CFO

1st Time M&A: 3 Challenges CFOs Will Face

By Frank Williamson

CFOs are a source of accuracy within an organization — essential for providing data related to day-to-day operations as well as for weighing in on larger strategic decisions. The CFO helps reconcile big-picture vision with reality by offering a set of ironclad facts.

You can have an entire career as a CFO and never participate in an M&A deal. But when your company makes a conscious decision to expand, or is approached by another party interested in pairing, you might have to suddenly take on important new responsibilities related to the deal, plunging you into unfamiliar territory.

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During the M&A process, a CFO's skills are more important than ever, assuming they can remain impartial and focus on delivering the most thorough, precise information possible.

Here are three common challenges CFOs must overcome during their first M&A transaction experience.

1. Focus on the Accuracy of the Future Business Projection

A CFO's primary role during M&A is to create a projection of the future that's as accurate as possible. The more information they're able to gather, the more detailed that projection will be. So, a company's pre-deal negotiation efforts should be focused on getting specific pieces of data that will allow the CFO to develop a clearly justified set of assumptions that the management team can buy into.

If you're a CFO, presumably part of your normal job is to create a one-year budget and multiyear plan for your company's future. You need to be putting any potential new acquisition through an equally rigorous process of analysis, asking these big-picture questions and others:

- What are your company's financial results going to be in the months and years after a potential deal?
- What are the accounting implications of those financial results?
- What are the metrics that define success?
- How do past results give some kind of justification for the assumptions made about the future?

It can be tempting for CFOs to place too much emphasis on the good or bad events from a company's past. Instead, focus on the future, using previous results only for the purpose of building a plausible story of how things might unfold. I'm reminded of a statue outside the National Archives Building in Washington, D.C., whose inscription is good to remember here: "What is past is prologue."

2. Make Sure No Aspect of the Business Fails

If your goal is to successfully put two operating businesses together, you need to think through every possible thing that could go wrong and develop plans to mitigate that risk.

Luckily, it's not difficult for a CFO to find the questions they should be asking — many due diligence lists have been compiled over the years by people in your exact position.

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You can find a basic list on the internet — like this sample due diligence list from Georgia Oak Partners — and more comprehensive ones by asking somebody in the know, such as a colleague or an M&A expert, who does these kinds of deals all the time. Personally, I keep every list from every single deal I've worked on and periodically compile a master list.

These compliance-like checklists, covering every aspect of a company's operations, are long and tedious. Everybody can acknowledge the bureaucracy of going through them, but this work has to be done. It's absolutely crucial to pin down any aspect of a deal that could cause plans for the future to be derailed.

A CFO's goal should be to find a "yes" or "no" answer for every item on the list — and either answer is equally valuable if somebody's answering it definitively.

3. Understand Where Help is Needed

When you're doing something for the first time, expert help makes a huge difference. Due diligence questions are just the tip of the iceberg; experts also bring a large body of formalized knowledge about the typical steps of a deal and can recognize familiar patterns in different contexts.

The work of conceiving, negotiating, and implementing a deal is extremely complex and can take months or even years. For a CFO to try to handle this kind of project alone would not only be enormously stressful, but it could also affect their ability to carry out their everyday tasks.

During the M&A process, the CFO can serve as an important intermediary between company executives and deal experts. They speak the same language as people who do specific transaction work but are able to distill and present that information to their executive team from the perspective of an insider with institutional knowledge.

If you're a CFO facing your first M&A transaction, consider how you can augment the skills and knowledge of your management team with that of a team of transaction professionals.

Frank Williamson is the founder of Oaklyn Consulting, a consulting firm that helps investor groups and private businesses, from startup to middle market, with mergers, acquisitions, capitalraising, investor relations, succession and other strategic corporate finance decisions. Oaklyn Consulting does not work as a broker but as an extension of clients' boards and management teams, charging time-based fees for investment banking advice.