



## Portfolio optimisation for family enterprises

### The challenges of an M&A solution in the context of ‘fix, sell or close’

The COVID-19 pandemic continues to drive change as businesses are now adapting to what is effectively a ‘new normal’. The majority of family enterprises in the region have a portfolio of diverse businesses and assets, which are now being scrutinised as owners seek to optimise capital allocation and focus scarce senior management time. Whilst there is much talk of acquisition appetite into areas such as technology and digitalisation, there is a pressing requirement on how to deal with assets that no longer fit within the portfolio, such as non-core or underperforming assets. There is a commonly held view that a business sale is a deliverable solution that will generate optimum value. However, execution can be time consuming and costly with no guarantee of a successful outcome. Consolidation activity is prevalent across several sectors, leading to a window of opportunity to pursue the sales option.

#### Why do so many divestitures fail?

Key contributing factors include:

- Unrealistic expectations regarding value and market appetite
- Insufficient time and resources devoted to the preparation for the sale process

Maximising the chances of success depend on a few fundamental principles which include:

#### 1. Fix underperformance

The adage that “one person’s trash is another person’s treasure” is regrettably not true. Appetite for underperforming, poorly managed businesses will always be weak and attract a significant discount. In this case, a turnaround plan cannot be implemented as investing the time to present a positive post-acquisition scenario is critical.

#### 2. Set realistic expectations

Invest the time to understand the potential buyer universe i.e. international, regional, financial and strategic, and identify credible contenders within the financial resources and their track record to execute a transaction. Understand valuation metrics and be realistic. Packaging, positioning, process management, competitive tension and strategic premium can contribute to an improved value, but fundamentally professional buyers will not pay outside established valuation parameters.

#### 3. Prepare

Preparation is fundamental to optimising the sale process timeline and preserving value. The due diligence process cannot be a voyage of discovery for both the seller and buyer; this approach would result in a lot of time being lost as the buyer uncovers unresolved issues, which significantly weakens the position of the seller and erodes deal confidence. Identifying issues and correcting them prior to engaging with the buyer streamlines the process and gives the seller a stronger negotiating position.

Key areas to consider:

- Well-presented equity story
- Supportable budget
- Quality of earnings and Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) adjustments
- Existing capital structure
- Accurate books and records, from management accounts through to audit
- Compliance with the latest accounting standards
- Internal deal team and knowledge group
- Well-structured data room reflecting the commercial, legal and financial aspects of the business
- Appropriate completion mechanism
- Normalisation and cleansing working capital to minimize closing adjustments
- Impact of related party transaction, interdependencies, and separation issues
- Management continuity and incentivisation
- Environmental, social and governance issues

When an exit is required, the M&A option should not be taken for granted. Furthermore, after a six to nine-month process, the business owner may be back to square one without their achieved objective. Qualifying market appetite and meticulous preparation will determine whether a business is a suitable disposal candidate and greatly enhance the chance of a successful outcome.

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