Exit strategy

Finance

Guidance

Maximising exit value

How we can help you make the most of divestment, winddown or turnaround

2021

Maximising value from exits

Exiting non-core or underperforming operations or subsidiaries, can help reduce their financial drain, while releasing investment and management time to focus on the areas of your business with the greatest growth potential.

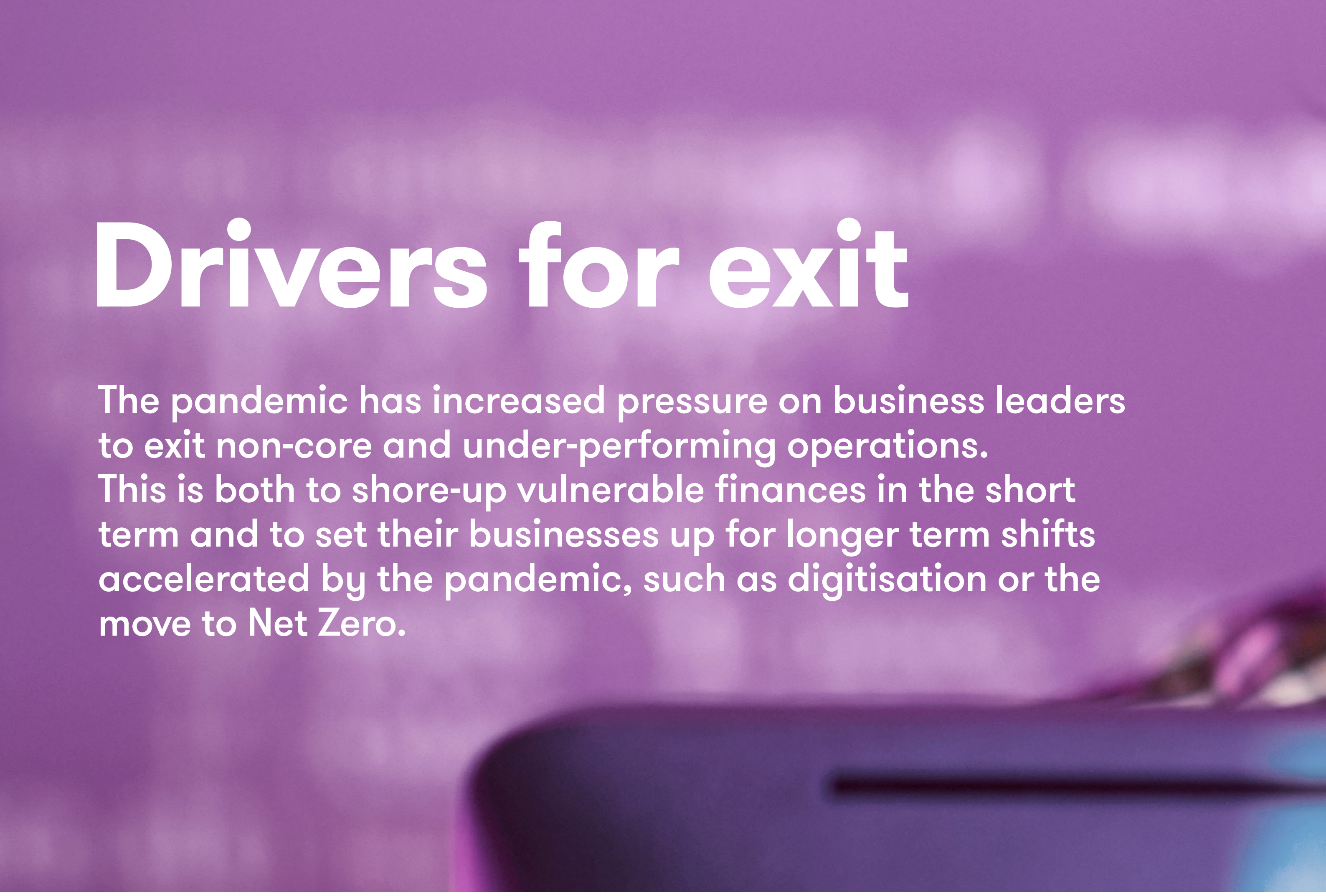
Both the extent of non-core and underperforming operations and the pressure to relinquish them have grown in the wake of the COVID-19 pandemic. So too have the options for sale, as private equity buyers and specialist consolidators look to deploy their high levels of available funds.

Getting exit right means more cash to reinvest. The big risk is creating an exit process that consumes excess time and resources, leaving precious value on the table.

How then can you make the most of an exit's potential while avoiding the pitfalls? In this report, we look at what's driving exit strategies, the options available, the dynamics within the market and how our specialist team can help you to maximise value.

Understanding your options from sale, through to turnaround or closure requires detailed consideration of the value drivers and the cost to execute the chosen option.

Careful and timely tax planning, along with specialist M&A and operational improvement experience, will be key features of this assessment.



Drivers for exit

The pandemic has increased pressure on business leaders to exit non-core and under-performing operations. This is both to shore-up vulnerable finances in the short term and to set their businesses up for longer term shifts accelerated by the pandemic, such as digitisation or the move to Net Zero.

The 80:20 rule holds that most of the value generated by you and your business comes from 20% of the effort. The big questions are how to refocus your time on this golden 20% and what to do about all the distractions and low value activities that are keeping you from the prize.

Almost invariably, a large proportion of your time is pulled in the wrong direction by underperforming products, subsidiaries or locations. Making the decision to exit can be hard, especially if they have been mainstays of your business in the past. But times change.

> If done at the right time and in the right way, exiting non-core businesses can free up cash, resources and time to ultimately drive growth.

Focusing finance

Following acquisitions, strategic reviews or indeed in the normal course of business, you are likely to find that certain products, subsidiaries, locations or even territories are absorbing valuable resources, but not delivering sufficient returns.

The upheaval of lockdown has brought these considerations to the fore by heightening the pressure on resources. Revenues in many sectors dipped or ground to a halt altogether. Yet even with job retention grants and support, expenses kept coming or were deferred temporarily. As government support measures come to an end and demands for deferred rents come up against the costs of replenishing inventories, the need to focus time and finances has never been greater. Some areas of your business are likely to be taking too much of both, with little reward to show for them.

From core to non-core

The upheaval of the pandemic has also redefined what is core and non-core. The retail sector is a clear case in point. Digital sales and home delivery were already gaining ground on physical 'bricks and mortar' outlets before the pandemic. But with non-essential shops closed, the move by customers from bricks to clicks has accelerated. Many other industries are following suit to a greater or lesser extent, from the upsurge in takeaway and delivery to the further decline of branch banking and rise of mobile alternatives. How do you concentrate resources on the growth areas? What do you do with assets and operations that are surplus to requirements?

Other shifts accelerated by the pandemic include the focus on sustainability, social impact and other environmental, social and governance (ESG) issues. With investment, some products and production facilities can be adapted to the demands of Net Zero. But for others, the cost could be too great or difficult to justify if customer expectations are changing. You may also want to refocus resources on faster growing green markets or bring jobs onshore to help support local economic priorities. Again, how do you free up funds for ESG investment? What do you do with operations that fail the ESG test or are no longer fit for your strategic purposes?

Geo-political and jurisdictional factors often drive a decision to exit where operating in a market no longer makes strategic sense. In some cases, an orderly winddown may be preferable to selling to a competitor/willing buyer and handing over the market to them.

Changes in trading arrangements, such as Brexit, have added further impetus for strategic reviews and can result in pressure for exit and divestment. Extra charges, paperwork and taxes may make operations in certain locations less viable.

Further examples include the political tensions between the US and China, which are spurring many businesses to re-evaluate their supply chains. These events see strategic decisions being taken to change footprints in global organisations.

What do you do with operations that fail the ESG test or are no longer fit for your strategic purposes?

Willing buyers

The good news is that what may no longer be core for your business could well be a target for others. M&A activity is currently at record levels in many countries as companies look to build up competitive scale and reach into new markets. In addition to corporate buyers, private equity funds have considerable dry powder that they are keen to put to work. The buyers also include specialist run off consolidators in areas ranging from retail to discontinued insurance portfolios.

So, far from being an issue to deal with when you have more time, an exit strategy should be at the centre of your plans right now. In the words of the legendary Jack Welch, former Chairman and CEO of General Electric: “If you cannot win, it is best to find a way out ... Focus on your core strengths, and get rid of weak businesses that slow you down.”

Key considerations for exit

A clear process for judging what is core, what is non-core and the best options for exit can help to ensure that the full value of the asset is optimised and delivered.

Key questions

- Do you have a non-core asset you are assessing your options for?
- Do you have an underperforming division taking up excessive management time and/or draining financial resources?
- Are you experiencing a significant shift in customer demand, route to market or compliance requirements, which calls for a strategic reassessment of certain operations?
- Are you looking to carve out or de-merge operations as part of a strategic restructuring?
- Do you want to sell an operation and need support to maximise exit value?
- Do you need to winddown or close an operation?
- Can a business with no value be exited using an insolvency process?
- Do you require an exit plan which aligns financial, operational, strategic and organisational goals?

Priority one

Urgency

Being proactive when faced with non-core or underperforming operations is essential. When management don't have an exit strategy or are too slow to act, a business can quickly become distressed. If left too long, events can move out of your control and the available options start to shrink to the point where a forced 'fire sale' or rapid closure are the only courses open.

An unplanned closure increases the risk of higher closure costs, potentially leading to insufficient funding and inadequate resources, and perhaps insolvency. You also expose yourself to potential claims from employees, customers or creditors. A lack of exit planning can also have tax implications, with unnecessarily high tax costs. Negative publicity can also be extremely damaging.

Priority two

Assess the options

There are a number of options for dealing with non-core or underperforming operations depending on the circumstances and the time available to address the situation. These include turnaround, divestment or controlled winddown closure.

Turnaround can include a combination of strategic changes, performance improvements and possible integration into other operational divisions. Similarly, preparation for sale could include operational optimisation and carveout to help enhance the sale price and realisable value for the seller.

Priority three

Be prepared

Being prepared when running a business is crucial. This should include your exit strategy to maximise value, as well as to minimise cost and time burden on the business. Working with advisors experienced in this process can give you an important edge.

How we can help you weigh up the options

Our team works alongside you to evaluate options and develop the most appropriate exit strategy.

Where improving the business is a possibility, we introduce turnaround professionals to help you to assess the immediate issues, as well as your ambitions and objectives for the future. Using dedicated resources we help you build, stress test and implement an appropriate strategy to improve sustainable profits.

Should a disposal be the best strategy, we position the business to maximise value, effectively targeting buyers and managing the sale process. We work to reduce any disruption on core businesses, which could be intertwined with the non-core unit for sale. We manage the whole process, saving time, cost and minimising reputational risk.

If the best option is to close the business, we deliver a comprehensive and cost-efficient closure programme. We would support your business on all matters from tax planning, pensions advice, minimising directors' and shareholders' liabilities to providing practical support for dealing with suppliers, customers and employees.

Ultimately, our goal is to realise maximum value from your business and to free up precious management time.

Our solutions

'Grant Thornton' is a network of member firms around the world.

Our approach in supporting you to assess, protect and restore value in your business starts with helping you identify and assess your strategic options, through to developing a robust and realistic plan to exit non-core operations or restructure/ turnaround under-performing operations as part of a focused growth strategy.

Grant Thornton member firm advisers draw on deep expertise across many different areas, customised to your specific needs. We can support with all aspects of developing your plan, including the following areas:

Strategic evaluation

- Helping you assess core/non-core activities and wider strategic decisions
- Providing strategic market, product and competitor analysis to assist with comprehensive and pragmatic commercial decisions
- Building/challenging a turnaround plan
- Strategic valuation assessment

Performance and working capital improvement

- Identification and implementation of cost reduction and operational effectiveness strategies to maximise value on a sale
- Review of working capital improvements to maximise cash reserves
- Minimising the costs of closure

Sale planning and execution

- Positioning your business to maximise value, effective targeting of buyers and management of the sale process
- Facilitating management buy-in/buy-out and supporting the process to maximise value

Tax planning

- Specialist advice on taxes to provide for tax-efficient structuring and transactions
- Support for dealing with employment tax issues, redundancy and severance payments, as well as compromise agreements

Separation and carveout services

- Preparing a unit for sale or closure
- Minimising disruption on core businesses which use or share resources with exiting operations
- Assisting management buy-in/buy-out day one operational and financial planning

Cash management

- Providing tools and support for managing cash when resources are severely restricted
- Assisting management with stakeholder liaison and implementing cash generation initiatives

Insolvency planning and execution

- Provision of strategic planning and execution advice
- Assisting with the transfer of ongoing operations to a Newco
- Advising on legislative requirements and commercial and structural considerations

People and stakeholder management

- Support for communication strategies and stakeholder management
- Advising on organisational design for core and exiting businesses

Closure support

- Free up management time while preparing and delivering a comprehensive and cost-efficient closure programme
- Advise on how to achieve legal and commercial dormancy while minimising directors, and shareholders, liability
- Provide practical support for dealing with suppliers, customers and personnel

Programme and project management

- Provide a tailor-made approach from piecemeal advice to full programme management
- Create a bespoke programme reflecting the strategic objectives of the group
- Implementation and project management, ensuring critical path items are identified and the most appropriate sequence of events is followed to minimise disruption and maximise value

Financial modelling and scenario analysis

- Developing bespoke, flexible models to facilitate scenario analysis
- Modelling using best practice techniques which allow management to take ownership of a model they understand and use in practice

Capital structure advisory

- Supporting and advising on fundraising and appropriate capital structures
- Assisting senior management with key stakeholder liaison and negotiation

Pensions advisory

- Advise on the pension implications associated with the restructuring, sale and closure of operations
- Support negotiations with key stakeholders and regulatory bodies

Case studies

Case study 1

Strategic review of an agribusiness group that was facing financial difficulties following the loss of a major customer representing some 40% of turnover.

Our team assisted management in assessing its exit strategy, including sale, closure or turnaround. Based on our analysis, management concluded that one of the affected subsidiaries was suitable for a management buy-out (MBO), but the loss of the customer rendered another unsustainable.

After facilitating the MBO, we then worked with management to produce a fully-costed and bespoke closure plan for the lossmaking subsidiary. We also managed its implementation to minimise value leakage from the group.

Case study 2

North American energy supplier requiring help to manage the winddown and exit from its Australian energy retail, installation and parts business.

Working alongside the local management team and group's legal advisers, we were responsible for engaging and negotiating with key stakeholders on the ground, including customers, employees, suppliers, landlords and statutory authorities.

Our solution included supporting employees through the transition process and the sourcing of a warranty solution for systems installed by the company to mitigate brand reputational risk and future liabilities. In parallel, we supported the group with closing out liabilities; collection of outstanding debts; the negotiation and assignment of property leases; and the marketing and realisation of assets. Throughout the winddown, we liaised closely with regulators to ensure full compliance at every stage.

The benefits for the group included refocusing resources on profitable opportunities, while optimising asset values from its Australian operations and ensuring an orderly exit. We were also able to ensure that obligations to customers, employees, suppliers and other key stakeholders were met, while safeguarding the reputation of the group. Following the winddown, the intention is to manage the entities through a solvent liquidation process, followed by deregistration.

Helping your business in a post COVID-19 world

We listen, to understand your business goals, and then apply our market leading restructuring capability and expertise to assist you in all aspects of the creation and execution of your strategic plans.

1. **Navigating complexity:** Regardless of the complexity of your group structures, or the international footprint, we have a global network of firms and market-leading teams, including tax specialists in all key juristictions.

2. **Industry understanding:** You will be working with people who are part of your industry, have a track record of achieving success for their clients, and will bring that experience to your challenges.

3. **A holistic view:** We will take a holistic view of the challenges you face and deliver targeted solutions throughout the various elements of the value chain.

4. **Effective restructuring strategies:** We will work closely with you to implement performance and working capital improvements and drive effective restructuring strategies. These include providing independent critique of refinancing proposals and acting as a respected bridge between lenders and the senior management team.

5. **Maximising value:** Our experience of effective divestment/investment strategies for investors, funders and corporates will help you identify and maximise opportunities for value creation or protection and to improve liquidity availability if necessary.

6. **Showing the way:** We are at the heart of the development of cross-border restructuring legislation, giving our clients access to leading-edge and best practice restructuring solutions.

Contacts

Get in touch with our professionals or visit **grantthornton.global** to find out more.

Matt Byrnes
Partner and national head of restructuring services
Australia
E matt.byrnes@au.gt.com

Hugo Luna
Partner, transaction services
Brazil
E hugo.luna@br.gt.com

Nicolas Boily
Partner, restructuring services
Canada RCGT (Montréal)
E boily.nicolas@rcgt.com

John Krieger
Partner, restructuring services
Canada (Toronto)
E jonathan.krieger@ca.gt.com

Hugh Dickson
Global head, restructuring services
Cayman Islands
E hugh.dickson@uk.gt.com

Zhang Yankun
Partner, head of restructuring services
China
E yankun.zhang@cn.gt.com

Clotilde Delemazure
Partner, national director of restructuring services
France
E clotilde.delemazure@fr.gt.com

Rainer Wilts
Senior Partner, head of advisory
Germany
E rainer.wilts@wkgt.com

Ashish Chhawchharia
Partner, head of restructuring services
India
E ashish.chhawchharia@in.gt.com

Nicholas O'Dwyer
Partner, restructuring services
Ireland
E nicholas.odwyer@ie.gt.com

Ian Pascoe
CEO and head of restructuring services
Thailand
E ian.pascoe@th.gt.com

David Gregory
Director, head of tax restructuring services
United Kingdom
E david.k.gregory@uk.gt.com

Shaun O'Callaghan
Partner, head of restructuring services
United Kingdom
E shaun.m.ocallaghan@uk.gt.com

Alistair Wardell
Partner, head of exit services
United Kingdom
E alistair.g.wardell@uk.gt.com

Paul Melville
National managing principal, restructuring services
United States
E paul.melville@us.gt.com

Grant Thornton

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