

# When to sell a division or subsidiary

One of the best ways to weather a weak economy is to streamline your company's operations, which can include divesting the business of divisions or subsidiaries. It can be a difficult decision, however, particularly if you've intended to drive your company's long-term growth with the unit. But selling a piece of your company can be a smart — even business-saving — move that may keep you well-capitalized enough to ride out a rough patch.

Timing and preparation are essential when selling a unit. Before putting it on the block, be sure you understand the unit thoroughly, including its strengths and weaknesses.

## Selling a subsidiary

Whether the unit you're considering selling is a division of your company or a subsidiary can make a significant difference in your selling strategy. For example, standalone subsidiaries are typically easier to sell than divisions. The unit is already a separate legal entity and can generally be sold as a separate business. There are still plenty of issues to address before you sell a subsidiary, however.

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proprietary software the subsidiary uses to manage inventory, you must decide whether to transfer ownership to the subsidiary or retain ownership and negotiate its use with the subsidiary's buyer. Also review corporate agreements to learn which governance processes are required to transfer shares or divest business assets.

There are also many service- and support-related issues, because subsidiaries usually depend on their parents for everything from legal advice to HR management. So determine how much your parent provides to your subsidiary and then decide whether you want to offer continuing services to the buyer during the integration period. (See "Ask the Advisor" on page 7.)

Finally, be sure to provide the buyer with a list of services that your parent company provides and what they cost. The buyer will need to incorporate this information into its analysis of the acquisition's potential profitability.

## Divesting a division

Selling a division can be a somewhat more difficult endeavor than sloughing off a subsidiary. You must essentially "carve out" the division — deciding, among other things, which employees, property, product lines, customer contracts and sales territories are officially up for sale.

For starters, you need to determine who owns the subsidiary's assets (including intangibles) — the subsidiary or the parent company? This can be particularly challenging when it comes to intellectual property. If your parent company owns, for example,

Work with a financial advisor to create a pro forma financial statement that separates, as much as possible, the selling division's assets, debts and revenues from those of your parent company. And get ready to answer some tough questions. For example:

- ❖ What will you do with employees who work for both the parent and the division?
- ❖ Will you transfer or cancel the 401(k), health care and other employee benefits programs for those employees who go with the sold company?
- ❖ Will you include in the sale such properties as production facilities, offices and technology equipment with the spun-off division?

Be sure you know which features and assets are important to the value of that division and include them in the transaction.

## Finding a buyer

Selling a unit can be time-consuming. One way to improve your chances of successfully selling a division or subsidiary is to draw up a list of prospective buyers. By targeting other companies operating in your product niche or in a complementary sector (for example, a manufacturer that may be interested in

acquiring the distributor it already uses), you can get a jumpstart on the process. Your M&A advisor may have potential buyers in mind as well.

With a short list of possible buyers, you can tailor your selling strategy and offering proposal to suit each serious contender. For example, if you're carving out a division for sale, you may have the flexibility — depending on the potential buyer's needs and interests — to expand or reduce the size of the workforce and number of products or facilities being offered.

## Making the right choice

You may be reluctant to sell one of your divisions or subsidiaries — particularly if it's a strong performer with future potential. But this is exactly the right type of unit and the best time to divest. Buyers are far more interested in acquiring a successful unit with growth prospects, and will pay a higher price for it. If, on the other hand, you try to sell a troubled unit, your intention will likely be obvious to any serious buyer.

Selling can take a substantial amount of resources and time — anywhere from six months to more than a year. If you're serious about this partial sale option, start preparing now. ■