

Can divesting what holds you back move your strategy forward?

CEOs are using divestments to
reimagine their organization.



The better the question. The better the answer.
The better the world works.



Building a better
working world

Our perspective



Rich Mills

EY Global and Americas
Sell and Separate Leader

The past year has underscored how quickly customer needs and technology requirements can change. Businesses that may long have been deemed critical to a portfolio could now unnecessarily be taking up limited resources and utilizing capital that should be deployed elsewhere. More companies than ever – 78% – say they continue to hold onto assets too long.

This year's *Global Corporate Divestment Study* reveals that companies across the globe are failing to meet expectations for their divestment sales price, timing and valuation multiple impact on the remaining business (RemainCo).

This is happening even in a robust M&A market. A year ago, 57% of companies in our study said they planned to complete carve-outs in the next 12 months. We have seen that expectation play out with a significant number of assets coming to market at the end of 2020 into 2021, including several large publicly announced divestments.

Poor deal performance means that it has never been more important for CEOs to create a stronger link between strategy and divestment decisions. In order to capture new growth and increase stakeholder value, companies need a clear view of how each business drives the corporate strategy and contributes to long-term value. Even a strong-performing business that does not fit with your strategy might be tying up capital that could be better deployed on higher-impact investments. Communicating this value proposition can help rally stakeholders behind a decision to carve out or spin off a business.

CEOs also acknowledge they need to improve their approach to portfolio reviews in order to drive strategic divestment decisions. This requires rigorously analyzing businesses against key metrics and being prepared to act once it is clear the business should be divested. The value of a business unit starved for investment can quickly erode, and continued weak performance can catch unwanted attention from activist investors.

Finally, use the divestment as an opportunity to reimagine RemainCo. Re-evaluating your purpose and vision may require a redesign of your enterprise business structure that better focuses on product, market, value chain or functions.

These critical decisions can help companies use divestments to increase stakeholder value while transforming their enterprise – and operating model – to capture future growth.

About this study

The EY *Global Corporate Divestment Study* is an annual survey of C-level executives from large companies around the world, conducted by Thought Leadership Consulting, a Euromoney Institutional Investor company.

Results are based on an online survey of 1,040 global corporate executives and 27 global activist investors (conducted between January and March 2021), including companies from 11 industries, with 88% of respondents holding the title of CEO, CFO or other C-level executive.

Key findings

78% of companies say they continue to hold onto assets too long when they should have divested them.

Our annual *Global Corporate Divestment Study* reveals companies need to build a stronger link between strategy and divestments to meet deal performance expectations, increase long-term stakeholder value and reimagine business models.

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How CEOs can develop a successful divestment strategy

59%

of CEOs acknowledge they should provide better guidance on what they regard as core and non-core businesses.

76%

of executives expect the continued effects of the pandemic to accelerate divestment plans.

44%

of CEOs say they have difficulty explaining divestment rationale to the board and key stakeholders.

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How CFOs can drive strategic decisions through portfolio reviews

77%

say shortcomings in portfolio or strategic reviews have led to failure in achieving intended divestment results.

56%

of CFOs say they changed their KPI rankings in the past three years.

37%

say activist activity in their sector prompted them to review strategic alternatives in the past 12 months.

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Why divestments should be a catalyst for CEOs to reimagine RemainCo

63%

of companies acknowledge not placing enough emphasis on RemainCo during their last carve-out or spin-off.

60%

failed to broaden their efforts to improve RemainCo beyond simply eliminating costs.

56%

say they wish they had focused on realignment of RemainCo earlier in the divestment process.

Lessons learned

Use your strategy to determine which assets are core

Define how each business contributes to long-term value

Widen your definition of value drivers

Rally stakeholders with a consistent narrative

Focus on evolving KPIs that can help predict future growth

Align compensation with portfolio performance

Decide what to divest and take action

Look for opportunities to rightsize corporate functions

Focus on more than just eliminating stranded costs

Establish a new RemainCo enterprise structure that is fit for purpose

Develop a new operating model to increase efficiency and generate outsized returns

Communicate and manage expectations for change at RemainCo

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How CEOs can develop a successful divestment strategy

There is no time for companies to sit still – 76% expect the continued effects of the pandemic to accelerate divestment plans. However, CEOs admit that pursuing divestments and reaping the benefits can be challenging.

94%

of global companies say changes to the technology landscape are influencing divestment decisions, up from 59% pre-pandemic.

Companies across the globe are failing to meet expectations for their divestment's sales price, timing and how they affect the valuation multiple of the remaining business (RemainCo). Nearly 8 out of every 10 companies (79%) say they didn't meet price expectations in their most recent divestiture, especially in Asia-Pacific, where 87% of executives say they did not get the price they expected. At the same time, 56% globally say their most recent divestment did not generate the valuation multiple impact for RemainCo they planned (71% in the Americas).

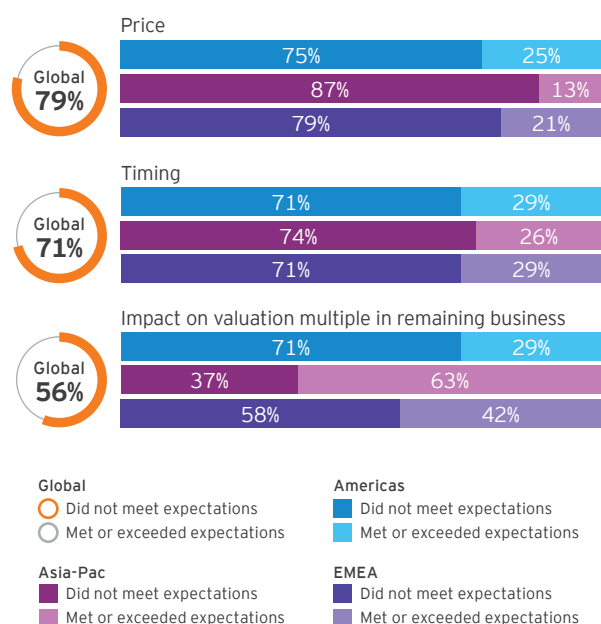
Divestments can underperform when they are treated as one-off decisions based on short-term financial factors, rather than being closely aligned with the overall corporate strategy. In fact, nearly 60% of CEOs acknowledge they should provide better guidance as to what they regard as core and non-core businesses.

Key divestment drivers across the globe

The pandemic is affecting deals across the globe – driving companies to raise funds to invest in technology to meet new customer needs or prompting companies to sell poorly performing businesses. Nearly all companies (94%) confirm that changes to the technology landscape are directly influencing divestment plans, up from 59% pre-pandemic. And two-thirds of companies say their most recent divestment was triggered by suboptimal returns in the divested business.

Environmental, social and governance (ESG) issues are also an emerging factor. Globally, 46% of sellers say these issues directly influence divestment plans, though ESG is currently a much larger factor in Asia-Pacific (84%) than in EMEA (47%) and the Americas (14%). Regulatory changes that require companies to reduce their carbon footprint, especially in Europe, are now influencing divestment decisions, while companies in the Americas ponder the impact on management and workforce diversity when carving out or spinning off a business.

Q Thinking through your company's most recent major divestment, how would you assess the results against expectations in the following areas?



Use your strategy to determine which assets are core

As companies face a myriad of geopolitical, macroeconomic and operational challenges, the decision of what and when to divest starts with strategy.

CEOs need to determine which businesses no longer help drive the company’s strategy – which are deemed non-core – by taking a broad view on how a company generates long-term value for stakeholders. Yet 39% still struggle to define which businesses in their portfolios are core or non-core, and only 37% consider alignment to the company vision or mission a factor in identifying divestments. This suggests that, in some cases, strategy may not be the driving force behind decisions, with short-term financial factors instead taking the lead.

Companies should consider several key elements about how each business supports the corporate strategy in order to determine which are core:

- ▶ The business’s market and underlying growth in demand
- ▶ Its ability to leverage the company’s core competencies
- ▶ The value proposition compared with that of competitors
- ▶ Alignment to the company’s vision or mission
- ▶ Potential for long-term value creation from a financial, customer, people or societal standpoint

Triggering events like the pandemic can crystallize thinking about the long-term value narrative and the opportunity for divesting. Stakeholders may rally behind a divestment decision if they are shown how it will free up capital to invest in areas such as technology that can help increase operational efficiencies, improve the customer experience and streamline decision-making.

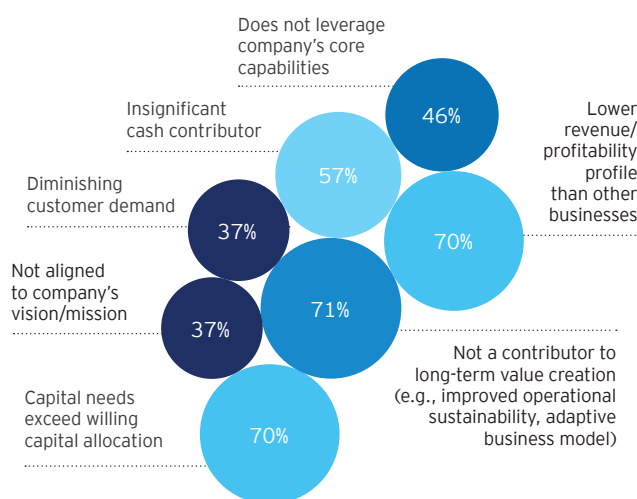
Reinvest capital into growth areas

Funds raised by selling businesses are often invested in core capabilities that support long-term value creation, such as technology (79%) and new markets, products or geographies (65%), to better position RemainCo for the future.

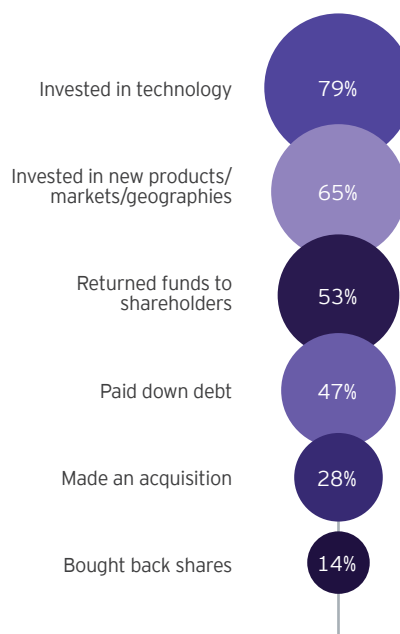
For example, one global media company divested the majority of a key business, after deciding to align the company around three distinct customer segments. The business, with its broader horizontal approach across industries, no longer fit this strategy and would be more attractive to another owner.

Part of the funds from the divestment were set aside to fund strategic acquisitions to bolster key growth segments.

Q What factors do you use to identify non-core businesses/assets for divestments? (Select all that apply.)



Q What did you do with the funds raised from your most recent divestment? (Select all that apply.)



Define how each business contributes to long-term value

The EY definition of long-term value goes beyond the traditional measure of financial value, as that view neglects key metrics that are becoming more important to stakeholders and boards – and which can often now affect financial value. These include how a business is viewed by and affects customers, employees and society.

Analysis should measure and communicate long-term value drivers across four dimensions: financial value, customer value, people value and societal value. These drivers – with variations by industry – affect shareholder value and access to capital.

Together, these quantitative and qualitative factors address a full ecosystem of stakeholders – from shareholders, employees, customers and suppliers to regulators, communities and society at large. CEOs can use these factors, when considered as part of the long-term strategy, to understand if an asset is in the best hands or should be divested.

Value dimension	Sample metrics	Key divestment considerations for CEOs
Financial value	Revenue, costs, capital allocation cost structure	<ul style="list-style-type: none"> ▶ Does the business contribute to long-term earnings capacity? ▶ Does its potential benefit justify the unit’s capital requirements?
Customer value	Brand value, customer satisfaction, trust and loyalty, product pipeline	<ul style="list-style-type: none"> ▶ Will divesting the business help or hurt brand equity? ▶ Will a divestment remove an essential product, service or intellectual property? ▶ Will customers view the change of ownership positively?
People value	Loyalty, employee engagement, diversity and inclusion, being an employer of choice, health and wellness	<ul style="list-style-type: none"> ▶ Does the business provide a valuable platform for professional development or leadership careers across the portfolio? ▶ Does this business contribute to diversity and inclusion? ▶ Would divesting the business make the company more or less attractive to talent?
Societal value	Carbon footprint, sustainability, community impact and corporate responsibility	<ul style="list-style-type: none"> ▶ Does divesting help or hurt the company’s ESG ratings and/or environmental impact (e.g., remove toxic assets from the portfolio)? ▶ Will divesting cause a negative community impact and/or hurt corporate relations?

Widen your definition of value drivers

As market conditions and stakeholder demands change, companies can revisit value drivers. Even well-performing businesses can be prime candidates to carve out or spin off if they no longer fit the long-term strategy, as they tie up capital that could be better deployed on investments that have a more substantial impact on long-term value.

For example, the consumer goods company Unilever has a vision “to make sustainable living commonplace” and uses portfolio optimization as one of the key components with a focus on high-growth product categories such as personal care, functional nutrition and plant-based foods as well as key markets such as the US, India and China. To that end, Unilever has made divestments in areas that are not part of its long-term strategy as it seeks to “accelerate long-term sustainable value.” One example is the sale of its Alsa baking and dessert preparation business in 2018.

Rally stakeholders with a consistent narrative

CEOs can rally employees, customers and investors behind divestments by showing how the portfolio change supports the company's strategy and can help drive long-term value. They can also share a vision of how RemainCo can be enhanced and reimaged as a result of the divestment. A strategic narrative also helps overcome inevitable legacy emotion and internal politics, which can be powerful forces in debate over company structure. Yet nearly half (44%) say they have difficulty explaining the reasoning behind divestments to the board and key stakeholders.

Stakeholder messaging should demonstrate how the business has been evaluated. This can include go-to-market approaches, cost synergies from related products and technology, or geographic coverage.

Q What are key challenges that CEOs face when deciding to divest? (Select all that apply.)



Base=360 CEOs

Key takeaways

- ▶ Have a clear view on each business's market and underlying growth in demand, competitive advantage, alignment to the company's vision and potential for long-term value creation from a financial, customer, people and societal standpoint.
- ▶ Pursuing divestments can help accelerate investments in technology, new products and geographies to meet customer needs and fuel new growth for RemainCo.
- ▶ Even a strong-performing business that does not fit with your strategy might be tying up capital that could be better deployed on higher-impact investments. Communicating this can help rally stakeholders behind a decision to carve out or spin off a business.



How CFOs can elevate portfolio reviews to drive strategic divestment decisions



Better portfolio reviews can help the 78% of companies that say they have held onto assets too long when they should have divested them.

To enhance identification of potential divestments, CEOs are looking for more out of portfolio reviews: 63% say they need to initiate or increase the frequency, and 60% say they need a different approach to these reviews. CFOs can drive more effective portfolio reviews that help a company execute on its long-term strategy and shift their company away from the 77% that say shortcomings in portfolio or strategic reviews have led to failure in achieving intended divestment results.

Reviews should be conducted at the level that most closely aligns with potential carve-outs, typically the business unit level. Yet four in five companies review the portfolio, at least in part, at a product line level, which may be an inefficient use of time and resources as few companies measure costs below gross profit or track key balance sheet items at this level (e.g., working capital, shared facilities).

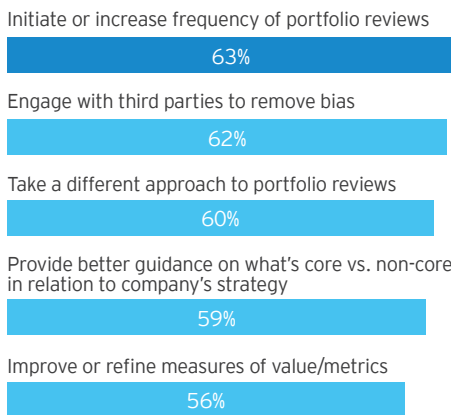
Effective portfolio reviews focus on a few key metrics that measure how each business complements the enterprise strategy and contributes to total shareholder return through a combination of growth and return on invested capital.

Focus on evolving KPIs that can help predict future growth

In order to focus on long-term growth, CFOs need to use forward-looking measures in tandem with backward-looking KPIs like return on invested capital, a metric that 85% of CFOs already use to regularly monitor their business. These KPIs should be applied to businesses in the portfolio to help identify divestment candidates.

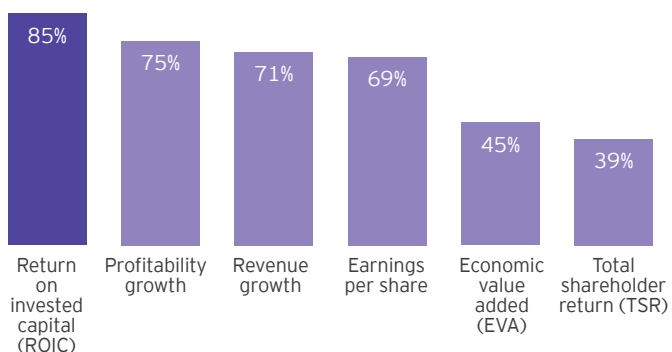
The metrics also need to help with the challenge of forecasting future growth as companies try to determine which pandemic-driven behaviors will remain part of everyday business and which are temporary. Using external data sources, such as vaccination rates, social media mentions, cellphone data and others, may provide useful insight or reveal patterns in fast-moving areas like customer buying patterns or mobility.

Q What specific actions could CEOs take to enhance identification of a divestiture candidate? (Select all that apply.)



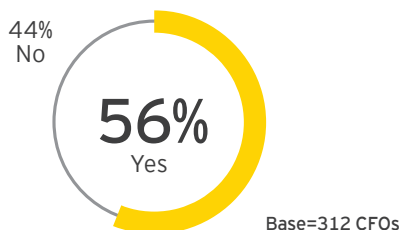
Base=360 CEOs

Q What KPIs are being used to measure and monitor the overall business on an ongoing basis? (Select all that apply.)



Base=312 CFOs

Q Has your ranking of portfolio performance metrics changed over the past three years?



KPIs also should not remain static. If a KPI turns out to not be a predictor of future growth, or if business priorities change, new KPIs should be considered. But only 56% of CFOs say they changed their KPI rankings in the past three years. Similarly, scorecard weightings need to be revised in light of the business’s performance.

Understanding the enterprise strategy and the qualitative and quantitative metrics driving it can be particularly valuable for CFOs, allowing them to move beyond financial planning and reporting to making divestment decisions and otherwise set strategy.

Align compensation with portfolio performance

Management’s compensation can also pose an unforeseen obstacle to decisive portfolio management. It is important to avoid incentivizing the senior team to retain businesses through revenue-based pay and rewards tied to short-term performance that could be adversely affected by divestments.

Instead, overall portfolio performance and long-term value creation should be factored into compensation.

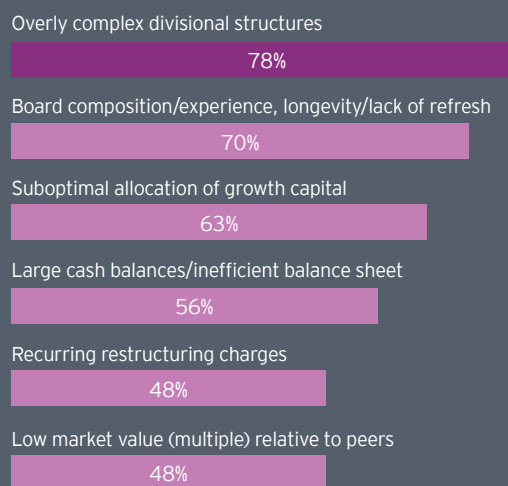
Activists rebound, with ESG on their radar

After a brief, pandemic-induced hiatus during the 2020 proxy season, activists are back. More than 120 campaigns were launched in the first quarter of 2021, up 117% from the previous quarter, according to *Activist Insight*.

Nearly three-quarters of activists (74%) say the pandemic has affected the way they look at targets. In particular, activists are focusing more on the flexibility of the target companies’ cost base (80%) and ability to adapt to different routes to market (70%). Those companies that have lacked flexibility and agility during the pandemic are emerging as prime investment opportunities, particularly in the technology (74%), health care (48%) and industrial (48%) sectors.

ESG issues are also now on the radar as areas of leverage to sway shareholder votes toward activists in the event of a proxy fight. However, the traditional activist focus on growing shareholder value still drives most activist campaigns as they seek returns. This is why overly complex divisional structures (78%), board composition or lack of refresh (70%), and suboptimal allocation of growth capital (63%) were most frequently named as the top factors in identifying new investment opportunities.

Q When identifying new investment opportunities, which of the following factors are the most important? (Select all that apply.)



Base=27 global activist investors

Rightsize corporate functions

Proactively rightsizing corporate functions (e.g., streamlining workforce, outsourcing to reduce fixed costs) may offer companies a powerful defense against potential activism. Nearly 90% of activists anticipate that their targets will need to implement these operational changes, making it one of the primary recommendations for activists over the next 12 months.

Divesting is one way that management can demonstrate that it is looking to maximize shareholder value; 89% of activists note campaigns will recommend carving out non-core or underperforming businesses. Moreover, activists demand rapid action; two-thirds (67%) say they expect a divestment to be announced three to six months after they announce an investment in a company.

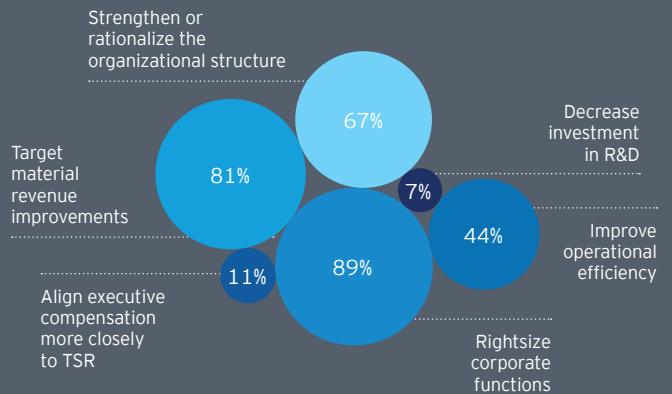
ESG is becoming part of the activist playbook

While ESG is not yet a prominent factor in identifying target companies, environmental and social considerations are emerging as a more significant prompt for activism as they grow more entwined with overall long-term value. A number of ESG-focused activist funds have already launched and seen some success.

This comes as the regulatory and governance environment shifts. With laws in Europe and parts of the US, and the recent US presidential administration commitment to the Paris Accord, firms are being forced to reduce their carbon footprint, and insurers have become reluctant to cover certain coal-burning assets. ESG has become a focus area for boards, with sustainability committees increasingly part of the governance structure. Diversity and inclusion issues are also posing a reputational risk for some companies.

Companies are already restructuring to split themselves into environmentally friendly and unfriendly portions based on their emissions profile and use of coal. For example, Anglo American recently announced its plans to demerge its thermal coal operations in South Africa, noting that its shareholders have varying views in relation to thermal coal.

Q From an operational perspective, what approaches do you anticipate recommending your target companies pursue over the next 12 months? (Select all that apply.)



Base=27 global activist investors

Related to diversity, some companies have also begun considering to whom they are selling their businesses and potentially trying to develop a more diverse pool of potential buyers. Some are also taking into account the make-up of senior management and the board when diversifying. Anglo American noted that the thermal coal company will retain a “diverse” management team and board.

No matter the focus of the campaign, once the activist pressure is on, failure to respond may be costly and lead to changes in the management team or board. Executives need to demonstrate that their businesses support long-term value creation across a range of financial and nonfinancial measures. Without strong rationale for a business remaining part of the portfolio, an activist will eventually try to force the separation.

Decide what to divest and take action

Now is a great time to be a seller as buyers, including PE firms with a propensity to acquire corporate carve-outs, are flush with cash in this low-interest-rate environment.

37%

of companies say activist activity in their sector prompted a review of strategic alternatives in the past 12 months.

Companies should not wait to act until growth has stalled or for an activist investor to come calling. More than a third of companies (37%) say activist activity in their sector prompted a review of strategic alternatives in the past 12 months.

Even if a divestment decision is more challenging while a business is still healthy, it is far more saleable at this point. And even smaller businesses that do not require much capital investment can still be a management distraction.

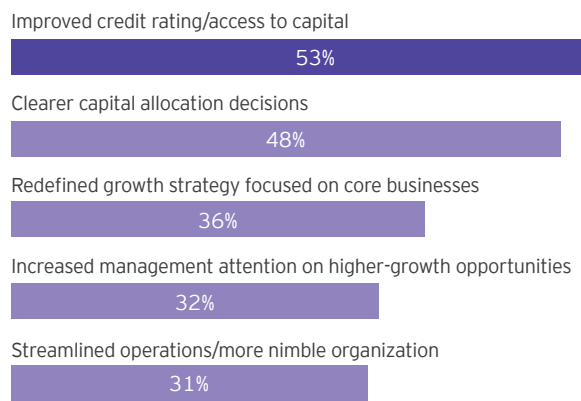
There are instances where the cyclical nature of a business unit can entice a company into holding onto it. For example, companies in cyclical industries, such as steel or oil and gas, identify a business as a divestment candidate at the bottom of the cycle, but have held on to see if it can be sold for a higher price when the cycle turns. However, when the business does improve, management may decide not to divest. Then the cycle turns, the process is repeated and the decision to divest is repeatedly postponed.

To break that cycle, CFOs may want to consider recommending strategic alternatives such as:

- ▶ **Staged or stepped exits:** Selling a majority interest while maintaining a minority investment can provide the best of both worlds. It removes the business from the balance sheet and brings in new external capital that a non-core holding will not receive under a strategically determined capital allocation plan. At the same time, it provides continued exposure to the business's upside through the reduced stake retained.
- ▶ **Asset-light approach:** Companies may take this approach if a business is important to the firm's operations, but not a core competency. One example is Dow's sale of its US and Canadian rail infrastructure in July 2020 for about \$310m. Notably, the transaction also included a long-term service agreement with the buyer, logistics firm Watco, thereby allowing Dow to maintain the necessary services while removing the rail assets from its portfolio.
- ▶ **Joint ventures with strategic partners:** This structure may be particularly attractive if the business is an important supplier to the parent company.

In pursuing a divestment, companies can capture strategic benefits that support future portfolio decisions. More than half (53%) of companies say an improved credit rating and access to capital were strategic benefits in their last major divestment, and 48% say they were able to make clearer capital allocation decisions.

Q What has proven to be a strategic benefit after you have executed a divestiture? (Select all that apply.)



Key takeaways

- ▶ Rigorously review the portfolio using a few key metrics related to how each business complements the enterprise strategy and contributes to total shareholder return through a combination of growth and return on invested capital.
- ▶ Take action once it is clear the business should be divested, as the value of a business unit starved for investment can quickly erode.
- ▶ Evaluate strategic alternatives, including an asset-light approach, a staged exit or a joint venture with a strategic partner.
- ▶ Address vulnerabilities across the entire portfolio and look for opportunities to rightsize corporate functions.

3

Why divestments should be a catalyst for CEOs to reimagine RemainCo

Executives often regret not using a divestment as an opportunity to transform the remaining company and drive long-term value. A company's divestment rationale should include the benefits to RemainCo's future business, yet 63% of companies acknowledge not placing enough emphasis on RemainCo during their last carve-out or spin-off.

63%

of companies acknowledge not placing enough emphasis on RemainCo during their last divestment.

Their concern is well-founded. An [EY analysis of 51 recent significant US divestments](#) reveals that companies where RemainCo was simultaneously transformed delivered significantly greater returns than those that only executed a divestment. In fact, our experience shows that if RemainCo is not transformed during this window, the difference in returns grows over time and investors become more likely to ask questions about RemainCo's future and put pressure on the CEO and board.

Addressing RemainCo's future business archetype and the operating structure that supports the archetype early in the divestment process can help position RemainCo for outsized growth.

In one case, a major global industrial company lagged competitors in total shareholder return. It was set to announce a transformational divestiture, but the CEO was concerned that investors would react negatively if the company didn't provide clear guidance on how RemainCo would create value in the coming years. The CEO delayed the announcement, mobilized the leadership team, conducted a series of workshops to redesign the remaining business and identified multiple value-creation opportunities. Once the CEO had confidence in the reimagination plan, the company announced the proposed divestiture along with the plan to unlock over half a billion dollars of value in RemainCo over the course of three years.

Significant divestments require more than eliminating stranded costs

The separation of a large (e.g., representing >20% of overall revenue) or highly entangled business should involve more than a stranded cost exercise for RemainCo. It should be a catalyst to reimagine RemainCo as a leaner, more efficient organization. In fact, 60% of executives say they should have done more to improve RemainCo than simply eliminate costs, and 56% say they should have focused on RemainCo earlier in the process.

CEOs should begin to reimagine RemainCo as part of the portfolio review process. Planning for RemainCo operations based on the company’s long-term vision should be more closely examined once it’s determined which businesses and assets will be included in the deal perimeter versus which elements stay with RemainCo.

During a divestment, every function of the organization is disrupted as resources and infrastructure are pulled to create the divested business. But leading organizations see this as a chance to challenge the status quo and rebuild an organization for the future – not just looking to cut costs, but also identifying areas where investment can generate greater returns in the core business and which functions can be centralized or even outsourced.

Create a RemainCo enterprise structure that is fit for purpose

The corporate strategy that led to the divestment can form the basis for developing a new enterprise structure, or archetype, for RemainCo. The archetype should focus on how the business will create value and provide a competitive advantage. For example, a significant divestment could leave a company that had multiple business lines with one primary product, requiring a new archetype that moves away from product centric to geocentric.

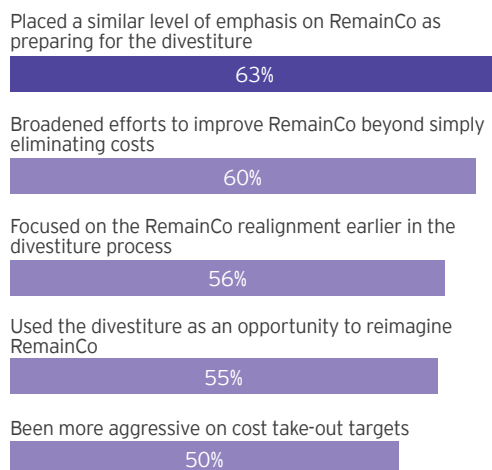
Business archetype examples include:

- ▶ **Product centric:** focus on characteristics of the end product and drive excellence in those products, with an improved centralized cost structure
- ▶ **Market centric:** support unique commercial and operational requirements across geographies, with a strong link between regional sales and service delivery
- ▶ **Value-chain centric:** streamline operations based on manufacturing processes with competitiveness in each step of the value chain
- ▶ **Function led:** produce cost savings with a lean corporate structure and push control to regional, product or value-chain level
- ▶ **Hybrid model:** combine elements of the above to fit the corporate strategy

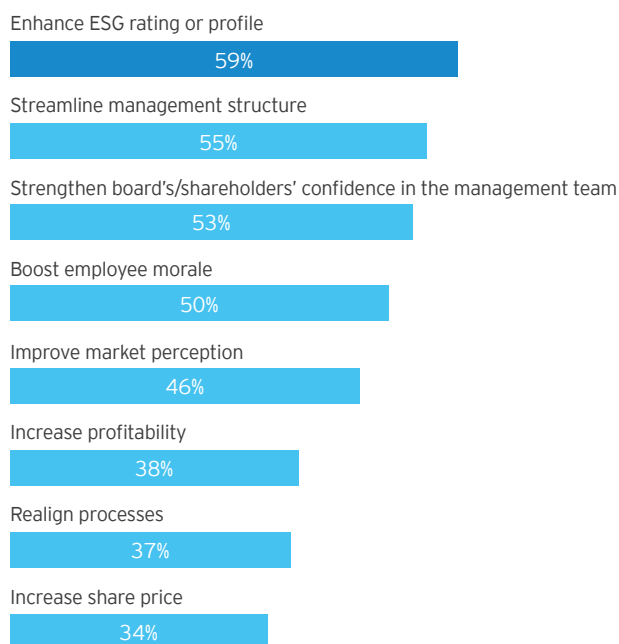
Develop a new operating model to increase efficiency and generate outsized returns

The old operating model may need to be changed to fit the new archetype. For example, in a product-centric archetype, R&D spend would be determined centrally by the product owner, while in a market-centric archetype, R&D would be heavily influenced by regional leaders.

Q What additional steps did you not take, but wish you would have taken, to capture a larger benefit to the remaining organization? (Select all that apply.)



Q In which areas did you fail to achieve the intended results on the remaining organization during your most recent divestiture? (Select all that apply.)



Five areas that executives can tackle to revamp the operating model are:

- ▶ **Process:** Can automation be used to streamline some processes, such as order fulfillment or back-office accounting?
- ▶ **People:** Are there too many layers for the organization to run efficiently? Fifty-five percent of companies said they failed to achieve the intended RemainCo management structure streamlining during the divestment. At the same time, consider whether parts of corporate functions, such as human resources or finance and accounting, can be combined into “centers of excellence” and if less strategic, but essential, activities like accounts payable processing can be moved to lower-cost labor centers or even outsourced.
- ▶ **Systems:** A major divestment, with IT already being disentangled, is a perfect time to evaluate the organization’s systems. It could make sense to shift from data centers to the cloud. It could also make sense to consolidate systems, such as enterprise resource planning (ERP), from several down to one. IT spend as a percentage of revenue should also be analyzed.
- ▶ **Suppliers:** Companies can examine spending with third-party vendors, consolidate products and services under fewer vendors, and negotiate new terms for those economies of scale.
- ▶ **Assets:** Does the company need to continue to own the assets it has to run its business, or are there areas to monetize those assets and create a more flexible cost structure by selling the assets and contracting with the buyer to use them? RemainCo may also not need to own transportation and distribution assets like truck fleets and distribution centers. A smaller company will also be able to rationalize its real estate assets, a process that has already been spurred by the COVID-19 pandemic and by more businesses allowing people to work from home post-pandemic.

Four ways to manage change at RemainCo

Divestments can be disruptive for a company, its employees, customers and other stakeholders. Reimagining the RemainCo adds another layer of complexity. Management should stay focused on the following areas:

- ▶ Stay relentlessly focused on the customer. Be in constant contact with customers to help prevent the business relationship from being disrupted.
- ▶ Keep employees motivated through a period of prolonged change and uncertainty. Possible incentives include financial rewards or potential career opportunities in RemainCo.
- ▶ Know what to reduce and what to grow. For example, a bloated finance and accounting organization could be reduced, while R&D spending, which could lead to future revenue, could be increased.
- ▶ Communicate how the disruption will lead to long-term benefits for stakeholders. Regular strategic messaging makes stakeholders more accepting of a change where benefits may not be seen in the first year.

Key takeaways

- ▶ Divestments are a catalyst to challenge the status quo and reimagine RemainCo for the future because the organization is already mobilized for change and the operating model is being re-examined.
- ▶ Re-evaluating your purpose and vision may require a redesign of your enterprise business archetype to focus on product, market, value chain, function or a hybrid model.
- ▶ The operating model should be changed to support the new archetype. All aspects should be challenged, including processes, systems, assets, people and third-party vendors.

Conclusion



Seventy-eight percent of companies say they held onto assets too long when they should have divested them, a percentage that has risen from just 41% five years ago. How can you decide what to divest and act boldly to improve your remaining business and increase stakeholder value?

Divest to drive long-term value

Divestments should be more than just one-off decisions based on short-term financial factors. The overall corporate strategy should be the lens for determining which assets are candidates for divestment and how carve-out sales or spin-offs can focus management attention and capital toward businesses that will drive long-term value. CEOs need to communicate to stakeholders how divestment decisions strengthen the company's core business.

Design an action-oriented portfolio review process

Portfolios should be reviewed at the business unit level to align with potential carve-out decision-making. Focus on a few key metrics that measure how each business complements the enterprise strategy and contributes to total stakeholder returns. Once the decision is made to divest, companies need to act quickly, or else value can erode and the business may catch unwanted attention from activist investors.

Use a divestment as a catalyst to reimagine RemainCo

A large or entangled divestment is an opportunity to reimagine RemainCo while the organization is already primed for change. Keep the future state of RemainCo in mind while deciding to divest and start transforming RemainCo as soon as the divestment is in motion. Companies that simultaneously transform RemainCo while divesting deliver greater stakeholder returns. This transformation may include changing the business focus or archetype and then remodeling operations to support the new business.

EY Capital Edge 5.0: driving collaboration and efficiencies in carve-outs and spin-offs to improve divestment outcomes

EY Capital Edge 5.0 is an integrated and agile web-based platform supporting all aspects of the divestment life cycle. Designed for any size transaction – at any level of divestment experience – this app-enabled, secure technology helps deal teams manage information, perform analytics, drive deal decisions, assess risk, speed up separation and reimagine RemainCo.

Whether it's teams in finance, program management, operations, legal entity management or talent, EY Capital Edge 5.0 helps deliver execution excellence by supporting real-time, global collaboration.

Request a demonstration today.

How EY can help

EY teams help companies evaluate their strategy, manage the portfolio, improve divestment value and grow their remaining business. Dedicated, multifunctional EY professionals work with corporate and private equity clients on sales of the entire company, carve-outs, spin-offs and joint ventures.

Evaluating corporate strategy	Managing the portfolio	Improving divestment value and timing	Growing the remaining business
<ul style="list-style-type: none">▶ Purpose-led strategy development and long-term value creation▶ Business model reinvention▶ New market entry opportunities▶ Digital strategy and innovation▶ Go-to-market strategy	<ul style="list-style-type: none">▶ Strategic alternatives analysis▶ Financial forecasts and scenario planning▶ Capital allocation strategy▶ Stress testing of divestment hypothesis	<ul style="list-style-type: none">▶ Value creation ahead of divesting▶ Multidisciplinary transaction governance▶ Day 1 and future state operating model design▶ Advanced analytics to support buyer negotiation▶ Working capital optimization▶ Value story development▶ Efficient tax structuring▶ Transitional service agreements structuring and planning▶ Global separation, transition planning and stand-up plan	<ul style="list-style-type: none">▶ Remaining company cost structure▶ Customer experience and growth strategy▶ Cybersecurity risks and remediation▶ Organizational structure▶ People and performance management▶ Digital and technology strategy

EY Strategy and Transactions teams help with capital and transaction strategy through execution to enable fast-track value creation for inclusive growth. Whether you're preserving, optimizing, raising or investing, EY Connected Capital Solutions can help you drive competitive advantage and increased returns through improved decisions across all aspects of your capital agenda:

Strategy: enabling fast-track growth and portfolio strategies that help you realize your full potential for a better future

Corporate finance: combining deep financial and capital markets experience with advanced analytics to enable more informed decision-making that delivers sustainable, profitable growth and long-term value

Reshaping results: providing trusted leadership in urgent, critical and complex situations to rapidly address business challenges, sustainably improve results and help you reshape for a better future

Buy and integrate: enabling strategic growth through better integrated and operationalized acquisitions, joint ventures and alliances

Sell and separate: enabling strategic portfolio management and better divestments that help you improve value from a sale of an entire company, carve-out, spin-off or joint venture

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