Acuris
10 Queen Street Place
London, EC4R 1BE
United Kingdom
+44 (0)20 3741 1000

ABB's power conversion division remains disposal candidate as streamlining strategy strengthens, sources say

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- Exit signs remain for Integrated DC Power
- Place of Turbocharging, Mechanical Power Transmissions could be reassessed
- Spin-offs have potential to derisk valuation gap vs M&A

ABB's [SIX:ABBN] power conversion division remains a clear candidate for disposal after a process to sell the business fell silent, two sources familiar with the matter said, as the Swiss-Swedish conglomerate steps up efforts to review its portfolio.

Appointed advisers at **Citi** distributed materials to potential suitors for the sale of **Integrated DC Power**, which supplies energy conversion and efficiency solutions to customers including **Google** and **Verizon Communications**, in July 2019.

The approximate USD 80m (EUR 68m) EBITDA division is likely to return to the market in some form as Chief Executive Officer Björn Rosengren moves closer towards a decentralised business model, the sources said, but cautioned that ABB need not hurry to sell the earnings-accretive business and its hallmark discipline around M&A is unlikely to fall away.

Rosengren, who replaced Peter Voser as CEO in March, told investors during a June call that active portfolio management would play a key role in future strategy "to ascertain whether ultimately ABB is the best owner in terms of strategic attractiveness, value creation potential and structural fit".

Rosengren told the *Financial Times* he would be "surprised" if one or more disposals of USD 1bn-USD 5bn in size were not announced at the company's capital markets day scheduled for November.

However, one of the sources said that there is less to be done at ABB than many believe. Strengthening portfolio review efforts will not lead to "a huge stream of disposals but more a case of smaller optimisations into how those businesses are run", the same source said. Up to four businesses are understood to be earmarked for disposal, some of which are “small”, he added.

ABB’s four verticals – Electrification, Industrial Automation, Motion and Robotics & Discrete Automation – all contain earnings-accretive businesses despite there being some “room for debate” on how each ties together as one portfolio, the second source said.

Questions could be asked about whether **ABB Turbocharging**, a market leader in the manufacturing and maintenance of turbocharges for diesel and gas engines, fits with the rest of ABB’s power and electrification-focused offering, the same source noted.

Bearing and gearing component division **Mechanical Power Transmissions** also has less to do with electrical components and could see near-term constraints due to the fallout from COVID-19 on the automotive industry, he added.

The main consideration for ABB is to identify where it is able to trade value, the same source said. If the conglomerate can trim the margin gap in its Electrification business, it is likely to see greater cost benefits over making a few small divestments, he argued. ABB booked a FY19 operating EBITA margin of 13.3% on revenues of USD 12.7bn for Electrification.

ABB has long attracted shareholder attention for its conglomerate status, including from activist investors **Artisan Partners** and **Cevian Capital**.

“People think of ABB as a factory automation company selling high-end robots and software systems. But ABB also sells things like giant ship propellers, office furniture and several products through Home Depot like exit signs. That’s why we think ABB is an unwieldy conglomerate that needs to be slimmed down further,” Artisan Portfolio Manager, David Samra, told Swiss publication *The Market* last year.

A fund manager at Switzerland’s **Dominicé & Co**, which holds a minority position and confirmed to have had discussions with Cevian on ABB in the past, told this news service that some of the company’s units need fresh impetus to stimulate performance, with more power granted to separate divisions to lead to more direct support and increased transparency.

The shareholder also dismissed concerns of a potential lack of growth at ABB due to the reorganisation of the company, citing central cost saving as a major benefit of Rosengren's strategy. He did not have a preference for which businesses should be divested, he said.

Other solutions beyond M&A-led disposals could include the pursuit of spin-offs, according to the second source, with the model of ABB's peer **Siemens** [ETR:SIE] a "perfect example" of how equity capital markets-driven avenues can provide certainty where M&A cannot.

Spin-offs for companies like ABB "derisk the valuation gap sometimes found in the M&A market for an otherwise solid business that finds itself in an unattractive area", he said.

Choosing to pursue a spin-off also lends itself to ABB, which has no real concern for the use of proceeds after recently completing the USD 11bn sale of its **Power Grids** business to **Hitachi** [TSE:6501] and announcing its planned 10% share buy-back, the source noted.

Daniel Smith, ABB's Head of Global Media Relations, told this news service in an emailed statement that ABB "will be holding a Capital Markets Day in November to give an update on its strategy, including the evolution of its portfolio. Furthermore, it is company policy not to comment on market speculation and rumors."

by Ryan Gould and Claudia De Meulemeester in London, with additional reporting by Emma-Victoria Farr