2.
Protect value by being divestment ready

In the rapidly changing global and regional corporate landscape, portfolio rebalancing remains an essential tool for organisations seeking to refine their strategic direction, allocate resources efficiently, build resilience and grow. Alongside delivering on these goals, an important measure of rebalancing success is the preservation or enhancement of value through the divestiture process itself; has the parent company maximised the value it realises by selling and, critically, ensured that the divested company is in the best position to succeed in the future with its new owners?

While an increase in deal activity or opportunities appears likely (see *'Survey highlights'*), sellers should also anticipate an environment where prospective buyers are increasingly vigilant, subjecting deal narratives to intense scrutiny and ensuring that value propositions are not merely presented but are fortified against challenge. In these conditions, robust preparation and strategic foresight are the best way to secure favourable outcomes and protect against the risk of value erosion.

Creating and preserving value throughout a divestiture is an exercise in strategic acumen, meticulous planning, and strong execution. The objective is to not only present the business in its best light, and thus increase its value, but also to ensure that its intrinsic worth is maintained and protected from value loss, from the initial stages of the portfolio evaluation through to the transfer of ownership and completion.

From strategy to sale

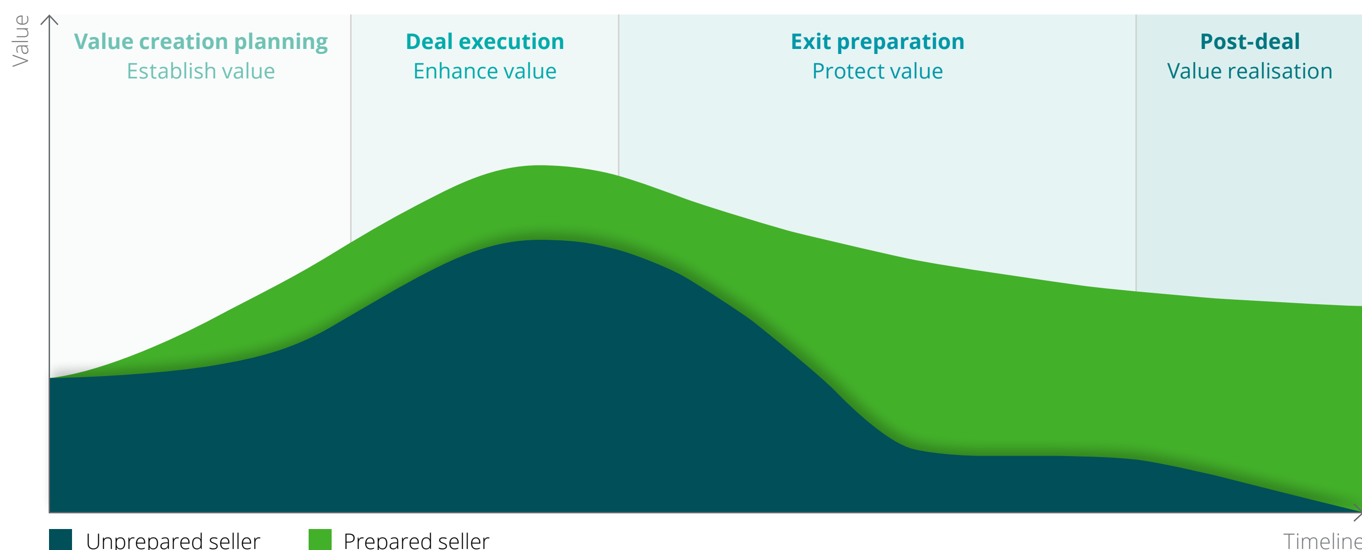
Value creation or erosion can occur at every stage of the divestiture lifecycle. Where it is lost at one stage, it is rare to see it recovered further along. This fact alone underlines the necessity for a proactive approach to preparation, where each phase of the divestiture process is thoughtfully planned and diligently executed to enhance value and to protect against its loss.

Value loss can occur at any stage with examples including:

- Incorrect valuation leading to pricing the asset too low or too high, which then impacts buyer interest
- Inadequate preparation and presentation of the asset diminishing its attractiveness
- Due diligence revealing unanticipated issues and hidden liabilities that reduce the asset's value
- Poor management presentations and negotiation resulting in unfavourable terms
- Operational disruptions impacting the overall performance of the asset.

However, while these issues are all too common, they are not inevitable and there are a number of practical steps a company can take to avoid value erosion.

A seller that is prepared is in a better position to establish value prior to the deal and protect against value loss throughout the divestiture process



Enhancing seller readiness: a blueprint for success

In chapter 1, *'Active portfolio management and capital efficiency'*, we looked at the benefit of an active portfolio review mindset. Regular and rigorous portfolio assessment puts companies in a strong position to build resilience and grow, enabling them to move swiftly when the time demands. And when an asset has been chosen for divestment, it is important that the focus switches to planning and preparedness. The principles laid out here provide a blueprint for companies to fortify their exit strategies, ensuring that every operational step contributes positively to the transaction's end value.

Strategic planning and a robust value story

In our Asia Pacific survey, more than a third (36%) of respondents said that the execution of value creation initiatives prior to the transaction was a significant factor in them achieving a higher-than-expected deal value. They also said that having a compelling value story and track record for the divested business would be one of their top priorities if they could revisit their most recent divestiture.

These findings underline the significance of strategic planning and developing a compelling value story, supported by robust separation financials and data. Together they help to frame the asset within a narrative that reflects market trends and investor interests while showcasing its unique potential.

- **Value proposition development:** The cornerstone of a compelling transaction narrative is a value proposition that resonates with potential buyers or investors. It should feature a detailed explanation of the divested entity's growth trajectory, highlight any synergistic opportunities for buyers, and provide a clear demonstration of its standalone viability.
- **Bidder analysis:** Preparing a detailed bidder list and analysis is key in a divestiture to target the right potential buyers (e.g. corporate versus private equity), stimulate competitive bids, and align the sales approach to their preferences.
- **Go-to-market plan and clear exit strategy:** A well-articulated exit strategy tailored to the right buyer group(s) should identify divestment options and how to take the entity to market, and also feature a thorough valuation impact analysis that highlights how divestiture pathways – sale, spin-off, or IPO – align with the company's overarching objectives and prevailing market dynamics.
- **Detailed separation financials and robust data:** Detailed robust financial and operational data build credibility in a divestiture, providing transparency on the health and potential of the business and the integrity of the deal. They give buyers the empirical evidence they require for valuation, allowing for informed bidding that reflects the true worth of the entity. They can also help to avert post-deal disputes and adjustments, streamline due diligence, and improve buyer confidence, all of which contribute to preserving and even enhancing the value of the deal. By contrast, the absence of detailed, credible financials leaves room for uncertainty, scepticism and discord, eroding value and ultimately deterring investment.
- **ESG consideration:** Incorporating ESG considerations into a divestiture strategy and value story (see chapter 4, *'ESG is a critical driver of deal value'*) not only aligns with ethical business practices but can also help to mitigate risks and enhance the overall value proposition of the deal for buyers who, like everyone else, are under increasing pressure to present strong ESG stories themselves. Interestingly, in our survey, there was substantially greater overlap between companies that frequently discuss ESG considerations and those that report receiving a significantly higher deal value than expected, than there was with companies that only occasionally discuss ESG.

Operational capability and independence

In our survey, when respondents were asked for the most significant reasons for their companies receiving a higher-than-expected value, the top-ranked answer was 'preparation and optimisation execution at the divested business prior to the sale' (39%).

Planning for operational and technological independence in a divestiture is crucial. It ensures that the entity being sold can function autonomously, without relying on the selling company's resources or systems or cumbersome transitional services. This independence can enhance the entity's appeal to buyers: it promises a seamless transition and the potential for uninterrupted business operations post-sale. It also mitigates integration risks and allows for clearer valuation since the entity's performance is not entangled with the seller's infrastructure.

Technology capability and decoupling

Given the extensive role technology plays in business, ensuring the divested entity has an independent and robust IT infrastructure is paramount. Technological preparedness involves a comprehensive review and restructuring of IT systems, data management protocols, and digital assets to ensure continuity and efficiency post-divestiture.

The vast majority of Asia Pacific survey respondents (84%) say that improving their tech savviness and maturity would help to improve their divestiture outcomes. In fact, respondents in our survey that describe themselves as tech-savvy (45%) report faster-than-expected time to divest; are more likely to identify and mitigate stranded costs; are more confident of achieving favourable transaction outcomes when approached opportunistically by bidders; and, have better internal M&A stakeholder alignment (E2E) than companies who aren't tech savvy.

As part of building divestiture preparedness from a technology perspective, companies can take a number of steps:

- Ensuring tech-foundations are sound (e.g. data availability and robustness)
- Understanding the impacts of technology across each stage of the divestiture lifecycle
- Deploying technology throughout the bidder process (e.g. VDR, visualisation for key financial and operational data)
- Considering alternate software solutions such as pre-configured SaaS platforms to avoid any significant costs to disentangle existing platforms and improve ability to scale.

Operational streamlining

Beyond technology, operational readiness involves a critical assessment of supply chain dependencies, internal processes, and customer relationships. Establishing operational independence ensures the divested entity can function effectively without the parent company's support, enhancing its attractiveness and value.

Tax structuring

In a divestiture, effective tax structuring can play a pivotal role by optimising the transaction's tax impact, thereby maximising after-tax returns. Strategic planning to minimise tax liabilities, leveraging incentives, and addressing potential exposures and opportunities should all be considered within the context of the tax laws of the relevant jurisdiction (see chapter 5, *'How tax impacts deal success and values')*. This can serve not just to preserve but enhance the deal's value and make the asset more attractive.

Compliance infrastructure

For our survey respondents, the time required for regulatory approvals was the top external factor (20%) influencing the one-time cost for planning and execution of the most recent divestiture. Building a compliance framework that can withstand regulatory and investor scrutiny means going beyond addressing current regulations and issues such as ESG requirements and anticipating future legislative or social changes. A forward-looking approach can help to minimise risks of compliance-related disruptions that could stall or derail divestiture processes.

Consideration of the remaining organisation

Value protection is not only critical for the assets being divested but is also for the remaining core-business. Keeping the remaining organisation front of mind throughout the divestiture process helps to improve continuity, stability, and positive relationships, ultimately contributing to the overall success of the divestiture. To prepare the remaining organisation for risks post-divestiture, it is crucial to undertake a rapid assessment of the shared elements between the seller and the business to be divested across products, processes, people, technology, and assets. A clear end-state vision and carveout strategy should be developed across all geographies and functions to minimise the chance of dis-synergies or stranded costs slipping through unnoticed. In addition, defining a target cost structure for the post-divestiture organisation allows for swift adjustment, shortening the duration of change and facilitating a smoother transition to the desired end-state. These actions collectively aim to mitigate risks and ensure the organisation can adapt effectively to the new landscape.

Stakeholder engagement

Asked what they would prioritise if they could revisit their most recent divestiture, the top-ranked response among Asia Pacific sellers was 'planning customer, supplier, other partner change management and communications.'

Portfolio rebalancing is, in essence, a form of corporate change and it's hard to overstate the importance of communication in managing change effectively. Keeping stakeholders informed and involved enables companies to better navigate the complexities of divestitures, including tight timelines. It also means they can address any concerns proactively and foster an environment that is supportive of, rather than resistant to change.

A strategic approach to stakeholder management helps preserve the value of the business being divested, accelerates the transaction process, and secures buy-in from key parties, ultimately contributing to the success of the divestiture. In our survey, there is significant alignment between sellers with strong internal collaboration and positive divestiture experiences, including higher-than-expected transaction values, faster times to execute, and better identification and mitigation of stranded costs post completion. So, what does good stakeholder engagement mean?

- **Proactive regulatory engagement:** Anticipating and navigating the regulatory and industrial relations landscape requires early engagement with regulatory bodies, unions, and the State; understanding potential hurdles such as foreign investment requirements and developing a clear compliance roadmap. This strategic focus is especially relevant in industries where regulatory scrutiny is intense, such as financial services.
- **Customer and supplier engagement:** An effective communication plan and alignment with customers and suppliers is vital for retaining confidence and loyalty, ensuring the continuity of business relationships, supply and revenue streams. It mitigates the risk of customer attrition triggered by uncertainties surrounding the transaction and can prevent disruptions to supply and dis-synergies created by a loss in purchasing power.
- **Management preparation:** A significant amount of value can be lost if management are unprepared and fail to make a compelling value story to prospective bidders. By adequately preparing management and engaging them throughout the divestiture process, companies can inspire confidence in bidders, mitigate risks and help protect against the loss of value throughout the divestiture process. Unsurprisingly, when asked what respondents would do differently if they could complete their most recent divestiture again, the most common response was more-extensive preparation of management.
- **Workforce engagement:** During a portfolio rebalancing, a wide range of workforce challenges can arise. Uncertainty about the future within the business being divested can result in the erosion of morale and productivity, the loss of key talent, cultural misalignments and miscommunication. Legal and regulatory compliance, integration complexities, discrepancies in compensation, and the need for effective change management can also present significant hurdles. By proactively addressing these issues through transparent communication, strategic planning and offering reassurances, companies can mitigate risks, ease the transition for employees, and help to preserve the value of the divestment.

Prepare and plan to preserve value

In any divestiture, successfully executing across multiple dimensions within a compressed timeframe while maintaining business as usual is essential if value is to be preserved and created, both for the divested asset and remaining organisation. Achieving this demands strategic planning and meticulous preparation at every stage of the transaction and with consideration of every stakeholder in the process.

As a bare minimum, divesting companies should take the following steps to ensure they are positioned to preserve value throughout the portfolio rebalancing lifecycle:

1. Develop a plan to maximise deal value and options, supported by a value-creation story
2. Develop a comprehensive buyer list to inform the design of the portfolio rebalancing process and any supporting materials
3. Develop detailed separation financials supported by robust data
4. Develop a clear separation strategy and blueprints
5. Anticipate alternative divestiture scenarios and be prepared to react
6. Streamline and separate technology and operations where possible
7. Develop rapid and clear TSA entry and exit plans where entanglements remain
8. Develop a detailed stakeholder management plan for both internal and external stakeholders.