LEADING THROUGH TRANSITIONS: DIVESTING PART OF YOUR BUSINESS

Planning and preparation is key for a successful close

Your strategic plan requires you to divest part of your business. How do you do this in a way that maximizes value and accomplishes other strategic goals? What can you do throughout the process to give yourself the best possible odds of closing the deal successfully?

In this edition of *Executive Issues & Insights*, we explore key insights drawn from the extensive C-suite and Board experiences of the NextLevel team on divesting a part of your business.

NextLevel Case Study

Satellite communications company successfully spins off major division for $1 billion

A satellite communications company wanted to carve out and sell a major operating unit, the Satellite Division, and relaunch the remaining organization as a new enterprise. In order to successfully complete the divestment as cleanly as possible, the company needed to separate its intellectual property and establish a new technology infrastructure for both organizations. It also needed to reduce IT costs for the remaining smaller organization.

An experienced executive, now a NextLevel partner, joined the company to manage the negotiation and separation of intellectual property across a variety of information systems. He established a new technology infrastructure for the Satellite Division, which contributed to securing its revenue through the course of the deal.

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NextLevel Insights

Clarify the strategic rationale for the decision

The reasons for divesting will drive your preparation. A distress sale implies different tactics from a regulatory-motivated sale. These are in turn different from a strategically motivated sale, such as when you are refocusing your brand. Understanding the strategic objective will enable you to execute against that objective throughout the process.

Find appropriate advisors and communicate with them

You will likely need an M&A advisor or business broker unless your spinoff is very small or you already have a solid buyer. Lawyers who craft business sale agreements are often a good source. The right advisor/broker should know the industry well and be in touch with the best investors or acquiring companies. Communicate openly about the strategic rationale and any potential issues buyers may have, as well as measures you are taking to mitigate them. Partner with your advisors throughout the process, and make sure they are incented for a successful sale.

Prepare the business for a clean sale

Complete audits, resolve lender issues, separate intellectual property and IT infrastructure, and leave as few issues to the potential buyer as possible. The offering prospectus should include anything the buyer would want to know, including disclosure of any potential problems and mitigating measures you are taking. Present your company in its best light while being as upfront as possible.

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He also moved all communication and financial solutions for the remaining organization to the cloud, thus reducing system, maintenance, and personnel expenses for the new enterprise. In addition, he maintained a high level of communication with employees and customers across both organizations as tensions increased and requirements conflicted with the impending transition.

The company was able to complete the carve-out and sale of the Satellite Division for $1 billion while establishing a new system infrastructure for the remaining organization.

KEYS TO SUCCESSFULLY DIVESTING A PART OF YOUR BUSINESS

- **Your strategic rationale:** Are you clear on why you're divesting and what tactics are most appropriate?
- **Your advisor/broker:** Are you communicating openly about all potential issues?
- **Your prospectus:** Does it include all relevant information for the potential buyer and close as many open issues as possible?
- **Your attention to detail:** Are you putting in as much planning as you would for an acquisition?
- **Your ongoing revenue:** Do you have a plan for securing it through the divestiture and beyond?
- **Your employee communication:** Are you keeping ahead of the curve?

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Manage the divestment with as much care as an acquisition

A divestment or spinoff is complex and requires as much detailed planning as an acquisition. Many such deals never close, but meticulous preparation and attention to detail can improve the odds of timely closure. Thoughtful planning needs to go into a short-term plan for transitioning accounting services, supply base, payroll, personnel, HR, intellectual property, IT infrastructure, labor agreements, and more.

Secure ongoing revenue

Both you and the buyer have an interest in securing the ongoing revenue of the divested portion of your business, particularly if there is a holdback against financial targets or in the event the deal doesn't go through. So treat it as if you are keeping it: manage relationships with key customers, preparing them for the likelihood of the split while explaining the measures you are taking to look after their interests.

Plan a retention process and communicate ahead of the curve

News of a divestment can trigger strong emotions within your company that can potentially threaten a successful sale and closure. Employees wonder what changes are coming and what will happen to them. Good people always have options, so plan an effective retention process for key employees early on. For all employees, communicate the improved strategies and future for both entities after separation, as well as the process for deciding which employees will go to each entity. Be open and honest about the process while emphasizing the opportunities and benefits.

"MANY DIVESTITURES NEVER CLOSE. THOUGHTFUL PLANNING ABOUT YOUR ASSETS, PEOPLE, AND STRATEGIC RATIONALE CAN IMPROVE THE ODDS."

A divestment takes as much detailed planning as an integration.

More Information

To learn more about how NextLevel can help you successfully divest part of your business, call us at (800) 833-NEXT or email info@nlbev.com.

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