Global corporate divestment study

Maximizing divestment success in an uncertain economy
About the study

Ernst & Young’s Global corporate divestment study is based on a survey of 567 corporate executives of companies representing more than 14 industry sectors across the Americas, Asia Pacific, Europe, the Middle East and Africa (EMEA). Respondents stated that they have direct knowledge of or hands-on experience with their company’s divestment activity. The study combines the survey, conducted by the Economist Intelligence Unit (EIU), with a series of interviews with corporates, investment banks and law firms.

The study presents a view on current divestment activity and the outlook for the next two to three years. We identify five leading practices that help companies close successful divestments and outperform their peers, even in an uncertain economy.
The rationale for making divestments is shifting. Our Global corporate divestment study finds many companies still using divestments as a short-term tactical tool, often to raise cash or pay down debt. That's no surprise given the difficulties many businesses have faced in terms of cash and credit since the financial crisis. However, in this prolonged period of low growth, divestments are likely to play a more strategic role in how global companies navigate uncertainty, meet their corporate objectives and create value for their stakeholders. We believe companies are starting to take a more structured approach in order to align their priorities with which assets they will retain or sell.

In this challenging business environment, “wait-and-see” sentiments regarding any transaction are understandable. But our research shows that companies may be missing out on opportunities by delaying divestments. An increasing number of companies are recognizing this. Among those surveyed, 77% intend to accelerate their divestment plans over the next two years, and 46% are in the process of divesting or are planning to divest over the same timeframe. Interestingly, some 40% of respondents stated that a high degree of buyer competition in the mergers and acquisitions (M&A) process was driving up values.

While the appetite for divestments may be growing, the conditions for completing transactions remain challenging. Boards, regulators and shareholders are demanding greater assurance that the strategic and value creation objectives from divestments will be achieved. On the other side of the deal table, buyers are scrutinizing potential deals more carefully than ever. That means sellers need to challenge themselves to undertake even more thorough preparation of the asset and improve how they market it to the broadest range of potential suitors.

Leading companies are successfully doing this – more and more view divestments as a core part of their strategy, in the same way they view acquisitions. Our study shows empirically that those who take the appropriate steps are achieving greater value and speed. Those leading practices — from structured and regular portfolio management to separation planning — will help ensure a successful divestment that is fully aligned to the strategic priorities of the business.

Divesting effectively and efficiently has always been an option to build value; in today’s economic environment, ensuring a divestment is strategically effective is no longer optional.
Executives are learning that a greater focus on capital can result in better corporate performance. Divestments, a primary means of portfolio optimization and preserving and raising capital, deserve greater attention.

**The capital agenda**

- Reshaping the operational and capital base
- Strengthening investment appraisal and transaction execution
- Driving cash and working capital, and managing the portfolio of assets
- Assessing future capital requirements and funding sources
Empirical evidence from the study, along with our work with clients, has revealed five leading practices that companies should employ in order to avoid leaving value on the table, and to help achieve a successful divestment.

1. **Conduct structured and regular portfolio management:** Leading companies regularly assess whether their assets are contributing to strategic goals or if the company’s capital could be used for other purposes. Similarly, 55% of high performers have a structured process and reviewed their portfolio regularly.

2. **Consider the full range of potential buyers:** Many respondents focus on domestic buyers within the same sector. But by focusing on this narrow buyer universe, sellers may be limiting the value they can extract. Appealing to a broader range of buyers, including strategic and financial, domestic and overseas, can create strong interest for an asset and garner a price that exceeds expectations.

3. **Articulate a compelling value and growth story for each buyer:** Buyers are more circumspect than ever about the growth potential of businesses being offered for sale. However, few sellers articulate a strong value and growth story from the perspective of the most likely buyers. Only 50% of respondents support their story with independent review or diligence, develop an M&A plan for the asset, or identify upsides and synergy cases.

4. **Prepare rigorously for the divestment process:** Half of respondents admit that certain changes to the preparation process could have made a material difference. Examples include protocols for information sharing and confidentiality, engagement with target management and investment by senior team members.

5. **Understand the importance of separation planning:** More than half of respondents identified a clear separation roadmap as the most increasingly complex aspect of divestment. Other separation challenges include negotiating transition services agreements (TSAs), estimating standalone costs, tax planning and decisions regarding the completion mechanism. When sellers don’t clearly communicate these factors, buyers perceive greater risk and they reflect that perception in their offering price.

### Measuring divestment success

By regularly managing their portfolio, considering a full range of buyers, articulating a clear value story to those buyers and rigorously preparing for the entire divestment process, sellers can achieve the following success factors:

- Greater likelihood of closing the deal
- Increased value
- Greater buyer confidence
- Greater control over the process
- Reduced risk of disruption to business as usual
- Accelerated divestment process

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**Key findings**

- **77%** intend to accelerate their divestment plans over the next two years
- **46%** are in the process of divesting or are planning to divest within the next two years
- **58%** would ramp up their divestment activity in the short term, but are concerned about weak economic conditions
- **40%** stated that buyer competition helped drive up divestment values
The study’s empirical analysis shows that companies that adopt these five leading practices are closing deals ahead of schedule and achieving significantly higher prices than expected. These high performers – only 18% of our respondents – are outperforming their peers and deriving value from divestments even in tough economic conditions.

The analysis finds that low performers, those who were both behind schedule and either near or below price expectations, often do not engage in the same activities as high performers.

High performers follow five leading practices

<table>
<thead>
<tr>
<th>Leading practices that help companies secure successful divestments:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Conduct structured and regular portfolio management</td>
</tr>
<tr>
<td>2. Consider the full range of potential buyers</td>
</tr>
<tr>
<td>3. Articulate a compelling value and growth story for each buyer</td>
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<tr>
<td>4. Prepare rigorously for the divestment process</td>
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<tr>
<td>5. Understand the importance of separation planning</td>
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</tbody>
</table>

High performers are more likely to engage in key activities than low performers ...

<table>
<thead>
<tr>
<th>Key activities</th>
<th>High performers</th>
<th>Low performers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conduct structured and regular portfolio analysis</td>
<td>55%</td>
<td>34%</td>
</tr>
<tr>
<td>Effectively prepare key financial information</td>
<td>55%</td>
<td>41%</td>
</tr>
<tr>
<td>Provide early assessment of potential buyer synergies</td>
<td>51%</td>
<td>38%</td>
</tr>
<tr>
<td>Effectively engage with target management team</td>
<td>65%</td>
<td>34%</td>
</tr>
<tr>
<td>Develop separation/transition roadmap</td>
<td>55%</td>
<td>35%</td>
</tr>
</tbody>
</table>

... and they derive more satisfaction from the divestment process

<table>
<thead>
<tr>
<th>Overall satisfaction with:</th>
<th>High performers</th>
<th>Low performers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effectiveness and efficiency of process</td>
<td>100%</td>
<td>29%</td>
</tr>
<tr>
<td>Impact on earnings per share</td>
<td>85%</td>
<td>56%</td>
</tr>
<tr>
<td>Separation execution</td>
<td>94%</td>
<td>29%</td>
</tr>
<tr>
<td>Communication with internal stakeholders</td>
<td>78%</td>
<td>65%</td>
</tr>
<tr>
<td>Management of buyer due diligence</td>
<td>69%</td>
<td>58%</td>
</tr>
</tbody>
</table>
Divestment environment

Global M&A volumes have significantly declined from pre-crisis years. In 2012, total deal value was an estimated US$2.25 trillion, a drop of 47% from 2007, and 12% lower than 2011. Volumes also fell 21% between 2007 and 2012.¹ Macroeconomic concerns, including US debt levels, tax increases and the ongoing Eurozone crisis, now weigh heavily on corporate buyers’ minds. This has reduced appetites for large transformational deals, with many companies adopting a “wait-and-see” approach.

Until now, the economic environment has also dampened appetites among sellers. In the immediate wake of the financial crisis, many observers predicted a wave of divestments as companies sought to free up cash, repair balance sheets and cure debt covenant violations. For the most part, this didn’t materialize as many companies waited for improved economic growth. However, we seem to be entering a period of prolonged low growth.

**Why companies shouldn’t “wait and see”**

Many companies that have pursued divestments have achieved the value they sought. With M&A volumes down, there is often strong competition for a limited supply of good assets. Forty percent of study respondents stated that buyer competition helped drive up divestment values.

An executive from an industrial products company told us that postponing a sale to await a more buoyant market may be the wrong decision. “You always wonder whether holding onto an asset a little longer would have enabled you to grow it or even achieve a higher valuation,” he said. “But you really have to weigh that against the opportunity costs of having monetized the asset for other purposes. In addition, if that asset is already attracting less capital as part of the resource allocation process, then it will be difficult to fund any kind of growth.”

**Growing appetite for divestments**

Companies are refocusing on divestments. Our study finds a growing appetite among corporates to divest assets, with more than three-quarters of respondents saying that they intend to accelerate their divestment strategy over the next two years. Sectors most likely to divest include power and utilities, and consumer products.

Do you intend to accelerate your divestment strategy over the next two years?

77% Yes

¹ Source: Thomson Reuters

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“The number of acquisition opportunities available to strategic and financial buyers is low, so when they come up for sale they inevitably attract a lot of interest and often sell for high multiples.”

*Paul Hammes*
*Americas, Ernst & Young*
For many, though, the economic environment remains a concern. More than half of respondents said that they would ramp up divestments but were concerned about the impact of weak economic conditions. Many were concerned that unexpected events could cause buyers to renegotiate or terminate a deal.

**We would ramp up our divestments but are concerned about weak economic conditions**

58% Agree

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**A challenging divestment environment**

With buyers and sellers facing significant uncertainty, there is an understandable emphasis on rigorous preparation, due diligence and reassuring external stakeholders about the rationale for the divestment.

Almost half of respondents said that the level of stakeholder scrutiny on both the buy side and sell side has increased.

For many, this scrutiny has increased the time, resources and preparation required to successfully complete a divestment. But spending more time on divestments when so many other priorities are clamoring for attention can be a real challenge. In addition, even if management teams have the bandwidth, some have limited experience conducting divestments in today's market.

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**How have the following aspects of the divestment environment changed over the past two to three years?**

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Increase</th>
<th>Stable</th>
<th>Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level of preparation required</td>
<td>50%</td>
<td>25%</td>
<td>25%</td>
</tr>
<tr>
<td>Stakeholder scrutiny (buy side)</td>
<td>47%</td>
<td>30%</td>
<td>23%</td>
</tr>
<tr>
<td>Stakeholder scrutiny (sell side)</td>
<td>45%</td>
<td>34%</td>
<td>21%</td>
</tr>
<tr>
<td>Time and resources required to execute the divestment process</td>
<td>44%</td>
<td>31%</td>
<td>25%</td>
</tr>
</tbody>
</table>
Five leading practices to maximize divestment success

1. **Conduct structured and regular portfolio management**

**Approach divestments more strategically**

We are not in a traditional cyclical downturn. In developed markets, growth is unlikely to bounce back to pre-crisis levels for some years to come. Many companies are operating in a low-growth economy and they are under pressure from shareholders to sharpen their focus. This feedback is encouraging them to reassess their portfolios and determine the performance and positioning of assets, as well as their contribution to broader strategic goals. By regularly reviewing their portfolio, companies can use divestments as a strategic tool, rather than considering them as a reactive move to free up cash or pay down debt.

Forty percent of study respondents said that they have adopted a structured approach to business portfolio analysis that is carried out on a regular basis. A further third said that they have a structured approach that is carried out on an infrequent or ad hoc basis.

Overall, only 18% of respondents said that their most recent divestment both exceeded their valuation expectations and was completed more quickly than anticipated. Of those respondents, 55% had a structured and regular portfolio analysis process.

**Develop consistent criteria for divestment decisions**

Although respondents have a strong focus on portfolio assessment, their rationale for embarking on a divestment is not always as strategic. The key factor determining whether a business stays within a company portfolio or not, for almost 6 out of 10 respondents, is whether an asset dilutes or enhances earnings per share (EPS), and how it performs against financial benchmarks such as return on capital employed (ROCE). Alignment with overall strategy lags behind these two factors.

“We needed to pay down debt. So we looked for assets that were easy to separate, would generate buyer interest and could secure a decent amount of cash. But we recognize now that it’s far better to take a more strategic view and regularly assess which assets in our portfolio are non-core or underperforming, and plan divestments according to those criteria, rather than being reactive.”

*Executive at a food services company*

<table>
<thead>
<tr>
<th>What factors help you determine whether a business belongs in your portfolio? Please select up to three.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dilutes or enhances EPS</td>
</tr>
<tr>
<td>Achieves positive performance against clearly defined benchmarks (ROCE, EBIT, etc.)</td>
</tr>
<tr>
<td>Aligns with and enables the overall business strategy</td>
</tr>
<tr>
<td>Generates significant revenue, cash flow and/or earnings</td>
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</tbody>
</table>
Maximizing divestment success in an uncertain economy

Conduct structured and regular portfolio management

“In a difficult stock market environment in which returns are very low, companies need to be more focused than ever on ensuring that their strategy is absolutely clear and communicated properly to shareholders.”

The head of a European investment bank

This tactical view is emphasized when companies respond that the main divestment drivers are the ability to secure an attractive price, and the need to release cash into the business and shed underperformers. More strategic drivers, such as enhancing shareholder value or focusing on the core business, are further down in the list. Those who use divestments as a core part of their strategic toolkit can improve their divestment results.

At one US-based industrial products company interviewed for this study, portfolio analysis takes place in tandem with the capital allocation process.

“In the past few years, we have reconfigured our capital and resource allocation process to give a strong bias toward businesses that have a high strategic fit and are operating in an attractive industry,” says a company executive. “So we are over-allocating capital to those particular assets and we are holding back investment capital from those that have low strategic fit and industry attractiveness. We also identify those companies as potential candidates for divestment.”

This example highlights how divestments can be used as a strategic tool, rather than a defense mechanism, especially where comprehensive information is available for decision-making.

What are the main drivers of your company’s divestment activity?

- Able to secure attractive price for the asset in current market: 49%
- Need to release cash into the business: 48%
- Shed underperforming business units: 47%
- Focus on the core business: 43%
- Enhance shareholder value: 41%
- Receive buyer interest: 39%

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Consider the full range of potential buyers

An important aspect of thinking strategically about divestments is to set clear goals for any sale at the outset. Companies must have a view of the value they expect to achieve and the speed with which they would like to complete the transaction. They must also understand where interest in the asset is likely to be, and take a broad view of potential acquirers they want to attract in order to reach those objectives.

Widen your net

For sellers to improve their value opportunity, they can consider:

- Cross-border opportunities
- Marketing the transaction to financial as well as strategic buyers
- Tailoring the transaction, including the information provided, to specific buyers and their likely requirements

An executive from the aerospace industry echoes the view that companies should look broadly at potential buyers. “Many companies choose to negotiate the sale with just one counterparty, but that is a recipe for failure in my opinion,” he says. “If your mandate is to sell within 12 months, which mine was, then you have to run it through an auction process, get a bank, boil the ocean, find all the candidates and move from there. Yes, there is a risk of leakage, but I think you’ve got to take that risk to help you find the right buyer.”

Consider overseas buyers

Some companies are taking too narrow a perspective of potential acquirers, focusing on those closest to home and failing to take advantage of the full range of potential buyers for their asset.

Around the world, respondents say that the acquirer of their most recent divestment was domestic and within the same sector. Looking ahead, when asked who they expect to

Who do you believe will be your most likely acquirer?

- Domestic buyer (location of operations) within same sector: 34%
- Overseas buyer within same sector: 29%
- Domestic buyer (location of operations) in different sector: 19%
- Overseas buyer in different sector: 13%
- Private equity: 3%

Note: 2% other/unsure.
Consider the full range of potential buyers acquire the next asset they divest, respondents also pointed to domestic buyers within the same sector as the most likely candidates. But regional differences suggest that the buyer pool is gradually broadening. While respondents from the Americas continue to expect acquirers to be domestic and within the same sector, those from EMEA and Asia Pacific identify overseas buyers in the same sector as the most likely candidate.

Among the industry groups, there were also some notable differences regarding expectations of buyer type:

- Power and utilities companies were the only sector with a higher out-of-sector expectation for potential buyers (52% against the global average of 32%).

- Oil and gas companies expected more overseas and same-sector buyers (80% compared with 63% for all sectors globally).

- Financial services companies had a strong domestic focus (65% compared with 53% globally), and they also have a low expectation for overseas buyers (29% versus 42% for all sectors globally).

Consider private equity

Globally, only a very small number of respondents expected to sell to private equity firms.

Companies have to make somewhat different preparations for private equity buyers. For example, private equity firms may focus more than strategic buyers on certain financial measurements like cash flow and working capital. Also, private equity buyers may require a divested business to be delivered on a stand-alone basis. However, sellers may be missing an opportunity to secure capital by not taking the time to prepare for these potential buyers who may have significant amounts of capital to deploy.

“Sellers should speak to a targeted range of potential buyers. This doesn’t mean that they need to to speak to more buyers, but rather the right buyers, early in the process. Sellers should pursue these discussions early because buyers are more cautious now and need more time to conduct due diligence.”

Stephen Lomas
Asia Pacific, Ernst & Young
Articulate a compelling value and growth story for each buyer

Sellers do not always clearly articulate to potential buyers the rationale for selling an asset. They need to communicate the growth story of an asset, and provide tailored information about how it could fit with the buyer’s business and help them achieve their strategic objectives. The greater the clarity sellers are able to provide, the greater the likelihood that they will extract more value from the sale. However, few companies follow this critical step. Asked how they enhance the value story of a divestment, 50% or fewer respondents said that they carry out important activities, including supporting the market/product growth story with independent review, developing an M&A plan for potential investors, providing their own view of synergy opportunities to buyers or developing a range of potential upsides.

Which of the following steps do you take to enhance the value story of a divestment?

<table>
<thead>
<tr>
<th>Step</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Support the market/product/growth story with independent review/due diligence</td>
<td>50%</td>
</tr>
<tr>
<td>Develop an M&amp;A plan for potential investors</td>
<td>45%</td>
</tr>
<tr>
<td>Provide view on potential areas of synergy opportunity to buyers</td>
<td>43%</td>
</tr>
<tr>
<td>Provide early assessment of potential synergies to each likely buyer</td>
<td>41%</td>
</tr>
<tr>
<td>Develop a range of potential upsides</td>
<td>37%</td>
</tr>
<tr>
<td>Support the cost reduction story with an independent review/due diligence</td>
<td>36%</td>
</tr>
<tr>
<td>Provide estimate of one-time separation costs</td>
<td>22%</td>
</tr>
</tbody>
</table>

Present tailored and accurate information to buyers

To craft a strong value and growth story, sellers must provide information that aligns with a buyer’s motivations and objectives. This information should include a perspective on potential synergies and how they can be realized, a summary of standalone costs or, for overseas buyers in particular, information about the local business.
Prospective buyers may not be aware of the advantages of a local business environment. Presenting that information to them or bringing them into the country to meet government agencies can be a powerful lever to keep the buyer interested and enhance the value of the asset."

Executive at a technology company

Maximizing divestment success in an uncertain economy

Environment that may influence the valuation, such as the availability of tax credits, or research and development incentives.

At the same time, sellers have to be careful not to oversell the asset to potential buyers. “You can only tell a growth story if there is one. People’s tolerance for something that doesn’t stack up is very low,” said one of the investment bank interviewees. “But you can tell a story about a non-core business that may have been starved of investment or did not have the right level of commitment internally. Articulating what could be possible with the right owner who is willing to make that commitment is absolutely the right thing to do.”

Make the management team available

Sellers should consider making the management team of the asset being divested available for the project, as they are often best placed to answer questions from potential purchasers. “These are the people who understand the business and who can speak with conviction and authority about it,” says a partner at a corporate law firm. “Making management available instills confidence and allows potential purchasers to assess cultural fit in a way that is not possible through documentation alone.”

This will only work, however, if buyers have confidence that the management team at the asset being divested remains committed and will continue to support the business throughout the transition period and beyond. Their availability needs to be balanced with their bandwidth, as there is a significant risk that management can lose focus on maintaining the day-to-day operations.

Companies also have to balance management involvement with maintaining deal confidentiality. Employee knowledge at an early stage of a deal, or before a communication plan has been set, could negatively impact morale, customers and operations.
4 Prepare rigorously for the divestment process

An uncertain economic environment increases the risk that a transaction will not be completed. By preparing effectively, companies can instill greater buyer confidence, gain control over the process, and realize greater speed and value.

Many companies admit that there is room for improvement in this area. When respondents were asked how they would rate their preparation effectiveness for their most recent divestment, only 54% said they performed well in any one aspect of the process. Surprisingly, only 38% considered their project management office to be effective. Just 42% thought they were effective in involving key business functions in their preparation process.

Preparation should become an ongoing activity, not something that only begins weeks before the company decides to sell an asset.

**Drive value**

Respondents also told us that there are marked differences in the steps they would take to enhance value versus speed. In both cases, tailoring the divestment to each potential buyer is considered important, but sellers who prioritize value place more emphasis on pursuing multiple divestment options in parallel, and on performance improvement.

While only 26% of respondents considered performance improvements to help enhance value, strong operational performance is imperative to deal success. Companies should consider making operational improvements before or even during the sale process to make the asset more attractive to buyers.

**Focus on speed**

Sellers for whom speed of execution is important pay more attention to controlling the provision of timely and relevant financial information to buyers, and enabling a flexible process.

**Review synergy opportunities early**

To enhance transaction certainty, sellers need to invest the time upfront to review synergy opportunities with the buyer. If buyers don’t think that the deal is operationally feasible, they will drop out of the bidding process.

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**Which of the following do you consider to be most effective to enhance value to market?**

<table>
<thead>
<tr>
<th>Option</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tailoring the divestment information to the requirements of potential buyers</td>
<td>35%</td>
</tr>
<tr>
<td>Pursuing multiple divestment options in parallel</td>
<td>31%</td>
</tr>
<tr>
<td>Controlling the provision of timely and relevant financial information to buyers</td>
<td>30%</td>
</tr>
<tr>
<td>Reducing costs/raise prices with performance improvements</td>
<td>26%</td>
</tr>
</tbody>
</table>

**Which of the following do you consider to be most effective to enhance speed to market?**

<table>
<thead>
<tr>
<th>Option</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Controlling the provision of timely and relevant financial information to buyers</td>
<td>35%</td>
</tr>
<tr>
<td>Tailoring divestment information to the requirements of potential buyers</td>
<td>32%</td>
</tr>
<tr>
<td>Implementing flexible process</td>
<td>28%</td>
</tr>
</tbody>
</table>
Divestment dialogues
Preparation from a lawyer’s perspective

Two key factors drive success

Management preparation: “Companies planning a divestment need to allocate a significant amount of management time upfront to set up the parameters of the deal. For example, what is to be divested, approach and TSAs. And they have to get the building blocks in place. After this initial stage, top management can step back to some extent and hand the deal over to the advisors and internal team to execute.”

Data preparation: “A seller that takes the time to put together a well-ordered data room and information memorandum, and that thinks about how this will appear to external stakeholders, can significantly increase the value that is attributed to an asset.”

“If you don’t prepare properly, you might actually have a problem that you are unaware of until a prospective buyer or advisor says they’ve found an issue. And that may render the asset unsellable just by virtue of the reputation attached to it.”

Executive at an industrial products company

How would you rate your preparation effectiveness for your most recent divestment in the following areas?

<table>
<thead>
<tr>
<th>Area</th>
<th>Very effective</th>
<th>Effective</th>
<th>Neither effective or ineffective</th>
<th>Ineffective</th>
<th>Very ineffective</th>
</tr>
</thead>
<tbody>
<tr>
<td>The level of confidentiality and information-sharing protocols</td>
<td>19%</td>
<td>35%</td>
<td>23%</td>
<td>18%</td>
<td>5%</td>
</tr>
<tr>
<td>Engagement with the management team at the target company</td>
<td>16%</td>
<td>30%</td>
<td>23%</td>
<td>22%</td>
<td>9%</td>
</tr>
<tr>
<td>Allocation of senior management’s time</td>
<td>14%</td>
<td>37%</td>
<td>29%</td>
<td>17%</td>
<td>3%</td>
</tr>
<tr>
<td>Preparation of key financial information</td>
<td>11%</td>
<td>34%</td>
<td>29%</td>
<td>19%</td>
<td>7%</td>
</tr>
<tr>
<td>Involvement of key functions (e.g., IT, HR, tax, etc.)</td>
<td>9%</td>
<td>33%</td>
<td>29%</td>
<td>19%</td>
<td>10%</td>
</tr>
<tr>
<td>Early initiation of key elements of the divestment process</td>
<td>8%</td>
<td>40%</td>
<td>31%</td>
<td>16%</td>
<td>5%</td>
</tr>
<tr>
<td>Tailoring divestment planning according to buyer priorities</td>
<td>8%</td>
<td>36%</td>
<td>33%</td>
<td>17%</td>
<td>6%</td>
</tr>
<tr>
<td>Creation of a separation/transition roadmap</td>
<td>8%</td>
<td>38%</td>
<td>31%</td>
<td>18%</td>
<td>5%</td>
</tr>
<tr>
<td>Use of project management office to coordinate communications, issues and decision-making</td>
<td>6%</td>
<td>32%</td>
<td>40%</td>
<td>19%</td>
<td>3%</td>
</tr>
</tbody>
</table>
The sale is not the end of the divestment process. Companies need to carefully consider the impact of separating the asset on the remaining organization and make appropriate preparations. This should include thoroughly assessing stranded costs, understanding the one-time costs of separation, business continuity, unwinding tax structures and transaction closing mechanisms.

**Manage increasing transaction complexity**

Asked about the aspects of the carve-out divestment process that have become more complex, respondents pointed to the development of a clear roadmap for all business functions as their biggest concern. Preparing estimates of standalone recurring and one-time separation costs, and the negotiation of TSAs, also figure prominently.

Several factors influence the increasing complexity of the divestment process:

- **Globalization and efforts to streamline the back office** through the use of outsourcing and shared service centers have made separation planning more complex. Assets serving multiple jurisdictions or business units are more challenging to separate from the parent. Shared external/internal agreements require a diligent process to estimate costs and the implications of termination or novation.

"A well-drafted TSA can help to ensure a smooth transaction and even reduce the length of the process. TSAs should have a clear plan for exit, a specified end date and absolute clarity over the scope of services delivered."

**Martin Hurst**

EMEIA, Ernst & Young

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Which aspects of the carve-out divestment process have become more complex over the past two to three years?

- Creating separation roadmap for all key business functions: 56%
- Preparing estimates of the standalone recurring costs and one-time separation costs: 40%
- Negotiating TSAs: 40%
- Implementing the separation so the business operates on a standalone basis at close: 32%
- Developing a plan to deal with stranded costs and the remaining business: 29%
- Preparing pro forma financial information: 28%
- Managing pensions and employee-related issues: 28%
- Resolving post-closing legal disputes: 16%
- Resolving post-closing transition services agreement disputes: 8%
Employees shared by the parent company and the asset being divested must be determined, including those working in shared functions, (e.g., finance or IT), who divide their time among multiple businesses.

Regulatory requirements may also stipulate how to carve out employees or may also have implications relating to a change of ownership on operating licenses. Legal regulations can also impact the timing for separation.

Information technology infrastructure, including global systems and applications, make it challenging to carve out data and other technology assets. There are often regulatory requirements to hold data. IT separation issues are often the most onerous and costly in any transaction.

Specify TSA scope and timeframe

Asked about the aspects of the divestment that they found most challenging, respondents emphasized difficulties in negotiating the TSAs. Many companies struggle with these and find themselves providing services to buyers for a long period of time when they should be focusing on their core business.

Which of the following aspects of the divestment process did your company find most challenging in your most recent divestment?

- Negotiating TSAs: 29%
- Managing complexity of completion accounts and closing mechanism process: 28%
- Tax planning: 27%
- Identification and mobilization of key employees while maintaining day-to-day business: 26%

Address other areas to increase seller credibility

Respondents highlighted closing mechanisms, and tax planning, as other difficult activities during the divestment process.

Any buyer uncertainty or misunderstanding regarding these factors may lead to an increased perception of risk. This makes the transaction less likely to complete, and ultimately erodes value for the seller.

In every transaction we have done, dealing with IT separation issues has been among the most challenging aspects. You need to negotiate new license agreements with the IT provider, as well as addressing separation and security issues. One of the most important lessons for us has been to think about IT issues earlier in the process.”

Executive from the aerospace industry

Companies that created an effective separation roadmap and transition plan

- High performers: 55%
- Low performers: 35%
Conclusion

An environment of low growth and volatility requires companies to adopt a strategic, structured approach to portfolio management. To meet shareholder expectations and realize the maximum value from their assets, companies must carefully consider the performance of each component within their portfolio and assess whether it is aligned with broader strategic goals.

Divestments should form a core part of this process, helping companies to focus on assets where they are best placed to create shareholder value and shed those that can better be managed by others.

The Global corporate divestment study finds that appetites for divestments are growing, but it also reveals that sellers are sometimes poorly prepared or fail to explore all avenues to enhance the value story and expand the potential buyer universe. The challenges of separation planning, including assessing stranded costs, tax structuring and closing mechanisms, can also easily be underestimated. These shortcomings mean that companies are frequently not deriving the maximum value from divestments, and also that transactions can take much longer than expected to complete.

Our research finds that only 18% of respondents complete divestments ahead of schedule and above price expectations. But our data also finds that those that do exceed expectations maintain a strong focus on the five priorities outlined in this report. These companies are also better equipped to navigate today’s uncertain economy.

High performers
Ahead of schedule and significantly above price expectations

Leading practices that help secure successful divestments:
1. Conduct structured and regular portfolio management
2. Consider the full range of potential buyers
3. Articulate a compelling value and growth story for each buyer
4. Prepare rigorously for the divestment process
5. Understand the importance of separation planning
How we can help

Ernst & Young’s dedicated, multifunctional divestment professionals can assist you with your exit strategy through to executing the deal. We can collaborate with your other advisors to help you mitigate financial, tax and operational risks in advance of buyer due diligence.

Our goal is to help you become a more effective negotiator and maximize value when you sell your business.

We work with corporate and private equity clients on a variety of divestments, including sales of the entire company, carve-outs, spin-offs and joint ventures. Depending on your resources and needs, we can support you throughout the entire process, or focus on individual aspects of the transaction, including portfolio management, transaction project management, tax analyses, pre-sale diligence from a “buyer’s view,” carve-out financial statement preparation, exit readiness, operational preparedness and buyer negotiation.

Related thought leadership resources
To access the reports listed below, visit www.ey.com/transactions.
Contacts

If you would like to discuss the comprehensive survey results or any divestment issues, please contact your Ernst & Young advisor or any of the contacts listed below.

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</tbody>
</table>
Respondent demographics

Summary

- 567 corporate executives surveyed in October and November 2012
- 50% of respondents are CEOs, CFOs or other C-level executives
- Respondents are from companies across the Americas, Asia Pacific and Europe, Middle East and Africa (EMEA)
- Representation from more than 14 industry sectors
- Half of the respondents represent companies with annual revenues that exceed US$1 billion
- Respondents stated they have knowledge of or direct hands-on experience of their company’s divestment activity

<table>
<thead>
<tr>
<th>Industries represented</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial services</td>
<td>14%</td>
</tr>
<tr>
<td>Diversified industrial products</td>
<td>13%</td>
</tr>
<tr>
<td>Life sciences</td>
<td>11%</td>
</tr>
<tr>
<td>Oil and gas</td>
<td>10%</td>
</tr>
<tr>
<td>Consumer products</td>
<td>10%</td>
</tr>
<tr>
<td>Power and utilities</td>
<td>10%</td>
</tr>
<tr>
<td>Mining and minerals</td>
<td>8%</td>
</tr>
<tr>
<td>Retail and wholesale</td>
<td>5%</td>
</tr>
<tr>
<td>Technology</td>
<td>4%</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>2%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>2%</td>
</tr>
<tr>
<td>Aerospace and defense</td>
<td>2%</td>
</tr>
<tr>
<td>Automotive</td>
<td>1%</td>
</tr>
<tr>
<td>Other</td>
<td>8%</td>
</tr>
</tbody>
</table>

What are your company’s global annual revenues in US dollars?

- 34% Less than $500m
- 27% $500m to $1b
- 13% $1b to $5b
- 26% $5b or more

Where is your company headquartered?

- 139 Americas
- 222 Asia Pacific
- 206 EMEA

Maximizing divestment success in an uncertain economy
About Ernst & Young

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