BOSS MAGAZINE

Is Now the Right Time to Sell (or Buy) Distressed Assets?

By Frank Williamson

The COVID-19 pandemic has been challenging for businesses, but this period could provide an opportunity for forward-thinking leaders to sell off distressed assets and reinforce the strongest parts of their business with new acquisitions.

As the pandemic continues to batter our economy, businesses that have survived the initial downturn are turning their attention to the long term. The current climate has created an opening for leaders to think strategically about how their businesses can be most successful in the future — and to orient their company structure and assets to align with those plans.

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In this quarantine environment, some divisions and products have proven to be resilient, while others haven't held up as well as hoped for. By taking stock of these successes and nonsuccesses, leaders can place their assets into two categories — the strongest areas, to which they should shift additional resources to encourage further growth, and the weakest ones, which they should consider de-emphasizing or selling.

Though the term "distressed assets" is commonly used to refer to assets in or near default, it can also mean a unit, product or division that is no longer strategically important, competitive or sufficiently profitable. An asset could be distressed for all kinds of reasons unrelated to its underlying quality — after all, one organization's weak link could be the key to another business's success.

Right now, many forward-thinking businesspeople are simultaneously looking to buy and sell — finding a new home for their own distressed assets and purchasing others to augment and strengthen their existing framework. However, before a company gets serious about any sale or purchase, a great deal of discussion and preparation needs to take place.

Questions for sellers of distressed assets

When I advise companies on strategic decisions, I work with them to answer a series of questions to determine if a purchase or sale of a business unit, division or product category is right for them. Sellers contemplating a transaction should consider these questions:

- Who is the target market for these operations or assets, and how can I best reach the ideal business partner?
- What can I do to illustrate the value of these assets to any potential buyers?
- Do these assets have any associated negatives that the buyer should be made aware of?
- How long will a potential transaction take to close, and what's the estimated financial benefit to my company?
- What information needs to be communicated to investors and creditors before this asset is monetized?
- Who will handle the design, staffing and management of this project?
- How will this sale affect my organization over the short and long term?

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Questions for buyers of distressed assets

Buyers need to be prudent and purposeful as they consider a purchase of a distressed asset to ensure that the result will be a net positive for their organization. Here are seven questions we suggest that buyers ask themselves:

- What organizations might be most in need of an influx of cash?
- How are other companies in our industry doing — and who might be open to a conversation, even if we've competed for business in the past?
- Which of our existing suppliers or distributors do well when our business does well, and would combining our companies help us achieve greater success?
- How can we put ourselves front of mind for any acquisition prospects as they're making strategic plans?
- What would make a transaction most beneficial from their perspective?
- What details will be needed to accurately describe the benefits of this transaction to our banker and investors, helping us to secure the necessary resources?
- Who will handle the dual responsibilities of identifying potential partners and negotiating the terms of a transaction?

Turning aspirations into reality

Of course, answering these initial questions is just the first step toward a potential transaction. Once you've arrived at the conclusion that a purchase or sale of a distressed asset would benefit your organization, you'll need to allocate resources — either internal or external — toward investigating the availability of practical transaction partners, researching market terms and analyzing in a general way how any significant transaction or financing decision would affect your business.

As you begin conversations with your board of directors, bankers and investors, it will be crucial to understand and be able to communicate a deal's full financial impact on your business. You'll want to develop detailed financial projection scenarios to quantify the impact of a particular transaction as accurately as possible. The key of getting all these parties on your side is providing in-depth, useful information so that an informed, realistic decision can be made.

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Signing the papers on a transaction doesn't signify the end of the process. In fact, some might say that's when the true work begins. You'll also want to map out a post-transaction integration plan, staying in close communication with employees, financial backers and other stakeholders to keep them aware of your progress.

The many phases of a transaction can be time-consuming, which is why companies often seek the assistance of investment bankers, who can provide advice and guidance based on their experience with similar deals.

Planning for what's next

Yes, it's challenging out there right now, and we don't know how much longer these conditions will last, which can make it difficult to think about long-term plans. However, the fundamentals of our economy remain strong, and the tough decisions made by leaders during this crisis have given us a very good chance of coming out on the other end stronger than we were before. Business leaders who view this period as an opportunity can position themselves for success in the months and years ahead.

Frank Williamson is the founder of Oaklyn Consulting, a consulting firm that helps investor groups and private businesses, from startup to middle market, with mergers, acquisitions, capital-raising, investor relations, succession and other strategic corporate finance decisions. Oaklyn Consulting does not work as a broker but as an extension of clients' boards and management teams, charging time-based fees for investment banking advice.