

M&A

Through a different lens: A McKinsey perspective on separations

To succeed, companies need to view divestitures in a way that goes beyond the traditional M&A approaches.

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Divestitures present some of the greatest complexity among the strategic moves a company can make. Each has multiple potential outcomes that contain their own unique opportunities and challenges. Companies need to create a clear vision of how a strategic option can create or destroy value, no matter whether the action involved is a public company spin-off or an outright sale, and whether the buyers involved are private, corporate, or financial.

To arrive at a clear vision and deliver success, companies need to view the separation through a different lens that goes beyond the traditional approaches to M&A.

Start with simplifying the inherent complexity of a divestiture by aligning stakeholders around a pragmatic and agile approach. A common mistake is to treat the separation like a “merger integration in reverse” and focus predominantly on disentangling businesses. While acquisitions call for integrating companies around a shared strategy, separations call for new strategies, new operating approaches, and in many cases, new organizations and diverging stakeholders.

Based on our experience supporting many divestitures and their executive sponsors, McKinsey has developed a framework for guiding the separation effort (see exhibit). The five modules

Exhibit

Five lenses of the value creating separation.



of the framework reflect the lenses of key stakeholders; each has its own activities and goals to achieve. In adopting the five lenses we move away from linear disentanglement programs that often fail to maximize value.

Taking this modular view of the process enables stakeholders to break down the challenges and run parallel workstreams. We see the added flexibility translate to accelerated separation programs, smoother executive decision making, and an improvement in the deal team's ability to complete transactions.

For example, a global automotive OEM was evaluating global divestiture of key assets as part of an effort to restructure its business. Absent a buyer, the company would shut down many business units and factories.

Before offering any assets for sale, the OEM conducted a rapid assessment of entanglements to determine the complexity of a separation across all affected businesses and assets; the assessment proceeded in conjunction with a portfolio review of the company's businesses. This effort helped the OEM determine which assets had the most viable path to divestiture and ultimately accelerated the company's restructuring.

Divesting with agility

One of the challenges in pursuing separations today is structuring a program in an M&A environment where buyers and exit options change frequently as market dynamics get disrupted. While optionality can give divestors opportunities to maximize value in a spin-off or sale, it can also increase the risk of value leakage as deal perimeters and timelines change through the course of a transaction. Sometimes the final deal looks nothing like what you set out to accomplish. Company executives need a clear strategy for creating value and an agile approach to realizing that value.

Traditional separation efforts generally take a linear path from developing a strategy for what to divest, to planning the separation of assets, on

through to enabling the transaction. This linear approach is quite effective when a divestiture has a clear path to an ultimate end state, such as an IPO or a sale to a limited universe of potential buyers. But the end state for many deals is not always so apparent or easy to predict.

For example, a diversified industrial company pursued multiple divestitures simultaneously as part of a strategy to streamline its portfolio. The company planned multiple exit scenarios to create packages of assets attractive to a diverse set of strategic and financial buyers. This required the aggregation or disaggregation of a portfolio of products and assets to divest, as well as the ability to quickly assess each strategic path to a deal.

The company employed a modular separation approach, led by a central program office, to drive strategic decision making and maintain consistency across the multiple divestitures. The company also created independent deal teams to manage the sale process and execute each separation. Some divestitures raced ahead, while others required more in-depth analysis and preparation to complete. Ultimately, the combined value of the deals exceeded the targets set for the overall program.

Cutting through the complexity

Traditional approaches to divestitures tend to focus solely on the process of separating assets and businesses, while reacting to the complexity of addressing cross-team dependencies. Executives can get lost in the complexity and go through the motions of separating for separation's sake, rather than trying to create real value.

In our experience, successful separations focus on discrete objectives and the critical decisions that each stakeholder group needs to make. This simplifies separations and increases the attention paid to the issues that promise the greatest impact and value.

When a fast-growing technology company decided to split and divest itself of a larger, but slower-growing business unit, executives created two separation teams with clear, specific objectives. One team worked to make Day 1 of the separation a success. The other developed a new operating model to fit the profile of a high-growth tech platform company. An executive steering committee made strategic decisions and arbitrated conflicts and trade-offs that affected the overall divestiture. The result was a successful separation that brought minimal disruption to both businesses and gave the transformed technology company a launching pad for healthy, long-term growth.

Realizing the greatest value from divestitures requires evaluating all potential options and executing the chosen options effectively. The traditional linear separation model is simply too slow and too inflexible in today's dynamic deal environment. Effective execution requires executive teams to take a modular approach, embedding agility to prioritize and deprioritize multiple workstreams as appropriate. Our separation framework provides executives the tools to deliver value and succeed in their divestitures.

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