



NextGen Performance

# Divestiture Strategies

## Optimising Transaction Value (Sell-side Services)

In today's market, companies are seeking various strategies to restructure or reposition themselves for longer term competitive success. In certain cases, divesting of assets – either to generate cash or to streamline around specific core operations – is one option being considered as part of an overall business strategy. However, with the zeal to consummate the divestiture or sale, companies frequently do not focus on basic strategies to increase the overall return on the sale.

### TRADITIONAL SALES APPROACH

Traditionally, companies seeking to sell assets or businesses would post a "For Sale" sign, have a stated price, and allow the potential buyer the chance to perform certain due diligence and, if interested, negotiate a purchase. The primary issues associated with the traditional approach are:

- Sellers often lose significant value by allowing potential buyers to drive the process
- Without significant upfront planning efforts, it is difficult for potential sellers to shop the assets or operations to as many potential buyers as possible

### REALISING EVEN GREATER VALUE

Today, to increase the overall value for the seller, many companies will place much more front-end effort into preparing the financial and cash flow information relative to the assets or operations for sale, defining the separation issues and the willingness to provide transitional support during a specified interim period,

and preparing a transition assistance plan all of which will be placed into the initial confidential offering memorandum ("CIM") upfront. All of this requires a thorough understanding of the interdependencies between the assets or operations to be sold and the seller's organisation.

### Interdependencies

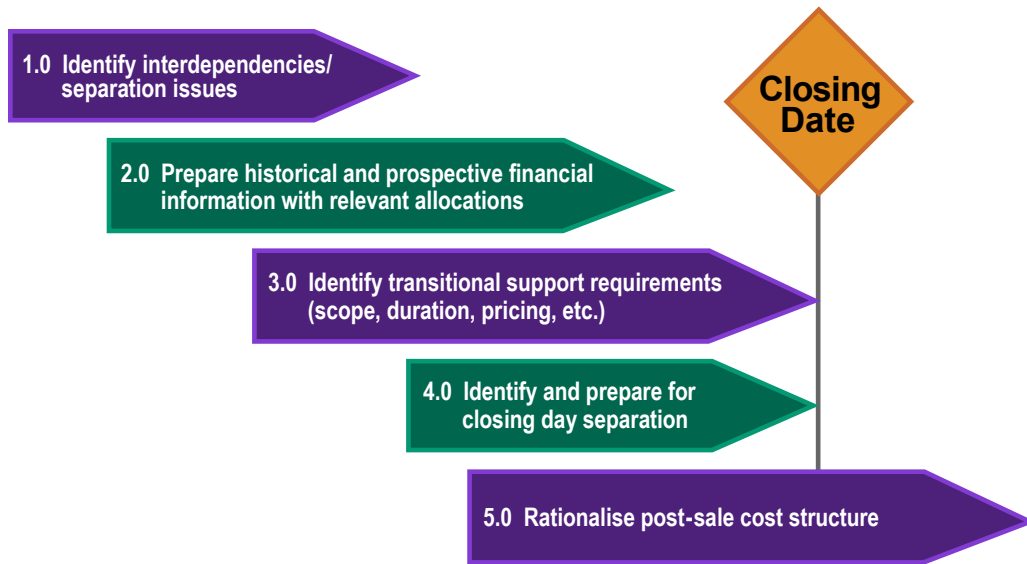
The seller, by preparing his own analysis, can create an allocation which is accurate and leaves less to the discretion of the buyer (who often may try to discount the purchase price for potential risk or a potential misunderstanding of the costs.)

By understanding this interdependency, the seller can determine what transition support, if any, will be required by a buyer post-closing, determine the scope of such services, determine a fee for such services commensurate with the cost to provide the services, and determine the length of time for which such interim support will be provided. If the seller is proactive in this regard, it can significantly reduce the length of time for negotiations and allows it to more effectively control the overall process and creates greater leverage for the ensuing negotiations.

### Complexity of Separation Issues

Separation issues can be complex and require some thought as to how the seller will ultimately deliver the assets or operations to the successful buyer. Consider those employees being transferred with the sale. The seller will need to consider how pension assets and liabilities will be transferred, health and welfare plans at the time of closing, what happens with stock

### Seller Best Practice Activities



(Continued)

options or other equity incentives earned by such employees, transfer of 401(k) accounts, and other issues. This will need to be addressed no later than the closing date of the transaction. Again, by identifying all these issues upfront, the seller has greater control over the overall process. Other examples of separation issues are corporate procurement, insurance, risk management, and other areas in which assets or operations to be sold are currently enjoying benefits by being associated with the seller, which may or may not continue post-closing.

Assume the seller in our example does an effective assessment of the interdependencies, prepares relevant allocations for the historical and prospective financial information for the operations to be sold, defines the transitional support agreements in detail, and considers how it will handle separation issues and includes these in the CIM. This makes it significantly easier for the buyer to do appropriate due diligence, thereby allowing the seller to “shop” the transaction with more perspective buyers or even to conduct an auction, thereby potentially improving the final valuation of the assets to be sold.

### **Corporate Cost Reductions**

Finally, while not part of the CIM, a seller may also wish to consider as part of the overall planning exercise, corporate cost reductions post-closing and after the expiration of the transition support agreements. For example, if the assets to be sold represent either 20 percent of the revenue of the combined organisation or 20 percent of the asset base, it might realistically be expected that overall corporate should be reduced by a proportionate amount. In certain cases, a divestiture can provide the seller with a needed infusion of cash, but it might leave the organisation with a bloated cost structure. Accordingly, divestiture planning should address this as well.

In summary, to obtain greater value for assets or operations to be sold/spun-out, the seller will go through a comprehensive process in advance to develop the necessary financial and

operational information which will be of most interest to the buyer. This will avoid value leakage associated with assumptions made by potential buyers in terms which maybe conservative or erroneous, and it will allow the seller to “shop” the transaction to more potential buyers (potentially even as an auction) in a significantly decreased time frame. Both these typically will allow a seller to realise greater value.

KBC divestiture services provide clear, proven assistance for ensuring the full value is realised. Our team exercises their full breadth of expertise to aid you with a successful negotiation.

### **KBC SERVICES PROVIDED:**

- Strategic transaction advice/purchase strategy
- Operational due diligence
- Negotiation support/contract strategy
- Transition Management Office advice
- Function-by-function interdependency analysis and separation strategies
- Separation risk assessment
- Transition services agreement advice (scope, duration, pricing)
- Synergy capture/realisation assistance through technical assessment of acquired assets, throughputs, and potential
- Operational risk identification (potential latent maintenance issues; safety, health, and environmental concerns; concerns over operational practices)
- Business enterprise assessments
- Facility assessments
- Asset valuation/certified appraisals
- Tax valuation support
- Project finance support
- Project configuration and feasibility studies

## **Your Company + KBC Produces *NextGen* Performance<sup>®</sup>**

*We collaborate with our clients to create unique solutions to their specific challenges. Some of these challenges may include:*

### **Strategic Challenges**

- Effective Business Strategy/Decisions
- Increased Return on Investments
- Enhanced Returns on Acquisitions/Divestitures
- Reduced Risk (Strategic, Capital, Other)

### **Market Challenges**

- Enhanced Yields
- Effective Responses to Crude/Feedstock and Product Markets
- Improved Financial Performance
- Market Risk Management

### **Environmental Challenges**

- Reduced Emissions
- Enhanced Compliance

### **Operating Challenges**

- Improved Organisational Effectiveness
- Reduced Maintenance Costs
- Improved Energy Efficiency
- Behaviour-based Reliability/Performance
- Improved Safety Performance
- Operational Risk Management



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