# The MBO Solution

## Management buyouts, if they can clear significant hurdles, present an obvious path for companies looking to divest

By Ken MacFadyen

Divestitures, like most other M&A activity, have been put off over the past 18 months, as companies seek a certain level of clarity before carving out their non-core assets. A recent survey of C-suite executives conducted by PricewaterhouseCoopers, however, suggests that companies are beginning to reconsider their asset mix and nearly 70% anticipate seeing divestiture activity build up over the next 12 months. Finding a buyer for these assets is usually the most vexing part of the divestiture process. Occasionally, the most obvious acquirer is the team in place already overseeing the targeted assets.

> "Management will start a process to sell business, and the managers want to be cut in."

"We've been seeing a steady flow of management buyouts," **The McLean Group** chairman **Dennis Roberts** says. "Usually, it's the less exciting businesses that have to resort to an MBO, so you'll see it happen with mid-market companies that have a slower growth rate and may operate in what could be considered more of an uninteresting niche."

Take the case of MeadWestvaco, which in October finally exited the paper business. The company had divested the bulk of its coated paper operations through a 2005 sale to Cerberus Capital Management. It held on to some "specialty paper" assets, but unloaded its remaining mill, based in South Lee, Mass. to Onyx Specialty Papers, a company set up by the existing mill management team. Analysts estimated that MeadWestvaco received little or no net proceeds through the sale, but marketwatchers still applauded the transaction citing that it helped eliminate a distraction.

St. Ives Plc has taken a similar approach over the past year, unloading both its Dutch music and multimedia operations and and its US printing business through two separate sales involving management buyouts.

Of course, the management of these divisions, when confronting a possible acquisition, face the same issues most buyers are dealing with — namely funding. "That can be a pretty high hurdle to cross when it comes to getting these deals done," says **Frederick Schmitt**, a managing director at Los Angeles-based investment bank **The Sage Group**. "Someone has to come up with the equity. It's not as if the managers of a subsidiary can just approach a bank and walk away

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### Consultants Pair Off

The Corporate Executive Board, a listed, Virginia-based research and advisory group for financial services professionals, will buy TowerGroup, which will continue to offer its services within the company's broader platform.

Karen Cone, the chief executive of TowerGroup, a Needham, Massachusetts-based company, will leave the organization. Bob Egan, the company's global head of research and chief analyst, will remain with the Corporate Executive Board.

TowerGroup also has locations across North America and in Europe.

Corporate Executive Board chairman and chief executive Thomas Monahan III said the deal will bring to the company a wider competency for executive workflow and an enhanced ability to serve clients.

Terms were not immediately disclosed and calls for comment were not returned by press time.

### DynCorp Launches M&A Initiative

A DynCorp International subsidiary will buy out the Phoenix Consulting Group, bringing into the government contractor's portfolio a specialized intelligence training unit.

The price of DynCorp's acquisition was not disclosed but the company said the deal was paid for entirely with cash.

A Wells Fargo research note said in June, DynCorp had $159 million in cash and the deal "helps expand customer base" as the buyer "continues to position for life after Afghanistan/Iraq."

A DynCorp spokesman declined to elaborate on the deal, but acknowledged the company has been looking at potential M&A and that the Phoenix play was not intended to be a one-off deal.