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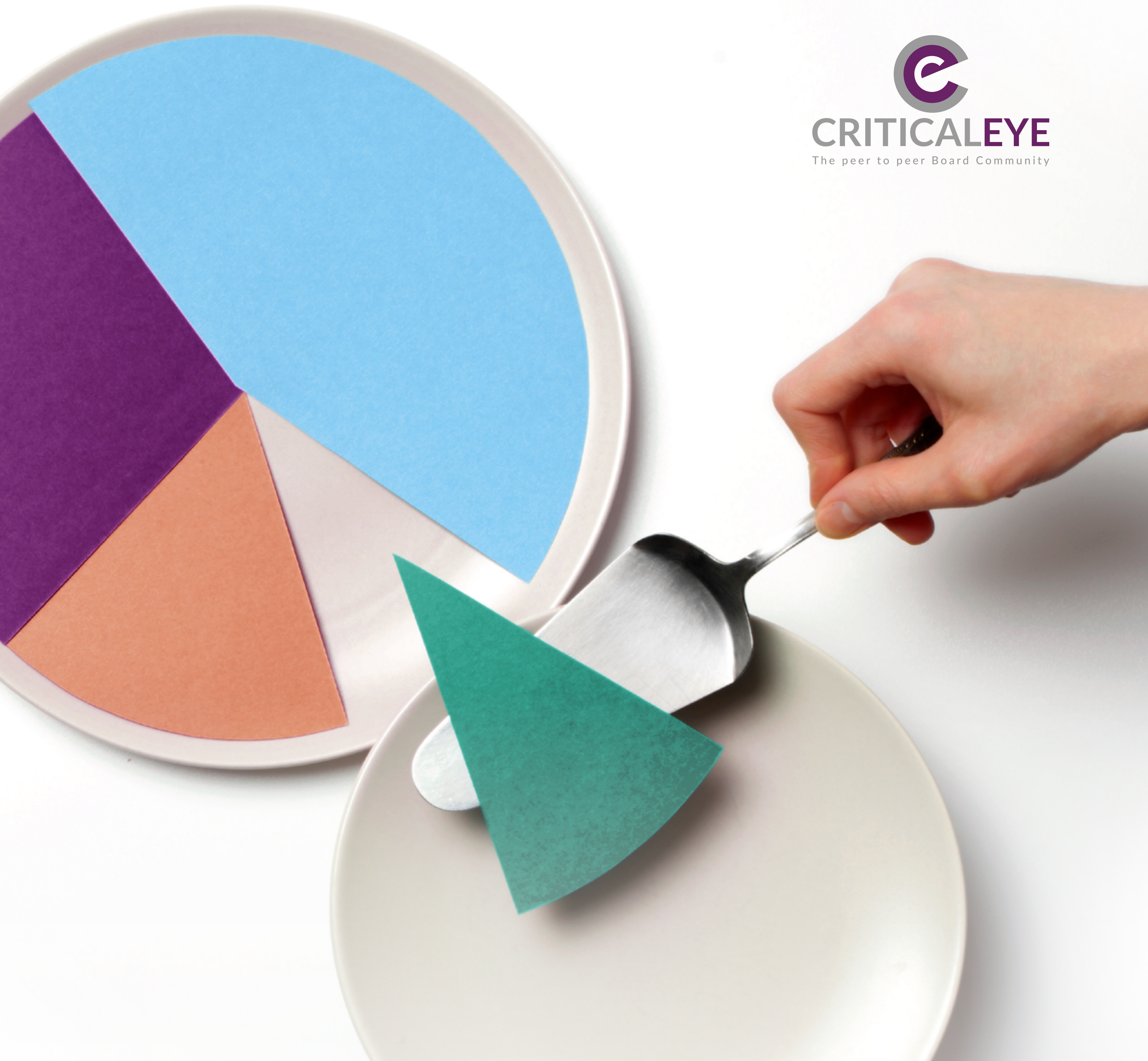


Clearing the Way for a Carve-Out

Charles Honnywill Partner in the Divestiture Advisory Services for the UK&I at EY, tells **Mary-Anne Baldwin** why, when looking to sell a carved out business, corporates could learn a few things from private equity

According to **Charles Honnywill**, Partner, Transaction Advisory Services for the UK&I at EY, the market for divestments is ripe and sweetening by the day. His view is backed by EY's Global Corporate Divestment Study in which half of the 900 companies surveyed said they plan to divest their business within the next two years.

"The market is buoyant and will become more so as corporates need to divest, but the capital markets are giving them fewer chances to IPO. We're going to see more auctions and more individual asset sales rather than IPOs, which are being affected by volatility. I think we're going to see 12 months of postponed IPOs," Charles predicts.

With a sluggish UK economy, divestments are a good way to go. In fact, 70 per cent of the companies surveyed are using divestments to fund growth. "The only way for businesses to really propel themselves is to divest those bits that aren't growing, releasing capital to support other areas that can grow. I see that continuing for the foreseeable," Charles explains.

Keep an Eye on the Buyer

The appetite for acquisitions has caught some businesses off guard, with 46 per cent of sellers surveyed having entered a sale on an opportunistic basis.

"It's interesting how many divestments were not actively planned," says Charles, noting that this can be risky. For example, EY's report finds that opportunistic sales are least likely to build the remaining company's valuation multiple post-sale.

In particular, a speedy carve out can leave the remaining business in a fractious state and a quarter of businesses said they wish they'd had the foresight to at least partially separate the business ahead of divesting.

"Another common mistake of the corporate that divests opportunistically is that they only see the value of the business through their own eyes and miss the value that the business brings to the purchaser," notes Charles. "The acquirer has probably done quite a lot of due diligence before they approached you, so by definition you're behind the curve.

"Assess the value of the business through the potential buyer's eyes. Only then can you truly challenge whether you should continue to own something."

There are many reasons a company may sell off part of its business, be it the need for a cash investment, increased competition or to refocus on its core business. Whatever the reason, it should not be a knee-jerk cash-grab.

"Those who plan divestitures slow everything down and focus on value over speed. The opposite happens when it's an opportunistic approach they might get rid of something quickly but will almost certainly leave value on the table," explains Charles.

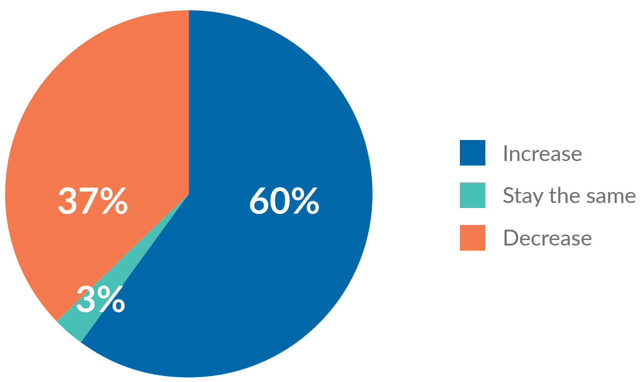
The PE Way

Charles challenges corporates to take an approach more akin to the private equity way of doing things. By their nature, PE houses are experts at selling businesses for the highest value and biggest return. And, with the 20 largest PE houses each selling on average eight businesses a year over the last three years, they're very well practiced.

According to the survey, 75 per cent more companies generate a sale price above expectations when they focus on creating value pre-sale, much like a PE house would. "The way PE companies do that is through data mining and focusing on cash and balance sheets, managing both assertively," says Charles.

Access to data, and the means to analyse it, is both quicker and cheaper than ever before – so much so that you may feel >

What do you expect to happen to the number of willing strategic sellers over the next 12 months



Source: EY's Global Corporate Divestment Study swamped by the amount that could be created. The trick is in knowing what to pick and what to drop.

"One of my clients said they wish they had known in advance how many KPIs they needed to get rid of before listing a business. They reduced it from 180 to 18 but wished they'd done it years before," says Charles.

"Focus on the bare minimum of KPIs. Make sure there's a balance of those looking back at profit or cash and those that are looking forward, but don't become beholden to them - if they don't work, change them. The great thing about big data and better IT capability is that you can.

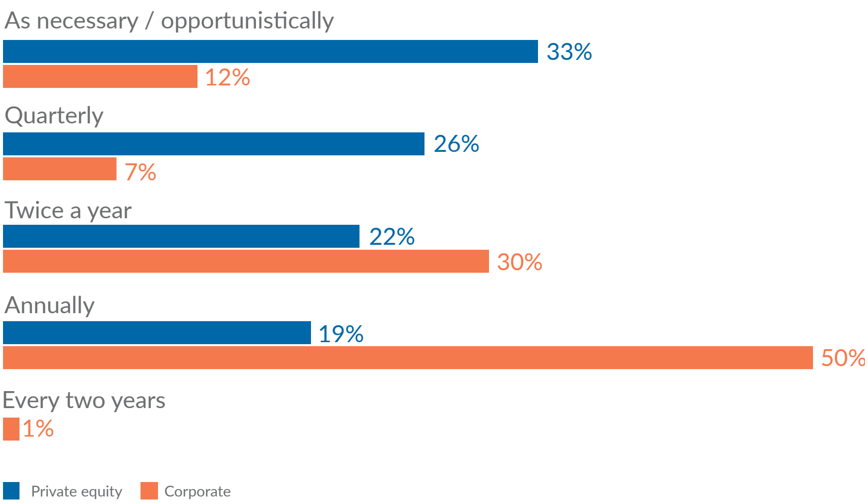
Bring It to the Board

Another trick that corporates can learn from PE companies is their relationship with the board, says Charles. "Because PE shareholders sit on the board, it can achieve real focus on the shareholder interests. Corporates cannot mimic that, but they should at least try to mirror some of the things that this shareholder presence achieves."

Getting a good sale price can't be the only objective, you also need to sell for the right reasons and shareholders will want reassurance that you're doing it to grow, not simply plugging gaps in a sinking ship. As Charles explains: "You've got to know where you're going to recirculate your proceeds, otherwise the share price performance of the retained group can suffer. Those who have rehearsed the divestment and use of proceeds with the board do better."

It comes back to adequate preparation, which means undertaking proper performance reviews of various business units. "You need to get the board members' heads around the business you intend to sell well in advance," says Charles. "Do your portfolio review twice a year and make sure the board goes through it all so its members are well informed." ■

How frequently do you assess your portfolio to detemine business units/brands to grow or divest



Source: EY's Global Corporate Divestment Study

CHARLES' TIPS ON DIVESTMENT

- Establish portfolio review protocols so that it's clear which businesses you might want to sell to and why
- Allow time to enhance the value of the business
- Involve stakeholders so they understand performance expectations and aren't threatened by a potential sale
- Enlist an internal project leader who has the C-suite's ear

Read more from EY's Global Corporate Divestment Study

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Charles Honnywill leads EY's European Sell-side transaction advisory team. He specialises in advising vendors of businesses to prepare them for sale and providing vendor due diligence services.

Charles has also been responsible for corporate finance services to a range of broadcasting telecommunications and related businesses in the UK and overseas.

He has been a partner since 1997 and worked in EY's transaction advisory services department for 21 years.

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