous M & A, buy and build, or roll up experience. Whether in industry, practice, as a leader or whilst sharpening skill-set, any form of exposure is useful.
-Value creation mindset and proactive thinking about the bigger picture.

-Strong macro view of the market and understanding of how the acquisition sits within your market positioning, strategic direction, and the story told to potential buyers.

-Strong exposure to investors, particularly important in a private equity backed business. The CFO / PE relationship differs in an M & A driven business. Whether it's bolt ons, a roll up, transformational acquisitions or carve outs, the sponsor will be even more present in an M & A drive asset.

All the same, if a business is considering a CFO hire anyway, M&A experience is an increasingly desirable trait among hiring organisations.

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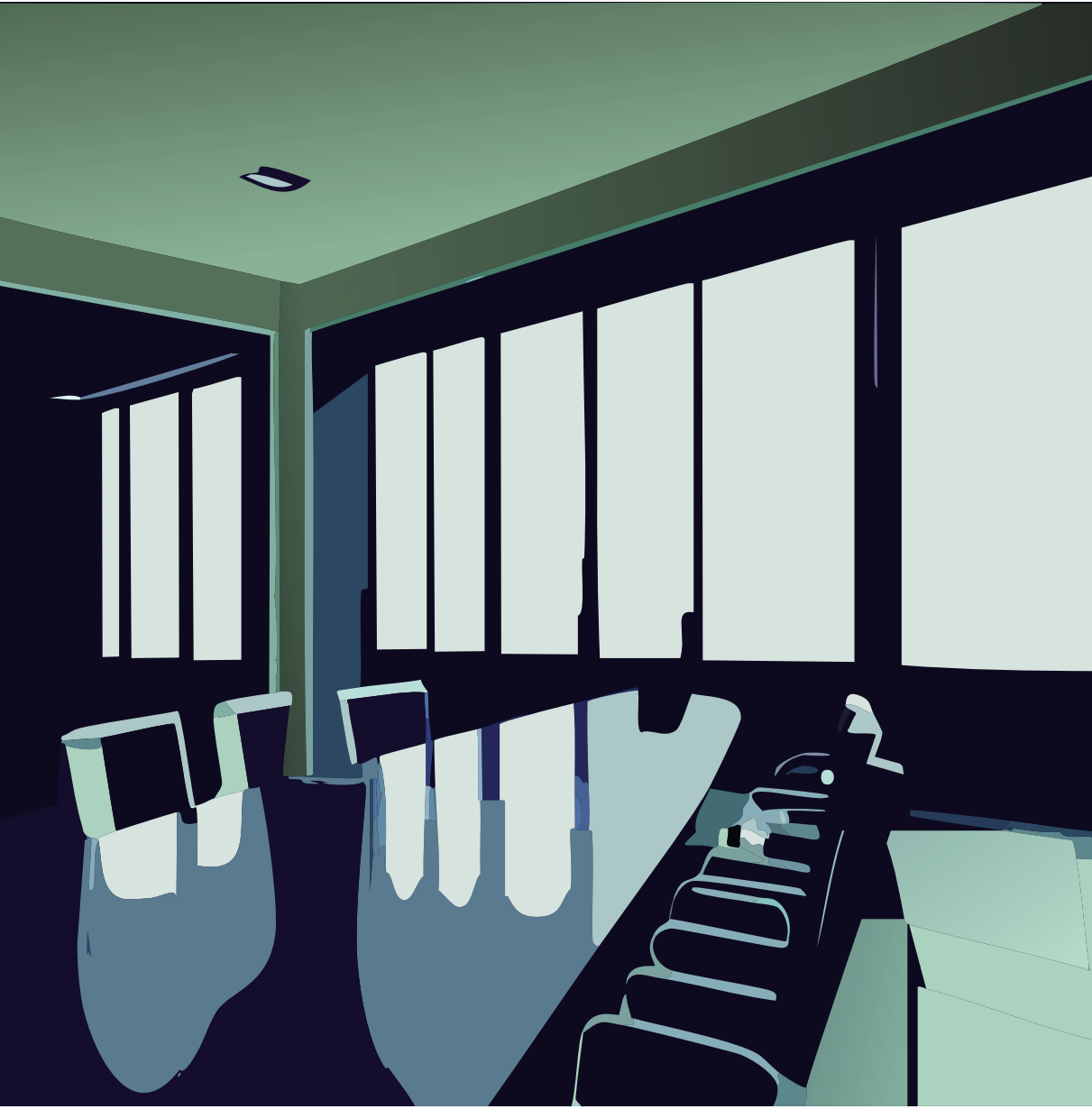
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