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2022 Global Divestiture Survey

Realizing value in a fast-paced market

Contents

Introduction

As companies gain distance from the deepest disruptions of the pandemic, and continue to grapple with supply chain and labor concerns, they have good reason to review the business mix in their portfolios. Given the dramatic economic and market changes of the past two years, companies can benefit by weighing what still fits and will create value for shareholders, as well as what needs to go and will have more value under new owners.

Portfolio review is essential in times of crisis, and the combination of offensive and defensive M&A strategies that we anticipated at the onset of the pandemic[1] has come to pass as companies seek to safeguard core markets, accelerate transformation, and position themselves to capture market leadership. As we expected, companies are now adopting defensive measures, such as divestitures of non-core assets, to enhance their portfolios for the long term. They may be adjusting the portfolio for greater digitalization or to increase sustainability. They may be addressing more fundamental issues too—whether each business activity supports their corporate purpose, for example, or whether it helps to build resilience for what comes next.

Market data shows the pace of divestitures has significantly quickened, with the number of divestitures completed globally more than doubling from 2020 to 2021.[2] Corporate leaders also report in our 2022 Corporate Divestiture Survey that they have done more divestiture transactions in the recent past and expect to do more in the future, as seen in section 1 of this report. And we hear anecdotally from clients that they are actively weighing options for non-core operations and exploring diverse types of divestitures to unlock shareholder value.

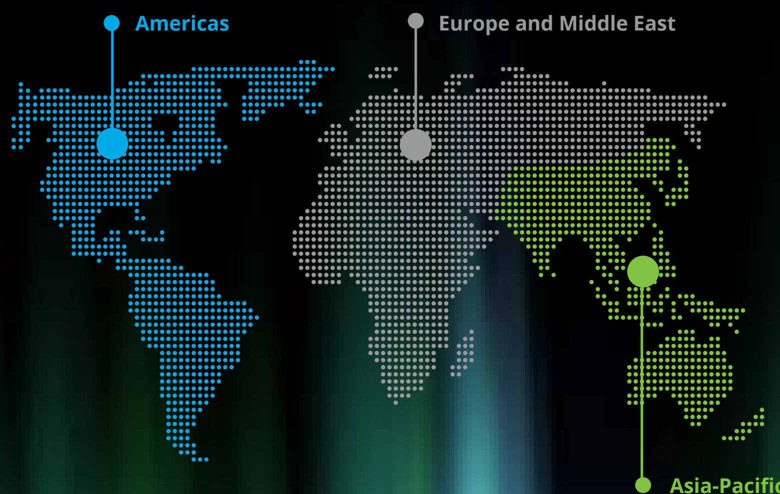
Our survey responses show major changes in the way organizations think about divestitures, which we detail in section 2. The pandemic is playing a primary role in driving divestiture strategy, and eager buyers are plentiful. Companies can now prioritize speed and secured financing while allowing competitive pressure to drive price when choosing a buyer, and the valuations received in divestiture transactions have gone up markedly. Prices are getting a boost from a strong overall M&A market in which the value of global deals soared to nearly $5 trillion in 2021.[3]

The survey results also show room for companies to improve outcomes. A relatively small group of respondents realize positive outcomes across key metrics—transaction value, speed to completion, and limited business disruption—based on the responses we outline in section 3. This research and client experience both suggest there is greater success possible for sellers that regularly review the portfolio and have a clear focus on the financial, operational, and structural steps that are needed to be ready for an exit. As we explore in section 4, these prepared sellers can make gains across all the ways we measure outcomes—and emerge from the divestiture process as a streamlined and more resilient company.

About the survey

Data for this survey was collected from 500 individuals at private or public companies with revenue of at least $500 million that completed at least one divestiture in the past 36 months. Respondents were senior director-level or above, and the survey sought to balance C-suite and non-C-suite managers. Industry representation was controlled for a balanced distribution, and participation was balanced across major geographic regions (Asia-Pacific, Europe and Middle East, and Americas). The survey was conducted from October 14 to November 12, 2021.

This is our fifth divestiture survey in the past decade, allowing us to track key trends related to strategy and execution over time.[4] In particular, we are able to compare our most recent survey with data from the 2020 report (collected in late 2019, just before COVID-19 spread around the world), providing insights about how the pandemic has affected divestiture strategy and execution.



Section 1: Divestiture activity is brisk

Respondents in this year's survey are doing significantly more divestitures. Asked how many divestitures they have done in the past three years, 51% say three or more, and another 30% say two. This is a substantial change from 2020, when just 32% said three or more, and from the 2017 survey in which 14% reported three or more divestitures and a majority reported just one.

The observed increase was not unexpected. In 2020, we forecasted that because of the pandemic and challenging economic conditions, "divestitures will undoubtedly play a critical role in defensive M&A response strategies and in building resilient portfolios for the 'next normal.'"[5]

Many see the faster pace continuing: 43% say they expect to do three or more divestitures over the next two years, up from 18% in the 2020 survey. Another 27% expect to do two divestitures, for a combined 70% who said they plan to do two or more, a significant jump from just 36% in the 2020 data.

Figure 1

How many divestitures did your company complete in the last 36 months?

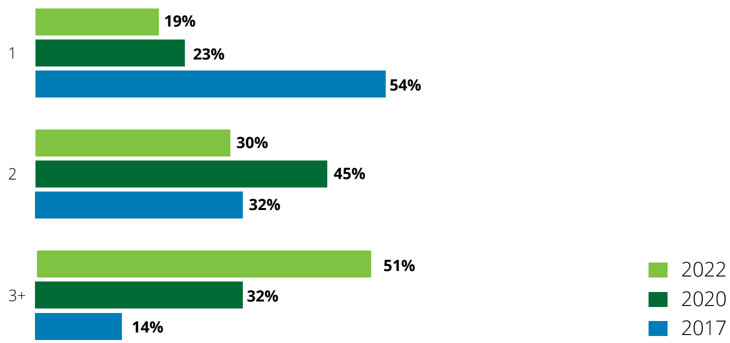
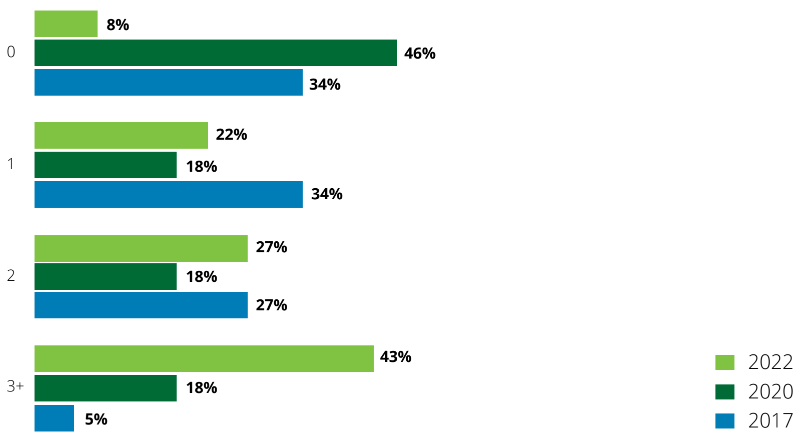


Figure 2

How many divestitures do you think your company is likely to attempt over the next 24 months?

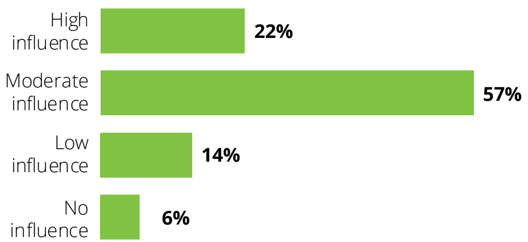


Why the increased divestiture activity? The top reason respondents cite as a motivation for a divestiture is a change in the market landscape. And in a separate question, 79% of survey respondents say the pandemic—surely one of the largest drivers of change in the markets and in the global economy—has had a high or moderate influence on divestiture strategy.

The divestiture motivation that respondents rank second was an opportunistic approach from an interested party. This was the third ranked response in 2020 and was not in the top three at all in 2017. The data point reinforces the sense that today there are ready buyers for divested assets—and buyers coming to sellers instead of the other way around. There is more such evidence related to the strong M&A market elsewhere in this survey, which we discuss below.

Figure 3

To what extent have impacts from the COVID-19 pandemic influenced your long-term sell-side & divestiture strategy?



Note: Numbers may not add to 100% due to rounding.

"Demand from PE buyers is particularly strong right now, they are sitting on record levels of 'dry powder' and are doing bigger and bolder deals than in the past, which is making it easier to market divestiture candidates."

—Sriram Prakash, director, Deloitte UK, and global lead for M&A Insights with Deloitte Global M&A Services

In our observation, strategic buyers are actively searching for deal flow, for reasons that range from executing a new post-pandemic strategy to seeking greater supply chain integration. We also see private equity (PE) investors as particularly aggressive buyers, especially given the record amounts of dry powder they are seeking to deploy—as much as $2.3 trillion globally.[5] Lastly, while special purpose acquisition companies (SPACs) are not typically buyers of divested operations, their presence in the market helps boost overall demand and valuations.

In addition to the seller motivations discussed above, we are starting to see response to shareholder activism pressure/concerns, which was the third ranked motivation cited in 2017, return as a rising priority in the marketplace as trends begin to emerge in early 2022.

Figure 4

What is the motivation underlying divestiture activity at your organization?

	2017	2020	2022
Rank 1	Not part of the core business and/or reshaping portfolio	Change in market/competitive landscape	Change in market/competitive landscape
Rank 2	Change in market/competitive landscape	Not part of the core business and/or reshaping portfolio	Opportunistic approach from an interested party
Rank 3	Response to shareholder activism pressure/concerns	Opportunistic approach from an interested party	Not part of the core business and/or reshaping portfolio

Section 2: Deal values are strong

With so many willing buyers, sellers are pleased with the valuations they are achieving. In this year's survey, 41% say the value they received from their most recent divestiture was higher than expected, a big jump from 11% in the pre-pandemic 2020 survey and 20% in the 2017 survey.

A market that makes it easier to obtain a relatively high valuation for divested assets may help explain a dramatic reordering in the priorities sellers report in our survey. We asked sellers to indicate their primary determinant in choosing a buyer for their most recent divestiture, and the top response was ability to execute quickly, selected by 25%, followed by secured funding (20%), good fit for management and employees (16%), and speed and certainty to close (14%). Highest price comes in fifth, selected by just 12% as the key factor in choosing a buyer—even though it was the top answer to this same question in the 2020 data. Indeed, the order of the top five factors in the current survey is essentially the reverse of the top five two years ago.

"In a hot M&A market, where our clients can be fairly confident that the buyer is there, that the money is there, they can be more focused as a seller on other concerns such as closing the deal quickly," says Ryan Stecz, a partner with Deloitte Tax LLP in the M&A Services practice.

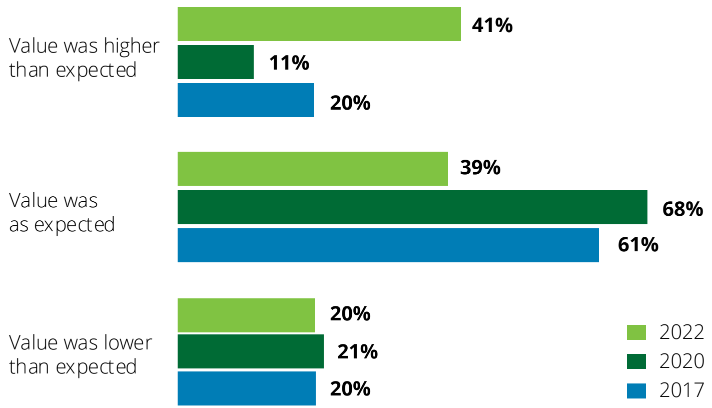
One reason a seller may prioritize a fast execution is that some divestitures are the result of larger merger transactions in which the sale of assets is dictated by regulators. In such instances, getting a speedy deal close may be paramount and allow the retained business to quickly focus on integration and synergy realization, which may be many times more accretive to shareholder value than divesting non-core components.

Surveyed sellers also report progress in getting deals done quickly. Asked whether a divestiture took more or less time than expected, 18% say less time. While not overly impressive at first glance, it represents a significant improvement from 2020, when none of the respondents said less time than expected. The 44% who say it took more time than expected to divest is little changed from the previous survey (43%).

Brenda Ciampolillo, a managing director with Deloitte & Touce LLP, suggests that there are times when strategy may dictate that a company take a speedy transaction rather than seek the highest possible price. "As much as value is always important, there are occasions when the board makes a decision to execute a divestiture," Brenda says. "The strategy to execute quickly—and get back to business—may be more important than waiting for increased value."

Figure 5

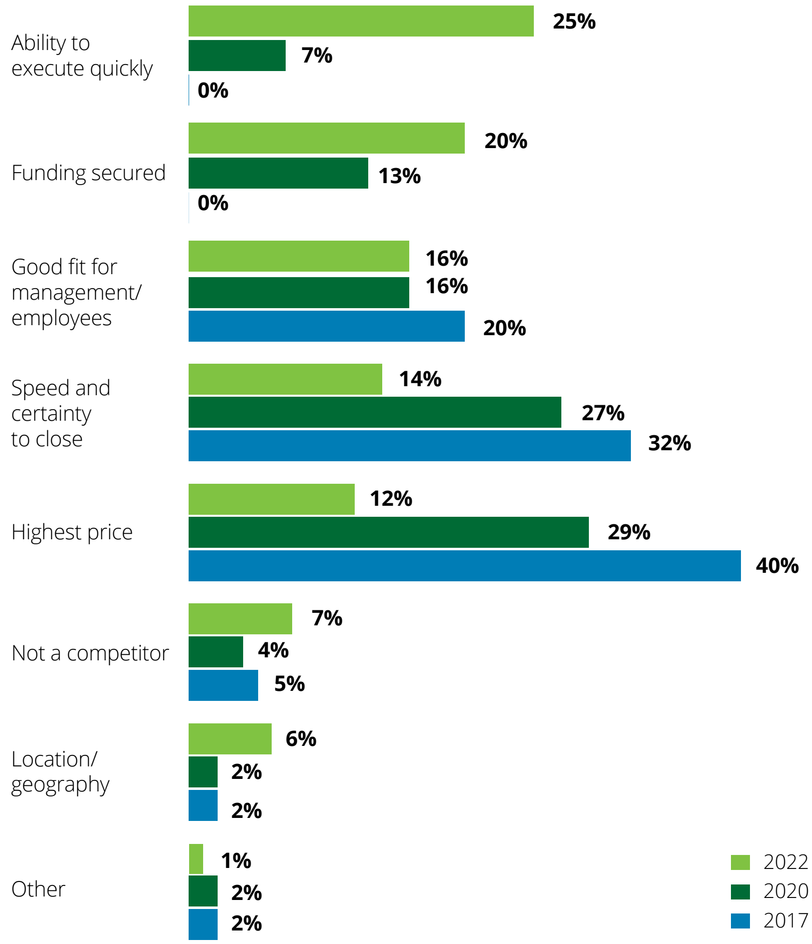
Did your company receive a higher or lower value than it expected in its most recent divestiture?



Note: Numbers may not add to 100% due to rounding.

Figure 6

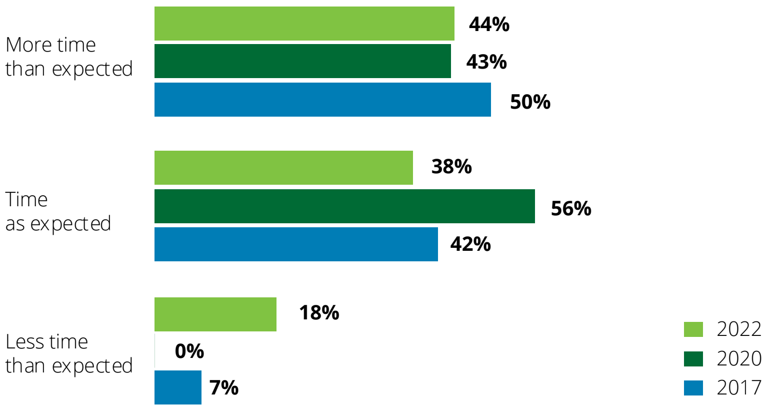
During your company's most recent divestiture, what was the primary determinant/key factor in choosing the buyer?



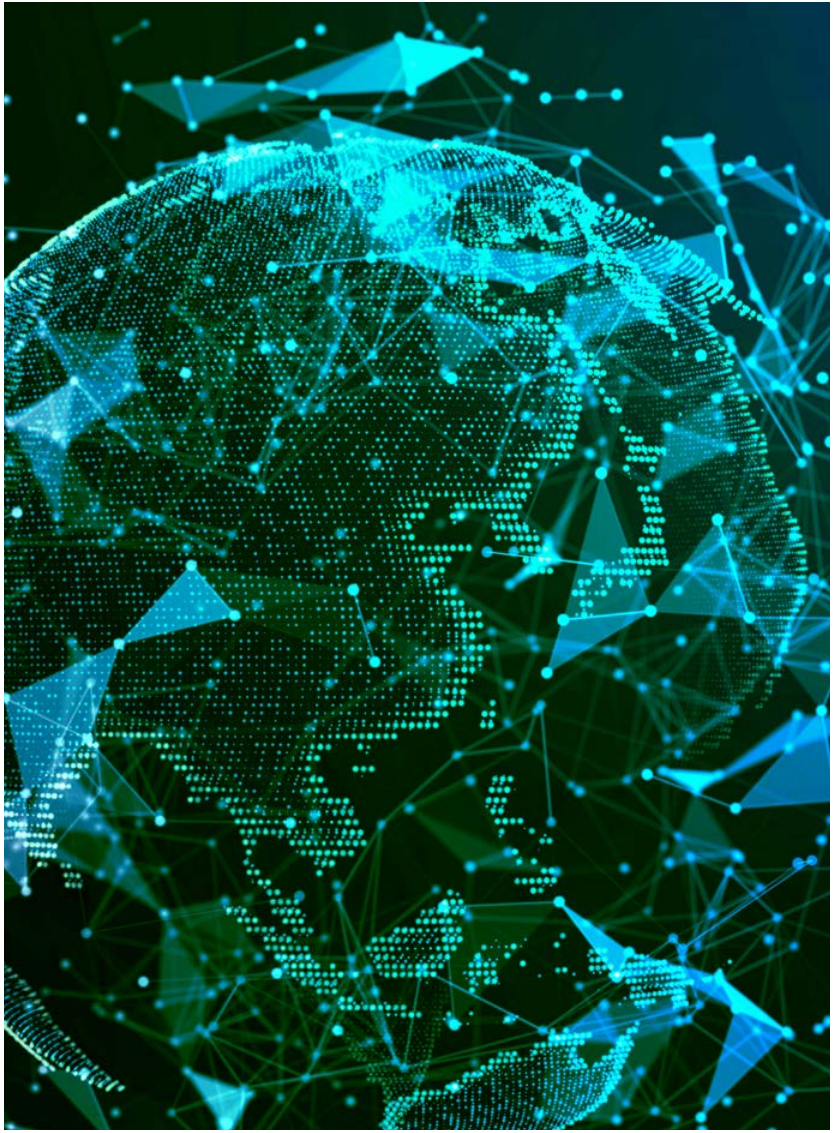
Note: Numbers may not add to 100% due to rounding.

Figure 7

During your company's most recent divestiture, how did the time to divest compare with expectations?



Note: Numbers may not add to 100% due to rounding.



Section 3: Execution hurdles

There are indications that a considerable number of recent divestitures have required more effort than the seller might hope, highlighting the importance of measures a successful seller can take to be well prepared, with the right plans and capabilities in place.

The one-time cost of preparing to shed a business is rising: 75% of respondents say the cost of a divestiture was 4% to 7% of the revenue of the asset sold, while just 17% say the cost was 3% or less. In our 2020 survey, by sharp contrast, most respondents indicated the one-time cost was less than 3% of revenue.

Separating non-core operations to be sold is a demanding task, and bidders increasingly require better, more granular data about what they buy. In response to this, many sellers not only provide accurate stand-alone financial statements and related marketing materials but also may choose to execute upfront work on the business to be divested to resolve entanglements. They may invest in rapid pre-sale value-creation interventions, thus presenting a more robust business to bidders. This no doubt adds to the overall cost of a divestiture but may be helpful in realizing better valuations.

Additionally, with many respondents indicating that speed of execution is a key priority for them right now, in a rush to exit and capture high valuations, remaining businesses may inadvertently also accumulate higher levels of post-separation stranded costs, particularly as it relates to technology infrastructure or shared support services. In a world where their business may already be stressed due to the impacts of the pandemic or associated supply chain woes, an ill-executed divestment may also add more stresses on both cost and revenues.

For the surveyed sellers that took more time than expected on their most recent divestiture, 48% cite regulatory approvals as an important reason, up from 40% in both 2020 and 2017.

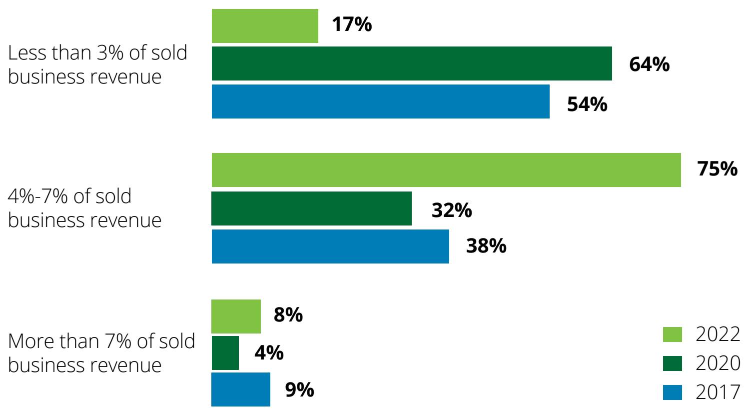
Prepared sellers should be aware of the regulatory implications of operational and legal entanglements. The need for new legal entities and market authorizations in a spin-off can lead to regulatory delays, for example, as can the potential lead times required to transfer product licenses to a buyer in various jurisdictions.

Sellers should also be keeping up with trends in the external regulatory environment, which in our observation has tightened in recent years as a result of heightened economic patriotism and geopolitical tensions, increasing power of regulators to scrutinize deals, and a greater emphasis on environmental, social, and governance (ESG) considerations. The global regulatory environment has also been significantly impacted by the pandemic; to be able to react to an ever-evolving regulatory landscape, sellers may consider incorporating horizon-scanning and scenario-planning features into their divestitures processes. Indeed, a Deloitte analysis[7] shows that more than $290 billion of deal value have been impacted by political or regulatory interventions since the onset of the pandemic (2020–2021); yet within one year of withdrawal of a proposed transaction, 46% of targets were bought by a different buyer, demonstrating the importance of having a robust Plan B ready.[8]

Clear recognition of these challenges is part of what goes into being a prepared seller.

Figure 8

For your company's most recent divestiture, what was the one-time cost of preparing for and executing the divestment, as a percentage of the sold business revenue?

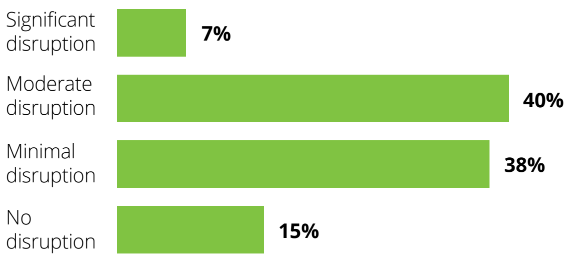


Note: Numbers may not add to 100% due to rounding.

A meaningful share of surveyed companies are also seeing divestitures affect their remaining businesses. Asked to assess the extent of disruption to core business caused by a divestiture, seven percent of respondents say it was significant and 40% say moderate. Another 38% say there was minimal disruption, while 15% cite no disruption.

Figure 9

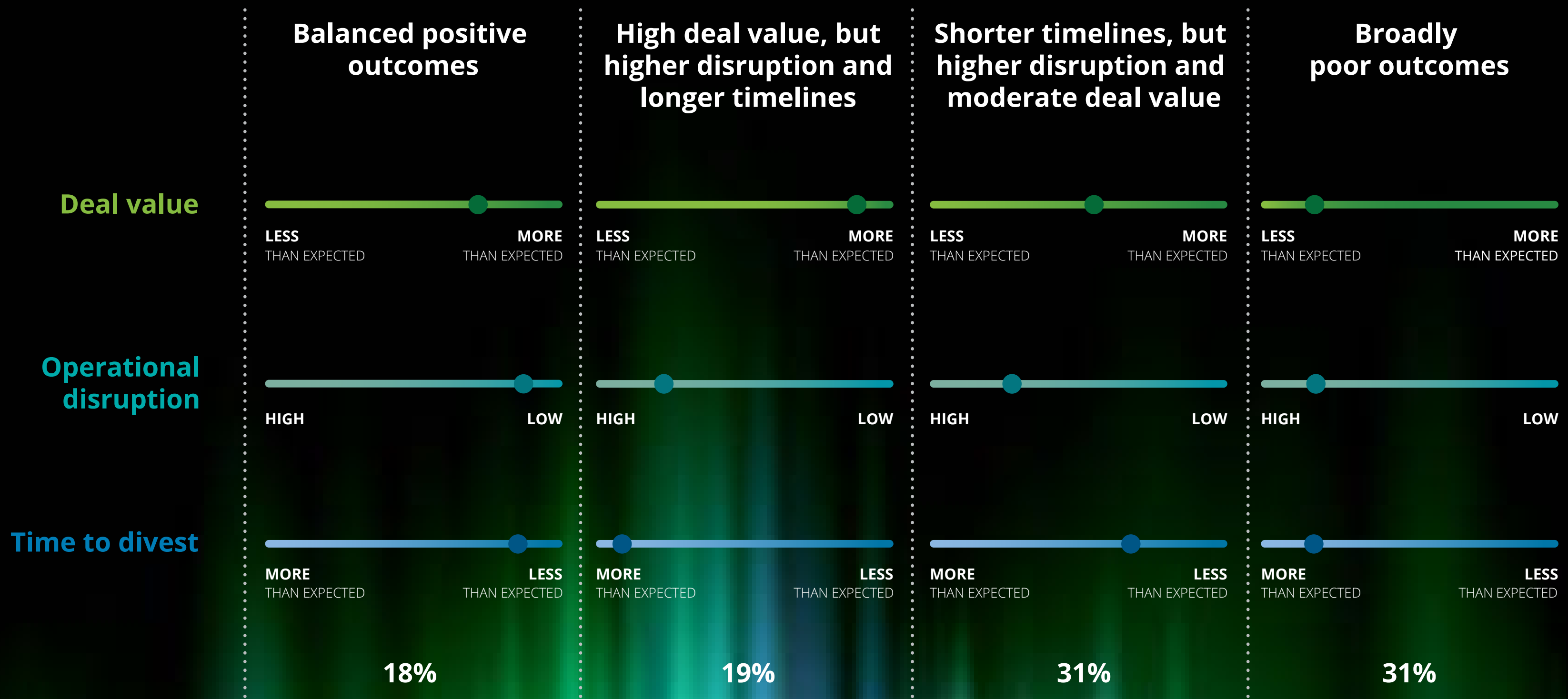
To what extent did your company's most recent divestiture disrupt operations of the core business?



With this mixed picture—better outcomes on valuation and timeline, concerns around disruption and costs—we analyzed the survey data to look for correlations and clustering. What emerges is evidence that companies still have plenty they can do to proactively work toward better outcomes.

Just 18% of the survey cohort believe they do well across all three key measures, achieving higher than expected deal values, lower operational disruption, and less time than expected to complete the divestiture. At the other end of the spectrum, 31% of respondents report experiencing broadly poor outcomes (lower valuations, more disruption, longer timelines). In between, some 31% of companies experience high disruption but take less time to divest and come out in the middle on valuation. A final group (19% of the cohort) get higher valuations but with more disruption and longer than expected timelines.

Figure 10. Respondent groupings based on outcome responses[9]



Note: Numbers may not add to 100% due to rounding.

"Divestitures are complex. When you are picking up the pace of divestitures, haven't completed many in the past, and are working with limited resources—perhaps working remotely—it can be easy to miss important steps or considerations that can come back to haunt you later in the process."

—Tony Blanchard, managing director with Deloitte Corporate Finance LLC

Section 4: Prepared sellers, stronger outcomes

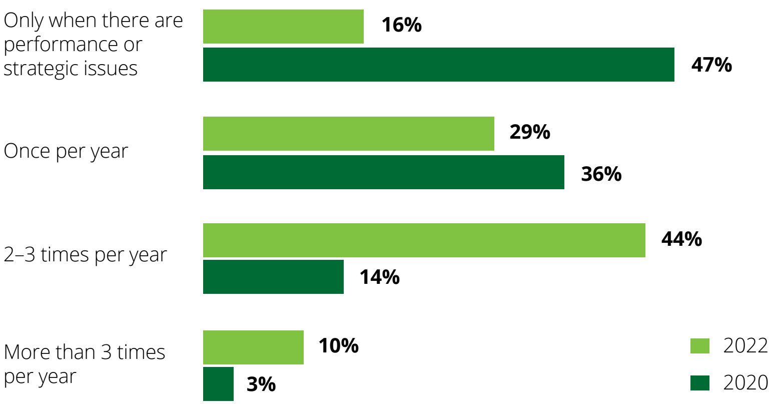
In addition to exploring motivations and outcomes, our survey asked respondents to discuss common practices related to divestitures. This provides insights into how a more deliberate divestiture strategy and organized execution planning may lead to better outcomes for sellers.

We asked respondents about divestiture strategy, processes, and outcomes. One result shows that companies are reviewing their business portfolios more often: 54% of respondents say they strategically evaluate individual businesses at least two times a year (including 10% who say they do this more than three times a year). This is an increase from 2020, when just 17% of respondents said they review the portfolio two or more times per year. An increase in portfolio reviews and potentially resulting opportunities may have also contributed to respondents being more optimistic about divesting assets in the next 24 months.

More frequent reviews of the business mix, part of being a prepared seller, correlated with higher deal values. Among the small group (10%) that do reviews most often, 71% also report that they achieved a higher value than expected on their last divestiture. This could indicate active reviewers are more attuned to the current market dynamics and may be able to move more quickly to take advantage of conditions most ideal for their specific divestiture.

Figure 11

How often does your company strategically evaluate individual businesses to determine whether the business should continue to be owned or divested?

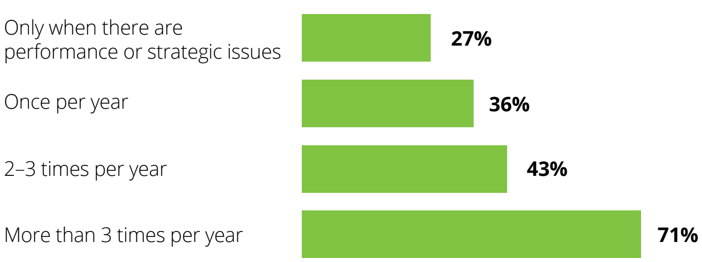


Note: Numbers may not add to 100% due to rounding.

Figure 12

Correlation between frequency of portfolio evaluation and value achieved

Of the respondents that selected each response when asked "How often does your company strategically evaluate individual businesses to determine whether the business should continue to be owned or divested?", % that indicate achieving a higher value than expected on their most recent divestiture.



The survey data shows a similar correlation where we asked about efforts to pursue pre-close end-state optimization in a divestiture. Among the 16% of respondents who say they put high effort into end-state optimization prior to the close of the deal, 59% of that group report that they achieve higher than expected deal value.

End-state optimization involves more than the execution of the transaction; it also requires attention to the transformation needed to ensure that the remaining core operations are fit for purpose for the new, more focused business strategy. We emphasize with clients the importance of both transacting and transforming—at the same time, on parallel tracks—to enhance their ability to capture value.[10]

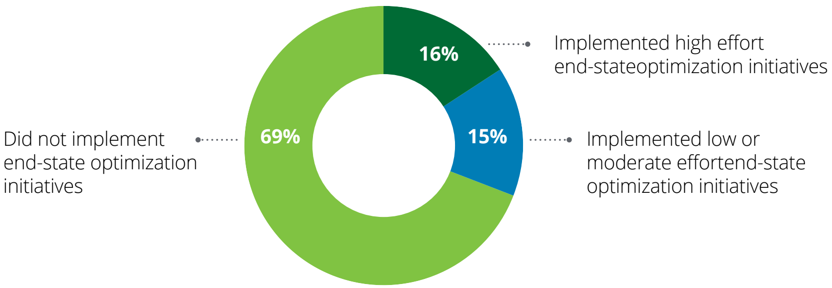
“The message to companies is that if you are more proactive, you might unlock more deal value,” says Clif Mathews, a partner with Deloitte & Touche LLP. Steps any company can take, such as reviewing the business portfolio regularly, planning for end-state optimization early, and preparing for the demands of the sale process, can lead an organization to better outcomes. “The prepared seller will be more likely to be in that group that achieves positive outcomes across all categories,” Clif says.

There were other correlations in the survey data that also reinforce these ideas. Some 62% of respondents say that they both identify and mitigate stranded costs prior to a divestiture transaction, and this group is somewhat more likely to also report higher than expected deal value.

Similarly, survey respondents who report challenges with a lack of strategic communication or ineffective digital tools to execute their deals tend to require more time to complete their divestitures than those who did not see these as internal challenges.

Figure 13

During your company’s most recent divestiture, to what extent did you pursue end-state optimization initiatives prior to the close of the deal?



Surveyed sellers who use both effective digital tools and third-party data or benchmarks to augment their efforts report faster than expected time to complete their divestitures and less operational disruption. Additionally, those who use transition service agreements (TSAs) more frequently to sign up a buyer also seem less likely to report disruptions to their core businesses.

"Effective use of digital and analytical tools can help companies make better decisions when the stakes are high and time frames are compressed" Sriram says. "Such well-planned and executed divestments send a strong signal to the markets and often lead to better outcomes."

With each passing year, M&A processes become more sophisticated, technology-driven or automated, Sriram adds, and this growing maturity of capabilities represents an opportunity for sellers to take proactive steps and achieve better outcomes.

Figure 14

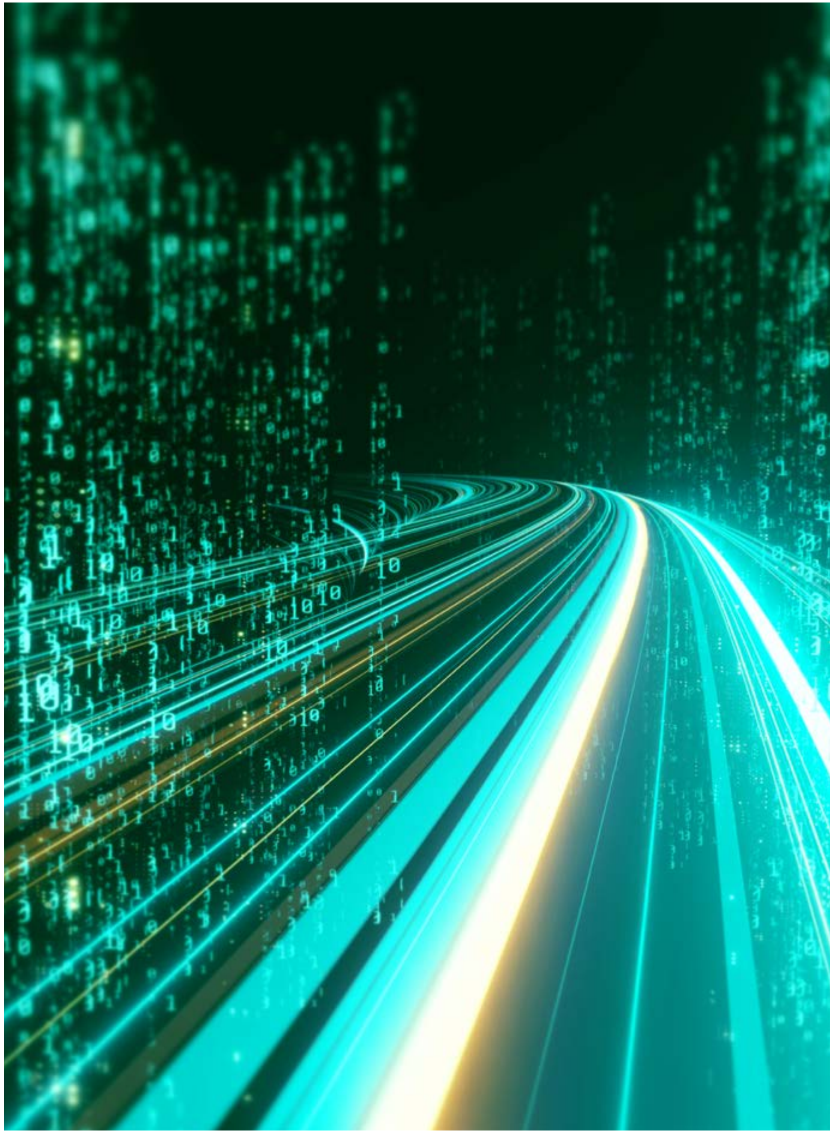
Correlation between pre-close end-state optimization efforts and value achieved

Of the respondents that selected each response when asked "During your company's most recent divestiture, to what extent did you pursue end-state optimization initiatives prior to the close of the deal?", % that indicate achieving a higher value than expected on their most recent divestiture.

Conclusion

Companies have faced dramatic changes in the business landscape over the past two years. And they face an urgent need to develop and execute the best possible strategy to build or maintain resilience in a post-pandemic world—which, in many cases, will require that one or more legacy businesses might best belong with a different owner. The good news is that this comes amid a strong M&A market, where divestiture plans are met by plentiful buyers and strong valuations.

Even in this environment, though, every companies should approach the divestiture planning and execution steps deliberately. Our 2022 Global Divestiture Survey shows that few companies have been able to get the best outcomes across the board, completing divestitures not just at the highest valuation but also quickly and with less disruption. The opportunity this presents is for every company to be a prepared seller, embracing the practices that can help them achieve more successful divestiture outcomes and—ultimately—drive long-term value for their shareholders.



Endnotes

1. Iain Macmillan, Sriram Prakash, and Mark Purowitz, *M&A and COVID-19: Charting new horizons*, Deloitte, 2020.
2. Deloitte analysis based on Refinitiv data, December 31, 2021.
3. PitchBook, *2021 annual global M&A report*, January 2022..
4. Prior year data is sourced from Deloitte's 2020 Global Divestiture Survey and 2017 Global Divestiture Survey, respectively.
5. *2020 Global Divestiture Survey: Defensive M&A for a resilient portfolio*, Deloitte, 2020.
6. Tony J. Reed et al., *Surging ahead: M&A outlook 2022 and beyond*, Squire Patton Boggs, December 2021.
7. Based on Deloitte's analysis of M&A data generated via the Refinitiv database on July 1, 2021.
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9. K-means clustering was used to develop these four distinct groupings.
10. Deloitte, "Driving divestiture value: Transacting and transforming on parallel tracks," M&A Snapshots blog, October 4, 2020.

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