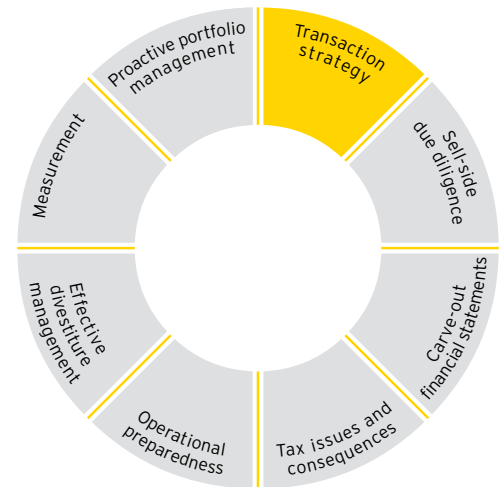


Transaction strategy

In a buyers' market, sellers must understand who buyers are and what they want. Strategic selling considers multiple buyers simultaneously and considers multiple approaches to structuring deals.



by Tony Ianni and Blake Pilgrim

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Key points:

- ▶ Understand the priorities and needs of potential buyers
 - ▶ Cultivate more than one buyer when possible
 - ▶ Consider structuring alternatives to a direct sell-off
-

Yesterday's sellers' market has gone the way of easy credit, fast economic growth and high multiples. Investors and companies blessed with both cash and nerve have their pick of distressed and healthy asset offerings, often at bargain prices. Navigating this environment calls for strategic selling.

First off, sellers must take extra care to understand buyers' profiles and needs. Financial buyers, motivated by cash flow and near-term economic benefit, generally are looking for fire-sale assets today. Strategic buyers tend to capitalize acquisitions with more equity and less leverage. In today's credit-constricted marketplace, they therefore will often outbid financial players.



Strategic selling means knowing the asset inside and out, anticipating obstacles, understanding potential buyers and, when possible, developing a “Plan B.”

Sellers should prepare for multiple contingencies – cultivating more than one buyer or preparing alternative transaction structures or both. In such a “multi-track” approach, companies determine the number of options needed, given closing risks and the needs of specific buyers. Thoroughly understanding the business or assets is critical to clarifying planning options as well as to managing the deal time frame.

Closing risk

Closing risk is the possibility that a buyer will withdraw a bid near the final stages of a deal owing to financing difficulties, regulatory issues, the risk of pricing shares in the current market or some other factor. A major closing risk today is that the buyer will back down from an agreed-upon purchase price. Closing risk means a seller might expend time and resources, exposing its business to potential competitors, only to have the deal fall through.

Where possible, sellers should focus on a principal buyer while at the same time maintaining communications with additional buyers. Those “waiting in the wings” provide a safety valve should an offer be reduced or pulled.

Understanding buyer needs can help a seller reduce closing risk by making the deal more attractive. Proactively offering transition service agreements and support for such functions as HR, legal, treasury, auditing and finance may help persuade some buyers. A willingness to develop interim operating structures may accelerate closing timelines by minimizing regulatory requirements. Sellers also are exploring a range of structuring options, such as Reverse Morris Trusts (RMT), share swaps, joint ventures or partnerships that offer alternatives to deals highly dependent on cash or credit financing.

Clearly sellers face fundamental trade-offs in planning and executing divestitures today. Strategic selling means knowing the asset inside and out, anticipating obstacles, understanding potential buyers and, when possible, developing a “Plan B.” ▼

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Observations from a recent EY/Economist Intelligence Unit global divestiture survey

Due to the financial and economic conditions of the past 18 to 24 months as compared to the prior 24 months:

- ▶ 53% of respondents are more likely to consider a divestiture, and
- ▶ 48% are more likely to pursue a “multitrack” strategy

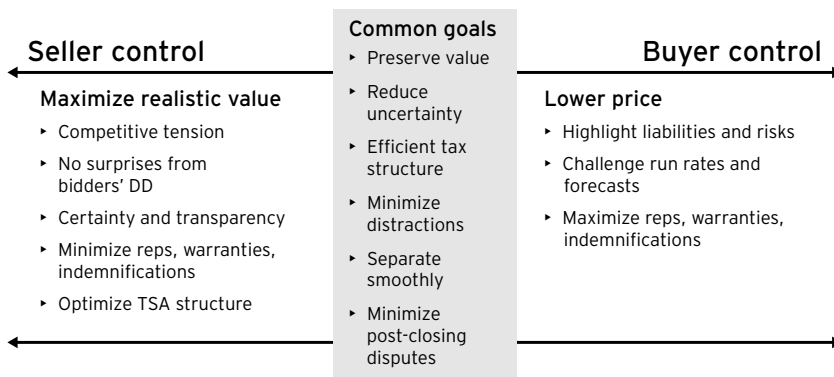
Of the respondents’ most recently executed divestitures, 29% were alternative structures and not direct sell-offs to third parties.

Who were/will be the main buyers of your company’s assets in the ...

	... last two years	... next two years
Domestic strategic	42%	23%
Foreign strategic – developed country	29%	35%
Foreign strategic – emerging market	11%	23%
Private equity	16%	12%
Sovereign wealth fund	2%	7%

Sellers expect more divestitures to emerging markets buyers and SWFs, and less to PEs and domestic strategics.

Conflicting agendas of buyers and sellers



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