- CFO Journal. THE WALL STREET JOURNAL.
- October 21, 2014, 3:38 AM ET

Spinoffs Call for Fast Learners

By Kimberly S. Johnson and Noelle Knox

Daniel Molinaro knew there was a risk of failing when he became finance chief of Now Inc.

As the treasurer of National Oilwell Varco Inc. for 27 years, Mr. Molinaro was tapped to lead the finance operations of the new company created by the spinoff of its energy-distribution operations in June.

“If I didn’t do well on the roadshows, the conference calls or the board meetings, there might not be a second meeting,” he recalled. “It wasn’t frightening…but you do a gut check.”

So far this year, 13 spinoffs have been hatched and begun trading, and another 10 companies have announced plans to divest divisions. They include eBay Inc., which is preparing a spinoff of its PayPal business, and Hewlett-Packard Co. , which intends to split its enterprise and consumer operations.

Shares of just three of the recent spinoffs are trading above their market debuts. But seven have outperformed their parent company’s stock. Monday’s closing price for Mr. Molinaro’s Now was 14% below its $32.31-a-share launch price.

For CFOs, the process of building a spinoff’s finance team and answering to regulators and investors is similar to an initial public stock offering, but separating from a parent company can pose additional challenges.

Wall Street and chief executives can be unforgiving. Among CFOs at the 41 major spinoffs since 2010, nearly 1 in 6 were out of the job within 18 months, according to Dealogic and recruiter Spencer Stuart. These deals, worth $1 billion or more, exclude real-estate investment trusts, spinoffs of minority stakes and companies that have since merged.

“You’re probably not going to get it right the first time when you’re starting from a clean sheet of paper. It’s a work in progress,” said Barbara Niland, finance chief of shipbuilder Huntington Ingalls Industries Inc., which was spun off by Northrop Grumman Corp. in 2011.

Ms. Niland, who had been a divisional finance chief, said it took about nine months to hire key executives in areas like treasury, tax, insurance and regulatory compliance.

She said she was initially a “deer in the headlights” when it came to dealing with investors and analysts, but quickly learned that building relationships and transparency were key.

After the first year, Huntington Ingalls’ stock was 3% below its listing price, but has since more than doubled. “It took time for us to deliver on some underperforming contracts,” she said. “It was a wait-and-see story.”

Grasping the story is one of the reasons why 27 of the 41 big spinoffs since 2010 chose an internal CFO. Internal hires typically know the ins and outs of the newly independent company’s operations and have relationships with its employees and new CEO.

“You pick your best and brightest and you give them a shot,” said Kimberly-Clark Corp. CFO Mark Buthman. The job often falls to someone who has risen through a company’s financial ranks. Steven Voskuil, a 23-year veteran of Kimberly-Clark and its vice president of finance for international operations, is set to become CFO of Halyard Health, a unit the company plans to spin off at the end of the month.

“Nobody teaches you how to be a CFO,” Mr. Buthman said. “I’ve got a development coaching plan for him…He had his first board meeting and first audit-committee meeting.”

Only 14 companies spun off since 2010 hired an external CFO, sometimes because of a shortage of outsiders willing to take on a company in transition.

“CFOs tend to be more risk adverse,” said Jenna Fisher, managing director for the Americas of the financial officers practice of recruiter Russell Reynolds Associates.

Another crucial role for the new CFO is developing and articulating a clear strategy for how the new company will create value and continue to grow.

“The CFO is oftentimes a conduit between strategy, implementation, vision and ultimately the numbers,” said Bill Budicin, director of Keystone Group, a Chicago-based management-consulting firm. “The CFO has to be able to confidently talk about the dollar value of those changes and the risks…quarter after quarter you need to have a system in place to quantify how you’re doing against that plan.”

This is where a lot of CFOs stumble, said Mr. Budicin.

Six of the companies spun off since 2010 replaced their CFO within 18 months; five of those brought in external candidates, all of whom had been CFOs or CEOs at other companies.

Mr. Molinaro, Now’s CFO, said the split was a good strategic move for National Oilwell Varco and his company. He blames his stock’s weak performance on the overall market. Still, Now has outperformed its parent company since the spinoff.

“We will hear from investors that…they like spins, if done right,” he said. “Others have said they’re in it for the long haul.”

- *Emily Chasan and John Kester contributed to this report.*