

Global Corporate Divestment Study

Closing the deal: strategies
to increase speed and value



Building a better
working world



A note from Paul Hammes, EY Global Divestiture Advisory Services Leader

Leading companies view divestments as a fundamental part of their capital strategy, especially to fund growth. More than half of the companies surveyed for our latest EY Global Corporate Divestment Study expect the number of strategic sellers to increase in the next 12 months.

In the past year, we have seen M&A activity rise significantly, reaching levels not seen since the global financial crisis. Businesses are under constant pressure to improve portfolio performance and shareholder returns. In particular, activist shareholders are influencing corporate decisions.

Economic growth continues at a slow pace in many parts of the world and country performance is becoming increasingly divergent. As changing customer demand, newly stringent regulations and rising costs of doing business affect country attractiveness, markets are pushing businesses to rebalance their portfolios to align with the new world order.

This change is long-term. Companies clinging to the pre-crisis status quo are realizing – perhaps too late – that the economy may never realign with how they structured their portfolios years ago. As a result, many feel an urgency to complete deals quickly and with certainty. Our study reveals that half of businesses are willing to sacrifice value if it means closing the deal faster.

But the speed/value equation is complicated. There is an opportunity cost involved in not committing sufficient capital or resources to the sale, and shortcuts that may appear to save time and money often have the opposite effect. Our study discusses this balance and other key strategies for successful divestments that optimize both speed and value.

In this study, we address four questions that are foremost on our clients' minds:

- ▶ Do we have the right information to make good portfolio decisions?
- ▶ What value creation lessons can we learn from private equity?
- ▶ How can we improve divestment execution?
- ▶ How can we strike a balance between speed and value?

We suggest leading practices to answer those questions and provide observations about how companies view their own portfolio strategy and divestment practices.



A note from Steve Krouskos, EY Global Deputy Vice Chair, Transaction Advisory Services

Even as the M&A markets experience their first real revival in nearly a decade, divestments remain at the center of a company's growth strategy. Why is this? Because divestments are vital to portfolio optimization – they are at the heart of funding future business growth. Letting go is how a company grows.

Such pivotal portfolio decisions, however, are only as good as the preparation and analysis that go into them. In this report, we focus on the key steps companies must take to maximize speed and value when divesting assets, and the information they must leverage to improve portfolio performance.

Companies that meticulously and relentlessly examine their portfolios – questioning whether the company is really the best owner of each asset – are the ones that achieve top-line growth and are rewarded, both by stakeholders and by the market.

Key findings

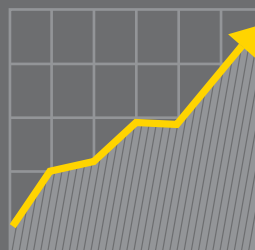
Companies often struggle to get the right information to make good portfolio decisions and to balance speed with value when selling assets. Here are the highlights of our 2015 Global Corporate Divestment Study:

Why you should consider divesting



74%

of firms are using divestments to fund growth



66%

saw an increased valuation multiple in the remaining business after their last divestment

How you can increase shareholder value



55%

say they need better analytics tools to improve portfolio reviews

Companies can learn **value creation** lessons from **private equity**

How to increase speed and certainty

Preparation shortcuts

elongate diligence and **delay time to close**



50%

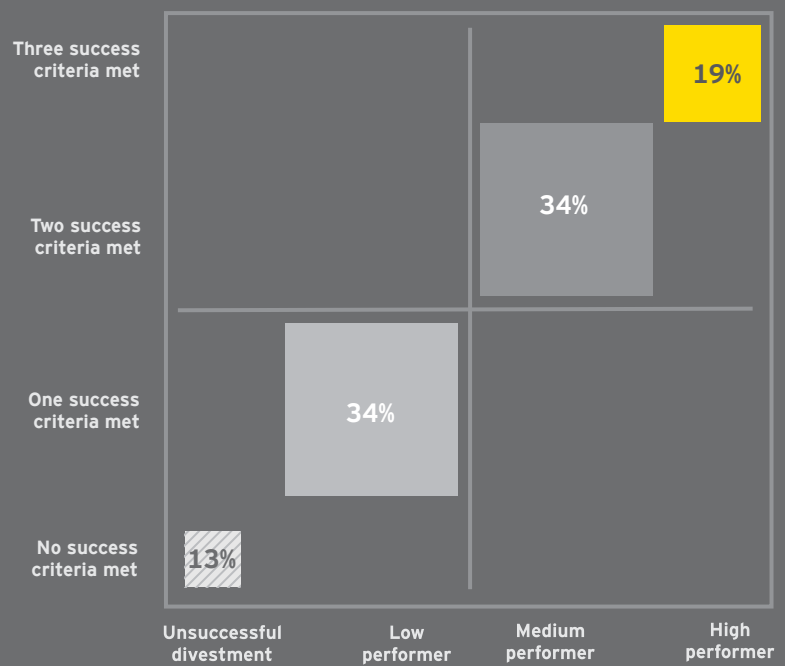
of executives completed their deal on time by starting preparations earlier

Defining success

A successful divestment meets three criteria:

- ▶ Has a positive impact on the valuation multiple of the remaining company
- ▶ Generates a sale price above expectations
- ▶ Closes ahead of timing expectations

High performers take the time to prepare well in advance of a divestment, understand the potential pool of buyers and their needs, and communicate the value of the transaction to shareholders. Medium performers do well on some, but not all, of these components.



19%

of sellers are high performers who meet three key success criteria



Are you considering divesting assets? If not, you should be.

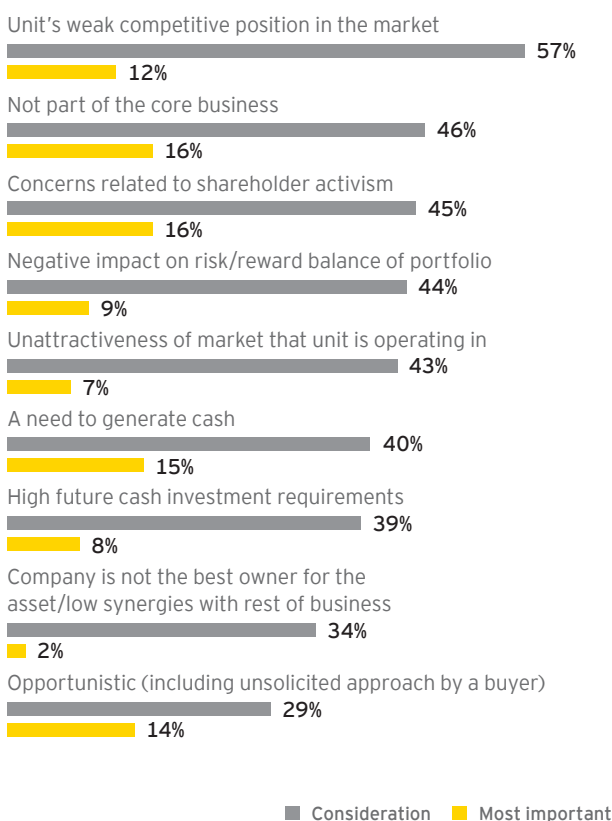
The deal market is ramping up and activist shareholders are becoming bolder. Companies must outperform their competitors by continuously fine-tuning their portfolios of businesses and realizing maximum value from transactions.

Divestment plans are increasing as companies realize that divestments are a key way to fund business growth. The value of global divestments has increased by 80% since the M&A low of 2009 (Mergermarket data).

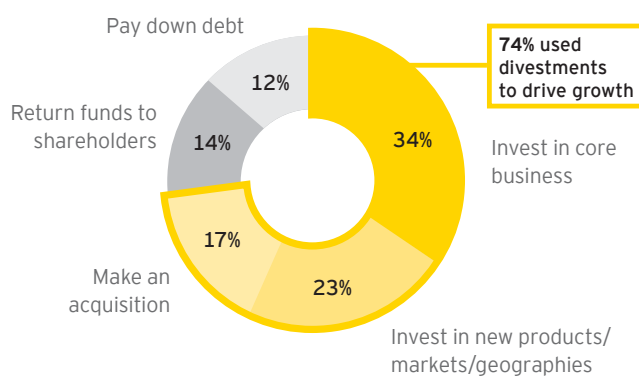
Among our EY Global Corporate Divestment Study respondents, 45% recently divested or placed a business on a watch list if it wasn't reaching performance criteria. We believe this trend is set to continue, with 54% of executives expecting an increase in the number of strategic sellers in the next 12 months.

Divestments are having a positive impact on companies. Seventy-four percent of firms surveyed used the funds from their most recent divestment to drive organic or inorganic growth. And 66% say that their divestment had a positive impact on their valuation multiples.

Which triggers prompted your most recent divestment?



How did you use the funds raised from your most recent divestment?



Avoid a knock at the door

Activist shareholders often see the value of divestments before the company does. Along with an asset not being part of the core business, concern about shareholder activism was the most important reason for companies to sell assets – 16% (highest percentage) of executives say shareholder activism was the most important trigger of their last divestment, and 45% say it was a major consideration.

Companies divest also for opportunistic reasons. Almost a third (29%) of executives say their last divestment was opportunistic, and 42% expect an increase in unsolicited buyer approaches.

45% of executives say
shareholder activism
influenced their
decision to divest

“More investments in analytical tools to model portfolio decisions would lead us in the right direction and help us capitalize on opportunities faster than competitors. With efficient tools, we could shift our focus and switch back as needed.”

Executive at a Germany-based automotive company

Furthermore, 47% of companies say that even if they weren't looking to divest, they would consider selling at a premium in the range of 10%-20% (and a third of those would go below 10%). But this raises the question of whether companies really know the value of their underlying businesses. In particular, if companies don't conduct regular portfolio reviews with accurate data, they can't properly assess whether a buyer is offering a premium or not.

So whether it's an activist investor or simply a potential suitor, companies need to know how to react. Better yet, they should be proactive and strategic about their portfolio assessment.

What do you expect to see in the divestment market over the next 12 months?

Number of willing strategic sellers



Number of unsolicited approaches



Number of distressed sales



■ Decrease ■ Stay the same ■ Increase

Speed matters in a diverging economy

Around the world, growth rates are diverging. Companies in the Americas, Europe and even China have finally started to accept that their portfolios aren't in line with the post-crisis low-growth environment that is here to stay. On the other hand, companies in parts of Asia-Pacific, like Oceania, Indonesia and India, are focusing on areas of the economy with strong growth prospects.

This long-term economic change is pushing companies to refocus on their core strengths and growth areas. In fact, a business being considered non-core is one of the most prevalent reasons for divesting (46%). As many companies realize they may be late in rebalancing their portfolios, there is a mounting urgency to act fast: 50% of executives say that closing deals quickly and with certainty is more important than waiting longer to secure a higher price.



50%

of executives say that closing deals quickly and with certainty is more important than waiting longer to secure a higher price.

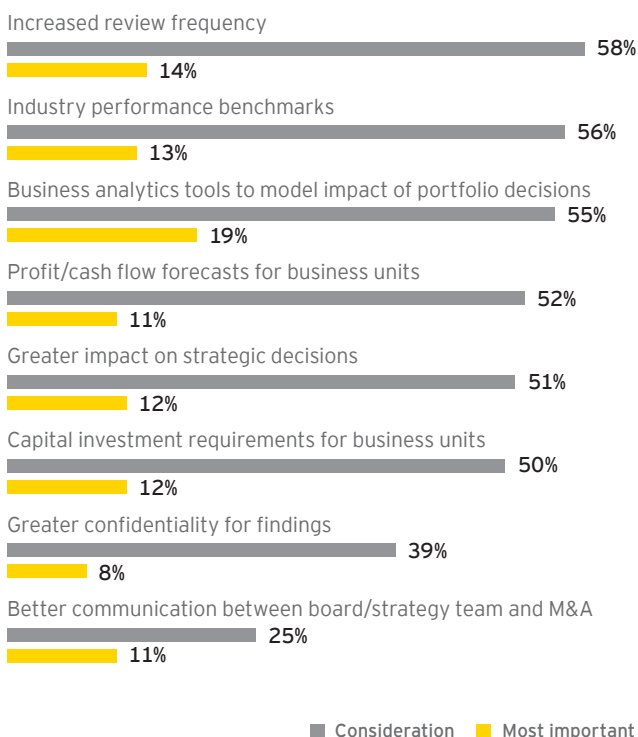
Do you have the right information to make good portfolio decisions?

Companies are increasingly relying on top-line growth to improve margins, as a decade-long focus on cost reduction comes to an end. In order to grow, they must examine their portfolio holistically and question whether the company is really the best owner of each asset, or if they could redeploy that capital more effectively elsewhere, all while keeping in mind how the components interact with and benefit each other.

Frequent portfolio reviews help companies reallocate capital to increase shareholder value and react quickly to market conditions or activist shareholders. As a result, non-core businesses can be sold at the optimal time with adequate preparation, long before the decision becomes critical. Yet 58% of executives acknowledge that they don't conduct strategic reviews frequently enough.

Even frequent reviews are only as good as the data and analysis that go into them. Below we focus on the most important information and infrastructure that companies should leverage to improve portfolio performance.

What would make your portfolio review process more effective?



Access better data

Executives say that specific information such as industry benchmarks, capital investment requirements and consistently prepared profit/cash flow forecasts by business units are vital to improving portfolio reviews. Reliable data requires investments in time, systems/tools and repeatable processes.

Understand business unit cost allocations

Companies often lack an accurate picture of business unit profitability. When reviewing a portfolio, companies that have worked hard to integrate shared services, supply chain and procurement to gain economies of scale now have to better understand standalone profitability by business unit and the potential value to a new owner. Here are some key business unit metrics that are helpful to track:

- ▶ Revenue/gross profit – unwinding the impact of intercompany transactions and quantifying the benefits of being part of a larger organization
- ▶ Allocations of shared service centers and other shared assets, including people
- ▶ Working capital, including accounts receivable/payable, current and accrued liabilities, prepaid assets and expenses
- ▶ Historic and future capital invested in business (capital expenditures)

Use the right industry benchmarks

More than half (56%) of executives say that better industry benchmarks would improve their portfolio review. Companies need to be rigorous about defining the sector in which the business and potential buyers operate in order to use the correct benchmark. For example, you won't know whether margins have room for improvement or capital investment is lagging if you don't have an accurate comparison group to benchmark against.



Develop analytical tools

Companies whose last divestment resulted in a higher valuation multiple on the remaining business were 58% more likely to have used strong analytic tools than lower-performing companies.

Companies must analyze a myriad of data points to make a portfolio decision – to fix, sell, sustain or grow a business unit. Fifty-five percent of executives say business analytics would make their portfolio reviews more effective, and nearly a fifth of executives, the highest percentage, say it is the single most important way to improve portfolio review effectiveness.

The most critical analytical tools can do the following:

- ▶ **Model multiple scenarios.** Understand the range of potential portfolio changes and their respective financial consequences. This is complicated by the need to understand the relationships among various brands or businesses. For example, if you buy business A, sell business B, invest in business C and/or improve cost structure in business D, what would that look like across all company functions over the next three to five years?
- ▶ **Run regression models based on sales-to-investment.** Understand how your business units respond to changes in pricing, advertising, promotion, innovation and other factors so you know where to focus capital.
- ▶ **Analyze non-financial metrics.** Companies must use big data technology to reach non-traditional data sources. For example, social media sources may reveal that products are being received differently in the market than anticipated.

These tools are effective not only for portfolio management but also for creating a strong, supportable value story that enhances sale price and expedites diligence.

55%

of executives say business analytics would make their portfolio reviews more effective

How big data can help you make portfolio decisions and prepare for a divestment

Big data is commonly defined in terms of four V's – volume, variety, velocity and veracity – and is present in a huge variety of structured and unstructured forms. In a divestment, you can use big data to:

- ▶ Apply predictive analytics and forecasting to quantify the risks and opportunities related to a divestment (e.g., mining social media to understand product or brand perceptions and customer satisfaction)
- ▶ Understand key business cycles by utilizing analytics (e.g., working capital)
- ▶ Employ a decision-making framework based on data science to reach an objective view of a strategic portfolio
- ▶ Identify potential synergies and dis-synergies by utilizing larger data sets

Increase portfolio review frequency

Not only do regular portfolio reviews help companies make better-informed decisions and expedient portfolio shifts, but they also improve internal cooperation related to data gathering and consensus building around actions. Conducting portfolio reviews twice a year is ideal.

Regular reviews improve internal dynamics in two key ways. First, they better prepare the M&A team to implement board/strategy team decisions. For example, if a business is put on a watch list, the M&A team can have more lead time to prepare the business for sale: 25% of executives say that better communication between the board/strategy and M&A team would improve portfolio review effectiveness.

Second, frequent portfolio reviews are viewed by employees and shareholders as an objective exercise to create stakeholder value. By contrast, infrequent reviews can each be seen as a sign of a potential divestment, leading to rumors, uncertainty, reduced employee morale and weaker supplier or customer relationships. The majority of executives acknowledge the need for more frequent reviews, while 39% say that greater confidentiality of findings, too, would make reviews more effective.

25%

say that better communication between the board/strategy and M&A team would improve portfolio review effectiveness.

39%

say that greater confidentiality of findings would make reviews more effective.

“Frequent portfolio reviews help us assess every business unit at equal intervals and on set targets. This makes management more aware about the business’s actual profitability, and necessary changes can be made right away.”

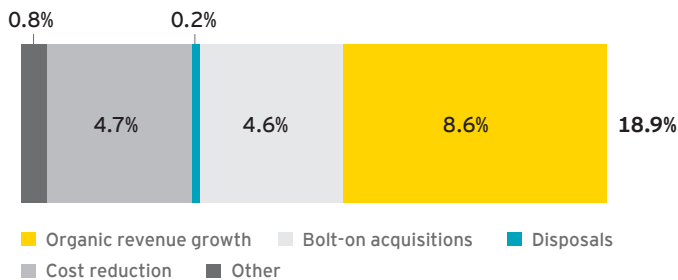
Executive at a US-based consumer products company

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What value creation lessons can you learn from private equity?

Private equity (PE) continues to outperform comparable public companies when it comes to creating value, according to EY's most recent Private Equity Value Creation Study. Not only did US PE portfolio companies achieve equity returns 4.4x those of similar publicly listed companies for the sample completed between 2006 and 2013, but PE's strategic and operational improvements have been a key performance driver.

Sources of annual EBITDA growth in the US, 2006-13¹



While corporate sellers may or may not have the specific time constraints of PE – depending on how they manage their portfolios – they can still learn value creation lessons from PE. And it's worth noting that these lessons can help create value in a business unit whether or not it is being prepared for sale.

Start early to build sustainable growth

PE knows that buyers exhaustively scrutinize investment opportunities. So short-term revenue inflation and cost cutting do not pass this test. Rather, PE focuses on long-term sustainable growth. PE firms often plan for, and execute on, operational improvements years in advance of an exit to create sustainable performance and momentum that merit higher valuations.

If you have 12-24 months before you prepare for a sale, focus on:

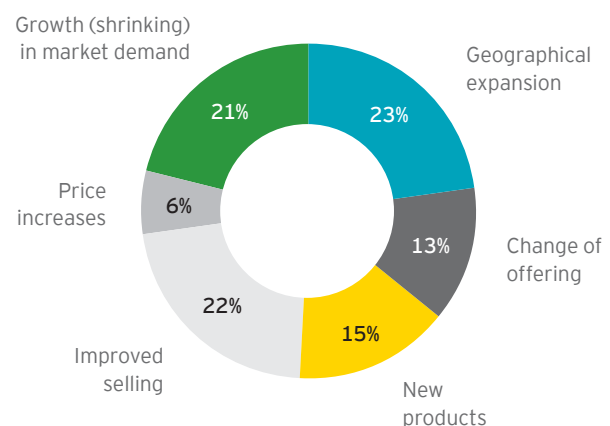
Treating the business as a standalone entity. Companies typically apply a number of key performance indicators to business units when they decide whether or not to make investments (e.g., margin thresholds or returns, payback on capital investment). When a business has been earmarked for

sale, companies should reappraise those guidelines to determine if additional focus could lead to increased sale value.

Enhancing revenue. The latest EY Private Equity Value Creation Study reveals that nearly half of value over the life of an investment is created through revenue enhancement. Including the other half, which is broken down between inorganic growth and cost savings, these value creation initiatives have resulted in an annual EBITDA increase of nearly 19%.

While an extensive product expansion program could be unrealistic for a business that has been earmarked for sale, companies can start to optimize their product footprint across customers and geographies. A bolder move could be to add products or expand into different geographies or markets through a joint venture (JV) arrangement. While it is important to have a JV exit strategy, a JV can provide a creative solution and a potential mechanism by which you can increase prices on related products. Sellers could also consider acquiring and integrating another company.

Principal drivers of organic revenue growth in the US, 2007-13¹



Few executives extracted working capital, but most said they would have benefited from doing so

Corporate executives give equal weight to the importance of boosting revenue and reducing costs to enhance value – the two steps were undertaken equally often and cited by 40% of those who undertook them as their most important initiative. Given PE’s success in creating sustainable value by focusing on revenue, perhaps more corporates need to shift their focus toward the top line.

Extracting working capital. Companies often neglect this important value creation lever – only 35% (the lowest percentage) of executives did it. However, extracting working capital was selected most often (21%) as the step that companies did not take but believe they would have benefited from the most. Here it is advisable to follow the lead of PE, which often extracts working capital to reinvest in growth areas.

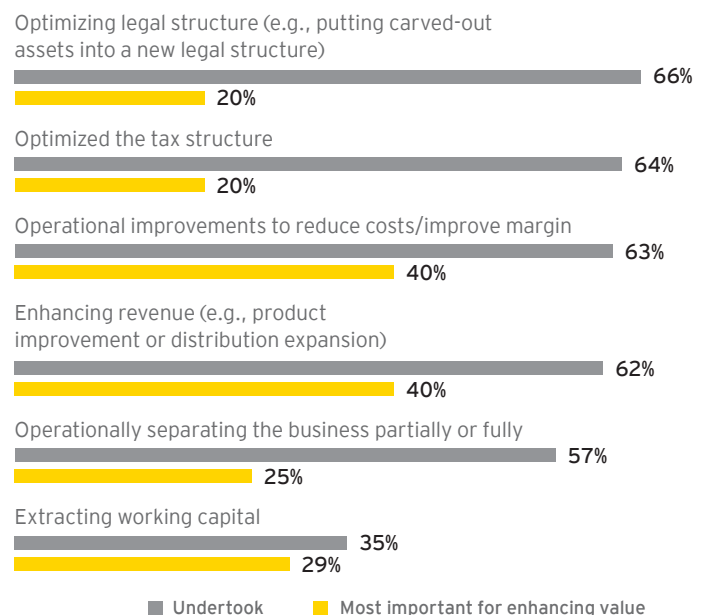
The problem is that buyers generally won’t pay for excess working capital. Companies planning to divest a business need only enough working capital to run the business on a day-to-day basis. More cash than that should be put to work prior to sale. Focusing on this often low-hanging fruit will also cause fewer disruptions than difficult cost-cutting decisions related to personnel or suppliers.

Cutting costs through procurement. Companies can enter into group purchasing organizations, or even form their own buyer consortia, to reduce costs and enhance margins.

If you have limited time – less than 12 months before you start preparing for sale:

Value creation options for enhancing sale price are narrower in this short time frame because the buyer will want to know that value can be realized and sustained over the long term. If the seller cannot fully implement the value creation initiatives, it should at least develop a detailed roadmap that includes expected investments and execution plans.

Which of the following pre-sale value creation initiatives did you undertake?



Which step did you not do but now feel you would have benefited from the most?





Some initiatives that may have a greater chance of adding value relatively quickly include renegotiating with vendors, reducing distribution and SG&A costs, extracting working capital and selling off real estate.

No secret sauce

The PE playbook does not have unique levers to pull. PE focuses on value creation by being disciplined with planning, measuring, accountability and rewarding achievement. This approach creates a greater sense of urgency and management focus on value creation initiatives.

- ▶ **Governance model.** PE owners talk to management frequently. In the corporate world, we suggest more frequent and action-oriented meetings to increase attention on value creation. Corporate organizations also should make objective decisions based on robust information, instead of letting internal politics and competition for resources impede progress.
- ▶ **Rewards.** PE often offers equity-type rewards to create incentives throughout the value creation process. Corporates' incentive programs are often linked to group performance and should instead link directly to individual business unit performance.

- ▶ **Management accountability.** PE tends to make quicker decisions regarding accountability because the communication lines are shorter. Our PE study found that having the right management team at the start of the deal, rather than going through management changes later, is one of the factors most strongly correlated with shorter hold periods, higher EBITDA growth and higher equity multiples.

The key to value creation for corporates is creating a plan early and holding management and employees accountable. This way, sellers can show a track record of success that makes future plans credible.

PE focuses more on value creation by being disciplined with planning, measuring, accountability and rewarding achievement

“We wanted to improve investor sentiment, so earning a high value from the divestment was important. With this vision, we increased the value of the deal by enhancing performance and communicating well with the buyer.”

Executive at an Australia-based financial services company

3

How can you improve divestment execution?

Divestment execution includes five critical work streams: governance, tax, carve-out financial statements, deal-basis information and operational separation. Here we focus on the highest-impact areas within those work streams that are creating the most significant challenges for executives.

One of the most important contributors to maximizing both speed and value is to start preparing on time: high-performing companies were 50% more likely to have started preparation on time than low-performing companies that started the process late and had to take shortcuts.

Manage your timeline

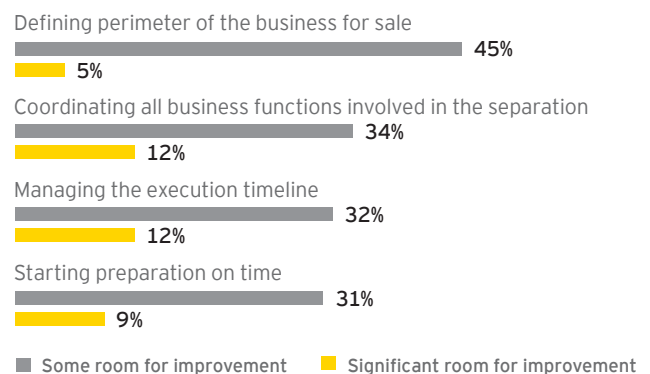
Forty-four percent of executives say they should improve how they manage their execution timeline for their next divestment.

Leading practices

- ▶ Develop a strong divestment governance structure that can help manage priorities, interdependencies, resources and stakeholder expectations, as well as enable quick decision-making
- ▶ Empower an executive steering committee and functional separation leaders to create an internal and external communication strategy that sets expectations, defines roles and responsibilities and facilitates execution
- ▶ Mobilize the deal team and develop tools and materials to support separation planning and execution
- ▶ Balance the need for confidentiality with the need to get the right people involved in the sale process across functional areas to complete the deal efficiently
- ▶ Define and communicate the deal timetable and key milestones and set up regular monitoring
- ▶ Develop a realistic timeline to avoid accepting a lower price based on an arbitrary deadline

High-performing companies were 50% more likely than low performers to have successfully managed their execution timeline.

Which of the following governance steps should you improve in your next transaction?



Define the perimeter

This is a clear pain point for sellers. Half of executives say they should better define the perimeter of the business for sale, as it affects all other carve-out work streams.

Leading practices

- ▶ Aggregate financial data to accommodate changes in the perimeter (e.g., load data for the entire organization or division in a way that provides for optionality)
- ▶ Understand different packaging options and how optionality may impact not only the business for sale (e.g., transition service agreements, supply agreements), but also the remaining organization (e.g., stranded costs and impact on go-forward revenues, earnings and working capital)
- ▶ Be flexible with regard to buyers' desires about the nature of the business for sale – a buyer may not want all aspects of the business, for various reasons (e.g., antitrust)

High-performing companies were 44% more likely than low performers to have clearly defined the perimeter of the business for sale.



Optimize the tax structure

Tax structuring and planning can affect the decision to divest or not and can also strongly influence the form of the transaction. Enhancing a transaction's tax structure requires detailed knowledge of historic tax risks and exposures and an understanding of how to mitigate the tax costs of the divestment. Sellers can make the divestment process more efficient and significantly enhance deal value by critically assessing these tax issues.

Leading practices

- ▶ Quantify tax attributes (e.g., loss and credit carry-forwards) and provide documentation supporting the value of tax attributes to the buyer
- ▶ Anticipate transitional service needs and potential global tax synergies, thereby enhancing the value of the carve-out business to prospective buyers
- ▶ Resolve open tax controversies prior to closing to increase efficiency during tax due diligence and preserve deal value
- ▶ Develop an efficient transaction structure to maximize global after-tax sales proceeds
- ▶ Anticipate changes in the future effective tax rate resulting from structure changes (e.g., loss of commissionaire or entrepreneur structures), and consider tax planning strategies to mitigate

64%

optimized the tax structure pre-sale

20%

said it was the most important initiative for adding value

16%

didn't do it but said they would have benefited most from having done so

Pay attention to IT

IT separation is often the most complex functional area and necessitates the longest lead time, and related issues can wreak havoc on the entire sale process. The issues can be expensive and unsettling for potential buyers who want to take over a fully functioning business. Starting early can provide a much clearer view of the key decision points and enable the seller to minimize disruption, reduce complexity and cost, minimize the time between sign and close and reduce the scope of transition services agreements (TSAs). Half of executives say they should improve on determining their IT separation requirements, and most say this operational area needs the most significant improvement.

Leading practices

- ▶ Establish a cross-functional IT team to scope, plan and perform the logical IT separation
- ▶ Align the Day One IT operating model with standalone operating model strategies (including whether the IT cost for the separating business can be reduced)
- ▶ Identify opportunities to reduce costs for Day One and develop a normalized earnings presentation accordingly
- ▶ Review shared software license or IT service agreements, and determine the financial and service-level impact and TSA duration limitations
- ▶ Plan how to mitigate potential risks associated with data integrity and application availability

50%

of executives say they should improve on determining their IT separation requirements

“Extracting business units from the main operating unit was challenging, and we failed to adequately address the IT separation requirements. This impacted the sale price and also meant that expenditure on the divestment went up.”

Executive at a US-based industrials company

Tell the value story

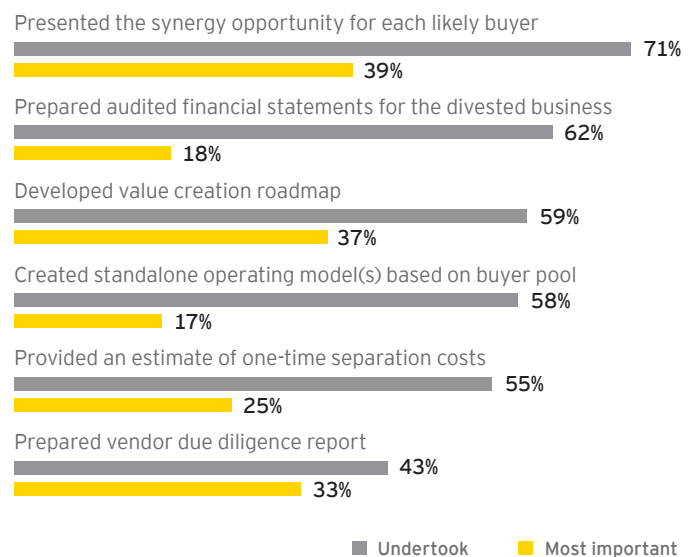
Sellers must analyze their business from a buyer’s perspective. In particular, providing tailored information regarding potential buyer synergies, one-time cost estimates and a value creation roadmap are the most effective in increasing the asset’s attractiveness and improving transaction speed.

Leading practices

- **Present the synergy opportunity for each potential bidder.** For example, sellers need to tailor communications differently to corporate versus private equity buyers. This step is cited by the largest percentage of executives (39%) as the most important one in enhancing value. Seventy-three percent of companies that presented synergy opportunities exceeded their value expectations, and 74% exceeded their timing expectations.
- **Provide an estimate of one-time costs.** Only 55% took this step. Half of those who didn’t say they would have benefited most from having done so. This is important, because it strengthens a seller’s negotiating power when it can demonstrate that it has considered the business’s current structure and the costs essential to delivering what is needed to a buyer. Furthermore, buyers want to be clear exactly how the costs have been calculated, especially if they are being asked to provide part of the funding.
- **Develop a value creation roadmap.** Only 59% of sellers developed a value creation roadmap to help increase sale price. But 37% of those say that it was the single most important step for creating value. Roadmaps are an important communication tool to show potential buyers what value creation initiatives the seller has initiated or planned, and which can enhance company value further once they are completed by the buyer. Examples include plant rationalization, operational improvements and already initiated revenue enhancement or restructuring actions.

However, roadmaps are only credible when sellers demonstrate a historical track record of achievement. This is particularly important when it comes to launching new products or successfully completed R&D programs.

Which of the following buyer communication initiatives did you undertake?



4

Are you striking a balance between speed and value?

Of course, the ideal situation is to follow the leading practices discussed in the previous section to execute the deal quickly and maximize sale price. But often, companies focus solely on minimizing timing because deal uncertainty could damage the business or because they urgently want to reinvest capital elsewhere. Alternatively, they want to hold off for a higher sale price. When companies focus single-mindedly on speed or value goals, they frequently omit the necessary steps to achieve either one.

Speed requires tailored preparation for a finite group of buyers

When companies focus solely on time, they often take shortcuts and release incomplete or inaccurate information. The result is that buyers may drop out if they're not comfortable with the investment case. PE buyers, in particular, may lose faith in the management team and negotiations can become protracted as buyers look for alternative routes to answer their questions. This uncertainty is often reflected in a lower final offer, particularly if competition has fallen off during the bid process.

The key to expediting the deal is to understand the likely buyers and how to prepare for that finite group.

	How to expedite the process	Potential consequences of not taking this step
1	Take the time up front to define what you're selling (what and who is going with the business), understand how dependent it is on other areas of your company, and consider and plan for packaging options	<ul style="list-style-type: none">▶ Confusion among buyers▶ Seller creates various scenarios in "reactive" mode and negotiations take longer
2	Have a clear view on the most likely buyers and their value drivers, communicate the value from a buyer perspective, and prepare for their respective financial requirements and questions	<ul style="list-style-type: none">▶ Waste time analyzing irrelevant information or bridging to incorrect data previously provided▶ Lose value if buyers create their own view▶ Lose credibility when you can't answer buyer questions
3	Position the company such that buyers are bidding on identical perimeter (definition of net debt, working capital treatment, transition service agreements, etc.)	Additional time spent evaluating bids
4	Have a clearly defined and executable separation plan that shows bidders a roadmap of how they will get the business from where it is today into their hands (including standalone cost analysis)	Buyer will develop its own view of standalone and one-time costs, which will not be favorable to the seller
5	Provide supportable, realistic market analysis and forecast	Not able to position a convincing value story – buyer could discount price or walk away from the deal
6	Think about buyer financing requirements and help them get financing (e.g., debt issuance)	Delayed closing due to time to finance or discounted sale price as financing is more expensive than anticipated
7	Provide audited financial statements or understand financial statement requirements	Limit buyer pool and therefore fail to maximize value
8	Take time and resources to start the legal entity set-up process	More time to close, or staggered closing dates by country, if separate legal entities are needed
9	Understand that a "small" business is not necessarily easy to separate	Underestimate complexity or required preparation time, leading to elongated signing and closing
10	Sell to a buyer with an existing platform	Lose value and possibly time: costs buyer more and takes longer to create a new standalone company than to integrate into the buyer's geographic or product infrastructure

Sellers need to tell a strong, credible value story and weigh the opportunity costs of waiting too long for the right price

If maximizing value is your goal

We suggest that you focus on the following critical work streams if your goal is to maximize value:

- ▶ Invest in value creation initiatives to enhance revenue and margins
- ▶ Attract additional buyers; sometimes sellers confidentially scope out interest from companies (e.g., “Would you be interested if a certain business came to market?” “What would be interesting to you?”)
- ▶ Consider the buyers’ mindset and communicate potential buyer synergies
- ▶ Create a strong value story that you know will stand up to buyer scrutiny

Holding off on signing a deal until you get a specific valuation could mean that you waste time and energy and end up with no buyer. The more time that passes, the greater the chance your business could go into decline for market reasons and/or lack of investment at the corporate level. And you could end up being forced to sell at a discount. So sellers need to tell a strong, credible value story and weigh the opportunity costs of waiting too long for the right price.

The speed-versus-value challenge

“The delay in divestment preparation and the inefficient coordination between business functions affected transaction value as market conditions were changing drastically.”

Executive at a UK-based technology company

“Prioritizing operational steps and then estimating the time required for completion was the most crucial aspect that we should have focused on more. This heavily impacted the time it took for the divestment.”

Executive at a France-based financial services company

“Because we were focused on speed, we lowered the asset price and did not do enough to search out suitable buyers. Our hastiness resulted in a failure to meet our value expectations.”

Executive at a Netherlands-based media and entertainment company

“We didn’t do a good job of identifying stranded costs or providing transparency in the financial statements. We lost control of the situation, and it took us a lot longer to close the deal.”

Executive at a US-based oil and gas company

Conclusion

Looking forward: addressing your top divestment challenges

Each sector has its own strategic imperative for making portfolio moves now. Global industrial conglomerates are becoming streamlined, life sciences companies are swapping assets and consumer products companies are rationalizing brands. Companies in the technology sector are changing their business models, and in the oil and gas industry, upstream and downstream businesses are breaking up.

But no matter the industry, leading practices to effect transformational change are similar across the board, and difficult to implement. If your last divestment was unsuccessful, taking a look at past mistakes or omissions can pave the way for adopting better practices the next time around. Start with strategy: are you conducting regular portfolio reviews? Are you allocating capital to increase shareholder value? Next, focus on previous execution challenges. Executives named several governance, financial and operational steps that they felt they should manage better in their next divestment, including defining the perimeters of the business, coordinating the business functions involved in the divestment, communicating internally and with buyers, and determining IT separation requirements.

Notably, they also pointed to pre-sale value creation steps that they felt would have benefited them but that they did not take. Most important on this list overall were extracting working capital and making operational improvements to increase

margins – techniques that PE firms have used with great success. In fact, PE has many value creation lessons to offer, including disciplined planning, measurement, accountability and rewarding of achievement. These are all strategies that create a sense of urgency and foster management attention to value creation.

Companies that conduct frequent portfolio reviews using the right data and analytics, and that take the time to prepare a credible story tailored to specific buyers, stand the best chance of maximizing both speed and value in their divestments and increasing valuation multiples in their remaining businesses. Only 19% of executives met all three of these success metrics. These companies are best positioned to proactively gain market share and adapt quickly to future market changes.

To learn more about the critical steps to carve out a business in six months, ask your EY contact for our *Roadmap to carve-out sale success*.

About this study

The EY Global Corporate Divestment Study analyzes companies' top questions and concerns relating to portfolio review and divestment strategies and provides insights on how to maximize divestment success. The results of the 2015 study are based on more than 800 interviews with corporate executives surveyed between November 2014 and January 2015 by FT Remark, the research and publishing arm of the Financial Times Group.

- ▶ Executives are from companies across the Americas, Asia-Pacific, Europe, the Middle East, India and Africa.
- ▶ 85% of executives are CEOs, CFOs or other C-level executives.
- ▶ Executives stated they have knowledge of or direct hands-on experience with their company's portfolio review process and have been involved in at least one major divestment in the last three years.
- ▶ While nine industry sectors are represented, the study focuses on consumer products, diversified industrials, financial services, life sciences, oil and gas, and technology.
- ▶ More than half of the executives represent companies with annual revenues that exceed US\$1b.

Produced in association with
FT Remark
Research from the Financial Times Group

How EY can help

EY's dedicated, multifunctional divestment professionals can help clients improve portfolio management, divestment strategy and execution.

First, we help clients understand the performance of their businesses relative to peers and the rest of their portfolio. And then we help clients decide where capital can be released from underperforming or non-core activities and reallocated toward higher-growth areas.

We then work with clients to prepare them for a divestment and become an informed negotiator. Our work with corporate and PE clients includes a variety of divestments, including sales of the entire company, carve-outs, spin-offs and joint ventures.

For carve-outs, in particular, we advise on which businesses are worth investing in and which may be worth more to another owner. Our sector-focused teams can also help clients understand the effect a divestment could have on the remaining company's growth, brand and stakeholders.

Furthermore, we can help maximize transaction value by guiding you through preparation and execution and removing any potential bumps in the road before buyers get involved. For example, we create a compelling value story by analyzing the growth opportunity, assessing underlying trends and identifying hidden value in earnings, corporate allocations, real estate, working capital, human resources, IT, operations and tax. Finally, we assist with negotiations, Day One readiness, and helping your company manage its remaining cost structure and focus on future growth.

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How you manage your capital agenda today will define your competitive position tomorrow. We work with clients to create social and economic value by helping them make better, more informed decisions about strategically managing capital and transactions in fast-changing markets. Whether you're preserving, optimizing, raising or investing capital, EY's Transaction Advisory Services combine a unique set of skills, insight and experience to deliver focused advice. We help you drive competitive advantage and increased returns through improved decisions across all aspects of your capital agenda.

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