Exiting An Underperforming or Non Core Business

WHITEPAPER

A BRICKSTONE PUBLICATION

First of all….

Introduction

With the current state of the Nigerian economy, particularly in light of the drop in Currency Naira value and the falling international market oil prices, it has become absolutely critical for Corporates with large number of underperforming or non-core businesses in major industries in Nigeria.

One of the ways to achieve this objective is to subject one's firm through exiting underperforming and non-core businesses. Underperforming or non-core businesses are businesses that are not generating expected or necessary return.

This article will take you through the process of exiting such non-core businesses. It will explain the problem, limitations and also what the options for exit are.

Problem?

The Business is Underperforming and I Need to get rid of it!

Management will usually look at all options, including turnaround and/or refinancing – before deciding on an exit decision. Any exit decision will be a painful one as it will typically affect a number of people and invariably involve the loss of employment.

There are many reasons why a business might choose to close or sell a unit or business. These could include one or more of the following:

- The unit is loss making and there is a need to stem the group’s/ company's losses.
- It is nearing the end of its useful economic life.
- It has lost a key contract, or specialist management, or employees.
- It is a business which no longer fits overall strategy.
- It has been adversely affected by economic or legislative changes.

Limitation?

Options are Limited

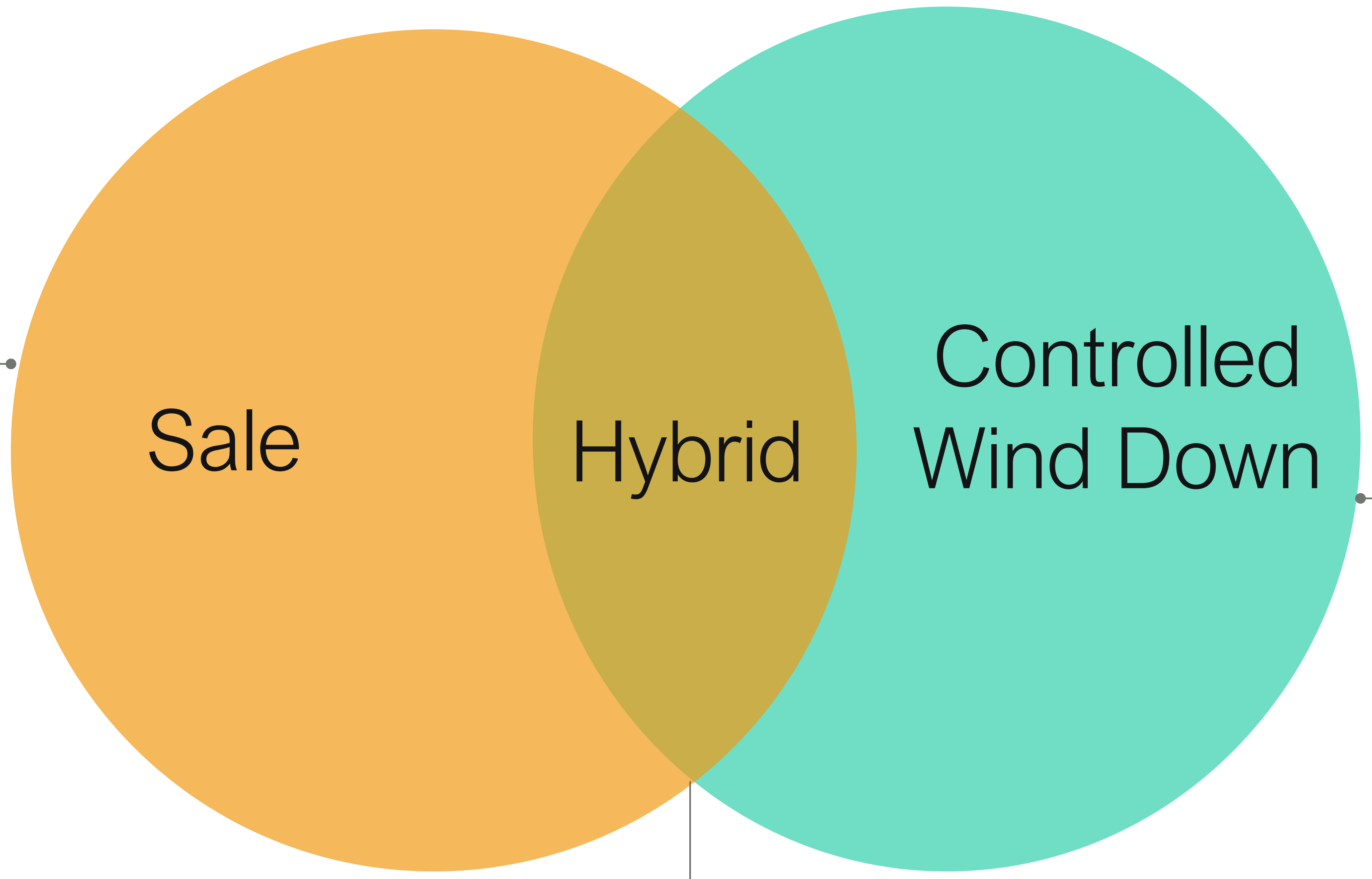
Companies willing to shed underperforming or non-core business units could reap substantial growth opportunities.

In the current economic climate and against a backdrop of reduced liquidity in the traditional bank lending markets, many businesses could benefit from exiting non-core or underperforming business units – a move which could free up valuable funds for investment and growth.

Such a move would also free up management time, which could then be reallocated to other parts of the business. Of course, there are many issues to consider when creating an exit strategy. For example, comparing the merits of a sale or a closure, or a hybrid thereof, will be critical.

What are the options to exit?

Sale
The first issue is to address what is for sale



Controlled Wind Down
A process of piecemeal asset disposal as operations are scaled back in a co-ordinated way

Hybrid
A combination of Sale and Controlled Wind Down

What are the options to exit?

Sale

The assets being considered for sale could be shares or business and operating assets such as inventory, non-current assets or goodwill.

Another factor to be put into consideration is whether the asset should be sold as it is or whether it should be improved. Some factors to aid this choice include:

- Tax considerations for the vendor
- There is no separate legal entity for a share sale as the business operates as a division
- There are unquantifiable liabilities attached to the company
- The speed of due diligence – which is likely to be faster in an asset sale
- Speed and associated cost of asset or business grooming.

Before the disposal of the shares or assets, the following factors should be carefully considered by management:

01 Is the market attractive from a merger/acquisition perspective? Are there buyers?

02 What are the unique selling points of the business? Are there sufficient assets to make it attractive?

03 Are shareholders and other stakeholders fully on side?

What to do?

Ensure the Exit is done "Optimally".

We have formulated a systematic approach and methodology to help clients navigate the obstacles to achieve an optimised exit. This is based on our experience of working with and listening to clients around the region which indicates that their primary need is to obtain speedy access to local territory knowledge and practical, pragmatic guidance on implementing an exit.

Once an exit decision has been made, the following priorities tend to be key in implementing the exit:

- Secure speedy sale of business and/or assets at best fair value, or wind down whilst reducing losses.
- Moderate the financial impact of the exit on the parent company and other financial stakeholders.
- Limit the damage to reputation.
- Limit the operational and time demands on parent company and management.

What to do?

Ensure the Exit is done "Optimally".

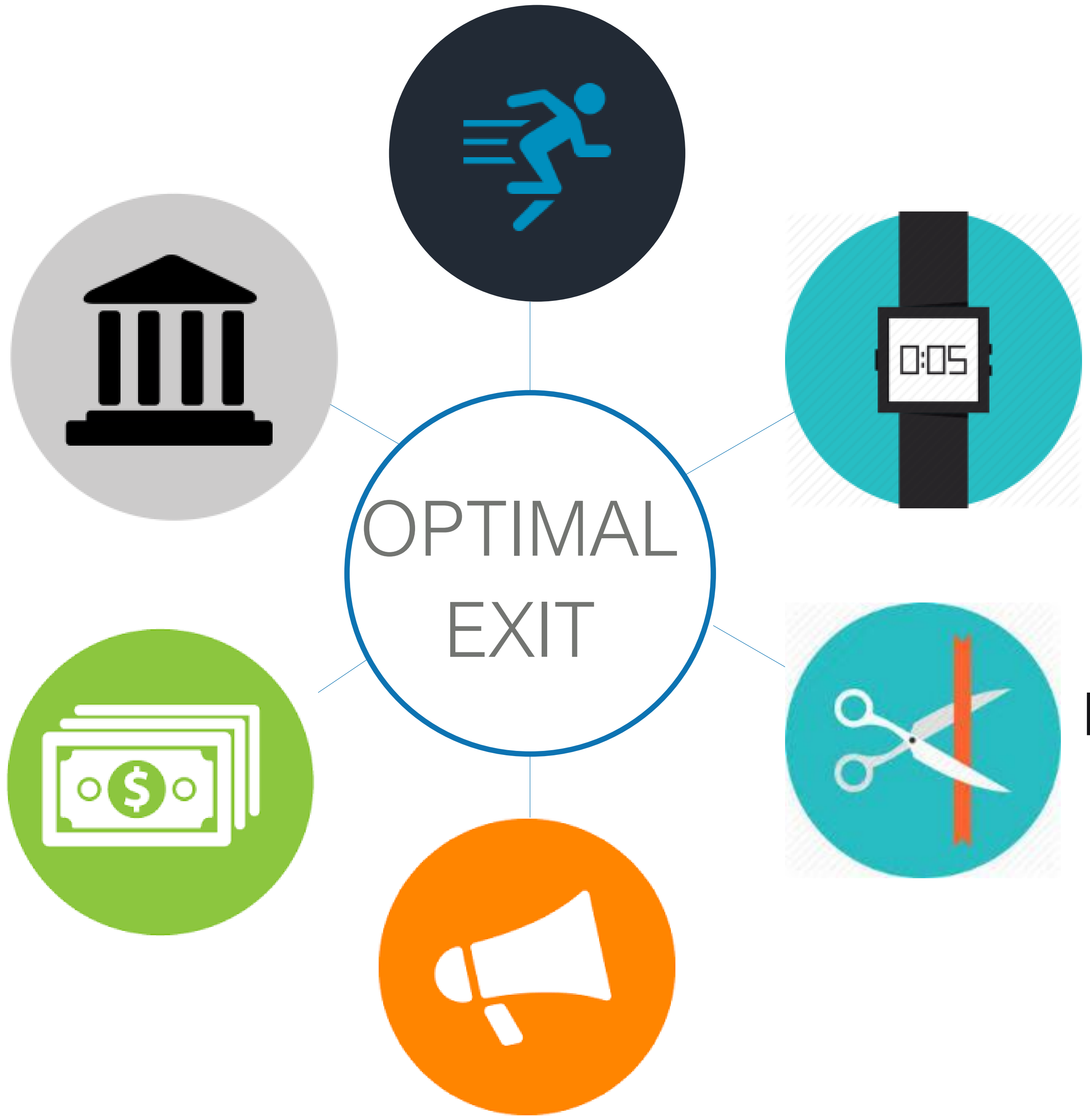
Invariably there are a number of critical issues which we come across in most exit situations which must be gotten right to ensure an optimised exit is achieved.

Some of the most important issues are:

Need for an early decision on the way forward followed by rapid implementation

Compliance with regulatory and legal requirements

Choice of optimal times to start and finish the exit



Need for proper funding of the chosen exit

Need to achieve a clear cut-off on closure or transfer of business

Need to engage in appropriate PR campaign to minimise the impact of potentially adverse publicity on the brand of the parent and/or investors

What to do?

Ensure the Exit is done "Optimally".

The process of exiting an underperforming or non-core business during an economic crisis can be summed up in three phases. The phases include:

- Analysis and assessment of options
- Detailed planning
- Implementation

There is really no quintessential optimised exit but there are some regular features that are significant in mots exit situations.

They include:

01 Identification of the goal.

02 Preparation of the project plan, budget and timetable

03 Identification of any possible liabilities as early as possible

What is Key?

Realizing Value Optimally.

Any decision to exit from a business is difficult and painful. However, it must be seen as a recognized method of realising value and should be considered as part of any forward thinking strategy rather than as a last resort. Most exits are not done optimally, usually because they are not properly planned and insufficient attention is paid to implementation.

It is essential that a holistic approach is undertaken so that financial metrics as well as the minor issues affecting the wider group of stakeholders, employees inclusive are given sufficient attention.

Significant shareholder value can be preserved if an exit is planned and implemented properly. If it is done poorly, there could be damage to brand equity and the wider stakeholder group will suffer loss.

Point to note?

Efficient Structuring is Key

It is important to implement a structure which delivers the desired commercial outcome and Tax efficient returns Structuring the divestment would include

1. consideration of a tax efficient acquisition structure which meets investor, vendor and borrowing requirements;
2. minimising any withholding tax leakage and tax on gains; and

Brickstone have established teams who have technical and industrial expertise in Acquisition and Structured Finance. We have experience in transaction advisory and support to a number of clients on divestments and acquisitions of a variety of asset backed portfolios, including performing and non-performing assets.

Who can help?

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