KPMG

Driving a successful exit

Five manageable actions for maximising shareholder value when exiting a business

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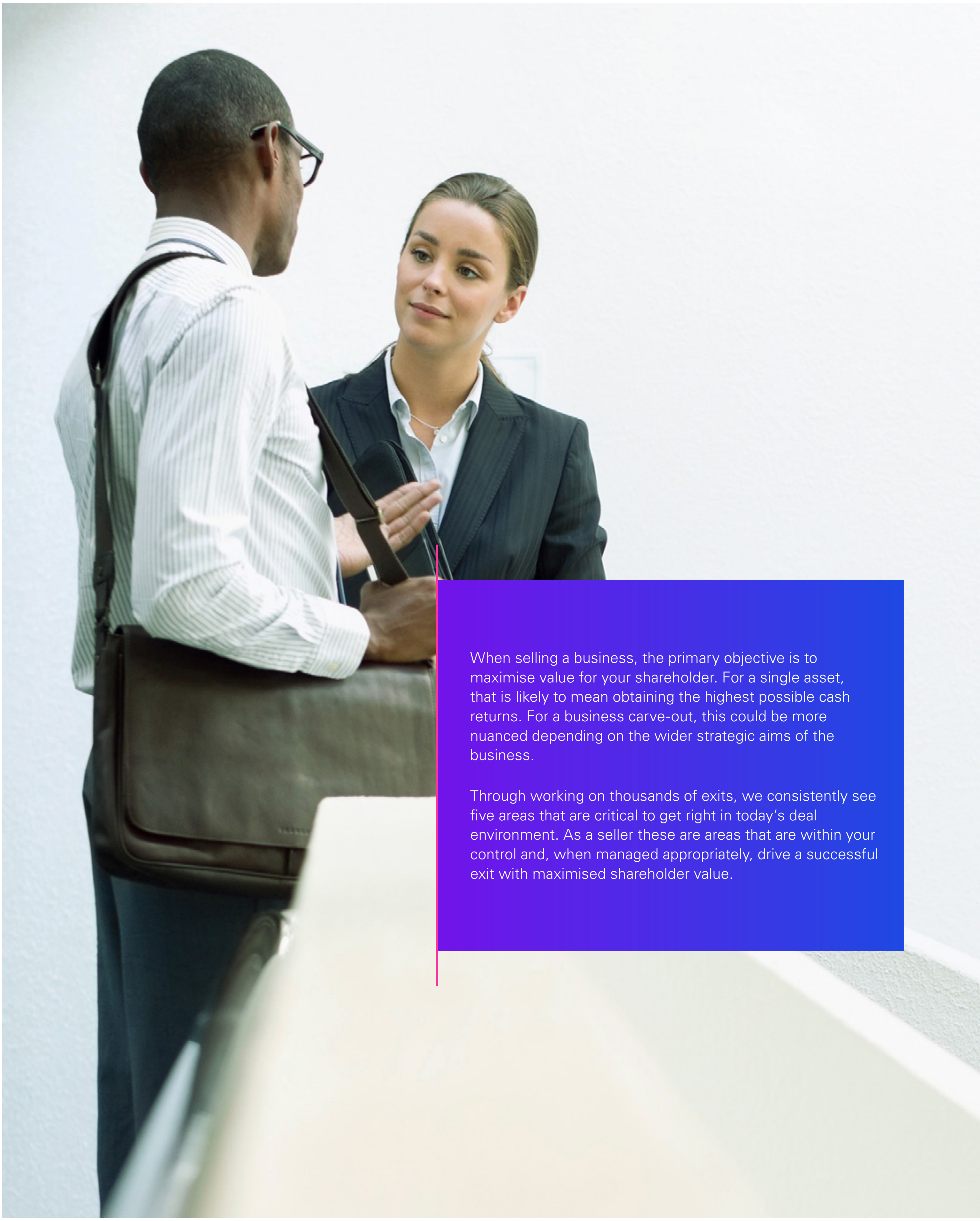

When selling a business, the primary objective is to maximise value for your shareholder. For a single asset, that is likely to mean obtaining the highest possible cash returns. For a business carve-out, this could be more nuanced depending on the wider strategic aims of the business.

Through working on thousands of exits, we consistently see five areas that are critical to get right in today's deal environment. As a seller these are areas that are within your control and, when managed appropriately, drive a successful exit with maximised shareholder value.

01

Engage your people

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Every deal involves people. And generally people don't like change. People worry about their jobs, how their roles might change and how the existing culture might be affected by a sale. As a seller, you need to make sure that these concerns have been understood ahead of the process kicking off.

In addition to morale, you must focus on talent management. You need to consider whether the right people are in place to manage the sales process and optimise the exit, for both the main business and the business being divested.

Meanwhile, for the workforce impacted by the divestment, the extended period of uncertainty can lead to higher levels of attrition, which could impact business performance and value.

Questions you need to be asking:

- Do I understand employee concerns ahead of the process kicking off?
- Are the right people in place to manage the sales process and optimise the exit, for both the main business and the business being divested?
- Which talent needs to be retained in the main business to lead growth post-completion, and which will stay with the divested business?
- Do I have an effective, ongoing communications plan to keep people informed, engaged and committed throughout the process?

02 Leverage your ESG strategy

Buyers will see a weak or absent ESG strategy as a risk factor and this will have downward value implications.

ESG can no longer be an afterthought in deals. Corporate and private equity investors alike now have ESG credentials at the forefront of their decision-making process. The narrative around ESG can either drive or erode value but by planning ahead, you can ensure it is the former. Buyers will see a weak or absent ESG strategy as a risk factor and this will have downward value implications. To stay ahead of the buyer, and make the business fit for the future ESG environment, you must consider the robustness of the ESG strategy and identify strengths and weaknesses along with a plan to address these areas.

Questions you need to be asking:

- Is our ESG strategy fully articulated?
- Is this backed up by credible metrics and data that will help to preserve or create value?
- Will the approach be accepted by the banks, who are introducing pricing differentials on financing based on ESG?

03 Manage the pressure on the finance function

During a sell-side process, the role of the CFO turns into a juggling act.

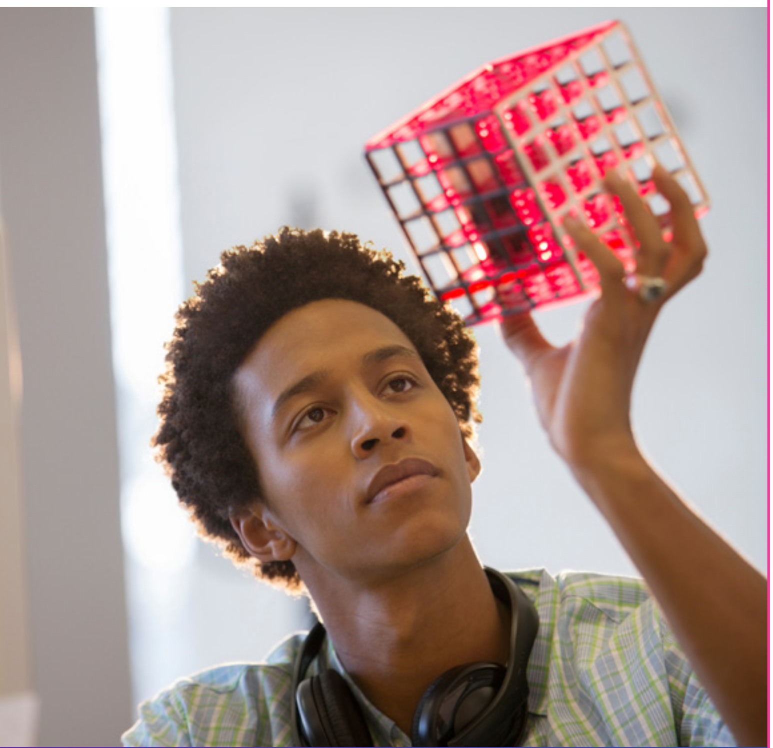
During a sell-side process, the role of the CFO turns into a juggling act. The CFO function is not only responsible for providing the financial data that underpins any sales process, but it also must oversee compliance and governance within an increasingly burdensome regulatory environment, while also keeping on top of reporting requirements. At the same time, the CFO needs to continue performing its business-as-usual functions to keep the business running during what is invariably a highly stressful, time-consuming process. For a carve-out, there is the added complication of assessing the impact of the divestment on the future finance function and how it needs to change post-completion.

Questions you need to be asking:

- Is the appropriate level of resource allocated to this to carry out both a successful exit and business as usual?
- Do we fully understand what the asks will be from prospective buyers during this period, and can we meet these?
- Does the CFO need dedicated resource ringfenced for the duration of the transaction on deal and/or BAU specific tasks?

04

Define your technology and data strategy



Technology touches virtually every aspect of a business. Understanding and defining the correct technology strategy is critical for value creation.

Technology touches virtually every aspect of a business, from back-office accounting systems to front office customer interactions. Understanding and defining the correct technology strategy is critical for value creation. And hand-in-hand with technology is data. Some of the existing data will almost certainly need to transfer to the new business. Potential buyers will also want to access data to perform their own analysis and make informed decisions in the bidding process and you should aim to not be surprised by the findings of this analysis. As a seller, you need to understand what level of data is to be provided at the bidding stages.

We know the threat of a cyber-attack increases during a transaction and any weaknesses found in due diligence will erode value. Conducting a cyber assessment of the business being sold and identifying appropriate mitigation strategies will help preserve value. A carve-out will have additional cyber risks around any transitional service agreements that need to be implemented.

Questions you need to be asking:

- Are the current systems scalable and futureproof?
- What technology investments are required to ensure the system can adapt as the business develops post-completion?
- For a carve-out, is the system that is used the most appropriate for the new business, and how easy is it to split that business out of the current system?
- Has an appropriate amount of scrutiny been applied to cyber security, and have we undertaken an out-side in review?
- Has this specifically been considered for any required transitional service agreements are required?
- What data will need to transferred to the new business? What are the permissions and practicalities of transferring this across to the buyer?
- What level of data is to be provided at the bidding stages, and how easy will this be to gather?
- Has this data been fully understood by the business before releasing to bidders for further deep dives?

05

Define the value creation opportunities

As a seller, you should aim to identify the strongest value creation opportunities.

Any incoming buyer will be looking to optimise opportunities to create value. But what that value looks like will change for every buyer. During the pre-sale process, a seller should aim to identify the strongest value creation opportunities and start to action these, or at least draw up a strategy for the incoming buyer to optimise those opportunities post-completion. On one hand, a private equity buyer will likely be looking to hold and invest cash into an asset for a relatively set time period before exiting the business. A trade buyer, on the other hand, might be more focused on integrating the business to add onto their current offering.

Questions you need to be asking:

- What are the value creation opportunities that could make a difference within the designated timescale?
- Are there clear growth opportunities, such as new geographies or service lines to invest in, or tweaking sales terms with suppliers to release cash through working capital?
- Are these opportunities supportable with data and insights from analysis?
- Have all post-completion synergy cases been evaluated in order to drive the valuation discussion?
- How can these synergies be articulated to potential buyers?

How KPMG can help

When it comes to selling a business, every decision counts. Our integrated team of specialists helps you ask the right questions and make the right decisions throughout the sales process, combining deep sector knowledge and the foresight that comes from experience.

Our extensive sell-side experience and holistic solutions can help anticipate and overcome the potential hurdles in the process, allowing for minimal disruption to your core activities and unlocking the true value of your business.

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