Creating shareholder value through divestments
Deloitte M&A Index
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“In 2016 alone nearly $200 billion worth of divestments were announced.”
A wave of divestments

A defining feature of this M&A wave has been a rise in divestments. Since 2014 there has been a steady increase in divestments as companies seek to realign their portfolios to position themselves for growth. In 2016 alone, nearly $200 billion worth of global divestments were announced.

During the crisis years of 2009-12, financial pressures were the main motive for divestments. In the last few years, the primary motive has been strategic realignment of portfolios as non-core assets are shed.

The rise of mega-deals in M&A markets has been another key factor driving divestments. Companies are actively divesting assets to obtain regulatory approvals for such deals, raise capital to bolster their post-acquisition balance sheets, and refocus on the core businesses within their portfolio. The mega-deals of 2014 and 2015 resulted in $194 billion worth of divestments.

“The mega-deals of 2014 and 2015 resulted in $194 billion worth of divestments.”

Figure 1:
Crisis (2009-12) Financial Pressures
Recovery (2013-16) Strategic realignment, regulatory approvals for mega-deals

Note: 2016 figures are as on 9th December 2016. Source: Deloitte Analysis
Europe leads the way in divestments

In 2016, European companies were involved in $84 billion worth of divested assets. This was followed by North American companies who were involved in $74 billion worth of divested assets. Overall, cross-border divestments accounted for 64 per cent of total divestment transactions.

European companies were involved in $30 billion worth of cross-border divestment activities, of which three-quarters were acquisitions of divested assets in North America. There was a sharp increase in cross border outbound activities from Asia Pacific which acquired $22 billion worth of divested assets in Europe and North America. These acquisitions were largely led by companies from China and Japan.
“European companies were involved in $30 billion worth of cross-border divestment activities.”
Divestments are rising across most sectors

In 2016, a third of all divestments were in the energy and resources sector. The doubling of activity in this sector since 2015 reflected companies restructuring their portfolio of assets after the era of mega-deals and pressure on revenues from weak commodity prices.

The Technology, Media & Telecommunications (TMT) sector also saw an increase in divestments, while there were declines in life sciences and health care and manufacturing sectors.

Looking ahead, we expect divestments will continue to play a big role in M&A markets as companies seek to realign their businesses for growth. In the medium term we expect to see large divestments in industrials, TMT and the consumer business sectors, where the mega-deals of 2016 will be a catalyst to divest assets.

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Creating shareholder value through divestments

We analysed the immediate market reaction to divestments by measuring the short-term (+/- three days) share price performance for both buyers and sellers and comparing them to the index return. During that period, the average return for the seller was 92 basis points higher than the average return of its index, while the average return for the buyer was 178 basis points higher than the average return of its index.

When we considered the average one year share price performance after divestment, the average return for the seller was 91 basis points higher compared to its index. The average returns for the buyer was 421 basis points higher than the return for its index.

Our research* found successful companies adopt the following best practices:

• They have a divestment strategy in place that is aligned to future growth prospects, making them better able to respond to market requirements;

• They proactively communicate their growth strategy to the markets. In uncertain times, markets are looking for a clear focus on core business and a well-defined divestment plan;

• They tend to focus on a number of smaller divestments, rather than a single blockbuster;

• They focus on people and cultural challenges. Divestments are significant events and leaders must provide clarity of purpose and keep staff motivated throughout the process.

Note: 2016 figures are as on 29th September 2016
Source: Deloitte Analysis
*Creating value from divestments Deloitte M&A Research