US divestitures
quarterly update
Q2 2020
Divestiture trends

Overall trends

The impact of COVID-19 on divestiture activity has been apparent through Q2 2020, following relatively stable levels in Q1 2020. Uncertainty surrounding the epidemic has slowed M&A activity as a whole, with the number of transactions falling from over 2,200 in Q1 2020 to about 1,500 this past quarter. As expected, divestiture activity has followed suit, reaching 10-year lows in volume and value. As a percentage of total M&A, Q2 2020 divestitures have seen a slight uptick as a percentage of total volume, rising to 21 percent compared to 18 percent at the same time last year. Divestiture size distribution has made a shift to smaller deal activity as corporations focus on non-core asset carve-outs. This quarter has witnessed a jump in the ratio of technology and consumer products transactions, reflecting the overall sector trends that have picked up during COVID-19. Overall, divestiture activity has followed macroeconomic trends and is anticipated to increase as companies shore up their business portfolios and strategic direction becomes a bit clearer.

Global activity

While acquirors of divested US businesses continue to be predominantly based in the US, COVID-19 has significantly impacted the number of completed deals, as evidenced by the 21 percent drop in total year-over-year transactions from Q2 2019 to Q2 2020. Canada and the UK remained the most active acquiror countries by volume, however, both experienced a meaningful decrease in deals on a year-over-year basis. Europe, as a whole, saw a 46 percent decrease in activity over the same time frame in 2019. The rest of Europe also saw a significant decrease in year-over-year deal volume. China’s activity continues to slow, closing no deals in Q2 2020 off a quarterly high of five deals in Q3 2018. Japan and South Korea, on the other hand, experienced a slight increase in completed deals from Q1 2020, with both closing two in Q2 2020.

In the news

April 2020 – Shares of Victoria’s Secret parent company L Brands cratered after Bloomberg reported that private equity firm Sycamore Partners was looking to abandon its planned acquisition of a majority stake in Victoria’s Secret. In February, the two firms announced that Sycamore would spend $525 million to acquire a 55 percent stake in the company, valuing the lingerie maker at $1.1 billion. L Brands planned to refocus the company on its Bath and Body Works brand after the failed divestiture.2

May 2020 – Melody Investment Advisors (Melody), an alternative asset manager focused on communications infrastructure, announced the acquisition of 90 percent of Uniti Towers, the wireless tower business of real estate investment trust Uniti Group Inc. (Uniti). Uniti’s divestiture is expected to enhance Melody’s position as a leading owner and operator of wireless infrastructure assets.3

June 2020 – After the mega-merger of Harris Corporation and L3 Technologies in 2019, the combined $17 billion company, L3Harris had set out to ambitiously divest 8-10 percent of it’s total business. Having completed $500 million in revenue divestment in 2019 and the sales of L3Harris Technologies’ security detection and automation business, the company announced it was halting any further immediate activity.4
Macroeconomic outlook

US gross domestic product ($ in trillions) ¹

US treasury yield curve (nominal vs. real) ²

US unemployment rate (percent unemployed) ³

ISM non-manufacturing index and consumer confidence index ⁴

US corporate cash stockpiles of nonfinancial companies ⁵

S&P 500 debt/EBITDA level ⁶
US historical divestiture transaction volumes\(^1\)

![Number of transactions chart]

US historical disclosed divestiture transactions value\(^2\)

![Value of transactions chart]

US historical disclosed divestiture transactions by size\(^3\)

![Size range chart]
US historical disclosed divestiture transaction multiples

Sample size

<table>
<thead>
<tr>
<th></th>
<th>LTM Q3 2018</th>
<th>LTM Q4 2018</th>
<th>LTM Q1 2019</th>
<th>LTM Q2 2019</th>
<th>LTM Q3 2019</th>
<th>LTM Q4 2019</th>
<th>LTM Q1 2020</th>
<th>LTM Q2 2020</th>
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</thead>
<tbody>
<tr>
<td>&lt;5x</td>
<td>63%</td>
<td>66%</td>
<td>65%</td>
<td>61%</td>
<td>63%</td>
<td>65%</td>
<td>60%</td>
<td>63%</td>
</tr>
<tr>
<td>5x - 10x</td>
<td>26%</td>
<td>25%</td>
<td>20%</td>
<td>25%</td>
<td>25%</td>
<td>24%</td>
<td>26%</td>
<td>25%</td>
</tr>
<tr>
<td>10x - 15x</td>
<td>11%</td>
<td>15%</td>
<td>15%</td>
<td>14%</td>
<td>12%</td>
<td>11%</td>
<td>14%</td>
<td>12%</td>
</tr>
<tr>
<td>15x - 25x</td>
<td>9%</td>
<td>9%</td>
<td>9%</td>
<td>9%</td>
<td>11%</td>
<td>11%</td>
<td>14%</td>
<td>11%</td>
</tr>
<tr>
<td>&gt;25x</td>
<td>1%</td>
<td>4%</td>
<td>3%</td>
<td>4%</td>
<td>3%</td>
<td>4%</td>
<td>3%</td>
<td>4%</td>
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</table>

Percentage of buyer type

<table>
<thead>
<tr>
<th></th>
<th>Q3 2018</th>
<th>Q4 2018</th>
<th>Q1 2019</th>
<th>Q2 2019</th>
<th>Q3 2019</th>
<th>Q4 2019</th>
<th>Q1 2020</th>
<th>Q2 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Strategic</td>
<td>63%</td>
<td>60%</td>
<td>65%</td>
<td>61%</td>
<td>63%</td>
<td>65%</td>
<td>60%</td>
<td>63%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>26%</td>
<td>25%</td>
<td>20%</td>
<td>25%</td>
<td>25%</td>
<td>24%</td>
<td>26%</td>
<td>25%</td>
</tr>
<tr>
<td>Foreign Strategic</td>
<td>11%</td>
<td>15%</td>
<td>15%</td>
<td>14%</td>
<td>12%</td>
<td>11%</td>
<td>14%</td>
<td>12%</td>
</tr>
</tbody>
</table>

US historical divestiture transactions by buyer type

US historical divestiture transactions by industry

Q2 2019: 417
- Industrials: 11%
- Energy and Power: 12%
- High Technology: 12%
- Consumer Products and Services: 14%
- Materials: 13%
- Media and Entertainment: 13%
- Financials: 7%
- Healthcare: 7%
- Consumer Staples: 7%
- Retail: 3%
- Telecommunications: 4%

Q2 2020: 328
- Industrials: 12%
- Energy and Power: 13%
- High Technology: 13%
- Consumer Products and Services: 12%
- Materials: 12%
- Media and Entertainment: 12%
- Financials: 13%
- Healthcare: 13%
- Consumer Staples: 12%
- Retail: 12%
- Telecommunications: 13%
Most active acquiror countries by region

<table>
<thead>
<tr>
<th>Region</th>
<th>Total transactions</th>
<th>Percent change over Q2 2020</th>
<th>Percent change over Q2 2019</th>
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<tbody>
<tr>
<td>Americas</td>
<td>280</td>
<td>(24.9%)</td>
<td>(21.1%)</td>
</tr>
<tr>
<td>United States</td>
<td>262</td>
<td>(27%)</td>
<td>(21%)</td>
</tr>
<tr>
<td>Canada</td>
<td>14</td>
<td>8%</td>
<td>(13%)</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
<td>0%</td>
<td>(33%)</td>
</tr>
<tr>
<td>Europe</td>
<td>18</td>
<td>(47.1%)</td>
<td>(45.5%)</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>7</td>
<td>(56%)</td>
<td>(40%)</td>
</tr>
<tr>
<td>France</td>
<td>3</td>
<td>(33%)</td>
<td>(50%)</td>
</tr>
<tr>
<td>Netherlands</td>
<td>2</td>
<td>(25%)</td>
<td>(50%)</td>
</tr>
<tr>
<td>Germany</td>
<td>1</td>
<td>(67%)</td>
<td>(50%)</td>
</tr>
<tr>
<td>Italy</td>
<td>1</td>
<td>(50%)</td>
<td>(50%)</td>
</tr>
<tr>
<td>Other</td>
<td>4</td>
<td>(33%)</td>
<td>(71%)</td>
</tr>
<tr>
<td>Asia</td>
<td>10</td>
<td>25.0%</td>
<td>11.1%</td>
</tr>
<tr>
<td>Singapore</td>
<td>2</td>
<td>0%</td>
<td>100%</td>
</tr>
<tr>
<td>China</td>
<td>0</td>
<td>(100%)</td>
<td>0%</td>
</tr>
<tr>
<td>India</td>
<td>0</td>
<td>(100%)</td>
<td>(100%)</td>
</tr>
<tr>
<td>Japan</td>
<td>2</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>South Korea</td>
<td>2</td>
<td>100%</td>
<td>0%</td>
</tr>
<tr>
<td>Other</td>
<td>4</td>
<td>300%</td>
<td>(33%)</td>
</tr>
<tr>
<td>Rest of world</td>
<td>1</td>
<td>(50.0%)</td>
<td>(66.7%)</td>
</tr>
<tr>
<td>Undisclosed acquiror</td>
<td>21</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Select large US divestitures

<table>
<thead>
<tr>
<th>Announced date</th>
<th>Target/Ultimate parent</th>
<th>Acquiror</th>
<th>Business description</th>
<th>Enterprise value (EV)</th>
</tr>
</thead>
<tbody>
<tr>
<td>May-20</td>
<td>Uniti Group Inc. - Wireless Tower</td>
<td>Melody Investment Advisors</td>
<td>Uniti is engaged in the acquisition and construction of mission critical communications infrastructure.</td>
<td>$244.4</td>
</tr>
<tr>
<td></td>
<td>Uniti Group Inc.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jun-20</td>
<td>The James New York Hotel</td>
<td>GFI Capital Resources Group</td>
<td>The James New York Hotel operates as a hotel in New York.</td>
<td>$181.2</td>
</tr>
<tr>
<td></td>
<td>Thor Equities LLC</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jun-20</td>
<td>Webtoon Ent Inc.</td>
<td>Webtoon Ent KoreaCo Ltd.</td>
<td>WEBTOON Entertainment Inc. provides web-based comics services.</td>
<td>$178.6</td>
</tr>
<tr>
<td></td>
<td>Naver Corp.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jun-20</td>
<td>Eos Energy Storage LLC</td>
<td>B Riley Principal Merger II</td>
<td>Eos Energy Storage LLC develops and manufactures energy storage solutions.</td>
<td>$290.0</td>
</tr>
<tr>
<td></td>
<td>Holtec International Corp.</td>
<td></td>
<td></td>
<td></td>
</tr>
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</table>
A demonstrated approach to divestitures

Key preparation streams

- Build the story
- Pre-empt issues
- Minimize risk

Enhance impact of financials

- Standalone financials accurately capture business results and can stand up to buyer diligence
- Focus on areas that may drive value include:
  - Pro forma normalized results examined by Deloitte Transaction Services team
  - Potential areas for buyer synergies based on intel from Deloitte network
  - Supportable and well thought out growth story

Positioning the company

- Develop tailored positioning and highlight specific insights
- Create optimized presentation of information
- Identify and assist to resolve potential issues early

Enhanced value at favorable terms

- Customized deal positioning for each buyer leveraging global Deloitte network to access key decisionmakers
- Bespoke process to create competition while providing sense of opportunity
- Prepare client to negotiate from a position of strength
- Gain agreement on key contract terms prior to granting exclusivity

Certainty of close

- Proactively address transaction risks before they turn into “buyer issues”
- Leverage Deloitte’s tax and accounting advisors to understand potential deal structure options
- Evaluate trade-offs between value and complexity, including transition services agreements
- Utilize deep buyer knowledge to engage serious bidders with limited re-trading risks
- Commitment of senior resources throughout the entire sale process

“When it comes to M&A, no one rivals Deloitte’s infrastructure, commitment, expertise, or representation”

CEO, Emerson Electric
Sources cited

Page 2:
4. Defense News. “Year two post merger, L3Harris look toward $1B more in divestitures.”

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Additional Note: All transaction data excludes government, government agency, and real estate company activity.
DCF provides deal execution and lead financial advisory services to large corporate, middle market, private equity and venture capital firms. DCF and its affiliates maintain a presence in key US financial centers.

For additional information or to find out more about how DCF can assist the deal initiation and execution process, please contact one of our DCF executives.

**Business & Financial Services**

**Phil Colaco** – Global CEO  
Office: Charlotte, NC  
+1 704 333 0533  
philcolaco@deloitte.com

**James Miller**  
Office: Charlotte, NC  
+1 704 731 8230  
jamessmiller5@deloitte.com

**Chris Parides**  
Office: Charlotte, NC  
+1 704 697 5972  
cparides@deloitte.com

**Consumer & Retail**

**Lorin DeMordaunt**  
Office: Charlotte, NC  
+1 704 333 0591  
lademordaunt@deloitte.com

**Matt Preece**  
Office: Charlotte, NC  
+1 704 731 7186  
mnpreece@deloitte.com

**Rory Dineen**  
Office: Charlotte, NC  
+1 704 333 0495  
rpdineen@deloitte.com

**Nick Hansell**  
Office: Charlotte, NC  
+1 704 731 8203  
nhansell@deloitte.com

**Energy & Resources**

**Keith Adams**  
Office: Atlanta, GA  
+1 404 631 3455  
keadams@deloitte.com

**Life Sciences & Healthcare**

**Simon Gisby**  
Office: New York, NY  
+1 212 436 2495  
sgisby@deloitte.com

**Doug Bolt**  
Office: Charlotte, NC  
+1 704 731 7219  
dbolt@deloitte.com

**Newman Delany**  
Office: New York, NY  
+1 212 436 6326  
ddelany@deloitte.com

**General Industrials**

**Will Frame**  
Office: Chicago, IL  
+1 312 486 4458  
wframe@deloitte.com

**Eric Andreozzi**  
Office: Charlotte, NC  
+1 704 333 0518  
eandreozzi@deloitte.com

**Tony Blanchard**  
Office: Chicago, IL  
+1 313 396 3738  
anblanchard@deloitte.com

**Bill Kerkmann**  
Office: Charlotte, NC  
+1 980 312 3613  
wkerkmann@deloitte.com

**Kevan Flanigan**  
Office: Los Angeles, CA  
+1 213 688 6560  
keflanigan@deloitte.com

**Head of Western Region**

**Garett Poston**  
Office: Los Angeles, CA  
+1 213 593 4544  
gposton@deloitte.com

**Technology, Media, & Telecom**

**Byron Nelson**  
Office: Dallas, TX  
+1 469 417 2462  
bynelson@deloitte.com

**Mike Hakim**  
Office: Los Angeles, CA  
+1 213 593 4545  
mhakim@deloitte.com

**Debt & Capital Advisory**

**John Deering**  
Office: Charlotte, NC  
+1 704 333 0574  
ardeering@deloitte.com

**Max Hughes**  
Office: Dallas, TX  
+1 214 840 1558  
maxhughes@deloitte.com

**ESOP Corporate Finance**

**Lou Paone**  
Office: Charlotte, NC  
+1 704 731 7202  
lpaone@deloitte.com

**Steven Blaser**  
Office: Charlotte, NC  
+1 704 887 1648  
stblaser@deloitte.com

**Financial Sponsors**

**Jamie Lewin**  
Office: Dallas, TX  
+1 214 840 7057  
jlewin@deloitte.com

**Evan Karev**  
Office: New York, NY  
+1 212 492 4670  
evkarev@deloitte.com

**Head of Southwest Coverage**

**Tom Spivey**  
Office: Dallas, TX  
+1 214 840 7014  
tspivey@deloitte.com
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