BALANCE SHEET IMPROVEMENT: DIVESTMENT

Essential points to consider if your company is looking at ways to improve balance sheet strength, whether strategically, opportunistically, or to help repair the damage done by the pandemic.

ADDLESHAW GODDARD

WHAT IS IT

Selling / divesting of assets (subsidiaries or businesses / assets) in order to raise funds for a group or to reduce the liabilities incurred by the group in continuing to own such assets - these may be non-core divestments (that don’t fit with the strategy or ESG goals) or distressed assets (that are a drain on group resources).

WHY DO IT

- Divestment may generate cash that can be used elsewhere in the business/group or to reduce debt.
- Divestment may help improve operational efficiency and reduce costs.
- Divestitures help companies maintain strategic focus and streamline operating models.
- Divesting assets with poor profitability frees up internal assets, which the company can then use to strengthen its other businesses.
- Enable the remaining business to stay focused and increase profitability.
- To unlock value in underlying businesses which not be reflected as part of the wider group.
- Potential to remove regulatory or financial restrictions placed on the rest of the group if the divestment resulted in the hive-out of a regulated business.
- Potential to divest interests which no longer align with the business/group’s environmental, social, and corporate governance strategies.

WHY AVOID IT

- The sale of assets typically involves the receipt of cash and may trigger tax consequences for a parent company if assets are sold at a gain.
- Scope for employee issues. Not only will this potentially effect employees who are employed in the subsidiary/business being sold, but those at a group level who may devote a significant proportion of their time to the divested business. Generally it may also be unsettling for all employees of the wider group and may open-up retention issues.
- Shared assets and costs and complicated extraction from the group. One potential disadvantage of divestitures is the negative impact on a group’s cost structure. If a group has spread its fixed costs – including rent, maintenance, and administrative support – over two or more subsidiaries, the remaining business units must now absorb those costs.
- Potential distraction for management. The management team may already have its hands full with business as usual activities and engaging in a sale process can be time-consuming.
- Can be expensive. Any sales process will require investment, these costs may vary depending on the structure and complexity.

WHAT ELSE TO CONSIDER

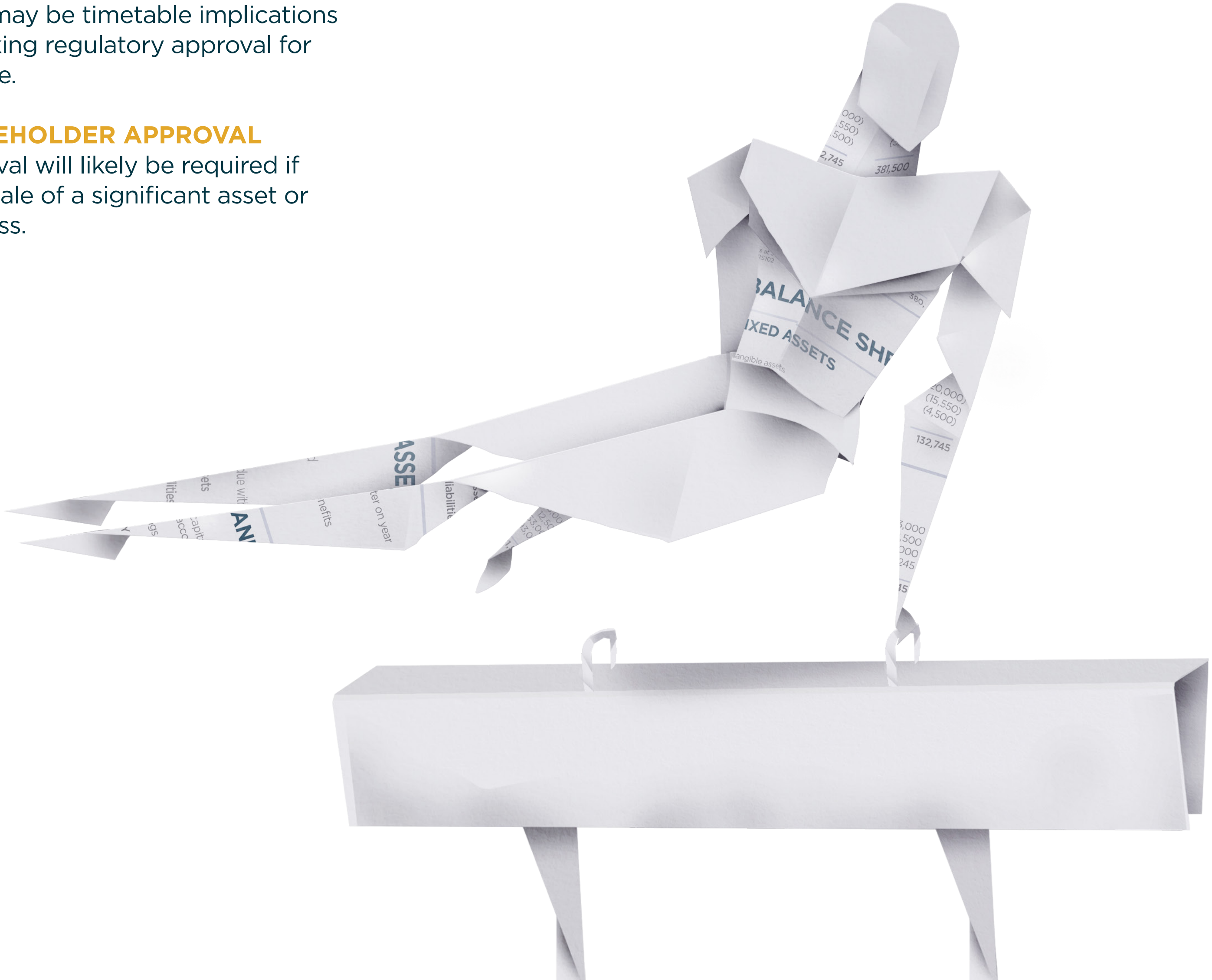
PRE-SALE REORGANISATION
A preliminary group reorganisation, whether at a legal and/or operational level, may be required to enable the divested business to be more easily extracted.

TRANSITIONAL ARRANGEMENTS
These will likely be required if the divested business relies on group support. The extent of this will ultimately be led by the existing group support and the buyer's business structure. Whilst negotiation of transitional arrangements can be complex, and it does not allow for a clean break, it may also generate ongoing revenue for the group during the transitional period.

THIRD PARTIES
Depending on how "stand alone" the divested business is, there are likely to be third party contractual arrangements which need to be considered. In certain instances the consent of a third party to the proposed transaction may be required or contractual arrangements may need to be amended.

REGULATORY CONSIDERATIONS
If the divestment resulted in the hive-out of a regulated business, there may be timetable implications in seeking regulatory approval for the sale.

SHAREHOLDER APPROVAL
Approval will likely be required if it is a sale of a significant asset or business.



GET IN TOUCH

We are helping businesses with a wide range of strategies to improve the strength of their balance sheets. For an informal view on what we're seeing strategically and at the coalface, or to help accelerate your business strategy, please get in touch:

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BALANCE SHEET STRATEGIES ON WHICH WE ARE ADVISING:

- Additional borrowings
- Amendments to share rights
- Bringing intangible assets onto the balance sheet
- Buybacks, redemptions and reductions of capital
- Capital raisings
- Corporate simplification
- Debt for equity swaps
- Diversification
- Divestment
- Replacing equity/investor-sourced financing
- Sale and leaseback of real estate assets
- Sale and leaseback of receivables financing
- Distressed opportunity and special situation investment

WHY ADDLESHAW GODDARD?

WE ACTED FOR **43 FTSE 100 COMPANIES** IN THE LAST 2 YEARS

OUR TIER-1 RANKED CORPORATE LAWYERS HELPED DELIVER **£8BN+ OF STRATEGIC DEALS** LAST YEAR

WE HELPED MAJOR CLIENTS TACKLE OVER **1,000 RESTRUCTURING CHALLENGES** GLOBALLY IN THE LAST 18 MONTHS