

Choosing exit routes for underperforming assets: a contingent framework for asset management companies

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Abstract. The reallocation of state-owned capital is bringing a growing number of non-core and underperforming assets to market. Although many of these assets retain productive value, they differ in whether their existing use remains viable, whether suitable industry buyers can acquire them, and whether an alternative use can be established at reasonable cost. Treating them as a single class of distressed assets can lead to inefficient holding, financing, or redevelopment decisions. This paper develops a contingent framework for choosing among three divestiture routes: sale to an industry buyer, sale to financial or other non-industry investors, and limited repurposing before sale. Each route addresses a different constraint: weak buyer capacity, high information and due-diligence costs, or uncertainty about alternative use. The paper then explains how asset management companies can support each route through debt restructuring, creditor coordination, improved disclosure, buyer identification, and carefully limited investment. The framework shifts attention from the volume of assets acquired to the quality of route selection and the value realized through transfer to a more suitable owner.

Keywords: asset management companies, asset divestiture, underperforming assets, buyer capacity, value realization

1. Introduction

The government's effort to improve the allocation of state-owned capital is increasing pressure on state-owned enterprises to concentrate resources on their main businesses and withdraw from activities that are non-core, weakly competitive, or persistently inefficient. This process is bringing a wide range of assets to market. At the same time, recent rules require Asset Management Companies (AMCs) to remain focused on risk resolution, prudent investment, liquidity management, and clear exit arrangements. The resulting question is how AMCs can support asset divestiture without becoming general-purpose investment companies or long-term property developers.

Underperforming assets are not a uniform category. Some remain viable in their existing use but no longer fit the owner's strategy. Others remain viable but face a shortage of capable industry buyers, particularly during a sector downturn. A third group has lost its original economic use but may support a different use after

limited changes. Some assets have neither a viable current use nor a credible alternative. These differences determine who may buy the asset, what prevents a transaction, and whether additional investment is justified.

The conventional model of distressed-asset management begins after arrears, default, litigation, or bankruptcy. China's asset management companies were initially established to acquire and dispose of non-performing loans and support banking-sector restructuring [1]. International experience similarly presents AMCs as institutions for the acquisition, workout, and sale of troubled loans and related assets [2]. AMCs later developed capabilities in debt collection, creditor negotiation, restructuring, enforcement, and distressed investment. Their established role is therefore largely reactive.

However, financial distress is often preceded by a failure to use or dispose of assets effectively. A factory with low utilization, a commercial building with falling occupancy, or a stalled project absorbs capital while producing insufficient cash flow. The owner becomes more dependent on borrowing, guarantees, supplier credit, or support from related companies. If disposal is delayed, maintenance may be deferred, operations may weaken, and the range of feasible buyers may narrow. By the time default occurs, part of the asset's productive value may already have been lost.

This does not mean that AMCs should acquire ordinary assets before they become distressed. Nor does it justify repeated refinancing of weak businesses. The narrower question is: under what conditions should an underperforming asset be sold to an industry buyer, prepared for non-industry investors, or repurposed before sale, and what role can an AMC play in enabling each route?

This paper develops a contingent framework based on three questions. Does the asset remain economically viable in its current use? If so, are there industry buyers with the operating knowledge, financial capacity, and strategic interest required to acquire it? If the current use is no longer viable, can a credible alternative use be established through limited and staged investment? The answers define three divestiture routes and a fourth outcome in which further AMC-led investment is not justified.

The paper makes two contributions. First, it develops a route-selection model that links the form of divestiture to the condition of the asset and the capacity of likely buyers. Second, it shows that the role of an AMC varies across routes. Its contribution may lie in coordinating creditors, preserving operations, improving disclosure, identifying buyers, or testing an alternative use. The relevant capability depends on the barrier to sale rather than on a general willingness to acquire and hold assets.

The remainder of the paper reviews the relevant literature, presents the contingent framework, explains the role of AMCs under each route, and discusses organizational requirements, governance limits, and implications for future research.

2. Asset redeployability, buyer capacity, and divestiture frictions

Research on distressed sales shows that liquidation value is not a fixed property of an asset. Shleifer and Vishny argue that an asset may sell at a substantial discount when the firms best able to use it are also financially constrained [3]. This problem is especially important for specialized assets because likely buyers are concentrated in the same industry as the seller. Pulvino documents lower prices in commercial aircraft transactions when sellers face financial pressure [4]. Ramey and Shapiro likewise show that capital released by aerospace plant closures was costly and slow to redeploy, even when the equipment remained physically usable [5].

These findings imply that the price obtained by a seller depends partly on who can buy the asset at the time of sale. A technically sound production line may have considerable value to another manufacturer but much less value to a financial investor without operating knowledge. A sale during an industry downturn may

therefore produce a low price because suitable buyers face weak demand, excess capacity, or limited access to finance, rather than because the asset has lost all productive value.

Research on corporate asset markets reaches a related conclusion. Maksimovic and Phillips find that plants and business units move across firms in ways associated with productivity differences, suggesting that ownership transfers can place assets with firms better able to use them [6]. Product-market similarity and asset complementarity also influence acquisition patterns and subsequent performance [7, 8]. Realized value therefore depends on the fit between an asset and the buyer that ultimately controls it.

A suitable buyer is not enough if the transaction cannot be completed. Firms are more likely to divest business segments when the relevant asset market is liquid [9]. Asset salability affects debt maturity, expected resale values influence collateral prices, and firms holding less liquid real assets face a higher cost of capital [10-12]. Marketability thus affects both future sale proceeds and the current owner's financing conditions.

Together, this literature identifies three determinants of divestiture outcomes. The first is whether the asset can generate cash flow in its current or an alternative use. The second is whether suitable buyers have the knowledge, financial capacity, and incentive to acquire it. The third is whether the asset is ready for sale: ownership, liabilities, information, contracts, approvals, and operating arrangements must be sufficiently clear for a buyer to value and finance the acquisition.

The third condition is particularly important for underperforming assets held within large corporate groups. Land, buildings, equipment, contracts, employees, licenses, and shared services may sit in different entities. Mortgages and guarantees may extend beyond the assets proposed for sale. Operating data may have been prepared for internal reporting rather than due diligence. The buyer may be unable to determine what will be transferred, what liabilities may remain, or whether the asset can operate independently after closing.

The gap between productive potential and readiness for sale explains why some assets remain with unsuitable owners. It also means that the appropriate response depends on the source of the problem. If the current use remains viable and industry buyers are available, the main issue may be timing, financing, or creditor coordination. If industry buyers are absent, the challenge may be to make the asset understandable and investable for a different class of buyer. If the existing use has failed, the central question is whether an alternative use can be demonstrated at acceptable cost. The next section develops a model around these distinctions.

3. A contingent framework for asset divestiture

The proposed framework treats divestiture as a sequence of decisions. As summarized in Table 1, the appropriate route depends on whether the asset remains viable in its current use, whether capable industry buyers are available, and, where the current use is no longer viable, whether a credible alternative use can be established. The starting point is not the financing instrument that an AMC is willing to provide, but the economic condition of the asset and the market for potential buyers.

The first decision is whether the asset remains viable in its current use. This means that it can generate an acceptable operating cash flow under realistic management and market assumptions. It does not require the present owner to be profitable or the asset to remain strategically important to that owner. A warehouse may be viable even if it is surplus to the needs of a manufacturing group. By contrast, a completed production facility may no longer be viable if its technology, location, scale, or cost structure cannot support competitive operation.

If the asset remains viable, the next question is whether capable industry buyers are available. Such buyers understand the asset's technical characteristics and may value its permits, workforce, customer relationships,

location, or integration benefits. Capability includes both operating knowledge and the financial ability to complete the acquisition.

When the current use remains viable and capable industry buyers are available, the preferred route is a sale to an industry buyer. This route preserves the existing use and avoids unnecessary conversion costs. Its main obstacles are usually a mismatch between the seller's timetable and the buyer's financial capacity, together with debt or legal constraints that prevent a clean transfer.

Proposition 1: When an underperforming asset remains viable in its current use and capable industry buyers are available, sale to an industry buyer is likely to produce the highest net recovery because it minimizes redeployment costs and places the asset with a buyer able to recognize its operating value.

The second route applies when the current use remains viable but the industry buyer pool is too small or financially constrained. The asset may still appeal to infrastructure or property funds, insurers, public-sector investment platforms, or other long-term investors. These buyers may have capital but require clearer information and a more stable operating structure than an industry operator. They need to understand leases, cash flow, maintenance obligations, capital expenditure, use restrictions, environmental liabilities, and the arrangements for professional operation after acquisition.

This route requires the asset to be presented in a form that investors outside the industry can understand and evaluate. The seller may need to prepare standalone financial information, clarify key operating contracts, and reduce the asset's dependence on related parties. Where the asset cannot immediately operate on an independent basis, the existing operator may remain in place during a transition period or provide services under a longer-term agreement. Smaller assets may also be combined into a portfolio if greater scale improves diversification and lowers the cost of due diligence. The aim is not to treat unlike assets as if they were identical, but to provide enough consistent information for investors to assess their differences and price them accordingly.

Proposition 2: When an asset remains viable in its current use but capable industry buyers are scarce, a sale to financial or other non-industry investors is more likely to succeed when improved disclosure, clearer allocation of liabilities, and reliable operating arrangements reduce the buyer's cost of evaluation and post-acquisition management.

The third route applies when the existing use is no longer viable. In this case, neither waiting for an industry recovery nor improving disclosure is sufficient. The asset can avoid liquidation only if a credible alternative use exists. An old factory may be suitable for urban logistics, research facilities, or industrial services. A declining retail property may support health, community, cultural, or other service uses. A redundant distribution site may be adapted for cold-chain or last-mile logistics.

Repurposing carries greater execution risk because value depends on a use that has not yet been proven. Approval may be uncertain, costs may increase, and expected tenants or operators may not appear. The process should therefore begin with evidence of demand rather than a large redevelopment plan. A potential buyer, operator, or tenant should be identified first. Initial spending should be limited to work needed to test the proposed use, such as planning clarification, safety improvements, utility separation, basic renovation, or a demonstration area. Further investment should depend on approval, pre-leasing, an operator commitment, or early operating results.

Proposition 3: When an asset is no longer viable in its existing use, limited repurposing before sale is justified only when a credible alternative use can be tested at bounded cost and when the expected increase in sale proceeds exceeds the required investment, holding costs, and execution risk.

The framework also establishes a boundary. If the existing use is not viable and no credible alternative use can be demonstrated, the asset should not be sustained through repeated refinancing or open-ended

investment. The appropriate response may be liquidation, sale for component value, demolition, surrender of rights, or another conventional disposal. An AMC may still assist with creditor coordination or enforcement, but it should not pursue a value-improvement strategy based on an unsupported future use.

Table 1. A contingent model of asset divestiture

Economic condition	Buyer condition	Appropriate route	Main obstacle	Decision rule
Existing use remains viable	Capable industry buyers are available	Sale to an industry buyer	Timing, buyer financing, creditor or legal constraints	Preserve the existing use and complete a direct transfer
Existing use remains viable	Industry buyers are scarce or constrained	Sale to financial or other non-industry investors	High information costs and difficulty assessing or managing the asset	Improve disclosure, clarify liabilities, and establish reliable operating arrangements
Existing use is no longer viable	A credible alternative use can be tested	Limited repurposing before sale	Uncertainty over demand, approval, cost, and future operation	Invest only enough to demonstrate the new use and support a sale
Neither the existing use nor an alternative use is viable	No credible buyer or operator	Liquidation, conventional disposal, or no AMC-led investment	Lack of economic use rather than a removable transaction barrier	Avoid further capital commitment and recognize the loss

The appropriate exit route depends on the condition of the asset, the depth of the buyer market, and the feasibility of alternative uses. An operating industrial facility may be best sold to a strategic buyer with the expertise to continue its current use. A stabilized portfolio of logistics assets may be more suitable for long-term financial investors, provided that its income and operating arrangements can be evaluated on a standalone basis. Repurposing is more appropriate when the current use is no longer viable but the location and physical characteristics of the asset support a credible alternative. Where demand is uncertain or the required approvals are unlikely to be obtained, however, further investment may only increase the eventual loss.

4. The role of AMCs under the three routes

The framework assigns AMCs a different role under each route. AMCs do not possess a general advantage in owning factories, commercial property, logistics assets, or retail operations. Their established strengths lie in debt restructuring, creditor coordination, valuation, enforcement, and the management of complex transactions. These capabilities support divestiture only when they are directed at the obstacle identified by the model.

Table 2 summarizes the main role, principal risk, key control, and relevant outcome measures for AMCs under each route. The discussion below follows the three routes presented in the table.

Under the first route, the objective is to complete a sale to an industry buyer without losing the value of the existing operation. The AMC may negotiate with creditors, adjust repayment arrangements, release or substitute collateral, and agree on the distribution of sale proceeds. It may also help keep essential operations running while the sale is negotiated, for example by preserving licenses, maintaining utilities, retaining key employees, or preventing separate enforcement actions from breaking up a functioning asset.

Buyer identification and timing are equally important. Potential buyers may include regional competitors, suppliers, customers, or related businesses that are not actively seeking acquisitions. An AMC can maintain information on their sector experience, geographic reach, financial capacity, and current investment interests. Where permitted, it may also introduce lenders or co-investors. Temporary funding or ownership is appropriate only when it supports an identified transaction, not when it rests on a general expectation that the industry will recover.

Under the second route, the main task is to reduce the cost and uncertainty faced by buyers outside the industry. The AMC should assemble reliable information on ownership, security interests, contracts, leases, operating history, cash flows, physical condition, approvals, environmental matters, expected capital expenditure, and material risks. It may also need to confirm lease or use rights, separate shared utilities, normalize related-party transactions, reconstruct cash flows across entities, and arrange for an operator to remain after the sale.

Its value lies in attracting buyers and improving the sale outcome. Better preparation should increase credible participation, shorten due diligence, reduce the discount demanded for uncertainty, or improve access to acquisition finance. If extensive preparation produces no additional demand, the route should be reconsidered rather than supported by optimistic valuation assumptions.

Under the third route, the AMC must exercise the greatest restraint. Repurposing can easily expand into long-term development. The process should start with a potential buyer, operator, or tenant and a use supported by evidence of demand. Capital should be released in stages to answer specific questions: Can the use be approved? Can the site operate independently? Will an operator or tenant commit? What minimum changes are needed? The AMC should exit once the new use is sufficiently established for a buyer or operator to take over.

Table 2. AMC responsibilities by divestiture route

Route	Main role of the AMC	Principal risk	Key control	Relevant outcome measure
Sale to an industry buyer	Coordinate creditors, preserve operations, identify buyers, and address timing or financing constraints	Waiting for an uncertain industry recovery	Identify likely buyers and set a maximum holding period before committing funds	Sale probability, net recovery, operating continuity, and time to closing
Sale to non-industry investors	Improve disclosure, clarify liabilities, organize operating arrangements, and make assets comparable	Packaging information without reducing underlying risk	Independently verify information and obtain evidence of additional buyer interest	Credible bidders, due-diligence time, financing availability, and realized price
Limited repurposing before sale	Test an alternative use, introduce an operator or tenant, and fund only necessary changes	Cost overruns, approval delays, and drift into long-term development	Tie staged funding to approval, demand, and operating milestones	Capital invested, operator or tenant commitment, sale proceeds, and holding period

These roles complement rather than replace other market participants. Advisers and exchanges provide marketing and transaction services; banks provide credit; industrial firms provide operating knowledge; funds

provide capital; and engineers, lawyers, and operators provide specialist expertise. The AMC's contribution is to bring these inputs together when a sale is blocked by the interaction of debt, ownership, information, and operating arrangements.

The limits are equally important. If an ordinary sale is already feasible, an AMC adds little. If the problem is only a short-term shortage of finance, a lender or investor may be more appropriate. If the asset requires permanent ownership and a long operational turnaround, an industry operator should lead. AMC involvement is most defensible when temporary financial restructuring and transaction coordination can move the asset toward a clear sale.

5. Discussion

The framework contributes to the analysis of underperforming assets by treating value as dependent on use and ownership. Industry knowledge, complementary assets, financing capacity, and operating ability affect the cash flows that a buyer can generate. The framework applies this insight directly to the choice of divestiture route rather than treating buyer identity as a consideration that arises only after the asset has been prepared for sale.

It also separates the economic condition of an asset from the liquidity of its buyer market. A viable asset may remain unsold because industry buyers are constrained. Conversely, a liquid market cannot rescue an asset whose current use has failed and for which no alternative demand exists. Combining these dimensions avoids two common errors: liquidating a viable asset simply because suitable buyers are temporarily weak, and investing in an obsolete asset simply because financing is available.

The model gives a narrower account of the AMC's contribution. The institution does not create value merely by acquiring an asset or moving it off the seller's balance sheet. It contributes when it changes the conditions of sale by preserving operations, coordinating creditors, improving information, broadening the buyer pool, or testing a credible alternative use. The value attributable to intervention is the improvement in expected net recovery relative to a delayed, forced, or poorly prepared sale, after deducting financing, holding, and investment costs.

The framework also clarifies early intervention. Earlier action is valuable when delay is likely to eliminate a feasible route. A direct industry sale may become impossible after operations stop; a sale to a fund may become impossible after leases and records are lost; and repurposing may become uneconomic after physical deterioration or expiry of relevant rights. This is an argument for preserving options, not for purchasing assets before distress as a general rule.

The model produces testable implications. Assets sold to industry buyers should show better post-transfer utilization when buyer experience and strategic fit are stronger. Better disclosure should have a larger effect on bidder participation when buyers come from outside the industry. Repurposing should perform better when an operator or tenant is identified before major spending. Earlier intervention should improve outcomes only when it preserves a route that would otherwise become unavailable.

Future research could use project-level data on asset condition, buyer type, number of bidders, preparation work, holding periods, additional investment, sale prices, debt recovery, and post-transfer operation. Comparisons across routes should account for the fact that route choice is not random. The framework is conceptual and does not establish that AMCs always outperform private advisers, investors, operators, or state capital companies. Its purpose is to clarify when AMC involvement may be useful and what form it should take.

6. Conclusion

The growing divestiture of non-core and underperforming state-owned assets creates an opportunity for AMCs, but not a mandate to acquire every difficult asset. The appropriate response depends on whether the asset remains viable in its current use, whether capable industry buyers are available, and, when the current use has failed, whether an alternative use can be demonstrated at reasonable cost.

These conditions define three routes: sale to an industry buyer, sale to financial or other non-industry investors, and limited repurposing before sale. They also define a boundary: when no credible current or alternative use exists, further investment is unlikely to preserve value. AMCs can support the three routes by coordinating creditors, improving information, preserving operations, identifying buyers, and making carefully limited investments. Their contribution lies in resolving the particular obstacle that prevents a sale, not in holding underperforming assets as a uniform asset class.

A route-based approach links financial-risk resolution to productive asset reallocation while maintaining clear limits on holding periods, investment, and development risk. It therefore provides a more disciplined basis for AMCs to support value realization through asset divestiture.

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