

Solution

PROVIDING A HOME FOR ORPHAN ASSETS

Disposing of problem non-core businesses may not be easy, but it need not be impossible, writes Endless Investment Director, Mathew Deering.

The recession may be slowing (or dare I say over) but fragile consumer confidence and limited debt availability mean corporate UK continues to manage cash carefully. For many larger corporate this includes identifying underperforming and non-core business units. Disposals of what are now called “orphan assets” are being seen as a means of improving overall business performance whilst at the same time raising cash which can be used to reduce debt or to fund strategic business investment or fresh acquisitions.

Problem Children

While non-core businesses have always been of appeal to private equity, the depressed M&A environment is limiting opportunities to acquire quality, well-invested businesses. Those non-core businesses that are coming to market in this climate will more commonly be “problem child” businesses with a history of trading losses or underperformance, a need for capital investment or a management team that requires strengthening.

From a vendor perspective, disposal of difficult non-core subsidiaries may not be principally concerned with value. A sale may avoid the need to support unpalatable working capital requirements, or free up management time to focus on profitable core businesses. For listed groups, disposal of loss making subsidiaries, even for a nominal consideration that should enhance earnings and shareholder value almost immediately. All this means achievement of a quick sale with minimal process is more important to the vendor than extensive market testing.

Cosalt Case Study

We at Endless have seen a number of opportunities to acquire challenging non-core businesses from diversified Groups. In October 2008, we acquired Cosalt Holiday Homes, a manufacturer of static caravans and lodge holiday homes based in Hull. CHH was significantly loss making and its listed parent Cosalt plc was seeking to avoid an ongoing cash drain and free up Management time to focus on their core business.

Before we were approached, a formal sales process had failed to deliver a buyer and the parent had begun a major redundancy consultation programme. Endless agreed a deal to acquire the business for a nominal consideration, taking on the risk of managing a difficult managed wind down exercise with regard to the Caravans division while seeking to preserve the formerly profitable Lodges division. Ten months on, the wind down of the Caravans division has been successfully concluded. The remaining surplus assets have been sold to a start up business who plan to recommence manufacturing on the site and the Lodges division has also been sold to an employee MBO team, which will also lead to continued employment and manufacturing in Hull going forward.



This work out has resulted in over £10 million of assets being realised for the benefit of creditors, far in excess of what they would have received had the business been placed into formal insolvency - the vendors only realistic alternative to a sale to Endless.

Endless Track Record

Several other Endless acquisitions, retailer British Bookshops and Stationers, heavy engineering specialist DavyMarkham Limited and leading paint and decorative coatings business Crown Paints, have all shared the characteristics of an overseas parent seeking a strategic exit from the UK market. In all situations, the vendors experienced difficulties in achieving a sale due to the loss making history of the businesses, legacy liability issues or complexities involved in carving out the target from the parent Group. Endless has delivered value to the vendors through adopting a pragmatic approach to these risks and flexibility in deal structuring to ensure an appropriate balance of risks and rewards.

When a business disposal is more about resolving problems than realising value for the vendor, many prospective buyers will take flight. However if vendors are prepared to be realistic in pricing in the risks and costs of resolving these problems, Endless can offer a fast and flexible transactional solution for these “orphan assets.”