



Divesting in turbulent times

Achieving value in a buyer's market
Australian findings highlights

April 2009

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Foreword



Stephen Lomas
Oceania Sell Side
Leader
Transaction
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Ernst & Young conducted the first ever global survey of divestment intentions at the end of 2008, examining the steps required to plan, execute and complete a successful sale in turbulent times. In conjunction with the Economist Intelligence Unit, we interviewed 360 senior vice presidents and C-suite executives at companies with revenues of more than US\$1 billion.

This document is intended to supplement the global perspective and aims to explore more closely the local results of the survey, in particular highlighting the differences that exist in divestment strategy from a global to a local market context. 86% of Australian respondents to the survey were publicly listed and, in the main, came from the financial services, consumer goods and telecoms industries.

Our global survey results showed that the complexity of the sales process has increased significantly in the current climate – both in terms of reassessing “what” is to be sold and then “how” it should be marketed.

Divesting will require creativity

Divesting companies in this new environment will require creativity. Innovation will involve deal structures to cover equity, debt, management and counterparty arrangements including vendor finance. This will allow you to explore where your price expectations and those of buyers can align, at a time when it is hard to place a definitive value on many businesses.

Preparation must be customised

Moreover, your preparation will need far more rigour. You will have to customise your “for sale” offering for each prospective bidder.

Execution will be harder

Divestments will not yield the value they did when the economy was expanding steadily. Value will be more elusive. This is now a buyer’s market – not a seller’s. Your best response to that shift is to focus intensely on your buyer’s requirements when preparing your divestment for market.

I would like to take this opportunity to thank those individuals who took the time to talk to Ernst & Young about their company’s divestment strategy; their insight was invaluable in preparing this analysis.

We trust you will find the survey of interest and that it helps you achieve success in your future divestments.

‘There is no intuition in valuing businesses. Extracting value from divestments is all about hard work. If you and your team put in the hard work, then things become clearer. You have to work hard and run all options through to the end before making a strategic decision.’

Defence contracting and infrastructure services company

Survey highlights

In today's volatile environment, many companies are considering divestments; 52% of Australian respondents are more likely to consider a divestment now than compared to 18 months ago. Australian respondents to the survey also indicated they are more likely to consider alternatives to divesting 100% of their business for cash, with sellers needing to work far more closely with buyers to create viable deal and financing structures.

For those badly affected by the economic downturn, divestments may be a necessity. Those with strong balance sheets will have opportunities to acquire - at potentially attractive prices - businesses that may not usually come to market.

As the results of our survey show, successful divestments have never been more challenging. Key themes flowing from the Australian survey are:

Economic distress drives transaction activity

- ▶ While M&A volumes are down from their peak, the survey reveals how the credit crisis is expected to drive transaction activity. Perhaps surprisingly, more than half of Australian respondents report current economic and financial conditions make them more likely to consider divestments. Many of them are doing so to raise cash – either for defensive reasons or to redeploy capital and reinvest in those businesses that are seen as core.
- ▶ Buyers with cash have a rare opportunity to acquire businesses that would not typically be sold, and for valuations that would not have been possible in recent years.

Preparation increases value

- ▶ The survey highlights the need for early, more detailed and tailored preparation.
- ▶ Looking back at divestments completed in more buoyant times, only 20% of Australian respondents were satisfied with their divestment performance, compared to 36% of global respondents. Australian respondents believed that earlier and more detailed planning would have made the difference. In today's more challenging market, planning will become more critical than ever.

Sellers and buyers will become more innovative

- ▶ With acquisition funding scarce and private equity buyers waiting for the market to stabilise, sellers will need to adopt more creative structures, including joint ventures and partial sales.

Buyers will come from closer to home

- ▶ From a global perspective, emerging market headquartered companies will account for an increasing share of acquisitions in the next two years. Conversely, in Australia the consensus from survey respondents was that domestic buyers will account for the majority of acquirers in the next two years, with limited influence from inbound emerging market buyers. Mergers and acquisition activity since the survey indicates a much higher level of interest in Australian assets from overseas buyers than respondents expected.
- ▶ Australian respondents did not feel Sovereign Wealth Funds had a significant role to play as well as expecting minimal private equity activity despite the amount of capital that most private equity funds currently have available.

“Divesting is an integral part of our strategy. We are focused on divesting non-performing assets, or lesser performing assets that may still be making a profit, to leverage many of the profitable opportunities available as a result of the current economic climate. If there are no suitable or viable opportunities in the market at a point in time, divestment is still an integral part of our strategy. We continually look to restore cash to the balance sheet, placing us in an optimal position for when an appropriate investment option presents itself.”

Logistics company

Strategy

Successful sellers devote more resources and time to prepare, execute and evaluate

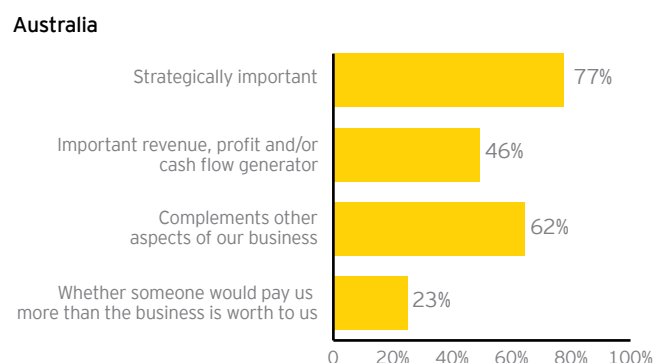
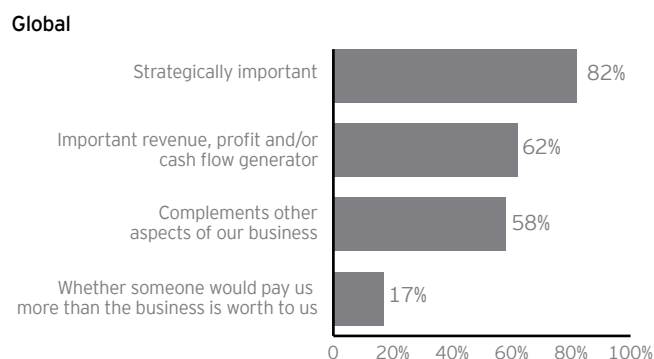
In today's uncertain environment, proactive divestments have become a strategic necessity for many companies. Liquidity and solvency needs are driving companies to sell non-core and under-performing businesses, pursuing a wide range of deal structures and financing methods. New and fewer buyers highlight the need for foresight and creativity - making rigorous portfolio management, deal preparation and execution critical.

Why divest?

Despite the challenging economic conditions, organisations haven't abandoned strategic considerations around divestment. Globally, strategic fit was the most important driver for divestments. It was a similar story in Australia with 77% citing strategic fit as the key determining factor. In addition:

- ▶ 62% of respondents indicated that for a business to belong in the portfolio it had to complement other aspects of their business
- ▶ 46% determined the retention of a business in their portfolio through financial considerations, i.e., was the business an important generator of revenue, profit and/or cash flow?
- ▶ 23% indicated that choosing to divest a business in their portfolio would be dependent on whether someone would pay more than the current owner thought it was worth. This may suggest that maximising shareholder value was not always considered in divestment decision-making criteria

What criteria do you use to determine whether a business belongs in your portfolio? Please select all that apply

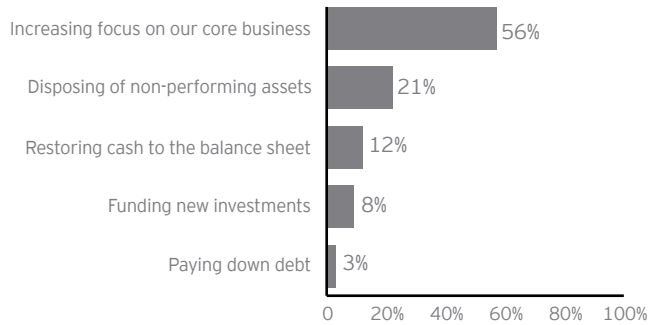


Globally, 56% of respondents cited the need to focus on the core business as the most important factor to consider when planning a divestment. Australian respondents were aligned with this view, with 50% acknowledging the importance of focus on core business.

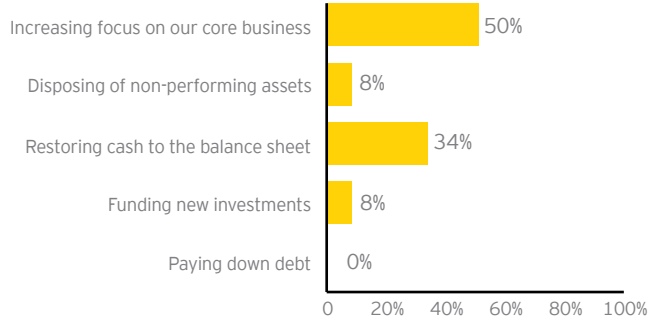
Interestingly, 34% of Australian respondents saw restoring cash to the balance sheet as key while for global respondents this percentage was much lower at 12%. "We're seeing a massive rebalancing of debt and equity, with many companies either attempting to raise equity via a rights issue or increasingly looking to sell a non-core division to reduce debt," says Graeme Browning, Partner, Transaction Advisory Services.

Which is the most important factor you consider in planning a divestiture?

Global



Australia



“We raised cash for acquisition purposes not to pay down debt and so far the market has reacted very positively to this form of capital raising when compared to those companies that had specifically raised equity simply to pay down debt.”

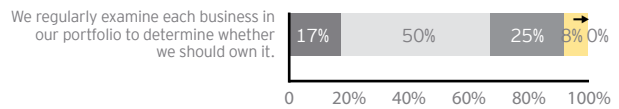
Mining company

Portfolio management is the first step

Experienced sellers have a process for rigorous portfolio review and management; 67% of Australian respondents regularly examine every business in their portfolios to see if they should continue to retain them. Globally, this was a similar percentage at 60%.

Please indicate whether you agree or disagree with the following statement

Australia



Legend: Strongly agree (dark grey), Agree (light grey), Neither agree nor disagree (medium grey), Disagree (yellow), Strongly disagree (orange)

Managers need to articulate why each business belongs in the portfolio and lay out clear performance metrics so investors and lenders have sufficient visibility into strategy and operations.

“We apply comprehensive criteria to ensure we have the appropriate mix of businesses within our portfolio. We are focused on building our core capabilities and it is crucial that prospective purchases complement, rather than distract from, our current operations.”

Biopharmaceutical company

Supporting decision-making with performance metrics

While collecting detailed performance metrics is important both for portfolio management and transaction decision-making, this is an area often overlooked. The survey shows that many companies lack sufficient data to make informed divestment decisions.

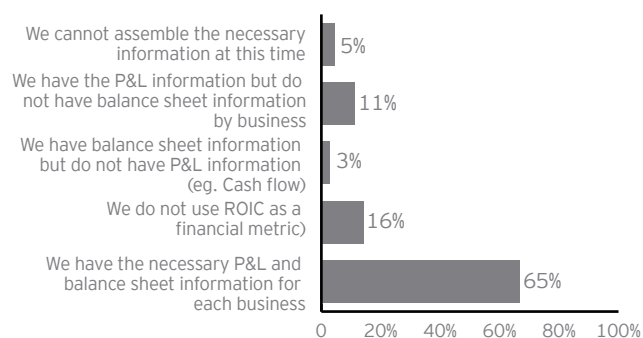
The absence of readily available comprehensive data could impair your ability to make informed decisions about “what” and “when” to sell and at what price. A lack of insightful data may also limit your ability to react to an unplanned approach or an immediate need to respond to a situation. In the minds of many sellers the information needed to run a business is adequate or the same as the information needed to sell a business; this is incorrect. Measures of revenue, margin and adjusted profitability need to be available and if they are not, the ability to properly consider the value of the business both to you and to a possible buyer may be impacted.

Of the Australian respondents who use some form of return on invested capital (ROIC) financial metric, almost one third thought they lacked sufficient critical information to make quick and informed decisions on portfolio assets; for global respondents this number dropped to 20%. A further third of Australian respondents indicated they did not use ROIC as a financial metric for portfolio management; this compared with 16% of global respondents. The majority of global respondents - 65% - report that they have the necessary profit and loss and balance sheet information for each business; the figure for Australian respondents was much lower at 38%.

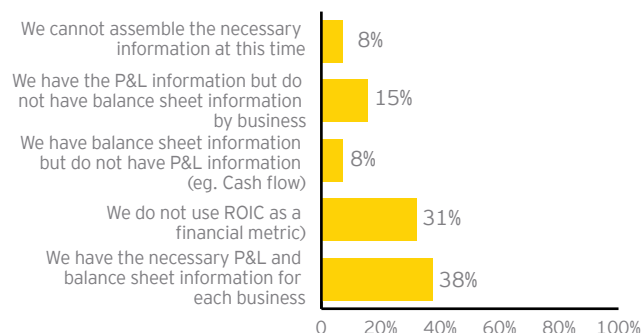
This lower percentage for Australian respondents could be impacted by those from overseas parent companies where the level of appropriate financial information is not immediately available at a local level. However, as the survey does show a high correlation between those that use ROIC and those that achieve value in their divestment, tracking information to business unit level on a continual basis - and therefore being able to validate the business unit’s cost of capital - could prove a seller advantage.

Which statement best characterises your ability to assemble the necessary ROIC* information for each portfolio business?

Global



Australia



“Developing and implementing consistent approaches to measuring performance is a high priority as it drives decision making around divestments.”

Logistics company

When should you sell?

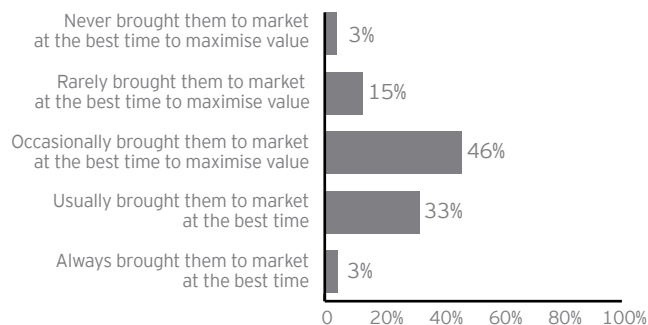
One of the interesting aspects of the survey was the high number of respondents who believed they had failed to bring their business to market at the best time.

- ▶ 37% indicated they occasionally brought their divestment to market at the best time to maximise value
- ▶ 27% considered that divestments were usually brought to market at the best time
- ▶ 18% of respondents rarely brought their divestment to market at the best time to maximise value
- ▶ An equal percentage (18%) cited they never brought their divestments to market at the right time to maximise value
- ▶ None of our respondents thought they always got the timing right in bringing divestments to market

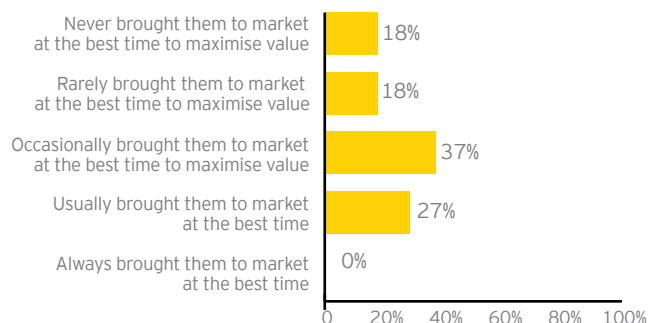
The Australian survey results indicate some marked differences to those results at global level. Almost 80% of global respondents felt positive about their timing on bringing divestments to market; this dropped to 64% for Australian respondents. Australian respondents also indicated a much higher propensity to never or rarely bring divestments to market at the right time - 36% - compared to 22% from our global respondents. This higher percentage cited by Australian respondents could link to the lack of available comprehensive data; difficulty in assessing aspects of your business could impede your decision-making ability around market timing.

Which statement best characterises your timing in bringing divestitures to market?

Global



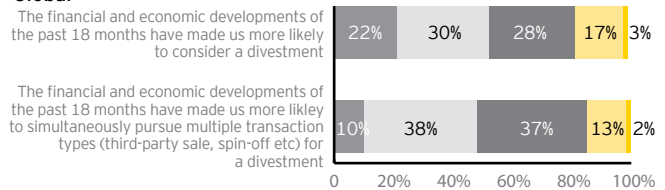
Australia



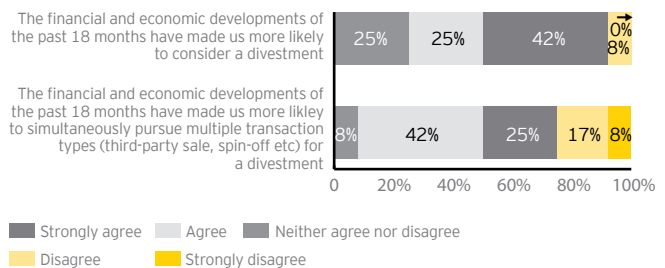
Selling options

Clearly, selling a business in today's environment requires innovative thinking. At the time of the survey, 92% of Australian respondents had, when considering their most recent divestment, divested 100% of a chosen business to a third party and only 8% considered placing the business or asset into a joint venture. However, when asked whether the impact of the current financial and economic developments over the past 18 months had made them more likely to consider multiple transaction types (including third party sales, spin-offs and joint ventures) for a divestment, 50% of respondents agreed that it would. A similar level of global respondents (48%) also agreed with this statement.

Global



Australia



As the pool of possible buyers becomes scarce in the Australian market, companies may increasingly look for potential investors to take a share of the asset or enter into a joint venture arrangement instead - as we are seeing with Rio Tinto's proposed deal with Chinalco and Asciano's current monetisation program.

There is likely to be a need to consider a range of financing options, including vendor finance, partial equity sales, deferred sales or asset swaps. "While the majority of divestments in Australia will continue to be 100% cash sales, the survey indicates that more companies will be creative in finding ways to retain some of the value in stronger assets including, particularly in the shorter term, joint ventures, partial sales and demergers," says Stephen Lomas. "If you can take more time, it pays to evaluate multiple divestment options. Having a range of options gives you the best chance of closing a sale."

A buyer's market

Execution risk is considerably higher in the current market, with fewer buyers, less capital and uncertainty around valuations creating an increased risk of failure. Right now, the biggest execution risk is the ability to get bidders to the table and keep them there.

The balance of power within transactions is changing; the reduced number of potential purchasers means buyers will be able to demand more information throughout the entire process and have greater power in managing the sale process timetable. In the difficult economic climate, buyers are more interested in current trading information than figures from three to six months ago. Vendors will need to meet their demands for current information to keep confidence up and keep the value story going. Sellers need to support their buyers as far as possible by tailoring their preparation to the needs of individual buyers. Financial due diligence alone is no longer sufficient; sell side preparation needs to be broader, building the complete story for buyers including tax, commercial, human resources, technology, operational, legal and separation issues. At the same time, vendors need to leave options open and be flexible in their approach, adapting as buyers learn about the business. The key will be to properly understand your likely buyers and what is driving them to consider the acquisition so you can provide all the information they need. "Our experience in New Zealand corroborates the view that comprehensive information to buyers is critical in managing both buyer expectations and financiers also," says Andrew Taylor, Partner, Transaction Advisory Services.

"The current turbulent economic climate has meant that prospective buyers are requesting substantially more financial and legal documentation, which has blown out our lead time."

Biopharmaceutical company

Buyers will come from closer to home

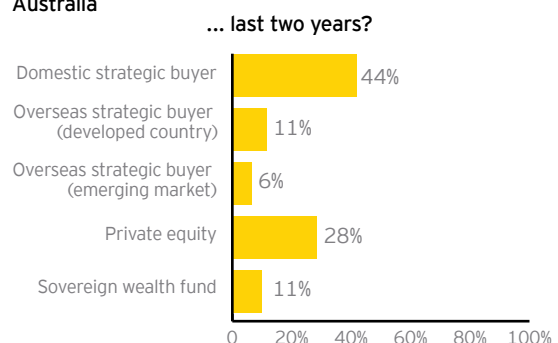
While some are delaying making divestments at a time when valuations are uncertain, companies with strong balance sheets see today's economic conditions as likely to provide exceptional opportunities to pursue acquisitions of healthy businesses.

In the last two years, buyers of Australian business assets have been spread among a variety of strategic buyers - domestic, overseas developed and overseas emerging markets. Private equity has also had a role to play. In the next two years however, survey respondents expect a shift in the buyer demographic.

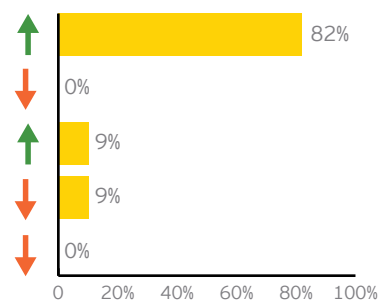
- ▶ 82% of survey respondents thought future buyers would be domestic strategic buyers
- ▶ 9% indicated that private equity would be a buyer, but with less buying power given limited access to debt
- ▶ 9% cited overseas emerging market buyers would have a role to play

Who were the main buyers of your company's assets in the...

Australia



... next two years?



Interestingly, the global perspective favoured greater influence from emerging market buyers with a sharp fall in the influence from domestic buyers.

In our view the findings from the Australian respondents partly reflects the timing of the survey when overseas economies were believed to be in a much worse state than the Australian economy. This possibly lead respondents to conclude that overseas buyers were less likely to be looking for acquisitions in Australia. In the current market we would expect to see a higher proportion of overseas buyers, particularly from emerging markets in this region.

Preparation

Better preparation improves the odds

Being well prepared for a transaction is no longer straightforward. Sellers need to consider all of their divestment options, as well as the trade off between time and value. Preparation needs to focus far more on what the buyer wants. This will heighten the chance of success and improve your negotiating position at a time when there is much at stake.

Understanding the buyer

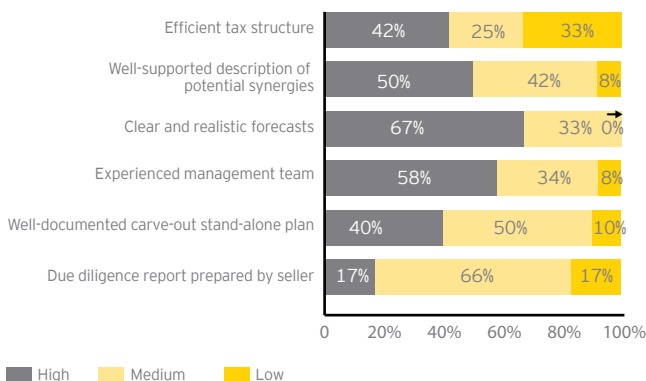
Divesting in a buyer's market requires far greater focus on the characteristics of the potential buyers and their perspective than was previously the case. Thorough and customised preparation improves the odds of a successful divestment - not just in terms of negotiating the best terms, but in getting the deal done at all.

When asked what value they thought buyers would place on aspects of preparation for a divestment:

- ▶ Close to 70% of respondents saw clear and realistic forecasts as a valuable component of preparation
- ▶ 58% cited an experienced management team as valuable to the preparation process
- ▶ 50% valued a well-supported description of potential synergies
- ▶ 42% indicated that an efficient tax structure was a value-add component
- ▶ 40% cited a well-documented carve-out or stand-alone plan
- ▶ 17% considered a due diligence report prepared by the seller as adding value to the process

What value do you think buyers would place on the following aspects of preparation for a divestiture?

Australia



You can also expect prospective buyers to take time in perusing your asset. "Gone are the days when you can sell an asset within three months," says Jo Barker, Partner, Transaction Advisory Services. "Any buyer considering acquiring your business will be all over it so you need to prepare well, prepare early and prepare for the needs of different buyers."

Trade buyers often require more targeted preparation than private equity. "A private equity firm is typically a pure financial buyer often with limited synergy opportunities; whereas, synergies form the primary motivation and value driver for the trade buyer. So, for a corporate, you have to articulate the synergies and show how the asset aligns with the buyer's strategy. That's the only way you'll make trade buyers comfortable in this highly risk-averse market," says Graeme Browning.

"Clear and realistic forecasts are obviously high value to buyers when approaching any transaction. However the current market turbulence has made forecasting extremely difficult to execute and substantiate."

Logistics company

Outlining improvements

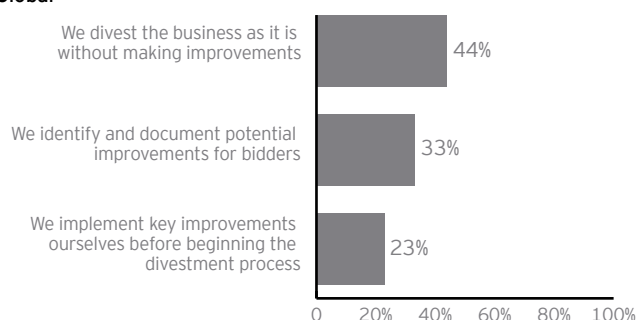
Analysis of the findings from Australian respondents shows companies are divided on the best practice approach to preparing an asset for divestment.

- ▶ One third of respondents divest the business as it is, without making improvements
- ▶ A further third identify and document potential improvements for bidders
- ▶ The final third of respondents implement improvements before beginning the divestment process

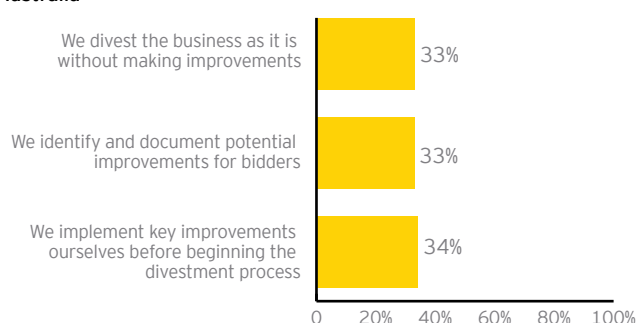
The majority of respondents to the global survey indicated that they divest the business as it is without making any improvements even though, on further analysis of global results, there appears to be a strong correlation between identifying and documenting potential improvements and achieving value. In Australia a higher percentage of respondents, as compared to global, implemented key improvements before divesting. This distinction may be reflective of market size, with fewer buyers in the Australian market; Australian vendors need to “work harder” to attract buyers.

Which statement best characterises your approach to potential operational improvements in the business you are divesting?

Global



Australia



“We implemented key improvements ourselves before beginning the divestment process. The company gets more value from the divestment if key improvements are in place before the divestment rather than give the buyer a roadmap on how to implement key improvements.”

Defence contracting and infrastructure services company

New tax complexities

The survey showed that the experienced sellers consider tax earlier in the divestment process than others. The new more complex world of M&A makes this more important than ever. Like their global peers, most Australian survey respondents already involve their tax teams early in a planned disposal process; 88% do so early in the transaction lifecycle. Preparation encompasses both tax strategy analysis and preparing the documents and records that prospective buyers will want to see.

“The after-tax consequences of buying an asset can vary dramatically depending on how the transaction is structured - so tax is definitely a key consideration.”

Logistics company

Time is the major obstacle to preparation

Regardless of the buyer, there is a clear trade off between speed and value when it comes to preparation. The experienced devote far more time to the whole divestment cycle. Globally, of the experienced sellers, 52% said it takes 6 to 12 months, with 10% expecting more than 12 months. This is something Australian companies are well aware of; 76% agreeing that a successful divestment takes 6 to 12 months.

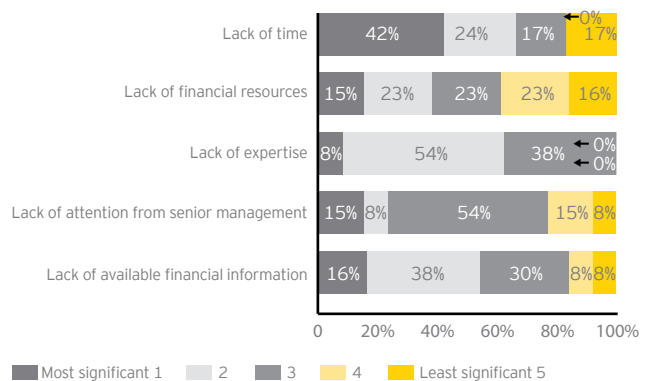
Companies aiming to sell a business quickly must accept that they may receive a lower value than if they had taken the time to prepare and market it properly. “Even though speed is of the essence, you need to buy as much time as possible to get the process right,” says Stephen Lomas.

Globally, in terms of obstacles to a successful divestment, lack of time was cited as having the most significant impact. Australian companies felt their biggest obstacle to achieving a successful sale was lack of time and also noted lack of expertise as a factor in divestment strategies failing to deliver.

- ▶ 66% of respondents cited lack of time
- ▶ 62% indicated lack of expertise was an issue
- ▶ 54% thought lack of available financial information was an obstacle
- ▶ 38% cited lack of financial resources
- ▶ 23% felt lack of attention from senior management was among the biggest obstacles

What do you see as the biggest obstacles to successful preparation for divestiture?

Australia



The responses indicate that companies undertaking a sale should consider additional experienced support to their teams, whether through use of internal resources or hiring external support.

“Although we had a good understanding and thorough idea of what was required, we underestimated the time taken to collate all the relevant documents. Given the current turbulent economic climate, I believe every company should have these documents prepared upfront even if divestment is not on the horizon.”

Biopharmaceutical company

Reviewing past divestments

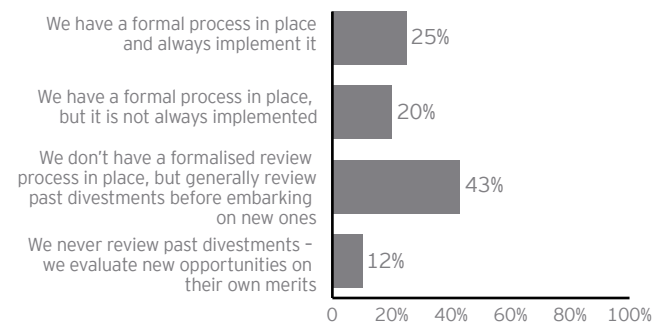
When it comes to examining the success of a divestment, analysis of global responses to the survey show more experienced sellers approach this in a systematic way, understanding the necessity of learning from past divestments in order to streamline future transactions and maximise value from the process.

- ▶ 58% of respondents indicated that they don't have a formalised review process in place, but generally review past divestments before embarking on new ones
- ▶ 25% have a formal process in place and always implement it
- ▶ 17% never review past divestments and evaluate new opportunities on their own merits

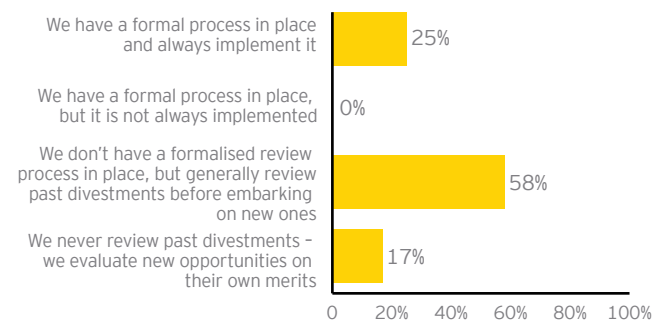
25% of global respondents also had a formal review process in place that is always implemented. A further 20% however had a formal review process in place but did not always implement it; a pattern not reflected in the Australian responses, which may be reflective of the market size in Australia and the fewer number of “serial transactors” in the local market.

Which statement best summarises your company's attitude towards reviewing lessons learned from past divestitures?

Global



Australia



When evaluating a divestment, sellers need to go back to the real reasons driving the sale. “Sellers need to be clear about why they went into this. Was it simply a means of survival? Was it to improve their overall capital structure?” says Graeme Browning. “When evaluating, remember to look at the bigger picture as well. Did you divest the right business? Are you ready to move the remaining business forward?”

Execution

Changing markets force execution to the fore

Even in a buoyant market, divestment execution often fails to match expectations. In today's more volatile world, sellers will have to work even harder to avoid execution disappointments. Vendors must devote sufficient resources to the divestment process or risk losing control of the sale process. If this happens, divestments will lose value – or even fail.

Achieving goals

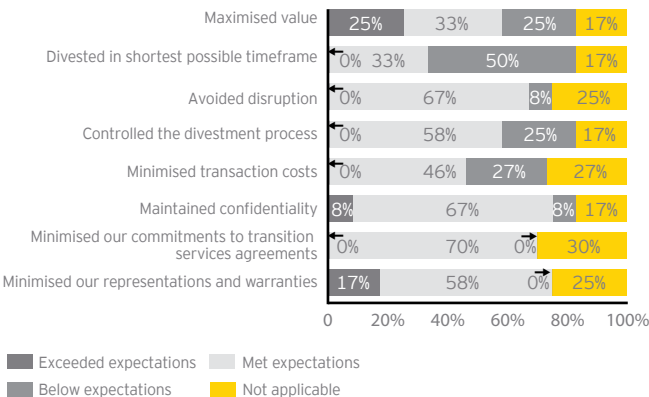
In the current environment, companies must accept that finding genuine buyers is likely to be difficult and flex their sales processes accordingly. Without an alignment of the current market conditions and their own expectations, sellers may increasingly fail to meet their divestment goal.

The global and Australian responses were aligned in terms of main goals for a divestment. Maximising value, avoiding disruption and controlling the process were the top three responses from both our global and Australian survey respondents.

But how successful do Australian sellers believe they were in achieving these goals?

Considering your company's most recent divestiture, how well do you believe you achieved each goal?

Australia



As the table highlights the top four areas where goals were not met were:

- ▶ Divesting in the shortest possible timeframe
- ▶ Minimising transaction costs
- ▶ Maximising value
- ▶ Controlling the divestment process

Reasons for failure

The primary external reasons for Australian respondents feeling that the sale did not meet their expectations were:

- ▶ Bringing the business to market at the right time and at the right price; 30% acknowledged they had misread market conditions and an equal percentage indicated they had mispriced the business for sale
- ▶ Maintaining competitive tension; 30% cited lack of competitive pressure as a key failure

The primary global external reason was also failing to read the market conditions, with 29% of respondents highlighting this as the main factor.

The main internal reasons for not meeting expectations were cited as:

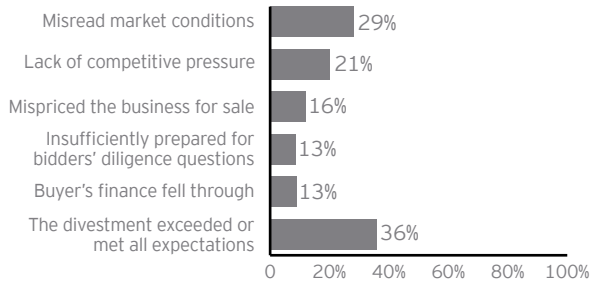
- ▶ Not remaining focused on the ongoing operations during the divestment process; 30% cited business performing below expectations during the divestment process
- ▶ 30% indicating that the business was not ready to operate on a stand-alone basis at closing
- ▶ 30% also expressed concern around not controlling information flows effectively

For companies divesting today, there is clearly an increased chance of a business's performance deteriorating during the deal. There are a number of ways to limit the impact of this including; making sure that you have the right resourcing to manage the divestment process while also running the business; being open about any deterioration in performance and to describe what corrective action can be taken; and putting appropriate incentives in place for the management of the business being sold.

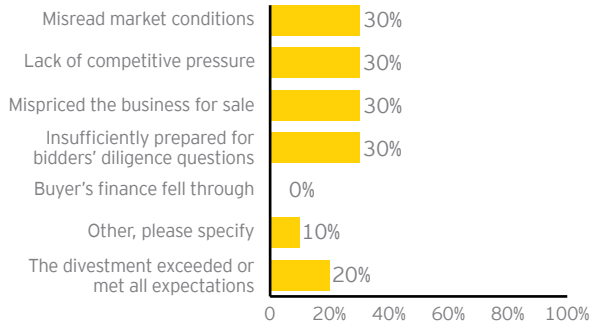
The main global internal reason for failure was under-performance of the business during the process (25%).

What were the primary external reasons behind your company's failure to meet or exceed expectations in its most recent divestiture?

Global

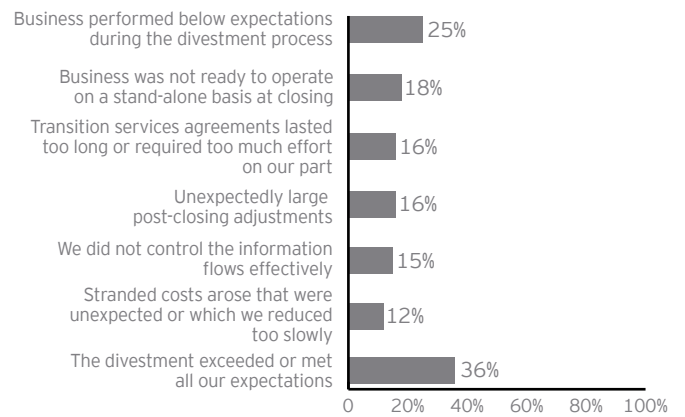


Australia

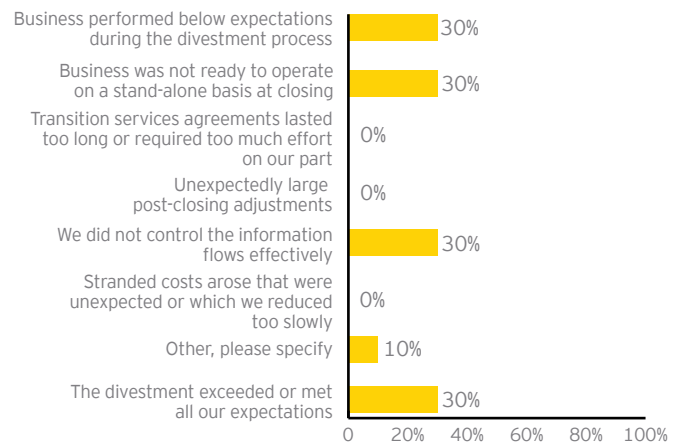


What were the primary internal reasons behind your company's failure to meet or exceed expectations in its most recent divestiture?

Global



Australia

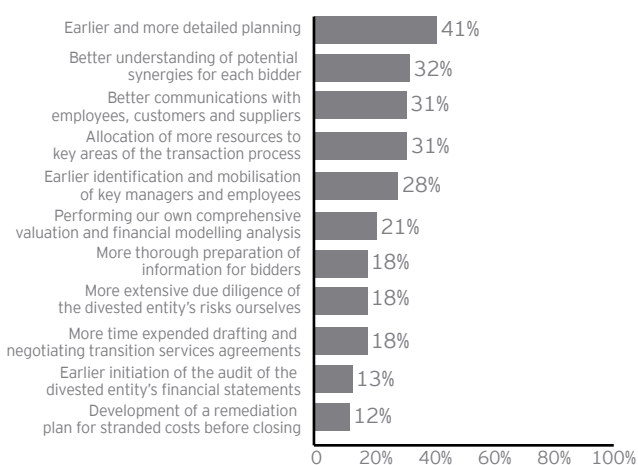


Lessons learned

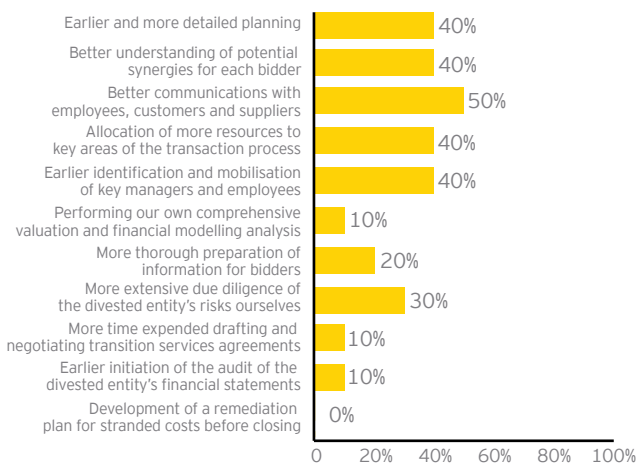
When asked what would they do differently to achieve their goals during their most recent divestment, half of Australian respondents said they would have engaged in better communication with employees, customers and suppliers.

What could your company have done differently to achieve its goals during its most recent divestiture?

Global



Australia



- ▶ Resources - 40% of Australian respondents identified the need to assign more resources to the transaction process. It was felt that lack of resources and management imbalance between focusing on the divestment and the day to day running of the business, can impact the divestment process itself and perpetuate timeframe challenges
- ▶ Identifying synergies - 40% of Australian respondents identified the need to have a better understanding of potential synergies for each bidder, with 20% indicating that better preparation of information for bidders would have made a difference

The most common global response to what a vendor would have done differently was "earlier and more detailed planning" (41%).

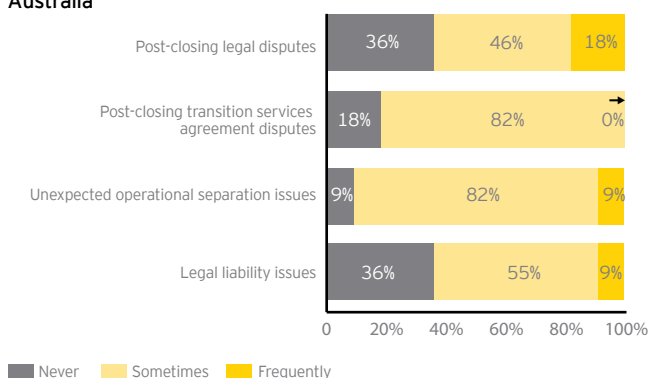
- ▶ Communication - 50% of Australian respondents indicated that developing a clear communication strategy for engaging stakeholders will help to maintain confidence through the divestment
- ▶ Earlier and more detailed planning - 40% of Australian respondents felt that a heightened state of readiness to divest would have enhanced the successful management of the process

Carve-outs and operational separation

Respondents were also asked to rate frequency of issues arising post completion. In Australia, post-closing legal disputes were uncomfortably high at 18% with legal liability issues and unexpected operational separation issues also arising frequently in the post completion phase.

In your completed divestitures, to what extent have the following been issues?

Australia



Carving out a division of your business can be very complex. It can lead to functional, reporting and cross-selling breakdowns. You need to be very clear about what you are selling, carefully secure the perimeter and understand the implications on the business that stays behind. Stephen Lomas points out that a quick sale, which leaves no time to deal with these complex issues, may prove too great a risk: “You may need to consider selling another asset that can be separated more easily, rather than run the risk of hastily severing ties with an operation that has a main business artery running through it.”

In the current economic climate, with deals becoming more complex and timescales looking to be accelerated, disputes are likely to increase. The vendor needs to focus on the due diligence and disclosure process to ensure that all issues are properly disclosed to bidders. Stephen Lomas continues “Furthermore, the terms of the sale and purchase agreement, and any completion mechanism must be clearly articulated. Warranties and indemnities should be kept to a minimum.”

Unprecedented times for business

We conducted the global divestment survey during November and December 2008 at a time when divestments had become a vital activity for many corporates. Even in the short time since then, Australia has seen the economic crisis deepen with transactions becoming harder to complete; fewer buyers, less capital, uncertainty around valuations as well as future performance increasing the risk of transaction failure.

Successfully sustaining and growing businesses in today's volatile environment requires new thinking at a fundamental level. Not only deal structures and deal financing but also in terms of re-evaluating the seats of power; the shift to the buyer and the shift from management driven divestments to the Board, or even shareholders, as the initiators. And, given the increase in distressed asset sales, financiers and creditors have also moved to centre stage. Management need to accelerate their response times; being prepared to act quickly when other parties may push for a sale or in response to the increasing demands for comprehensive information from a narrow field of buyers.

Those that are currently considering the sale of a business need to focus on the leading practices for successful divestments in a downturn. We call them the 10 Golden Rules. Whether proactively reviewing your portfolio, customising your business case for each buyer or developing a detailed roadmap for optimal operational separation, these rules enhance a seller's opportunity for a successful transaction and to maximise the value of any divestment. The most successful sellers will be those that adapt swiftly to these new demands.

These are indeed unprecedented times for business.



10 Golden Rules for successful divestments in a downturn

Leading practices for divesting in the current market:

- 1 Enable faster and more considered decision making through regular portfolio evaluation
- 2 Define the trade-off between time and deal value
- 3 Customise the business case for each potential buyer
- 4 Consider the role you may need to play in the buyer's financing
- 5 Pursue multiple divestment options
- 6 Be aware that traditional financial due diligence may no longer be sufficient
- 7 Assume that sale processes will no longer be structured
- 8 Deliver timely, regular communication to engage the bidder
- 9 Develop a detailed roadmap to guide operational separation
- 10 Assess the likelihood of material value shifts occurring during closing and post-closing



How Ernst & Young can help you

A transaction can be one of the most complex and challenging initiatives an organisation can undertake. Strategy and execution need to continue efficiently and effectively in an environment where speed is critical, resources limited and there is pressure for results. Ernst & Young can help; from initial strategic assessment through to implementation and post-integration, our focus is on helping you enhance your transaction outcomes.

▶ Sell side - Across the divestment lifecycle we work with you to maximise sale value and minimise transaction risk. We can assist you in managing the entire disposal process, including pre-sale business preparation, identification of and liaison with prospective purchasers, assistance with valuation considerations, negotiation strategies, vendor due diligence, transaction structuring and negotiations with valuation considerations and terms and conditions.

▶ Buy side - We can help you to identify possible acquisition opportunities and assist you understand and resolve potential issues, giving you confidence, decreasing lead times and accelerating execution. We can assist in managing the entire acquisition process, including the identification of and liaison with prospective targets, assessment of alternative funding structures, valuation considerations, acquisition due diligence, negotiating strategies, bid preparation, transaction structuring and negotiation of final documentation and terms and conditions.

We work with many of the world's largest organisations, fastest growing companies and private equity firms on some of the most complex transactions in the global market. We tailor our advice to your business and focus on helping you to improve growth and profitability. Our experienced professionals have worked on transactions in all markets and industry sectors and are dedicated to assisting you achieve success throughout the transaction lifecycle.

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