

Unleashing Enterprise Value

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Views are personal and not of organisation

This presentation is for educational purposes only

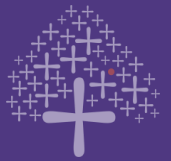
Each situation is different calling for unique solutions

No comments are being made on any organisations cited as examples

No advice is sought to be rendered nor any business advocated on the basis of this presentation

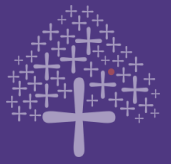


Background



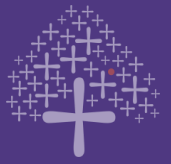
- Severe Competition in many industries
- Stress in many sectors
- Tremendous opportunities in new Age Industries
 - *“The future ain’t what it used to be”* : [Yogi Berra](#)
- Speed in rate of change itself in Landscape:
 - *“The rate of paradigm shift (technical innovation) is accelerating, right now doubling every decade”*: [Ray Kurzweil](#)
- Information Gap among Enterprise owners: Unlearning, relearning and new learning:
 - *“Everyone takes the limits of his own vision for the limits of the world ”*:
[Arthur Schopenhauer](#)

Objectives of Discussions today



- Provide basic Guidelines to situation analysis: Opportunities/Problems
- Points for consideration for various choices that an enterprise wish to decide amongst
- Unleash Enterprise “Value”
 - Value as in **Potential** of the Enterprise
 - Value as to raise Resources (**Valuation**)
 - Value as in **Values** or code of Governance
 - Role/Relationship to Enterprise Values

What is Value? Price?



Value is conventionally defined as :

- The monetary worth of something
- A fair return or equivalent in goods, services, or money for something exchanged
- Relative worth, utility, or importance
- The amount of money for which something will find a buyer in a marketplace

(Or is it?)

<https://www.merriam-webster.com/dictionary/value>

Parameters of an Enterprise Valuation



Tangible/measurable parameters

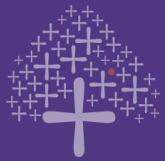
- Asset based: NAV/Book Value /Embedded Value etc.
- Income based: EPS, ROCE,CAGR etc.
- Market based: Replacement value, Market Capitalization
- Potential Based: Cashflow projections, PoS, No. of Clients

Subjective parameters

- Transparency
- Compliance
- Legal system in the country of operations
- Ease of doing business
- Macro Economic parameters
- Governance Track record of Board members/KMPs
- Organisation Values articulated and practiced

Enterprise value is a combination of Business, Management, Financial & Human strategies but market prices are not....at least in the short run

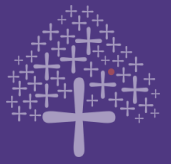
What is a Market ? Market Price?



- A Market is an organised place (physical or virtual), where **willing** buyers and **willing** sellers congregate regularly (in person or virtually), **to discover** price of a Product and **exchange** the same at the price discovered
- A Market Price is a price negotiated by a willing buyer and a willing seller for a given product devoid of any compulsions ***based on information available*** with each of them at the point of time

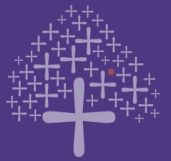
(Includes barter and acknowledges that capital markets are of a weak efficient form markets with asymmetry of information between parties to the transaction)

Is Value equal to Market Price ?



- Role of perspectives and differences therein between buyers and sellers
 - Do buyers and sellers have identical value estimates in mind?
 - Do buyers and sellers have identical price estimates in mind?
 - Why?
- **Differentiation between Value and Price is important for future strategy development**

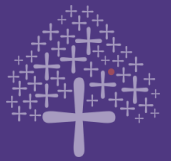
What is an Enterprise Value?



- An Enterprise value is a bundle of
 - Measureable and abstract characteristics
 - Past performance and future possibilities
 - Emotions and facts
 - Tangible and intangible
 - Often Competitors and Industry structure also contributing ...
 - In short : A sum of many parts but greater than the apparent...
- It is an Art and Science

(Confusion arises as we use Market Value and Market Price interchangeably and also similarly Value and Price themselves are used as interchangeable terms)

What is Unleashing the Enterprise Value?



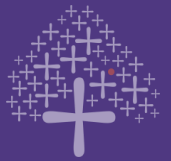
- Unleashing Enterprise Value means **releasing the embedded and potential** of the Enterprise by various methods for a definite purpose in order to benefit all stakeholders of the Enterprise

(**Jack Welch** Selling off Minor divisions in **GE**. \$12 Bn to \$250 Bn+ Market Cap in 20 years, Sold off small divisions, Policy : It must be No.1 or No. 2 in the chosen fields of business and completed 500+ acquisitions)

- Unleashing Enterprise value can assist unleashing the **potential energy** for a future
- Unleashing Enterprise value can release the resources/energies for a more productive purpose i.e. **efficient capital allocation**

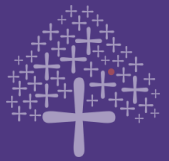
(Assets stripping: Recall the story of the movie **Pretty Woman: real life stories of Carl Icahn, Permitting Textile Mills in Mumbai to establish Malls**)

Why or whether one should unleash the Enterprise Value?



- **Should it be left to “ As per Owner’s choice” ?**
 - (PSU Enterprises are sold on Policy rather than Enterprise stakeholders interests balancing formula)
- **Owner versus Management view of the Enterprise**
 - Enterprise as a vehicle for fulfilling Owner’s needs versus an ecosystem for all stake holders
 - What is the controlling word in the expression “ Family-managed business”? “Public Sector Undertaking”?
 - **Peter Drucker:**
 - Conflict between and confluence of business needs and Family’s desires and objectives
 - Succession issues

What are the repositories of an Enterprise Value?



- **Historical and Tangible**

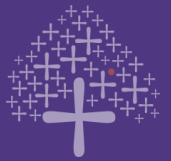
- Assets/Divisions
- Brands
- Licenses
- Patents
- Distribution network

- **Future or intangible**

- Knowledge about client behaviors (Hacking Human Brains :Noah Harari : Facebook and Google, Election Campaigns by Trump)
- Off or on Balance sheet ownership rights e.g. right to exploit mines or receive dividends and/or profits and/or control or acquire an asset -e.g. Participatory notes, CFDs, MLDs, options
- Digital Assets : Bitcoins...Digital Arts

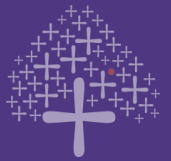
List is not exhaustive but ever evolving and only imagination is the limit

When do you unleash it?



- **Owner's personal needs for funds : PSU Divestments**
- **Enterprise needs for funds:** E.G. Issuances by private banks in Corona Times last year
 - Expansion of Geographical cover or pursuit of new opportunities or creating a war chest
- **Product/Division/Segment need for funds**
 - E.G. Premium Real Estate division versus Engineering Infrastructure Division
 - Godrej, L&T.... Any multi products Enterprise

When do you unleash it?



- **Competitive developments**

E.G. Rivals preparing a market share war or large international rivals eyeing market

Reliance Jio threatening price war on Vodafone and Airtel and effect on other Telcos

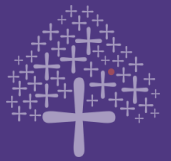
- **Regulatory fiat**

E.G.

- FERA dilution or RBI Rules on diverse ownership of private Bank
- British leaving the county or Exodus from Myanmar or Uganda or Embargo of GCC on Qatar or of UN on North Korea or Iran or Myanmar

- **Risk Management Policy**

- Manufacturer of Hazardous Materials or “Sin” products : Union Carbide or Nuclear Electricity plants or Tobacco products diversifying in other consumer products



Decision parameters to unleash value?

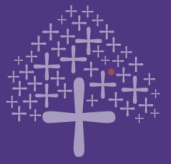
- Product stage : End of Lifecycle/Maturity/ Growth stage?
- Competitive Landscape comfortable or aggravation E.g. Pharma, Finance, Telecom
- Need for strategic partnerships or JVs E.g. Defense technology, EV Cars collaboration, Vaccine invention and manufacture
- Plan to change industry dynamics and get dominance E.G Bharati Airtel & Warburg Pincus-\$290mn to \$1.83 Bn in six years
- Acquisition of horizontal/backward/forward player and effect on capacity and pricing (Nationalised Bank mergers)
- Fund major Innovation initiative e.g. Pharma molecule research: **Glenmark or Biocon**
- Reduce Ownership Risks : e.g. Hazardous materials producer **(Union Carbide)**, Expat owners (FERA Companies), High Product obsolescence feared **(PayTM)**, Risky prospecting of Crude or **precious minerals**

Unleash Timing and Product Lifecycle Relationship



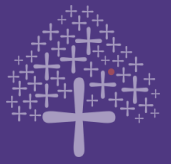
Product Lifecycle Stages	CAGR compared to GDP growth	Returns Potential	Risk	Examples
Introduction	Very High	Very High	Very High	Energy Storage batteries, Game Apps, Electric cars, Drones, IoT, AI
Growth	High	High	High	Smart Mobile Phones, Solar Panels, 5G, UPI
Maturity	Moderate	Moderate	Moderate	Steel, Textile, Cement, Airlines
Decline	Steady to Low	Nominal or negative	High	Fax machines, Telex, CDs, LPG Cylinders, Landline Phones

Does a product lifecycle maturity stage means one should unleash Enterprise value?



- What are the Returns on a product at this stage (Low or High and visibility of future returns)
- What are the Business Risks at this stage (e.g. Political unrest forcing owners to leave, Renewable energy versus Carbon based Fuels))
- What is the stage of Owner Lifecycle and succession plans of the owners or management
- Sale of individual products or brand lines help unleash enterprise value partially

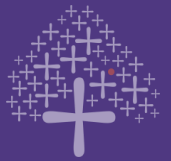
Difference Between Product versus Enterprise Lifecycle Stages



- Products of a company may be in different stages
(**Pidilite** 1000+ products, **3M** 100s of products \$ 30 bn sales)
- Organisation itself may be in different stage of lifecycle
Financial needs versus management maturity and capabilities (Private v/s Public sector Banks) (Real Estate Companies)
- An efficient Enterprise may not enter decline for a long time
(E.g. **Dupont** est.1802 and largest Chemical company in World)
(**Godrej Boyce** est.1897, 14 lines of businesses)
- An Enterprise in Decline stage need not have all products too in decline
(**Nokia** evolved through Paper, Electricity generation machinery, military equipment ,plastic, chemicals etc. businesses when they started mobile telephony .**Toyota** was a textile machinery manufacturer now a global Automobile Giant)
- **Role of risk profiling of an Enterprise can give important insights.**
Should Consider Unleashing when Risk/Return profile gets adverse

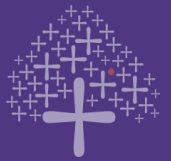
(E.G Earning 10% margin on X sales versus 1% on 10X sales are not same risks though similar quantity of absolute earnings)

How much Value to Unleash



How much value to unleash?

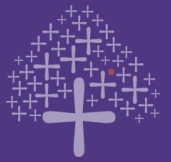
- Capital Need based –fully unleash , partially unleash (e.g. TCS shares sold in stages by Tata Group)
- What can market bear (Reduce to minority or exit to public e.g. PE exits)
- Regulatory mandated
E.g. FERA Dilution or statutory minimum 10% or 25% etc. for a public issue RBI restriction on Bank Promoter holding
- Strategic move based:
(e.g. J/V Partners –Insurance/Defense partnership Maximum 74% for foreigners)



How to unleash value: Methods?

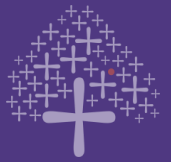
- Equity participation
 - Immediate versus deferred issuance based on Milestones-mezzanine funding
 - Private markets versus public markets
- Brand or IPR Licensing arrangements e.g. Goodnight, Hotel Chains: Holiday Inn, Marriot, IPL Broadcasting Rights etc
- Brand/product sales or Distribution channel sales, co-branding e.g. Porsche branding of Phones or Trump Towers or Gas station selling related products

Where to Unleash Enterprise Value



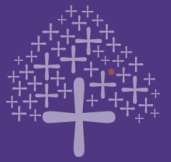
- **Where?**
 - Which markets? Venture/PE/Listed?
 - Can one “Time” the markets?
 - Geographies (ADR or GDR or Masala Bonds), currencies Risks
 - Target market and implications of those preferences
 - Instrument/Strategy structure and local laws
 - Time lines and costs- pre and post capital raising

Enterprise Values



- **Values drive Valuations: Volkswagen and Dieselgate**
 - As of 2020, fines of \$33 Bn., Committed to spend \$18 BN for corrective action and Stock price down from Euro 167 to 100 and Market Cap more than 50% (\$130 bn to \$58 bn)
- **Value systems are different in different societies at a given time**
 - Corruption in third world versus Developed Economies or certain acts regarded as crimes-extradition issues
- **Value systems change in a society from time to time**
 - Slavery, Child labour, Discrimination based on sex or race
- **Eternal values: Don't do to others what you would not like if others were to do it to you!**

Conclusion



- Evaluate and challenge these regularly : Valuation point of view
 - Stakeholders Profile
 - Product/Industry Profiles vis a vis Enterprise standing
 - Risk/Return paradigm and future expectations
 - Maturity of the Enterprise to comply with new ownership control and compliance structures
 - E.G. Compliances with reporting timings and formats or Anti-Corruption laws , Money Laundering Laws
- Values and Beliefs of the Organisation and Society that it operates in : Regular re-evaluation and adjustment if need be
- Unleashing itself is a milestone in the long life of the Enterprise. Both the journey and destination should be exciting!

Thank You

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