Synergy™ INSIGHTS

SUPPLEMENT

# SELLING PIECES OF LARGER COMPANIES

One of Taylor's specialties is getting high premiums when divesting more modest sized pieces of larger companies. Many times, parent companies underestimate the value of such businesses to potential buyers, due to the lack of core importance to the parents themselves. In this *Synergy Insights Supplement* we will take an in-depth look at selling pieces of larger companies through three case studies.

*Synergy Insights Supplement* is a companion newsletter to Taylor Companies' business journal, *Synergy Insights*. For more information about *Synergy Insights*, please visit www.tay.com/publications.

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# Introduction

One of Taylor's specialties, in addition to maximizing the price on sales of standalone businesses, is getting high premiums when divesting more modest sized pieces of larger companies. Many times, the parent companies underestimate the value of such businesses to potential buyers, due to the lack of core importance to the parents themselves. Also, since the typical sell-side process is not specifically designed to consistently maximize price, and since the larger investment banks do not typically allocate their "A" teams to smaller-sized transactions, parent companies have not necessarily been accustomed to getting high prices on pieces of the portfolio they have previously sold.

> ***Since larger investment banks do not typically allocate their "A" teams to smaller-sized transactions, companies are not accustomed to getting high prices on pieces of their portfolio.***

Because Taylor's synergy-based sell-side process is specifically engineered to consistently maximize sale price, they have averaged getting 65% more money for the businesses they have sold, than private equity has paid for the same types of businesses during the same timeframes. Additionally, Taylor's "A" team is the team that is intimately involved from start to finish on every engagement. Therefore, Taylor's sell-side clients receive a highly value-added, non-commodity service comprised of the best process and best people on every assignment.

Confidentiality can be of great importance when selling a business and Taylor's sell-side processes are always conducted in the strictest confidence. In keeping with Taylor's philosophy regarding the importance of privacy, Taylor is providing on a no-name basis the following case studies, that portray the achievement of optimum return for smaller-sized pieces of larger companies.

## Case Study A

Taylor was hired by a chemicals manufacturer with over $20 billion in sales, who was surprised to learn that Taylor would be willing to sell a smaller business, given the large size of the projects with which Taylor is known to typically be involved. The target divestiture was an afterthought for the client, as it comprised only about 1% of the parent's sales, so it was understandable that the client might have low expectations as to the business's value to potential buyers.

Taylor was able to identify four potential acquirers, each of which were attracted to three of the key applicable synergies. One of the identified buyers needed all four of the key synergies that were thought to be available through acquisition of the business for sale. This fourth buyer was just about to break ground on the building of a new production unit in the U.S., and could, in addition to obtaining the benefits the other buyers found, avoid the substantial cost of building the new "greenfield" operation.

***The combined economic value of the four synergies, made the buyer happy to pay a huge 300+% premium.***

The combined economic value of the four synergies achievable by the fourth buyer, made it happy to pay a huge 300+% premium for the business being sold. The aggregate value of the fourth buyer's synergies was substantial. A fortunate side-effect of the sale is that the employees of the divested business are today much happier under the ownership of the buyer, who considers the asset to be strategically important to the buyer's own core business, and a holding worthy of ongoing investment and strategic advancement.

## Case Study B

Taylor was engaged by a global manufacturer and servicer of industrial machinery and equipment, to divest itself of its farm implements division. The parent was seeking to concentrate on other segments of its operation. Divesting the business unit would give it the opportunity to substantially decrease a debt that exceeded its market value, and that had, up until then, held back the proposed growth of the parent's primary businesses. The client hired Taylor to utilize our unique knowledge of synergy to identify the most strategic acquirers, and maximize the proceeds from a sale.

Using our extensive network of Industry Experts, Taylor's Business Intelligence Specialists found several potential buyers globally, a number of which were unknown to the client. The eventual buyer, who was not the highest bidder prior to second round bids, was attracted to the deal due to several synergies which had been identified by Taylor: the ability to diversify its distribution network, add new brands, and secure its position as a leading manufacturer and distributor of agricultural products.

***Taylor's Business Intelligence Specialists found several potential buyers globally, a number of which were unknown to the client.***

Taylor then implemented our customary approach, identifying and engaging individuals within Taylor's Global Network of Senior Advisors—those well connected to each potential buyer's highest levels of decision-making—to assist Taylor in gaining ultimate-level access to each of the buyers.

***Taylor was able to obtain... a significant 71.4% premium that exceeded analysts' expectations.***

Market analysts were anticipating that our client would achieve a price of 350 million euros, but by being able to communicate the deal's considerable synergies directly to the buyer's top decision-maker, Taylor was able to obtain 600 million euros, securing a significant 71.4% premium that exceeded analysts' expectations. Once presented with the well documented synergies, the buyer's decision-maker easily saw the value that justified the payment of the premium.  Corporate development also understood the synergies once they performed their analysis of the deal, but by the nature of the level of the corporate decision-making structure they inhabit, it would have been very hard for them to recommend the premium payment to upper management, had the deal instead been initially introduced at the middle management level, and subsequently had to find its way up to the board room of the buyer.

The transaction that Taylor negotiated provided our client with an opportunity to focus on its core businesses, increase profitability, and significantly reduce debt to equity (95.3% before sale, 62.4% after) and debt to market (36.4% before sale, 22.1% after). It was truly a win-win deal for both the buyer and the seller.

## Case Study C

Taylor was hired by a large, global oil and gas refiner, to sell its last remaining European refinery operation. Our client had attempted to sell the operation twice, unsuccessfully, before using seasoned, industry-specialized M&A advisors. In the last attempt, the best offer received for the refinery was that our client pay the would-be acquirer $40 million to take the asset off our client's hands. The difficulty in selling the business centered around the European market dynamic of how unprofitable it had become to supply refined petroleum products to Europe from refineries resident in-market. Rather, historically low North American crude oil prices as well as low Middle East crude prices along with the huge scale economies of massive Mid-East refineries, made transport of already refined product into Europe more economical than in-region refining.

> ***Despite overwhelming market trends, Taylor was able to find just the right buyer.***

Out of concern for the refinery's employees as well as the "optics" of the sale, our client's CEO hired Taylor to sell the asset to a buyer that wanted to operate the business as a refinery, rather than convert it to a terminal operation, as was the trend throughout Europe. Despite this overwhelming trend in the market, Taylor was able to find such a buyer. This buyer owned a single-refinery operation on the western edge of the Atlantic basin. Acquiring the refinery for sale gave the buyer a second operation, allowing the buyer to (a.) mitigate the innate risks of being a one-refinery operation, and (b.) institute a cross-Atlantic "arbitraging" of crude oil sourcing/placing, with most profitable placement of finished products (the buyer's operation produced excess diesel which was "short" in Europe, while our client's refinery produced excess gasoline which was "short" in the acquirer's market).

Not only was Taylor able to accomplish the seemingly impossible, and sell the asset to a buyer who wanted to continue the refining operation, but the synergies on the deal allowed our client to fetch a premium price for the business, instead of having to pay a buyer to take the refinery off his hands.

## Conclusion

As regards divestitures of smaller pieces of larger companies, Taylor brings a level of sophistication and global reach not generally found in regional investment banks or industry-focused boutiques. Additionally, the "B-teams" typically allocated by the large investment banks lack the "A-team" breadth and depth of experience that Taylor brings to every mandate, regardless of deal size. Finally, Taylor's time-tested, effective process for maximizing sale price—and ensuring complete confidentiality—consistently exceeds the kinds of prices paid by private equity, and outperforms the typical divestiture processes designed to just get businesses sold, rather than targeted to get the highest possible price. As stated by one of Taylor's satisfied clients:

> ***"…you actually 'sell' the target company while, typically, many investment bankers… merely 'put the company up for sale'."***

## WE WELCOME READER FEEDBACK

We are interested in your feedback and examples of synergy applied in acquisitions and divestitures with which you may have been involved. To share examples, or if you have questions, comments, or are interested in seeing a specific subject discussed, please contact us at SynergyInsights@tay.com, attn: Warren Bellis.

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