

Exit Readiness Preparation: A Checklist for CFOs



CFOs at investor-backed companies will soon be tasked with leading their firm through a successful exit. In a recent webinar, Tom Pierce, Managing Director of CFO Advisory Services at Consero, and Steve Isom, CFO of Bloomerang, discussed why exit readiness needs to be an immediate priority, the critical role CFOs play in driving value creation during a transaction, and how CFOs can build the right team to balance day-to-day financial operations with strategic exit planning.

Why is Exit Readiness a Priority Today?

Exit activity is already beginning to recover from the inventory glut created by historically high interest rates.

For investor-backed firms, it's not a matter of "if," but "when" an inbound offer will arrive. With exit pace accelerating, every CFO in-seat will soon need to be prepared to answer affirmatively when their CEO and Board ask, "Are we ready for an inbound offer?"

29%

US private equity exit counts are already up in Q3 2024 compared to the previous quarter*.

— PitchBook

The Challenges:



Timing Uncertainty

Companies can't control when an inbound offer arrives and put a deal at risk if they aren't ready when it does.



Higher Standards

CFOs will face deeper diligence and tougher valuations compared to the 2020-2021 zero-interest era.



Operational Balance

CFOs have a dual mandate of overseeing exit preparedness and daily financial operations.

Before that question (and offer) arrive, exit preparation should already be part of the CFO's daily responsibilities, as they'll be expected to lead the transaction while overseeing regular financial operations.

The Expanding CFO Role at Investor-backed Companies

Years ago, the CFO's mandate was to maintain timely financial reporting, budgeting, and strategic planning. Today, investment management firms are expecting more from financial leaders.

Old CFO Archetype

- CPA background
- "Numbers cruncher"
- Responsibility: timely financial reporting, budgeting, strategic planning

Modern CFO Archetype

- Strategic leader
- Fluent in all areas of the business
- Responsibility: value creation, leading an exit

According to a PE-Xclerate survey of private equity firms, 85% do not consider the in-seat CFOs at their portfolio companies high performers.

Why is that? Managing day-to-day financial operations is now considered table stakes for CFOs, and **the number one job of a CFO at an investor-backed company is to get to an exit.**

With the expectation that a deluge of exit activity is on the horizon, private equity- and VC-backed portfolio companies need a CFO in the seat who can lead the firm through an exit.



Exit readiness is part of your day job. It's not something that you just do on top."

— **Steve Isom, CFO**



The key is to gain firm control over financial operations so that you can focus on the elements of a successful transaction.

Preparing for an Exit from Day One: Building a Transaction-Ready Finance Department

CFOs need to start thinking about how they will present and tell the story of the business to an acquirer. Pierce and Isom provide a field guide for getting started.

- 1 **Establish a specific planned sales date to lead the business toward.** This could be three months or three years from now, but advanced preparation is critical, so no new work is being created when the company is taken to market.
- 2 **Think like a buyer.** Consider what the buyer will be inheriting and how to report on the information that will make them comfortable with an acquisition. For example, measuring and reporting the resiliency of your sales pipeline.
- 3 **Build a data room.** Produce the outputs a strategic acquirer will likely request and create monthly data packages you can quickly turn over. The goal is to have reporting operationalized so you can communicate: “This is our monthly operations pack that we put together. Let me walk you through it.”
- 4 **Work with outside counsel on an issues list.** An outside assessment will help identify potential liabilities to address while working toward your planned sale date. This can include details like updating the privacy policy on your website, creating more favorable license and service agreement terms, etc.
- 5 **Build a team you can count on to manage the day-to-day.** There are finite hours in the day. When an offer arrives, the CFO needs to rely on their Controller, FP&A leader, VP of Finance, etc. to maintain the daily operations while they focus on the deal.

Mistakes to Avoid in Exit Preparation

Part of the CFO's role is instilling confidence in a new investor or a strategic acquirer and communicating the key drivers of the business and its data.

Here are common mistakes that Pierce and Isom see CFOs make that damage credibility during an acquisition.

1 Not starting soon enough. When an offer arrives, CFOs should not be compiling and turning around data requests for the first time, as they likely won't have time to put thought behind the request.

2 Sending raw data when turning around inbound due diligence and data request lists. Each request is an opportunity to instill confidence in the buyer. CFOs must be in the driver's seat answering the question behind the acquirer's request.

3 Lacking fluency in all areas of the business. While CEOs get an acquirer excited about the future, it's the CFO's role to walk a buyer through the nuts and bolts of the business and to field product, engineering, sales, and marketing questions through the investor lens.

4 Presenting the business as if it's perfect or at an end state. The typical business targeted for PE acquisition likely isn't a finished product. It's far more credible to demonstrate awareness of, and an action plan for, the growing pains of the business upfront, before being prompted by a buyer.



The biggest compliment that you can get through any type of process is someone saying : 'How do you, as the CFO, know the answer to that question?'"

—
Steve Isom, CFO
 bloomerang

Carving out time to get outside of spreadsheets and walking the floor to speak with sales reps and engineers will deepen the CFO's understanding of the pulse of the business, and it **will pay off** in a transaction.

Key Transaction Dynamics: Enterprise Valuation Considerations + Managing Risk

The CFO's job is to steward shareholder value in closing a transaction. For the transaction to be successful, the quality of inbound offers must be evaluated from the perspective of:



**The acquirer
(strategic vs. financial):**
To understand the reasoning
behind data & diligence requests.



Existing investors:
To know key benchmark
multiples to seek in
negotiation.

The Deal Setup is Important

For strategic acquirers, the financials, information, and diligence shared will be more confirmatory. Deal certainty will depend on the CFO's ability to communicate other factors, such as the ease of integration or synergies with the acquirer's longer-term plans.

On the other hand, financial sponsors will require greater financial diligence to ensure the returns work.

Strategic Acquirer

- Financials and diligence are more confirmatory
- Other factors will drive deal certainty (integration compatibility, synergies)

Financial Sponsor

- Tighter on leverage
- More detailed financial diligence to ensure returns work (cash flow, earnings growth)

Either way, it's critical to present your house in order with audited financials, an understanding of the potential red flags in your business from a buyer's perspective, and talking about them upfront. The conversation should look something like:

"When I joined the business, this is where we were. Here's the journey we've been on. If it weren't for this transaction, here's where we were going and what we are working through."

Existing Investor Dynamics

Price alone won't be enough to assess the quality of an offer. CFOs who have joined a company after fundraising or an investment round can better anticipate how existing investors will perceive an inbound offer if they devote time to studying:



Entry multiples



Round type (ex. growth equity vs. venture)



Distribution of proceeds



Hurdle rates



Internal rate of return



What ultimately will drive the dynamics of negotiations, and whether or not the transaction will close, is if the CFO can make the terms work for everyone involved.

How Consero Supports CFOs with Exit Readiness

Exit readiness is a full-time job, yet investor-backed CFOs are often so deeply drawn into their close process that exit preparation is an afterthought. At Consero, we often hear from CFOs: "I don't have time for that. I've got to worry about today, not next week or next month."

However, **between half and two-thirds** of high-growth companies will receive an offer at some point. When that offer arrives, **you've already lost** if extensive diligence is spent on details like the month-end close process.

Instead, Consero can provide cutting-edge technology, people, processes, and strategic support in a fully managed solution that enables CFOs to focus on what matters.

Our Finance as a Service (FaaS) model has been tailormade over 18 years to help hundreds of PE- and VC-backed companies in SaaS, healthcare, eCommerce, and professional services ensure their financials are audit-ready from launch by combining:



Best-in-class finance operations management practices.



Advanced finance and accounting technology including AI, machine learning, automation, and cloud-based ERPs.



A team of finance experts from the VP of Finance and Controller-level down.

FaaS is like exit readiness insurance for CFOs, allowing them to spend less time on finances and more time on the big picture while we:

Consolidate data sources to provide clear, real-time financial data



Take over the day-to-day mundane tasks



Reduce the time needed for administration and financial analysis



Fully Integrated Software Platform



Transactional Accounting



Controller-Level Compliance & Reporting



Payroll, HR & Benefits Support



Financial Planning & Analysis



Strategic CFO Support

FlyWheel Case Study: FaaS Pays Off in a Successful Exit

Steve Isom shares how his partnership with Consero and experience with FaaS helped him lead his former company, FlyWheel, to a successful exit.

"I had joined (FlyWheel) where the one person overseeing all finance and accounting quit the day before I started." As CFO, Isom had joined the company as a strategic finance leader, but was pulled into ensuring payroll was running properly and vendors were getting paid on time.



The goal

Needing to stand up FlyWheel's finance and accounting department to focus on higher value creation work, Isom enlisted Consero's Finance as a Service model.

Within 21 days, Consero provided:

- Full implementation of a new tech stack and accounting processes
- A US-based VP of Finance and Controller-level support in India to manage finance, accounting, and administration
- Full diligence support when an inbound offer arrived

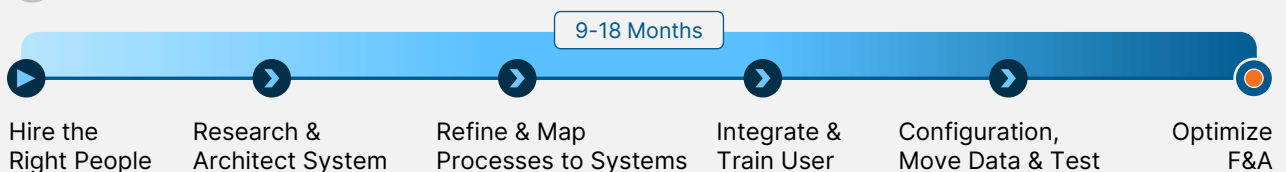


The results

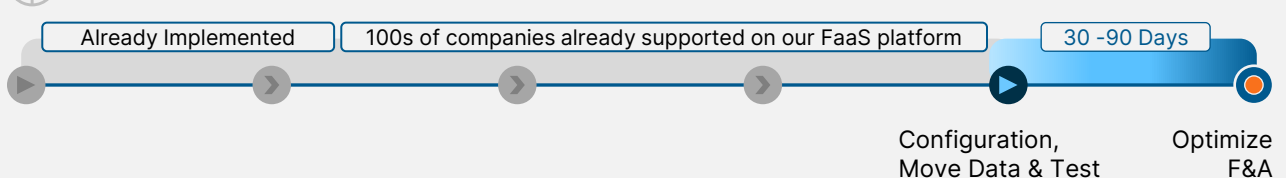
- Operational finance accounting department in 21 days instead of a 6-12 month in-house effort
- CFO's time spent on accounting reduced to ~30 minutes per day
- Full audit-readiness and support from day one
- 24-hour turnaround for investor inquiries during capital raise



Traditional In-House Approach



Consero's FaaS Approach



FlyWheel would later receive an unsolicited offer from its largest competitor, WP Engine. After the two companies agreed on strategic alignment and a possible price, Consero provided full diligence support on the tax, finance, and legal elements.

“

Consero allowed me to shift to more strategic work. I could focus on transaction readiness and selling the company, which we did about a year and a half later. All the financials were clean and ready to go because I've done that from day one with Consero.”

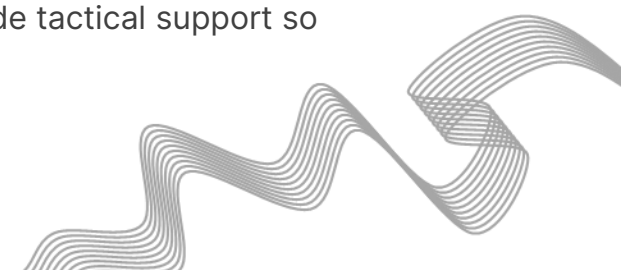
— **Steve Isom**, CFO



Maximizing Shareholder Value with Consero

It's been said that at investor-backed businesses, the CFO's team determines their tenure. Without a team of core people to count on, a CFO is likely set up for failure when the offer materializes.

At Consero, 80% of the companies we work with are institutionally backed by growth equity, venture capital, or private equity. We know for them a sales transaction is a near certainty, and how to provide tactical support so they're offer-ready.

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Financial clarity and efficiency made easy

Contact us for a complimentary assessment at 866-588-0495 or visit www.conseroglobal.com.

