

Finance functions

The cost effective way to maximise your value

It is often the case that founders and CEOs assess their finance function and the strength of their finance team post a liquidity event. In many ways this is putting the cart before the horse. The benefits of assessing and, if necessary, reshaping and / or upskilling your current team are huge even before such an event and can result in a significant value multiplier in a liquidity event.

Creating value through your finance team is a critically important move, and this is equally true even if an exit is not on the immediate horizon. This can seem a daunting prospect sometimes as the temptation is to focus on position /

quantity rather than the roles which will achieve the maximum ROI for the business, but finance does not have to be a huge beast of a function. Nevertheless, intelligent focus on your people and their roles within the function can create big wins that future proof the business for both a liquidity event and ongoing growth.

One highly experienced interim CFO comments: "I have been an interim CFO, working exclusively with Private Equity backed SMEs, for the last 20 years. Time and time again I see the same issues post-deal that could have been addressed prior to an event.

"In almost all scenarios, these are issues that would have positively impacted the ultimate purchase price if they had been assessed and actioned pre-deal. The impact of a finance function review with sufficient time ahead of a sale process is drastically underestimated and something all business owners should strongly consider".

Are the right people in place?

When looking to exit, having a good quality finance function in place is a great indicator to potential acquirers that you are committed and engaged to the process. It shows that company leaders have invested in the right areas of business – those areas that a buyer, and especially a non-trade buyer, will invariably focus on.

Further to this fundamental need, having a proactive team in place that can help coordinate a process may well turn out to be the difference between a successful deal materialising, or not. In an extremely competitive buyout market, with lots of deals in the pipeline, a proactive finance

function supporting an equally proactive management team can keep a deal live and front of mind to potential buyers.

Chris Malcolm, Partner, finnCap Cavendish, comments: “Due to the volume of deals coming to market potential investors have become more selective about the processes they invest time and resources in. This has increased the importance of having a proactive management team that ensures that they have the right bench in place and have thoroughly engaged with the preparation phase ahead of launching a process rather than adopting a reactive approach to potential buyers.”



Are finance team members adding value?

Again, this can be a difficult point to countenance. Nevertheless, it is critical and in a high-growth, ambitious environment (whether you have plans for a liquidity event or not) the chances are that you are already assessing other areas of the business in this way. Refusing to scrutinise your current finance team is probably a good indicator of an outdated view of how much value finance can actually add. Specifically in a pre-sale environment, an understanding of the value-output of your finance function can really help to demonstrate alignment with investors.

Finance is more than people

It's important to remember the finance function extends beyond the people in place; it is systems, it is reporting, it is compliance, MI, HR, IT, automation, data, sales, ops, and more.

Depending on the complexity of the business, this can be a very broad consideration. It goes without saying that a lot of these things are interconnected to the people that operate them, but are independently important.

As such, it is crucial to hire the right senior finance person, who can shape and define these

elements. Indeed, sometimes it is not all about hiring a huge team – a lot can be done by just creating the right infrastructure around a handful of 'rockstars'. Furthermore, simply demonstrating a credible plan to achieve this infrastructure can be a breath of fresh air for potential investors / buyers. It shows that while you may not have the capital at hand to make these changes immediately, you have a genuine understanding of what improvements are needed. This can be a great sign of seriousness and competency.

A harsh reality

Make no mistake, assessing one's finance function can be a brutal exercise. The harsh truth may be that your finance team is not fit for purpose. This can be exceptionally difficult to assess and indeed accept, especially for those that have built companies from scratch and have long-serving employees. But the fact is companies grow, circumstances change, and the challenges that face finance evolves with them, especially as they expand and scale internationally.

For those that are driven towards continual growth – especially those looking to achieve a liquidity event– it is a must to acknowledge this

and to be honest with yourself about the company's needs. In the immediacy, a well-positioned recruitment consultant can help you evaluate your position. The medium to longer term may require an experienced CFO / FD to dig through the weeds and advise.

It is incumbent on the diligent management team to assess everything – the good, the bad, and the ugly – and carry out a full health check on finance. This means never ignoring the historical issues, these will hold the company back, and gaining a full understanding of the capabilities of the finance team that are already in place.



Compliment your CFO

What are your strengths as CFO / FD, or indeed as CEO? It's important to be honest with oneself on this point, and compliment that senior role with others that can add to their capabilities and / or fill in where there are gaps. Recognising and acknowledging weaknesses here is as important as celebrating strengths. Being highly self-critical and hiring into those knowledge gaps, as well as building on what is going well, will ensure a fully functioning team is future proofed against any challenges. Again, a recruitment partner can be invaluable here; someone who is willing to really challenge your thinking and in doing so illuminating the gaps.



Get the foundations right

COVID-19 certainly demonstrated in a great deal of businesses, that whatever the market and whatever the circumstances, a strong controller is paramount. A weak controller will inevitably catch the business out, even in good times, and particularly in bad.

There is a temptation to pivot immediately to the 'sexy' finance roles, that help inform the strategic vision and support growth plans – FP&A business partnering – a sparring partner CFO to an ambitious founder CEO.

It is, however, more important to have your financial bedrock in place. A strong financial controller will give you a clear insight into performance, help to inform risk appetite and create management information upon which the business can drive action. Critically, the strength of the financial controller will impact the value-output of FP&A. Without accuracy of historical performance, it's very difficult to create an attractive but credible set of forecasts, and these are enormously important during an exit process.



Take risks

Taking calculated risks is an important business practice and should be applied to your hiring strategy as much as any other area or you will likely not achieve your more ambitious plans. The risk of not having a proper finance function in place far outweighs the perceived risk of 'overinvesting' before a deal has gone through. Making the changes you need to make will ultimately manage your growth trajectory better. Having a great finance team in situ creates value for the longer-term, regardless of future

ownership structure, not having one is a far riskier prospect.

Your finance function extends beyond its people. It is the sum of its many parts that informs and drives future business growth. Ultimately, the value of your finance function cannot be seen as a cost, per se. Rather, it is an investment – one with direct and significant impact on your business valuation in a liquidity event.



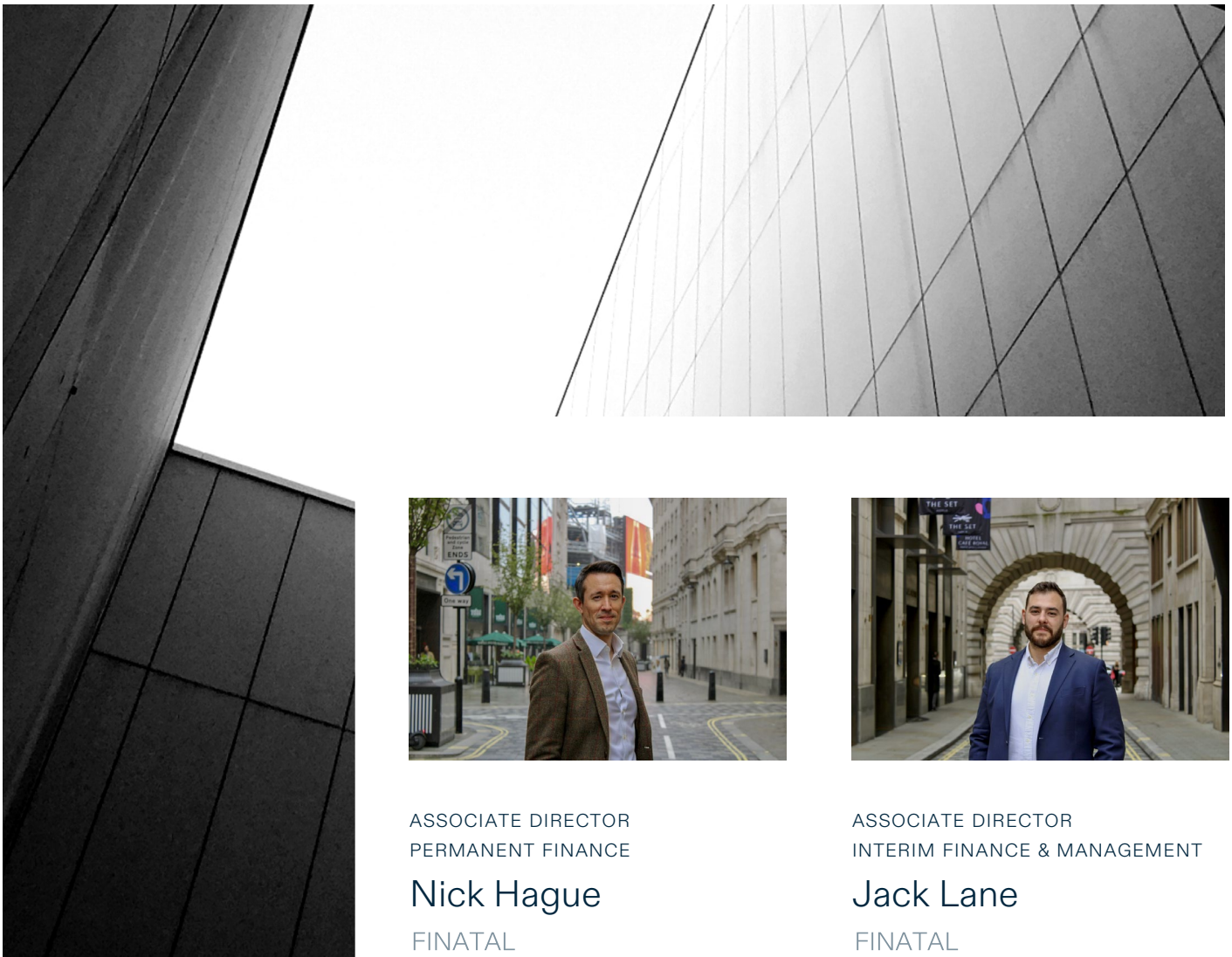
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FINATAL

Finatal is the search partner of choice to Private Equity Funds and their Portfolio companies. Our expertise ensures we are able to assist at all stages of the investment cycle. Should you be embarking on a Series A fundraise, preparing to list, exit to another PE house, currently engaging on a buy and build strategy, need to replace an outgoing member of your senior finance team, or simply looking to professionalise your finance functions, we have the proven experience to provide the financial talent required.

We are frequently engaged by companies who need consultative advice on the shape of their finance function, or the expected value outputs of a specific role. Finatal collaborate to fully understand the requirements and nuances of each business and, should the diagnostics reveal the need for change, are able to leverage an unparalleled talent pool of senior finance talent.

A large proportion of our work stems from immediate post-deal requirements, executing on changes driven by new investors as they seek to professionalise the business. With over 11 years of experience delivering on these hires, we are well positioned to advise businesses on how best to brace for these changes pre-deal – allowing privately owned businesses to maximise value during an exit.



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