

**Deloitte.**



## **2020 Global Divestiture Survey**

Defensive M&A for a resilient portfolio

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# Introduction

The end of the past decade marked a high point of optimism for mergers and acquisitions, with global deal activity topping the \$3 trillion mark for the sixth consecutive year.<sup>1</sup> Most sellers focused on divesting underperforming assets, refocusing portfolios on core growth areas, and increasing shareholder value through selective restructuring. Then the COVID-19 pandemic changed the game. As economies around the world were disrupted and corporations were confronted with a sudden and dramatic shift in their markets, global deal value declined by 71 percent in June and the number of transactions decreased by about 8 percent year over year in most global markets. In April 2020, global M&A value had dropped to its lowest monthly value since August 2003.<sup>2</sup>

Now, corporate strategies have pivoted from responding to these changes toward efforts to recover and thrive in the “next normal” economy that the pandemic is shaping. Down cycles can present unique opportunities, and M&A can be an effective tool as companies look to reinvent themselves in these changed circumstances.

In markets in which organic growth is weak and earnings growth is derived largely from corporate restructuring, divestitures offer an effective defensive M&A strategy to help preserve and enhance value.<sup>3</sup> Corporations may review their portfolios to determine if they are the right owners for a particular business. If the existing portfolio is not delivering optimal shareholder value or does not have a clear strategic fit, companies may still choose to divest, wind down, or spin off underperforming or noncore assets.

The COVID-19 pandemic has not made the challenges of maximizing value from divestments easier. While many organizations are—at least in the short term—realizing anticipated value from divestitures, most sales processes continue to be costly and protracted; service agreements can pose an ongoing challenge post-transaction; and nonfinancial costs, such as effects on morale, reputation, and customer perceptions, can be considerable.

How can successful sellers continue to navigate these challenges and avoid common pitfalls in strategy and execution? In the beginning of 2020, Deloitte surveyed 100 global organizations with revenues greater than \$500 million to understand their perspectives on sell-side activity and divestitures.<sup>4</sup> This initiative builds on three prior surveys conducted in the United Kingdom and United States in 2012, 2013, and 2017.<sup>5</sup>

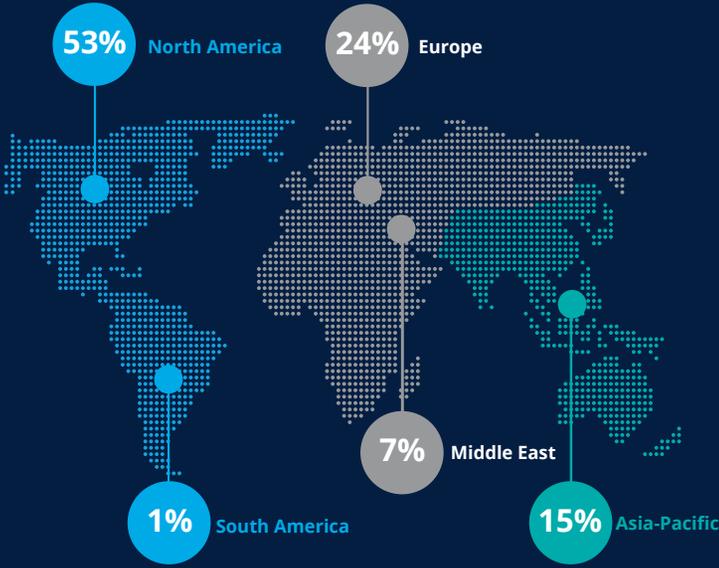
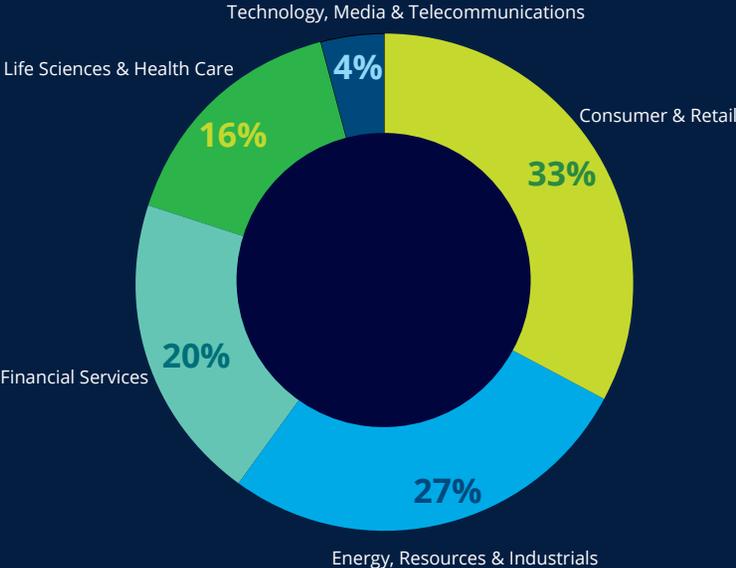


# Methodology

This report is based on a survey of professionals from 100 global organizations who were recently involved in divestitures or activities as sellers. Deloitte engaged a third party to perform the survey on our behalf. The survey was conducted from January through the end of February 2020, as the COVID-19 pandemic started to be seen. Then, to gain additional insights and perspective, we interviewed Deloitte leaders who are helping organizations shape their M&A strategies in response to the pandemic.

Of the total survey respondents, 59 percent are C-suite members, and the remainder are at least vice presidents that led or were a part of their organizations' corporate development teams. Two-thirds of surveyed companies have more than \$1 billion in yearly revenue, and 18 percent have more than \$5 billion. The organizations surveyed represent a cross-section of sectors.

The survey captured global organizations with headquarters in the Americas (54 percent), Europe and Middle East (31 percent), and Asia-Pacific (15 percent).



# Divestitures in the “next normal”

A decade of unprecedented growth in many markets had already raised concern among many executives about a potential economic downturn before the COVID-19 outbreak. Sixty-six percent of respondents indicate these concerns had not changed their divestment strategy. For those that felt the need to adapt their plans, reevaluating their current portfolio to prepare for economically induced divestitures is most important.

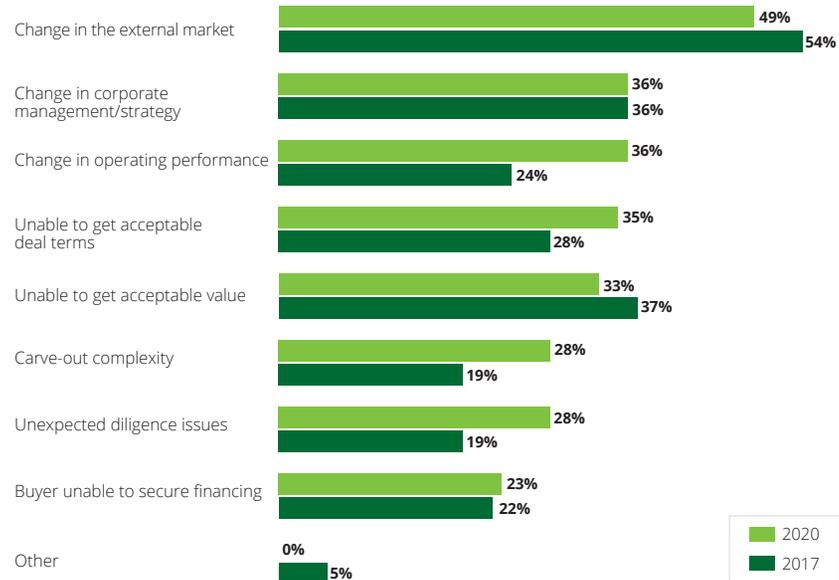
In the fall of 2019, *Deloitte’s M&A Trends 2020* report surveyed 1,000 US companies and found 75 percent of respondents expected to pursue divestitures in 2020—the second-highest level in the past four years.<sup>6</sup> By February 2020, as the COVID-19 pandemic spread, this outlook quickly moderated. Only about half of respondents to this survey say their organizations are going to attempt new divestitures.

As they look to a downturn in economic activity, many organizations may no longer have the luxury of choice. They may be forced to act. A Deloitte snap poll of 2,800 US companies in late April 2020 found executives will not only continue with M&A activity, but in some cases even accelerate their plans.<sup>7</sup> This sentiment was echoed in our second-quarter survey, *The Deal in Focus 2020*, which found many M&A leaders were preparing for or considering a divestiture.<sup>8</sup>



Figure 1

**If you expect divestitures will be more difficult to complete this year, what do you anticipate will be the largest hurdles?<sup>9</sup> Please select all that apply.**



Changes in market environment and corporate strategy aside, the largest hurdles to divestitures that surveyed executives anticipate this year are changes in operating performance (36 percent), inability to negotiate acceptable deal terms (35 percent), and inability to obtain acceptable value for their assets (33 percent). “Common challenges such as lack of clarity on manufacturing services agreements, transition services agreements, and working capital concepts in a purchase agreement can lead to buyer and seller expectation gaps,” says Chris Caruso, US Risk & Financial Advisory Divestitures leader, Deloitte & Touche LLP. “While many believe these agreements can just be completed close to signing, sellers would do well to prepare, align them internally, and build a supporting narrative well in advance.”

Activist investors are one of the biggest reasons executives cite for considering divestitures, even though only 19 percent of our respondents indicate they had been subject to shareholder activism in the past two years. Given the impact of the COVID-19 crisis, this is likely to accelerate as organizations may plan to start returning to normal later this year. A Deloitte study, *Be your own activist: Developing an activist mindset*, found that while underperforming assets may be seen as signs of management weakness, insufficient activity, or a lack of board oversight, bidders may see opportunities to deliver greater value by improving performance. By adopting an activist lens, management can evaluate underperforming assets and determine ways to improve performance or decide to divest.<sup>10</sup>

“Over the last 10 years and the run the economy’s been on, a lot of companies have been on somewhat of a buying binge. Now, during this crisis, it’s really time for them to refocus their business and think about where they’re going to invest and where they’re going to get the capital to invest,” says Mike Dziczkowski, US Risk & Financial Advisory partner, Deloitte & Touche LLP. “Divestitures really allow them to think through their strategy in potentially selling off some noncore assets. Then they can take that capital and they can use it to fund either day-to-day operations or future investments in core businesses.”<sup>11</sup>

“Over the last 10 years, a lot of companies have been on a buying binge. It’s time for them to refocus their business and think about where they’re going to invest and sources of capital.”

**Mike Dziczkowski, US Risk & Financial Advisory partner, Deloitte & Touche LLP**

# Starting to recover and thrive

So, what course of action should sellers consider as the economy begins to adjust to a new normal defined by a pandemic? In *M&A and COVID-19: Charting new horizons*, we show that in the short term, a combination of defensive and offensive M&A strategies is expected to emerge as companies strive to safeguard core markets, accelerate transformation, and position themselves to capture unassailable market leadership.<sup>12</sup>

Depending on the severity of the crisis's financial impact, divesting noncore assets will be key to preserving and enhancing value in a defensive M&A playbook. In comparison with 2017, surveyed companies are less likely to only evaluate assets for divestiture amid performance or strategic issues (45 percent in 2020, compared with 53 percent in 2017). Instead, they are reviewing their portfolios more frequently as part of a broader optimization strategy. Changes in the market and the competitive environment, as well as the need to raise additional funds, have become key reasons for companies to explore divestitures. A 2018 Deloitte analysis of 80,000 overseas-owned trading businesses across Europe revealed that at least 20 percent were generating an operating loss.<sup>13</sup> Organizations in dire straits, or those that can't fix or sell an asset, should explore whether a managed exit of distressed assets can protect the remaining value.

Figure 2

**How often does your company strategically evaluate individual businesses to determine whether the business should continue to be owned or divested?<sup>14</sup>**

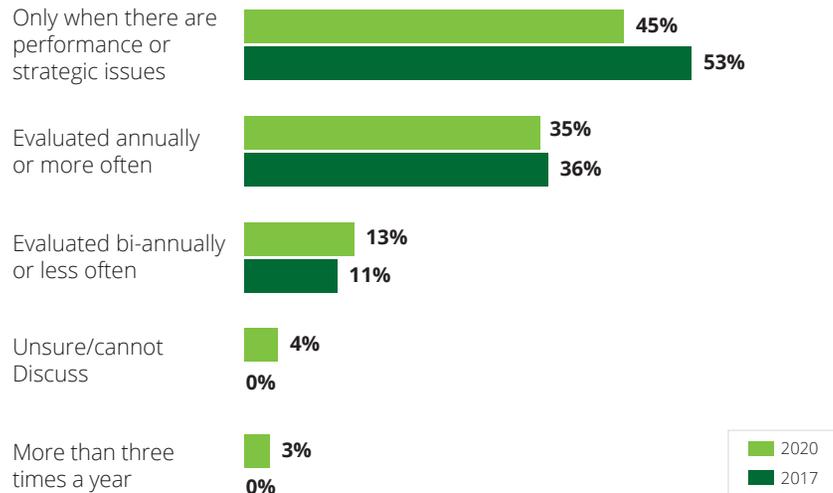
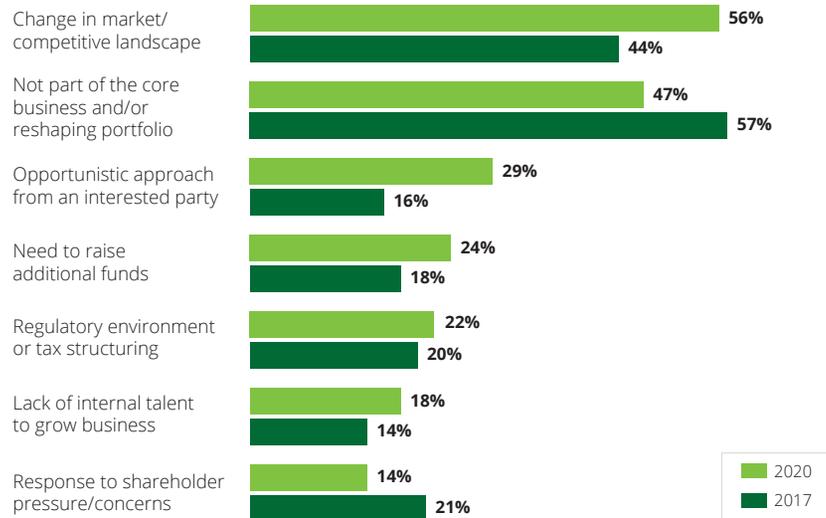


Figure 3

**What was the motivation underlying recent divestiture activity at your organization? Please select all that apply.<sup>15</sup>**



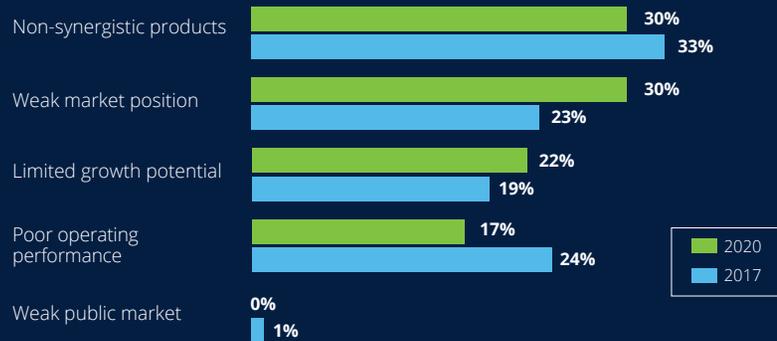
Portfolio resilience will be critical for sustained success in the face of future crises. In *Braving the wind of change: Resilient portfolio strategy*, we recommend that organizations consider building resilience into their portfolios in an effort to shield against future uncertainties. A resilient portfolio can help protect performance over the long term and give an organization flexibility to change strategic course.<sup>16</sup>

Sell-side activity<sup>17</sup> is critical to build this type of advantaged portfolio. This includes being able to quickly identify assets that will be noncore in specific economic scenarios, as well as being prepared to execute at the right time. A lack of synergies with corporate strategy and a weak market position are key reasons surveyed companies designated an asset as noncore, with nonsynergistic products losing in relevance from 2017 and weak market position gaining in significance compared with the prior survey. A third reason respondents cite is limited growth potential. In the end, organizations may realize that the amount of investment required to grow a business and achieve market share would be too much for them, and that the asset could thrive better under different ownership.



Figure 4

If your organization pursued a divestment in order to move away from a non-core business, what do you consider was the reason for the business to be non-core? Please select all that apply.<sup>18</sup>



“We recommend that organizations consider building resilience into their portfolios in an effort to shield against future uncertainties. A resilient portfolio can help protect performance over the long term and give an organization flexibility to change strategic course.”

**Deloitte, “Braving the wind of change: Resilient portfolio strategy” (2020)**

# Managing the process

As executives complete more divestitures, they quickly understand that such deals are not reverse integrations. In fact, planning for success from the onset helps to improve the execution and boost value for the seller.

Sellers seem to have gained experience with divestitures when it comes to volume, time to sell, and closing. When asked how many divestitures their organization completed in the past 36 months, more than three-quarters of respondents say they had closed two to four transactions; about a third said the same in 2017. Similarly, the time between decision and execution is decreasing. Only a third of respondents in 2017 could get deals signed in seven to 12 months. Now, half of respondents say they can, and about the same amount agree the time frames were in line with their expectations.

When it comes to pulling through, only 11 percent of respondents indicate a divestiture failed to close, compared with 28 percent in 2017. Still, the stakes for getting a divestiture right are high. Employee morale and external reputation can hinge on a smooth execution, and transaction costs can be considerable, which can deter sellers from trying again. When asked if they would put an asset back on the market after a failed attempt, only about a third of respondents say they would, down from 65 percent in 2017.

Skilled sellers start their divestiture planning early. When asked how long before going to market they would start separation planning, only 8 percent of respondents aim for less than three months. Seventy-five percent say between four and 12 months, with most opting for the high end of that range.

The five priorities respondents cite in preparing a deal for market are developing carve-out financial statements (60 percent), performing a detailed valuation analysis (57 percent), analyzing potential deal structures (50 percent), considering tax and legal structure (41 percent), and establishing an incentive plan for target management (39 percent). “Prepared financial statements, either in the form of a sell-side quality of earnings report or audited carve-out financial statements, continue to be commonplace in a sales process,” says Caruso. “These documents not only manage the seller’s messaging, but also assist the ease of access to buyer financing.”

“Prepared financial statements, either in the form of a sell-side quality of earnings report or audited carve-out financial statements, continue to be commonplace in a sales process.”

**Chris Caruso, US Risk & Financial Advisory  
Divestitures leader, Deloitte & Touche LLP**

Compared with 2017, assigning a dedicated team to prepare the business for sale drops from being a priority for 61 percent of respondents to only about a third. As organizations mature in their ability to execute divestitures, this might have become table stakes for many. But early buy-in from both parent and target company stakeholders is critical and should start early. Getting the deal perimeter right is crucial, and failure to comprehensively cover all your bases could create confusion, redundancies, and rework during the process. “This is a critical stage of any divestiture consideration,” says Andy Wilson, US Risk & Financial Advisory partner, Deloitte & Touche LLP. There are three things that one always has to consider to define the business, he says. “The product that you’re actually selling; the property, meaning the hard assets that are going with it; and most importantly, and often the most difficult to do, the people. The tricky decisions have to be made early in the process, because they waterfall down to a lot of issues later on if you don’t solve them.”<sup>19</sup>

As an example, even missing a few stockkeeping units from an in-scope product during the definition might result in days of reworking carve-out financial statements and delaying due diligence. Worse, it could mean relevant marketing authorizations are not transferred, threatening the buyer’s compliance with regulatory guidelines. In fact, these functional interdependencies during perimeter definition are a challenge for 54 percent of respondents in our survey, superseded only by potential stranded costs for the remaining company, which 75 percent believe is critical.

“What we see in practice is that the more divestitures a corporate completes, the more difficult the issue of stranded cost becomes,” says Justin Hamers of Deloitte Netherlands’ Financial Advisory Services. “With the initial divestments of clearly noncore assets, taking out some of the central overhead is quite manageable, but as corporates have divested more businesses, eliminating stranded costs becomes more challenging, and taking out stranded costs requires a transformational approach to RemainCo overhead.”

Figure 5

**What are some of the biggest challenges faced defining the deal perimeter? Please select all that apply.**<sup>20</sup>

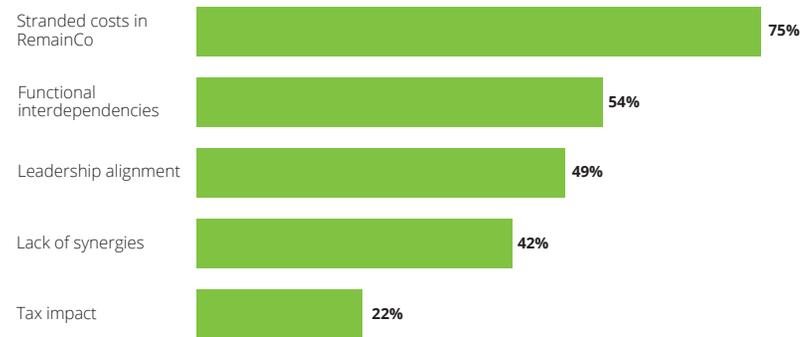


Figure 6

In your opinion, which of the following are top five priority tasks to perform prior to bringing a deal to market?<sup>21</sup>

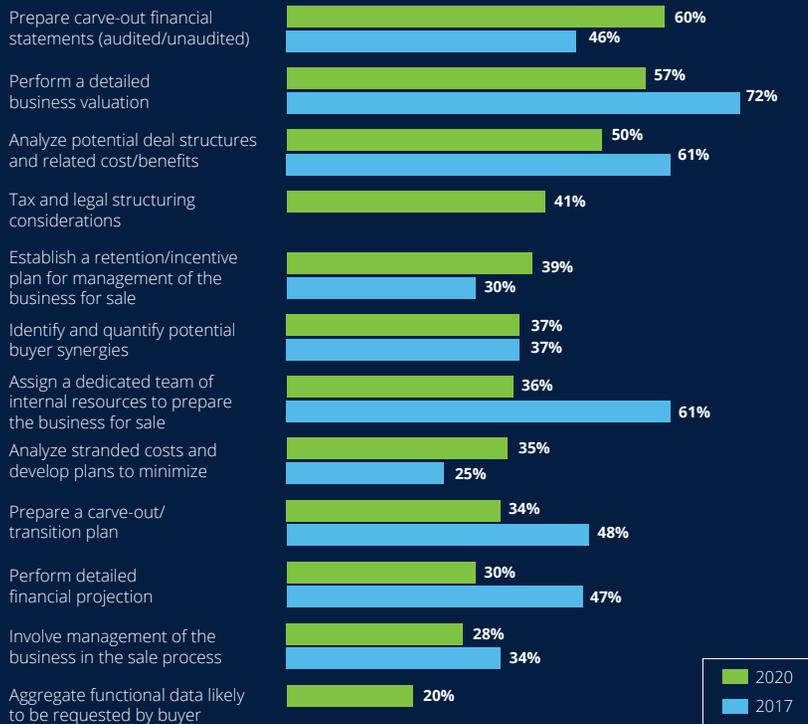
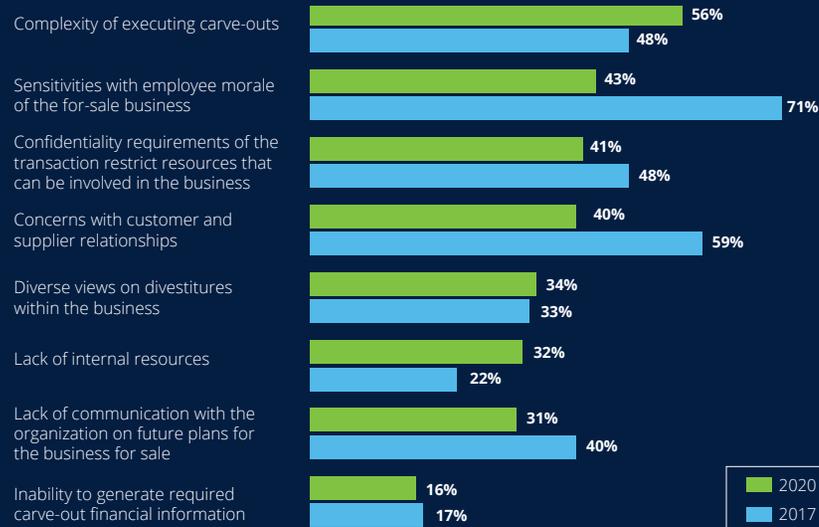


Figure 7

When your company attempts a divestiture, where do the challenges lie in pursuing a divestment in your organization? Please select all that apply.<sup>22</sup>



So, what makes successful sellers great at executing and closing transactions? When asked what they would do differently, most respondents indicate they would perform more extensive presale diligence (39 percent), solicit more bidders to increase competition (36 percent), and better control the process and its participants (28 percent). In “Sell-side strategies for private companies,” we outline factors that drive deal valuation—company prospects, competitive landscape, economic conditions, deal structure, tax considerations—and show that well-prepared sellers are generally better positioned to meet the challenges posed by potential buyers during the process.<sup>23</sup> Ultimately, success in divestitures comes down a prepared seller planning for flawless execution.

“Knowing the enemy enables you to take the offensive; knowing yourself enables you to stand on the defensive.”<sup>24</sup>

—Sun Tzu

When it comes getting the deal signed, our respondents notice changes in buyers’ needs. Among the most noteworthy changes they cite are performing detailed due diligence earlier in the process (48 percent), more price reductions at the last stage (45 percent), and requests for more interaction with parent company managers (39 percent). This underpins our earlier observations about the need for sellers to get the perimeter right from the onset, have more robust data available early, and scrutinize information for insights. In the end, being a prepared seller also means thinking like a buyer.



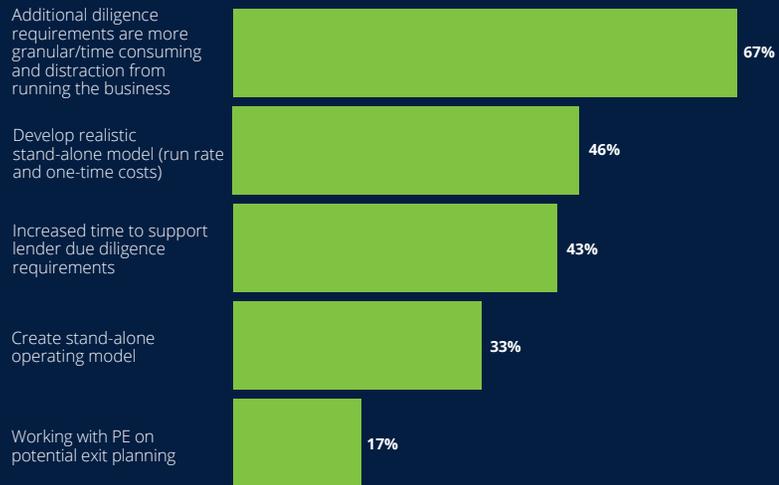
## Lessons in thinking like a private equity buyer

In the end, becoming a prepared seller means understanding how a buyer will likely approach a specific transaction. With a myriad of different organizational cultures, there is no one-size-fits-all approach, but private equity (PE) bidders typically share some traits:

- PE companies tend to have strong operational strategies and negotiate with suppliers as much as possible. Skilled sellers understand operational intricacies, have supplier contracts and key terms readily available, and understand where additional value opportunities lie.
- PE companies are often serial buyers and join a process ready to push the gas pedal. Sellers should expect access requests to information quickly. If robust analyses and underlying data are not available, a private equity bidder will likely not only view the seller as unprepared and try to capitalize on perceived weaknesses, but could also bombard the seller team with questions and data requests.
- Value creation is critical for PE bidders. Inquiries or questions that often leave sellers struggling during diligence focus on growth and opportunities: How is the target competing in the market? Could a capable operator do more with it? Why are you selling it? What investments are needed? Sellers should come prepared with savings and transformational ideas as part of due diligence.

Figure 8

What do you see as the biggest challenges in working with PE buyers?  
Please select all that apply.<sup>25</sup>



# Finding buyers

While buyers may be fewer because of the COVID-19 outbreak, record levels of cash and private equity dry powder built up during recent growth years could add an interesting twist to a post-COVID-19 market.

When asked why they received more than they expected for recent sales, most of our survey respondents (70 percent) cite multiple competing bidders. Similarly, a limited number of bidders is the main (65 percent) reason they cite for lower-than-expected value. Typically, buyers are more scarce during crises, further emphasizing the need to make assets as attractive as possible before and during the marketing process.

It is important to note that as the global COVID-19 pandemic evolves, many companies have record cash balances. The S&P 1200 companies have a record \$3.8 trillion<sup>26</sup> in cash reserves, and private equity firms globally hold another \$2.5 trillion.<sup>27</sup> “We see that even though there are record levels of cash, M&A financing is not yet back where it used to be, and therefore getting a transaction done at the moment can be challenging,” says Hamers, citing a Deloitte analysis completed in late April.<sup>28</sup> “We see PEs generally taking a rather cautious view. Finally, valuations are down considerably on the back of lower earnings expectations—so a lot of sellers may want to wait until we’ve settled into the next normal.”

If price-to-earnings multiples decline as they typically do in a crisis, new targets may emerge, providing further incentive for cash-heavy buyers to consider deals.

**Figure 9**

**Thinking about your company’s divestitures over the past 36 months, to which of the following types of buyers were they marketed? Please select all that apply.<sup>29</sup>**

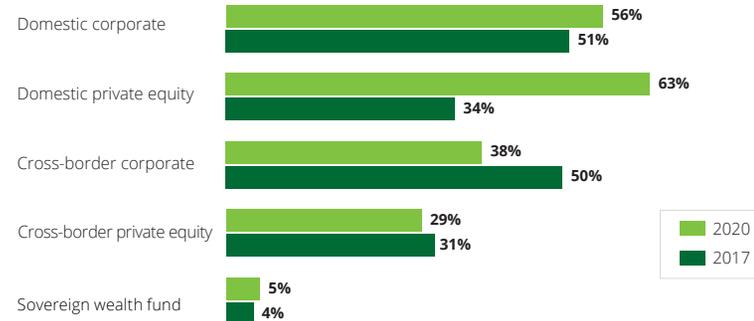
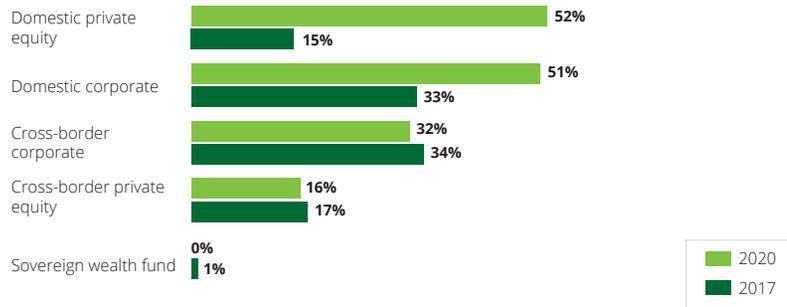


Figure 10

Which of the following represents the typical buyer of the businesses your company divested over the past 24 months? Please select all that apply.<sup>30</sup>



Broadening the bidder pool—especially internationally—to maximize an asset’s price has historically been good practice. As protectionist attitudes have started to cloud cross-border M&A in recent years, more sellers are focusing their divestiture efforts domestically, at least for corporate bidders. Domestic companies are targeted by 56 percent of respondents in this year’s survey, compared with 51 percent in 2017, while domestic PE firms are targeted by 63 percent versus 34 percent. As a result, sellers pursuing deals on a global scale should consider private equity buyers. Savvy sellers are getting better at understanding and acknowledging the expectations and requirements of marketing to private equity bidders.

The number of respondents who indicate any recent divestitures failed to close fell to 11 percent from 28 percent three years ago. Highest price, speed, and certainty of closure remain the predominant factors in choosing a buyer. Among factors contributing to the failure to complete a deal, the inability to get acceptable deal terms sees the largest rise (55 percent in 2020 from 32 percent in 2017), suggesting that sellers should hold their ground and shouldn’t place sale completion above all other considerations.

Figure 11

Did any of your recent divestitures not end in a closed transaction?<sup>31</sup>



Figure 12

What was the primary determinant or key factor in choosing the buyer?<sup>32</sup>

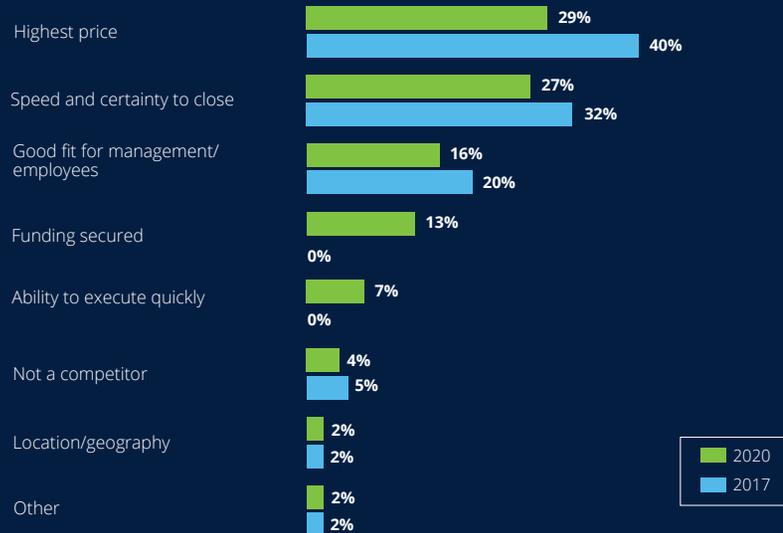
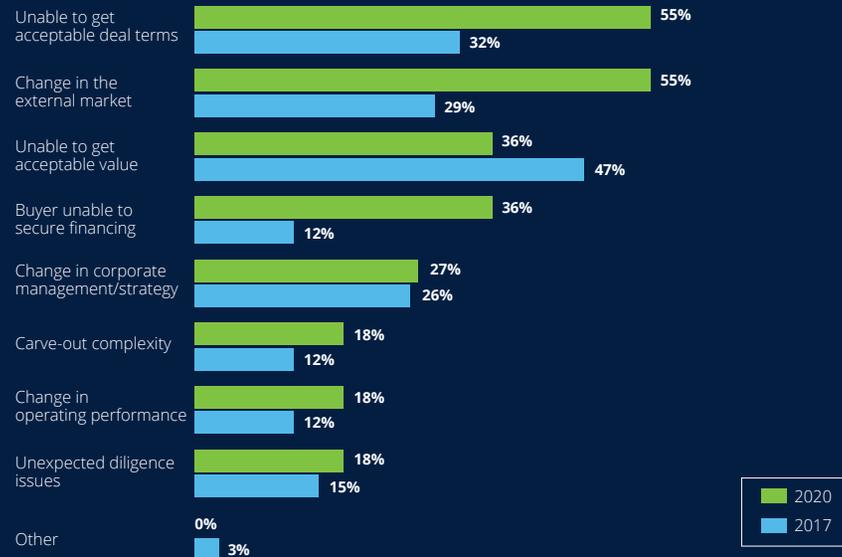


Figure 13

What were the major reasons why some of your company's divestiture processes did not reach financial close in the past 24 months? Please select all that apply.<sup>33</sup>



# Using technology and analytics

The annual volume of data created worldwide almost doubled between 2017 (the last time we conducted our global survey) and 2020 and is 25 times greater than 10 years ago.<sup>34</sup> At the same time, while sellers might be realizing that they need data for more insightful analysis that shapes the divestment narrative, the use of analytics from a seller’s perspective can still prove challenging.

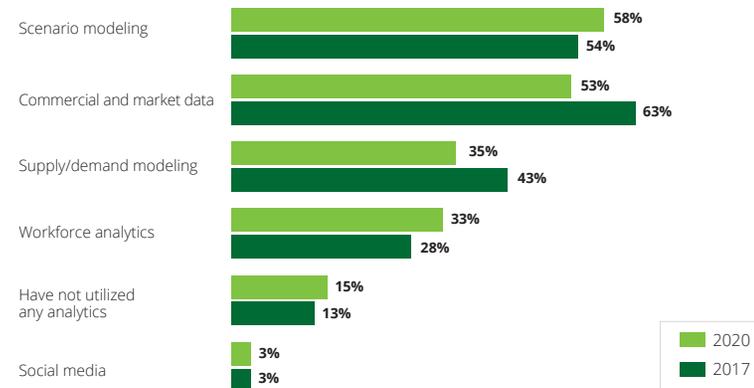
Fifteen percent of respondents said they are not actively deploying analytics during their transactions, compared with 13 percent in 2017. For those that do employ analytics, scenario modeling and workforce analytics have surpassed other methods. Sellers are catering to competing bidders with different valuation and scope interests—which 70 percent of respondents see as critical for receiving a higher-than-expected valuation.

With only a negligible percentage of respondents eschewing analytics, the “last mile” for adoption may be a matter of definition. Still, we believe that as the pandemic evolves and as M&A begins to rebound, technology, data, and analytics will play a bigger role in maximizing value from a seller’s perspective—for three specific reasons.

First, changing bidder behavior demands a timely and solid understanding of a target’s data and story. Forty-eight percent of respondents said that bidders are performing detailed due diligence earlier in the divestiture process, requiring that sellers quickly generate insights from vast amounts of data or prepare earlier. Price reductions seem to occur more frequently in the final stage, according to 45 percent of respondents. This might be a result of slow disclosures or surprises late in the process because assessments and analytics were not performed early enough. As bidders are getting savvier about technology, and as their capabilities for processing and analyzing data mature, the need for more in-depth and “raw” data sources to support buyer due diligence will increase.

Figure 14

## How have you utilized analytics in your recent divestiture activity?<sup>35</sup>



## Stories from adopters



Saving time and money and improving quality with contract assessment. Deloitte's Digital Intelligent Content Extraction (D-ICE) solution was used during a client's divestiture transaction to analyze more than 30,000 unorganized documents, identifying more than 8,000 individual contractual agreements and extracting key terms from them in just six weeks. This provided a threefold benefit to the seller: Transaction cost was reduced significantly by avoiding thousands of hours of manual legal reviews and document screenings; due diligence quality improved by automatically developing structured summaries; and ongoing negotiations with suppliers benefited from identified duplicate terms and conditions, generating significant future savings.

Second, for those sellers that explore and use analytics, the potential benefits speak for themselves. Seventy-three percent of respondents agreed they got a higher value by using analytics, divestiture modeling, and targeting of bidder integration synergies. In addition, 62 percent of respondents felt analytics and modeling helped them get a best and final bid more quickly. Faster processes may also lower overall sales costs, which at least a third of respondents said they would aspire to if they could redo their last transaction.

Third, technology is expected play a bigger role as work-from-home policies make more aspects of M&A transactions virtual.

Sellers should take a broad view of the deal as they deploy technology and analytics. Our respondents use analytics almost equally in making divestment decisions, preparing for a sale, and negotiating. Seventy-five percent think analytics are beneficial in decision-making, such as understanding the true value of a noncore asset. Similarly, in preparing an asset for sale, 84 percent consider technology and analytics beneficial for identifying potential issues and showing a target asset positively.

As sellers get more comfortable with using data and analytics to enable increased divestment value, technology can streamline M&A processes, helping reduce transaction costs, avoid downstream risks and surprises, and increase the value to the seller. "We certainly see that skilled use of data in a divesture can assist both buyer and seller in increasing speed to execution, risk mitigation, and opportunity identification," says Caruso.

## Stories from adopters

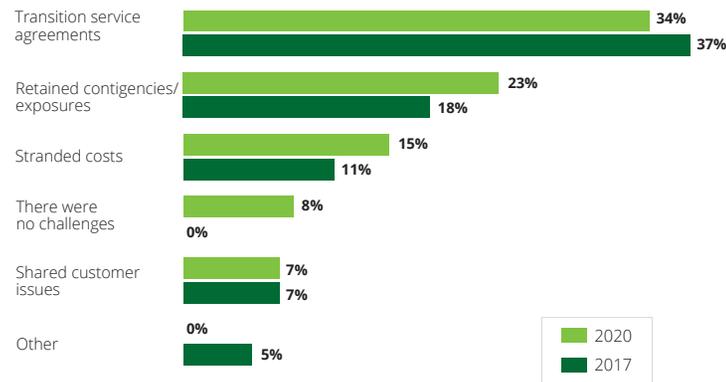


Controlling the process and orchestrating participants virtually during walk-the-walls. Deloitte's Interdependency Accelerator was recently used for virtual interdependency round robins, with 70 client participants across 14 workstreams on three continents. The half-day session resulted in program alignment on more than 300 critical milestones for 75 separation projects. It also reduced what would usually be a weeklong planning effort and multiday execution and lowered the cost of colocating participants.

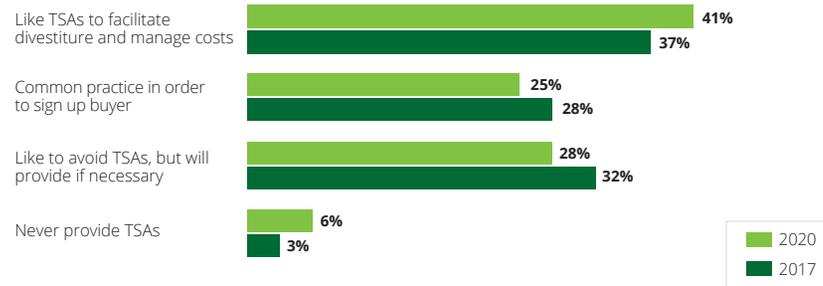
# Navigating transitions

After a lengthy deal process, closing the transaction is rarely the end of the story. Only 8 percent of respondents indicate they have no post-transaction challenges. Compared with 2017, stranded costs and retained contingencies and exposures have become a bigger concern for sellers. These are cited by 15 percent (versus 11 percent in 2017) and 23 percent (up from 18 percent in 2017) of respondents, respectively. However, many companies see transition service agreements (TSAs) as the biggest hurdle to finalizing a breakup.

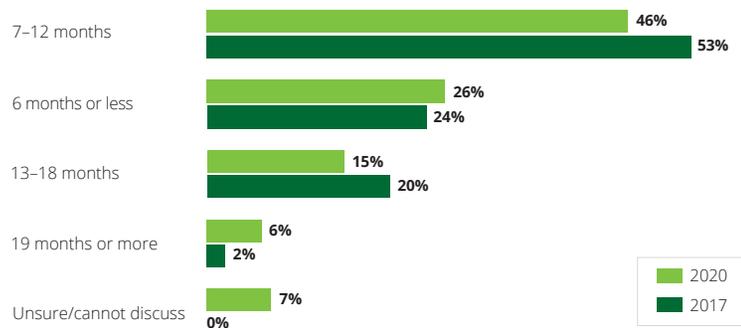
**Figure 15**  
**After closing your company's most recent divestiture, what was the biggest continuing challenge?<sup>36</sup>**



**Figure 16**  
**What is your organization's practice for providing TSAs?<sup>37</sup>**

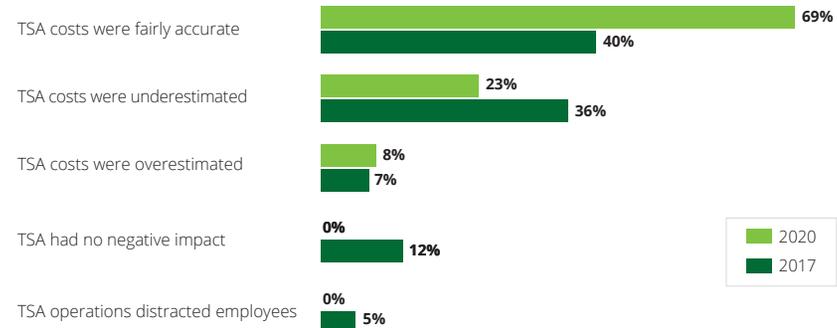


**Figure 17**  
**What is the typical duration of your TSAs/reverse TSAs<sup>38</sup>**



While TSAs typically refer to function-specific agreements for activities previously shared between a parent company and the divested business that cannot be separated by closing, other agreements may be necessary. Depending on the degree of entanglement, these may include manufacturing service agreements (MSAs) and transition distribution service agreements (TDSAs). These can add to post-transaction complexities and seller administrative responsibilities. Cleaning up an asset in advance can help achieve a timely closing with minimal transaction costs. Sixty-six percent of respondents consider TSAs common practice or like TSAs for signing a buyer and managing costs. Only 6 percent say they never provide TSAs, even though it might take the majority (46 percent) of respondents between seven and 12 months to exit these agreements and might delay reorganization activities for the remaining company.

**Figure 18**  
**In your company's experience, how has the cost of the services provided through the TSA compared to expectations?<sup>39</sup>**



Sellers seem to have gotten more comfortable with TSAs. When asked how accurate the actual TSA cost turned out to be compared with expectations, 69 percent of our respondents indicated their estimates were fairly accurate (compared with only 40 percent in 2017).

TSA are mostly commonly used in IT (69 percent), followed by finance, accounting, and treasury (65 percent) and HR (48 percent). The prevalence of TSAs in IT is not surprising, as most organizations do not want separate infrastructure and systems for different business units or individual assets, especially as they seek to strengthen their digital core, leverage big data, and break down silos in the process. Companies' growing use of scalable cloud infrastructure should make it easier to segregate data for different assets in the future.

Figure 19

**What was the impact on the retained business of the negotiated TSAs with the buyer? <sup>40</sup>**

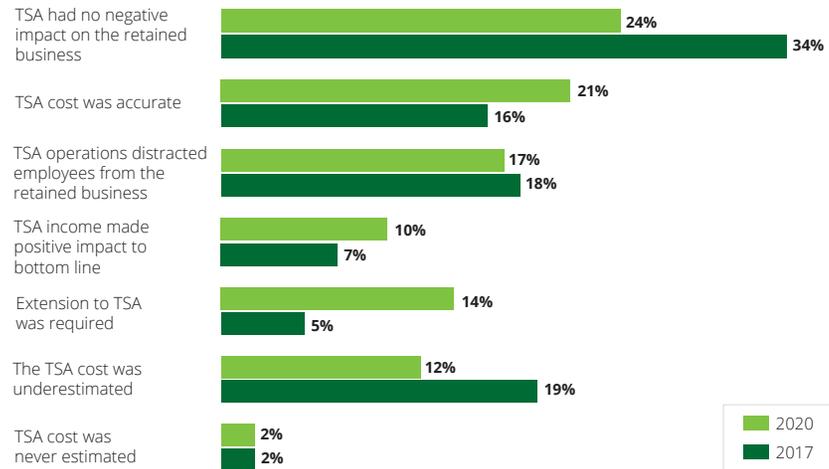
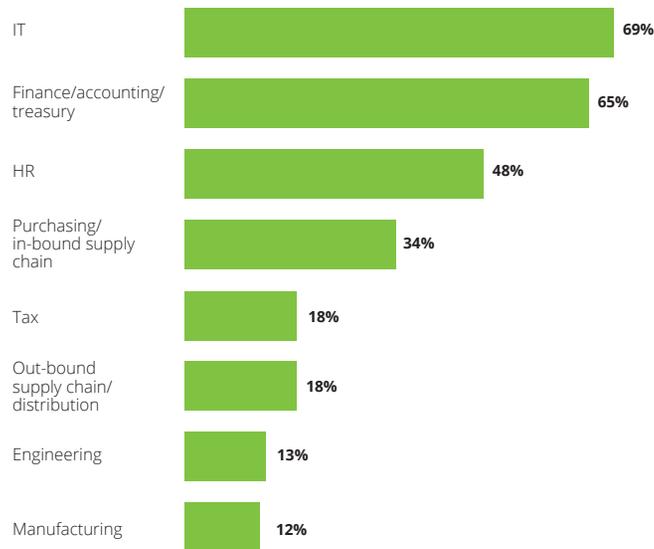


Figure 20

When your company uses a TSA, for which functional area does your company typically provide TSA services? Please select all that apply.<sup>41</sup>



## Avoiding IT TSAs by moving services to the cloud



A leading technology company was planning to spin off one of its businesses. This would help the seller focus on its core strengths and achieve its strategic vision. Based on its experience with earlier deals, the company was anticipating significant separation complexities for its IT infrastructure and wanted to try a new approach.

Typically, companies issue IT TSAs for 12 to 24 months after close. As a result, seller CIOs are often left to contend with a nonstandardized architecture and a large number of legacy systems supporting a small percentage of business requirements and considerable IT operating expenses. This can delay the seller's ability to optimize their own platform post-transaction. Moreover, conventional post-close transformation also involves a solution-by-solution vendor selection process that could further delay the value realization.

Instead, the company built a cloud-based, preconfigured architecture that covered about 80 percent of its core business processes. Because of the cloud-based solutions, the company could deploy the platform in few months. The company then routed transactions for the asset to be spun off through this stand-alone solution and continued business as usual from there.

By deploying the cloud platforms, the company completed the separation in less than a year. It avoided significant IT TSAs and could optimize its own infrastructure without waiting for TSAs to expire. It reduced IT operating expenses by 30 percent and the application landscape for the spun-off entity by more than 70 percent. These lower costs increased the overall deal value.

# Conclusion

This year's *Global Divestiture Survey* captures distinct perspectives on divestiture activity before a transition point. A market disruption has materialized, and even though it has been long anticipated during an extended M&A boom, it has arrived in a way no one could have expected—the spread of a global pandemic. After executing their initial response, companies are recalibrating in an effort to recover and thrive. Divestitures will undoubtedly play a critical role in defensive M&A response strategies and in building resilient portfolios for the “next normal.”

- M&A activity will continue and may even accelerate, companies say.<sup>42</sup> COVID-19 will change why and how quickly corporates use divestitures, but the fundamentals will likely stay the same.
- In the short term, both defensive and offensive M&A strategies will likely emerge as companies strive to safeguard core markets, accelerate transformation, and position themselves to capture unassailable market leadership.
- Taking a longer-term perspective, portfolio resilience will be pivotal for sustainable business success and for weathering future crises. A resilient portfolio should be able to perform under a wide range of circumstances and help create flexibility for changing strategic course.
- Sellers are gaining more experience with divestitures, especially when it comes to volume, time to sell, and closing. Our current data show sellers closing transactions more often, compared with prior surveys. Transaction processes are still costly and take time to prepare, which will be important to consider in a market downturn in which bidders are scarce and distressed assets may put sellers at a negotiating disadvantage.
- While bidders may be fewer because of the COVID-19 outbreak, record levels of cash and private equity dry powder built up during recent growth years could add an interesting twist to the post-COVID-19 market. However, protectionist attitudes are clouding cross-border M&A, and we are seeing a trend for more nationally focused processes, especially when it comes to private equity bidders.
- Sellers increasingly need data and more insightful analysis to be able to appeal to savvy bidders and shape the divestment narrative. Not scrutinizing data and analytics early can slow the flow of information or create surprises late in the process, potentially leading to price reductions in the final stage of a deal.
- Closing a divestiture is rarely the end of the story, and few respondents complete their deals without any post-transaction challenges. Stranded costs and retained contingencies and exposures have become a bigger concern, but most see TSAs as the biggest hurdle—though often necessary to get a breakup done.

“Divestiture activities will have a strong influence in reshaping businesses for the ‘next normal’ conditions,” says Iain Macmillan, Global M&A leader for Deloitte. “It is also inevitable that dealmaking will need to change to reflect these new realities. Especially now, corporate purpose that intertwines sustainability with commercial success, resilience, and building trust across a wide coalition of stakeholders will need to be the cornerstone for future successful dealmaking.”

# Endnotes

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# Notes



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