

Strategy & Corporate Finance and M&A Practices

Deciding to divest? Make your preparation time count

LiveRamp President and CFO Warren Jenson explains how all the up-front work companies do on communications, planning, and analysis can boost the odds of success in separations.

by Anthony Luu and Paul Roche



All too often, business leaders lament the one that got away—the deal they didn't pursue or targeted too late. They back away from carveouts and divestitures for any number of reasons, including concerns about timing, sunk costs, damage to the rest of the business, and misperceptions about asset value.¹

Senior leaders at LiveRamp (formerly a division of Acxiom) held some of those same fears. But they acted anyway—driven by the desire to transform a business and bolstered by a comprehensive divestiture-preparation process.

In 2014, Acxiom bought the technology start-up LiveRamp for \$310 million in cash. Four years later, leadership sold most of Acxiom to a corporate buyer for \$2.3 billion. The remaining company, LiveRamp, now provides customer-relationship-management software that companies use to build better end-user experiences. Having the courage to say yes paid off: the transformed LiveRamp was able to retire about \$230 million in debt, return more than \$750 million of capital to shareholders, pursue other strategic acquisitions, and fund further growth and innovation.

In a recent conversation with McKinsey's Anthony Luu and Paul Roche, LiveRamp president and CFO Warren Jenson shared some lessons for others struggling with divestiture decisions. Hint: it's all about courage and preparation.

McKinsey: *How did you decide to divest?*

Warren Jenson: When our current leadership team joined Acxiom about nine years ago, we did so with a vision that the company could be the bridge between the on- and offline worlds of marketing and advertising. Three years into our tenure, we made a big strategic bet and bought LiveRamp. We paid a high price for this relatively small but fast-growing SaaS business, and over the next several years, two strong but very different businesses emerged: Acxiom Marketing Solutions [AMS] was our slow-growth, high-touch service business that generated a lot of cash. LiveRamp was our high-growth

SaaS platform, and while it had significantly fewer employees and lower capital requirements, it was also still very much in investment mode—in other words, losing money.

Each business had very different valuation characteristics and attracted opposite investor types. Through our portfolio analysis, we realized that a divestiture could unlock more value from both entities, but only if we structured the deal in a way that resulted in two healthy businesses, each with the capability to flourish on its own and each with the right investor set—value-oriented investors for AMS, and software and growth-oriented investors for LiveRamp.

McKinsey: *What obstacles did you face at the outset of the process?*

Warren Jenson: There were all kinds of challenges. The biggest one was the fact that we were considering strategic options for a business that represented 75 percent of our revenue and employees, 100 percent of our cash flow, and approximately 90 percent of our assets. LiveRamp was a good young company but with a lot yet to prove. Ultimately, we were betting on our ability to reach a good outcome for AMS, run LiveRamp as a successful independent company, and that investors would support our strategy and react positively.

Defining the carveout was also a big deal, both strategically and operationally. We had to get the right assets and people in the right places to ensure ongoing support for our customers and the health of each business. We also had to get our management team to buy into the divestiture and convince our board that it was the right strategic decision and that it made financial sense. We had to consider the structure of the deal and evaluate the relative benefits of a sale, a tax-free spin, a nontaxable merger, and other financial alternatives. Finally, we needed to make a decision on timing and how to communicate our transformation story to key stakeholders, including employees, customers, and investors.

¹ See Gerd Finck, Jamie Koenig, Jan Krause, and Marc Silberstein, "What's keeping you from divesting?" September 18, 2020, McKinsey.com.

McKinsey: *How did you address those obstacles?*

Warren Jenson: Let me start with how we defined the carveout. We actually started the process of separating our businesses into stand-alone structures more than two years ahead of announcing that we were exploring strategic options for AMS. As part of the separation, we knew each entity would need to have complete, independent, and auditable financial statements. We knew that having all these elements in place would give us true optionality. We also knew this would allow us to move quickly and be transparent with all constituents, including our investors.

To build investors' confidence in our valuation assumptions, we worked with financial advisers to come up with a carefully defined valuation range. We did a lot of complex modeling, running a scenario analysis to account for a variety of strategic, operational, and financial variables. Things like asset allocation and mix were often the subject of debate, so we went through a lot of iterations. We considered scenarios in which LiveRamp would emerge as only a moderate-growth company producing higher cash flow, for instance, as well as scenarios in which various parts of AMS went with LiveRamp. In the end, we chose to look at strategic alternatives for AMS and keep the high-growth



Warren C. Jenson

Education

He holds a bachelor's degree in accounting and a master of accountancy degree, both from Brigham Young University

Career highlights

LiveRamp
2018–present
President and CFO

Axiom Marketing Services
2012–18
CFO, executive vice president, head of technical operations, and president of international

Silver Spring Networks
2008–11
COO

Electronic Arts
2002–08
CFO

Amazon.com
1999–2002
CFO

Delta Air Lines
1998–99
CFO

NBC
1992–98
CFO

Fast facts

He has been named twice to *Institutional Investor's* Best CFOs in America list. He was honored as Bay Area Venture CFO of the Year in 2010. He serves on the boards of Cardtronics, Tapjoy (a privately held company), the Marriott School of Business at Brigham Young University, and the Marshall School of Business at the University of Southern California.

software business. By the end of 2017, we had a pretty powerful valuation story to tell, and our board was ready to move.

Our end-to-end communications about the divestiture were completely transparent. In February of 2018, we publicly announced that we were beginning a process to explore strategic alternatives for AMS. We explained to employees how we intended to map various roles across both entities and communicate with those affected by the divestiture of AMS—in such situations, no solution is perfect, but we tried to eliminate as much uncertainty as possible. With investors, we shared pro-forma financials for a stand-alone LiveRamp, including our approach to reduce overhead and our expected transition costs. Even after the transaction, we continued to share information about these costs; we specifically called them out in our financial reporting until they were fully absorbed.

McKinsey: *What challenges did you face during the execution phase of the divestiture?*

Warren Jenson: When the time came to launch the divestiture, we were ready. We had mapped every asset and employee to one of the two entities. We had prepared and documented more than 125 separate transitional service agreements between LiveRamp and the eventual buyer, as well as eight major intercompany agreements. Having auditable financial statements in place for each entity saved us a ton of time. The biggest challenge was finding the right partner. At least 100 of our customers were customers of *both* LiveRamp and Acxiom, so it was critical to identify good strategic partners.

Initially, we considered a wide range of potential partners, but we took care to qualify all the participants and narrowed down the list significantly. In the end, Interpublic Group [IPG] emerged as the best home for AMS—one that could unlock significant value for our shareholders. The timeline for the deal is evidence of our preparation. We announced our strategic exploration in early February 2018, then announced the transaction with IPG in July 2018, and we closed the deal in October 2018.

McKinsey: *Fear of shrinking has kept lots of companies from pursuing separations and divestitures. How did you overcome that bias?*

Warren Jenson: You need courage at top and relatively fearless leadership in your pursuit of value creation. Scott Howe, our CEO, provided that. There are a thousand times in a process like this where you can easily stop; some people don't ever start. The process worked for us because we believed in the vision, and we had confidence in our numbers and analysis. In addition, we maintained optionality. We knew we could continue to run the business as is; we hadn't limited our ability to do so. When we announced that we were looking at strategic alternatives, we were open to anything that took us to our desired end state; it could have been a partnership, or a tax-free merger. It ended up being a sale, but we never closed any doors. Through our preparation, we not only protected but also increased our optionality and value.

McKinsey: *What effect has the divestiture had on the business?*

Warren Jenson: While our company became much smaller, it also became more valuable, just as we had envisioned. Since early 2018, our share price has more than doubled, we have a strong balance sheet, and we have returned more than \$750 million in value to shareholders. The capital influx resulting from the sale allowed us to execute an independent strategy for LiveRamp. And the best thing about the deal is that AMS is also flourishing under its new owners.

McKinsey: *What might you have done differently? What advice do you have for others pursuing such transactions?*

Warren Jenson: There were a few places in the original intercompany agreements where we wish there had been more clarity—nothing material, but where we wish we had another turn of the crank. The lesson there is, the more buttoned-up you are going in, the better. My advice to everyone exploring divestitures, separations, and carveouts is to start with vision and strategy. Moves like this have

to make strategic sense and show a clear path to value creation. When you're defining a carveout, remember that everyone has to win; both companies need to come out of the process strong and healthy. To that end, you need a clear process for making hard calls—our CEO, our chief strategy officer, David Eisenberg, and I were the tie-breakers. We also

learned that up-front planning is everything and that business leaders shouldn't skimp on resourcing. Transactions like this are a huge undertaking and can crush your team. They take real teamwork, the right set of advisers, and a willingness to change course constantly.

Anthony Luu is an associate partner in McKinsey's Dallas office, and **Paul Roche** is a senior partner in the Silicon Valley office.

Designed by McKinsey Global Publishing
Copyright © 2020 McKinsey & Company. All rights reserved.