

Better Together... or Apart? Solutions for Struggling Joint Ventures and Minority Stakes in Portfolio Companies



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As the world battles COVID-19 and businesses experience cash constraints, underperforming joint ventures and minority stakes will come under the microscope. Following evaluation, there are usually two basic options:

1. Exit the partnership – if the contract and circumstances allow; or
2. Maintain the partnership, with an agreed plan to address problems and improve profitability.

Other reasons to exit joint ventures or sell minority stakes include:

- Partner strategies diverging or markets changing so that the common interest underpinning the original business case no longer exists; or
- A joint venture or minority stake – initially acquired as part of a larger acquisition – becoming value-dilutive.

As with divorce, deciding to re-set or exit a joint venture or sell a minority stake is not a step that a wise individual undertakes lightly. Options which align with business objectives must be weighed against what is feasible and most likely to succeed. Non-traditional leverage mechanisms, including those based on culture and environment, can be critical in negotiating an exit or agreeing on a turnaround plan for an underperforming but strategically valuable joint business.

Many corporates are familiar with these challenges; however, they can be equally relevant to private equity firms. Often, portfolio companies have entered joint ventures or bought minority stakes before the PE firm was involved. When planning their exit, PE investors need to keep the following in mind:

Uncontrolled joint ventures can negatively affect valuations. Before selling, seek to take operational control, exit or otherwise change the structure.

Exiting is not easy—the other party will understand your motivation, so they will push for top dollar prices in return for a timely, straightforward deal.

Like neurosurgery, these are delicate processes, requiring quick, accurate diagnosis and a treatment plan unique to the specific situation. For this reason, they equally merit specialist guidance from an expert team.

While some businesses are exploring the dissolution of joint ventures and sale of minority stakes at this time, others are looking to enter new ones. When planned thoughtfully and executed well, the latter can provide an antidote to current challenges and create a platform for speedier recovery and growth, as detailed in last month's perspective [Partnering to Survive Today – and Thrive Tomorrow](#).

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