



5x5 series: Insights and actions

Being a prepared seller:
How do deal makers avoid losing value?

A fundamental objective in many divestitures is the ability to maximize value within a compressed time frame while maintaining business as usual. Our work with sellers and results from our 2022 Global Divestiture Survey point to insights into why sellers may receive lower than expected value for their assets and may leave money on the table. In contrast, prepared sellers who engage in proactive steps by setting a firm foundation for divestitures.

5 things you should know

Understand the target’s operational reality – Preparing to take an entity to market is no small task. For smaller businesses that are not core to an organization it may be challenging to fully understand operations and cost details, potentially adding risks to negotiations with acquirers.

Increase buyer confidence – When developing a standalone state view of a target business, serial acquirers will likely question what is put forward. Increasing buyer confidence in pro forma (PF) adjustments is critical to receiving credit for the valuation of a business.

Utilize transition services wisely – Establishing transition service agreements (TSAs) can be complex and time-consuming and may pose a burden to the buyer and seller. They typically require additional tracking, management, and governance, and can continue through multiple extensions. Lengthy agreements may even inhibit wider optimization across the organization.

Analyze the cost structure of the divested business – Performing financial analysis early can help inform how to enhance the cost structure or identify cost improvements.

Identify tax planning considerations to improve tax efficiencies and increase value – A divestiture may offer significant opportunities to improve the ongoing tax efficiency of each separated business after the transaction closes and to increase the transaction’s long-term value.

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5 actions you can take

Plan sufficient time to understand the target’s complexity as a standalone entity. Sellers who are not prepared to speak to current state of operations may be leaving money on the table as serial acquirers will likely want to know about a theoretical standalone state and how a business is operated.

Anticipate and preempt diligence questions to showcase verifiable PF adjustments based on initiatives reflected in financial models, CapEx plan, budget and P&L, or within historical documentation. A strong control environment may also instill additional confidence in buyers and strengthen documentation.

Don’t underestimate TSA requirements and TSA negotiation impacts on value. Understand where pain points exist in separating financial data as this may drive more time-intensive TSA requirements. Determine the optimal deal structure and conduct thorough sell-side diligence while developing rapid and clear TSA entry and exit plans.

Dedicated focus on cost improvement and enhancing working capital can also help frontload and unlock synergies and cost efficiencies for all transactions across the organization for the divested and remaining businesses.

Identify the tax-related deal scope – assets, liabilities, and operations included within the transaction perimeter. Performing a detailed bottom-up analysis early in the planning process to identify specific entanglements and geographic footprint of the divested business may mitigate or reduce tax leakage and inform the development of post-divestiture tax planning.

Connect with us

BRENDA CIAMPOLILLO

Managing Director
Deloitte & Touche LLP

CASEY VAIN

Managing Director
Deloitte Consulting LLP

RYAN STECZ

Partner
Deloitte Tax LLP

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