An aerial photograph of a large group of people practicing yoga in a lush green park. They are lying on their stomachs on colorful mats, with their arms raised in the air. The scene is surrounded by dense green foliage and trees. A yellow and blue border frames the top left corner of the image.

# Why consumer and health companies look to divestments to strengthen their core



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## Introduction

The consumer and health sectors are experiencing significant change, driven by a renewed focus on core competencies. This strategic shift is not just a reaction to market pressures but a forward-looking effort to enhance shareholder value and ensure future readiness of the business.

## The strategic imperative of divestiture

A renewed focus on core competencies is driving significant transformation in the consumer and health sectors with a number of recent transactions such as **Merck's spinoff of Organon**, **GSK's demerger of Haleon**, and **Johnson & Johnson establishing Kenvue as a standalone company** highlighting this trend.

EY **April 2024 CEO Outlook Survey** reveals that nearly one-third of institutional investors across sectors see mergers and acquisitions (M&A) as the fastest route to boosting sales growth and unlocking new value-creating opportunities – a trend reflected in current deal activity. In conjunction with this, companies are increasingly divesting non-core assets to streamline operations, cut costs, and concentrate on their core strengths. This strategic shift empowers organizations

to innovate, accelerate growth and margin opportunities, and enhance overall performance.

The M&A market overall has been resilient in 2024, with deal values reaching US\$3.3t – a 11% increase compared to the same period in 2023. Deal volume has also risen by 9%, showing steady growth throughout the year. These positive trends suggest that M&A activity is likely to maintain its momentum through the remainder of 2025.

However, an even more pronounced trend can be seen in **corporate divestitures which surged in the recent quarter, reaching the highest transaction value (US\$162b) since Q3 2021**. Notably, divestment activity in the consumer and health sectors rose by approximately 41% year-over-year in Q3 2024, underscoring the growing strategic importance of divestments and focusing on core categories in these industries.

As we move through 2025, divestitures are expected to remain a significant trend as companies prioritize core businesses and debt reduction. EY September CEO Outlook Survey confirms this, with nearly all consumer and health CEOs anticipating some form of transactions and half prioritizing divestments.

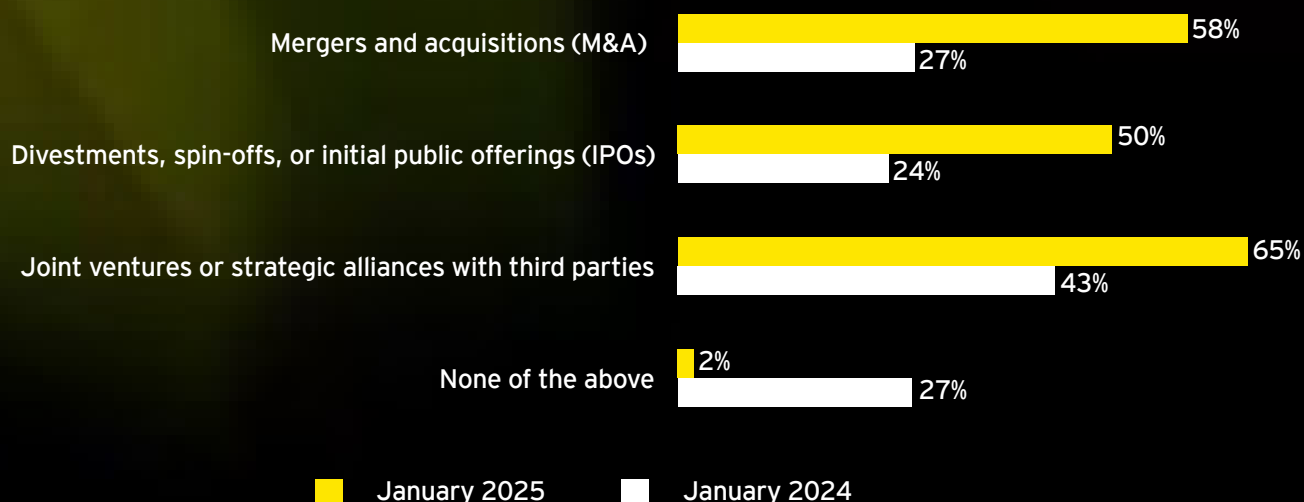
Recent months have seen leading household and personal care companies divest non-core brands and product lines to focus on their core categories. This strategic approach allows them to allocate resources more effectively, enhance marketing and distribution efforts, and drive growth in their key areas. Similarly, in the recent past we have seen the healthcare sector spinning off their consumer health divisions to focus on their core pharmaceutical and medical device businesses.



As both sectors continue to evolve, we anticipate further consolidation, strategic partnerships, and a focus on core competencies. By streamlining operations, investing in innovation, and capitalizing on emerging opportunities, companies in the consumer and health sectors are positioning themselves for long-term success in an increasingly competitive global marketplace.

## Consumers and health leaders' appetite for deal-making is increasing

Do you expect to actively pursue any of the following transaction initiatives over the next 12 months?







## The impact on shareholder value

One of the reasons for this strategic shift is the potential to enhance shareholder value. When companies divest non-core assets and refocus on their core offerings, several positive outcomes can be observed. Based on EY analysis of more than 160 transactions, **corporate separations lead to an average blended excess return of approximately 6%** over the respective sector indexes for the period of two years post-close of transaction. Streamlined operations and a clear focus on core competencies often lead to better financial results, including increased revenue, higher profit margins, and stronger cash flow. Divesting non-core assets signals a commitment to long-term growth and stability, boosting investor confidence and attracting capital. We are in the cycle where companies that concentrate on their core offerings are often perceived as more valuable, leading to higher market valuations and better returns for shareholders.

Nearly half of the investors surveyed emphasized the importance of ensuring a significant return on investment for M&A deals. Recent divestment deals in the consumer and health sectors demonstrate this principle in action. For instance, a major health company's divestiture of its consumer healthcare business enabled it to focus on its core pharmaceutical operations and accelerate pipeline development. This strategic move was well-received by investors, leading to a notable increase in the company's stock price. In fact, over the last three years, leading consumer product and health companies have seen an average 2.8% pts increase in excess TSR three months post-divestment announcement, showcasing the potential for significant shareholder value creation through strategic divestments.





## Mergers among core-focused companies

As companies streamline operations and focus on their core offerings, there is significant potential for mergers among these more concentrated entities. Such mergers can generate synergies, enhance market leadership, and foster innovation, ultimately creating greater value. For instance, a study by the **Harvard Business Review** found that companies focusing on their core competencies and engaging in strategic M&A tend to achieve higher growth rates and improved profitability compared to their peers. The study highlighted that these companies often realize cost synergies of 10%-15% and revenue synergies of 5%-10% post-merger, which significantly boosts their market position and financial performance. As an example, a leading global pharmaceutical company successfully leveraged strategic M&A to expand its product portfolio, enhance R&D capabilities, and strengthen its market position by acquiring companies with complementary technologies and product offerings.

## Consolidation of divested assets

Divested assets often become acquisition targets, creating new value propositions and market opportunities. This consolidation can drive competition and innovation, giving rise to new market players.

For instance, divested assets can provide a quick way for acquirers to enter new markets, expand product lines, or gain access to new technologies. By acquiring divested assets, companies can increase their market share and strengthen their market position. The combination of different companies and their respective capabilities can lead to increased innovation and the development of new products and services.

Larger assets that are spun out and listed also create a new M&A dynamic in a sector. Often pure plays, they regularly go on to either get taken over within a few years of being listed or create their own scale by rolling up smaller competitors. This roll-up often happens with divested assets that are sold to private equity firms, who use them as platforms for further industry consolidation.





## Navigating the future

As economic uncertainty and other heightened disruption persists, the trend of prioritizing core competencies and divesting non-core assets is likely to continue. This emphasis on core offerings is reshaping the M&A landscape in the consumer and health sectors, driving benefits such as improved operational efficiency, cost savings, and enhanced shareholder value.

The success of these efforts relies on a deep understanding of industry dynamics and a readiness to adapt. CEOs must take a proactive approach by identifying core competencies, aligning resources, and leveraging data-driven insights to optimize performance. Fostering a culture of innovation and adaptability is essential for navigating market shifts, while robust risk management ensures the success of strategic initiatives.

## Summary

The shift back to core offerings is a strategic imperative for consumer and health companies. By divesting non-core assets and focusing on key strengths, they can drive shareholder value and long-term success. As M&A activity evolves, mergers and consolidation will offer new opportunities, but companies must stay agile, adaptable, and innovative to thrive in this core-focused era. For established players and those who are fresh into the market, the question remains: who will emerge on top, and who will bottom out?

## Key contacts



**Leo Gribben**

UK Partner, EY Strategy and  
Transactions, EY LLP  
[lgribben@uk.ey.com](mailto:lgribben@uk.ey.com)



**Jens Weng**

EY-Parthenon Partner, Europe West,  
EY Strategy and Transactions GmbH  
[jens.weng@parthenon.ey.com](mailto:jens.weng@parthenon.ey.com)

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