What Companies Should Know About Divestitures to Generate Liquidity and Sharpen Their Focus

In a divestiture, companies sell specific business segments or operational assets that no longer fit their strategic goals. If you're a business owner considering such a move, there's a lot to address prior to beginning the process.

It starts by defining the business perimeter of the potential divested assets. That means creating a blueprint for the precise impacts—what facilities, IT systems, and personnel would be included, how much financial reporting detail is available, and what shared corporate services are being provided to the divested asset that a new owner would have to take on.

But it goes further than that. Here's a list of detailed considerations for any divestiture:

Standalone Costs:
It's important to be transparent about standalone and one-time cost assumptions, as they can help would-be buyers identify synergies (i.e., Accounting, HR, etc.). It's extremely beneficial to engage a quality of earnings provider to help isolate and estimate these costs.

Transition Services Agreement (TSA):
While drafting the TSA—which outlines the relationship between the buyer and seller after the sale—with legal advisors, be clear about what services the parent business is willing to provide the divested entity, as well as their costs and durations. These cost assumptions should also show up in the business plan.

Management/Employees:
To increase interest among potential buyers and avoid value leakage, it's important to identify essential employees and managers who are credible and proven. Company leaders who can execute the business strategy during the sale process should also be identified.

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Information Technology (IT):

Make sure to consider issues related to separating IT assets, including associated costs, and assess the quality and sufficiency of IT infrastructure to determine the need for upgrades. Finally, confirm the traceability of consolidated divested financials to the Enterprise Resource Planning (ERP) system—software used for day-to-day business activities.

Intellectual Property (IP):

All patents, trademarks, licenses, and other intellectual property required to operate the standalone business must be part of the transaction scope—a point that is particularly important for strategic acquirers.

Non-Competes:

Potential buyers will want language in any agreement that ensures the seller can't emerge as a competitor. Also, it's important to confirm the transferability of existing non-compete restrictions.

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March 2023
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