

**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 decline 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 its 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

In this update

- Divestiture trends
- Economic outlook
- Divestiture transactions
- Industry analysis
- Select M&A transactions
- Appendix

This update will focus on news and trends in the following areas:

- US divestiture volume, value and reported multiples
- US divestitures by buyer type
- US divestitures by industry
- Cross-border activity

Who we are

Deloitte Corporate Finance LLC is a leading global middle market M&A adviser. Our professionals have extensive knowledge across sectors and use their experience to help clients create and act upon opportunities for liquidity, growth, and long-term advantages.

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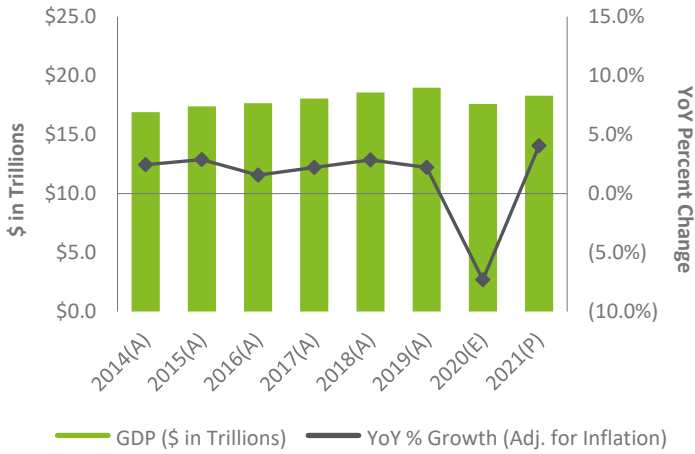
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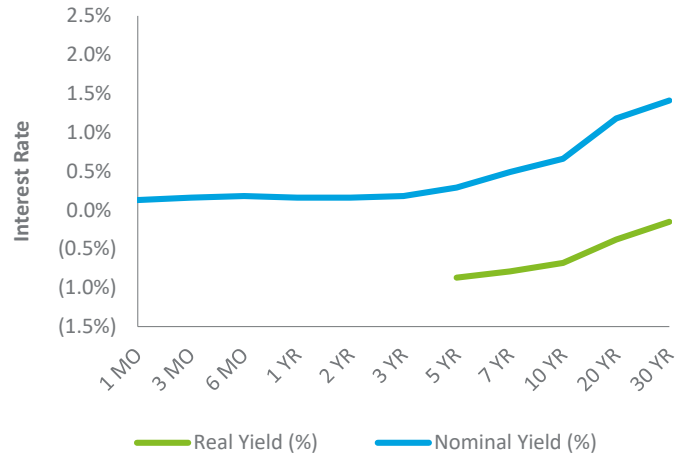
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Macroeconomic outlook

US gross domestic product (\$ in trillions) ¹



US treasury yield curve (nominal vs. real) ²



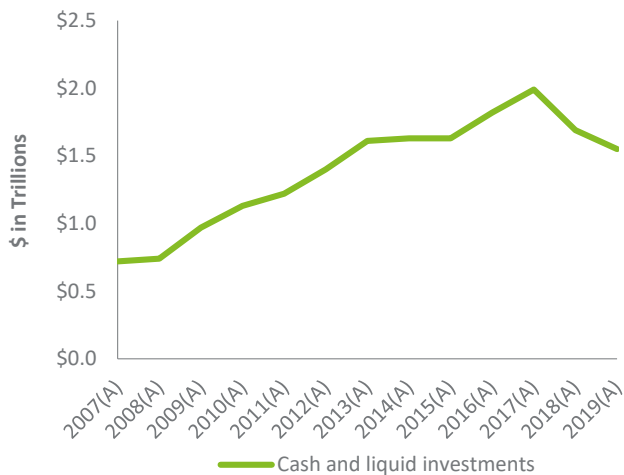
US unemployment rate (percent unemployed) ³



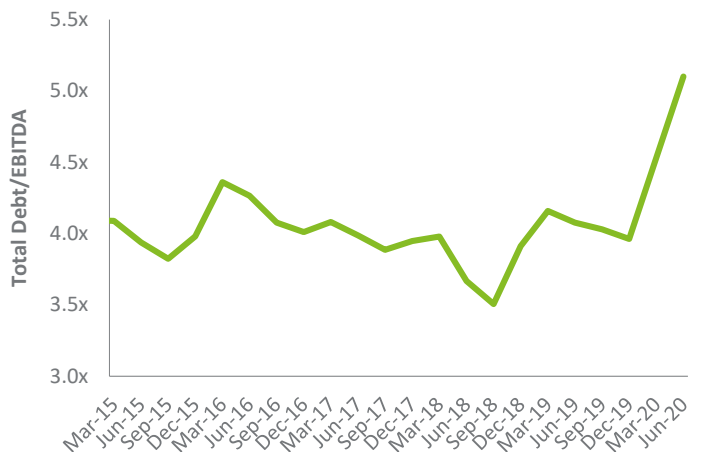
ISM non-manufacturing index and consumer confidence index ⁴



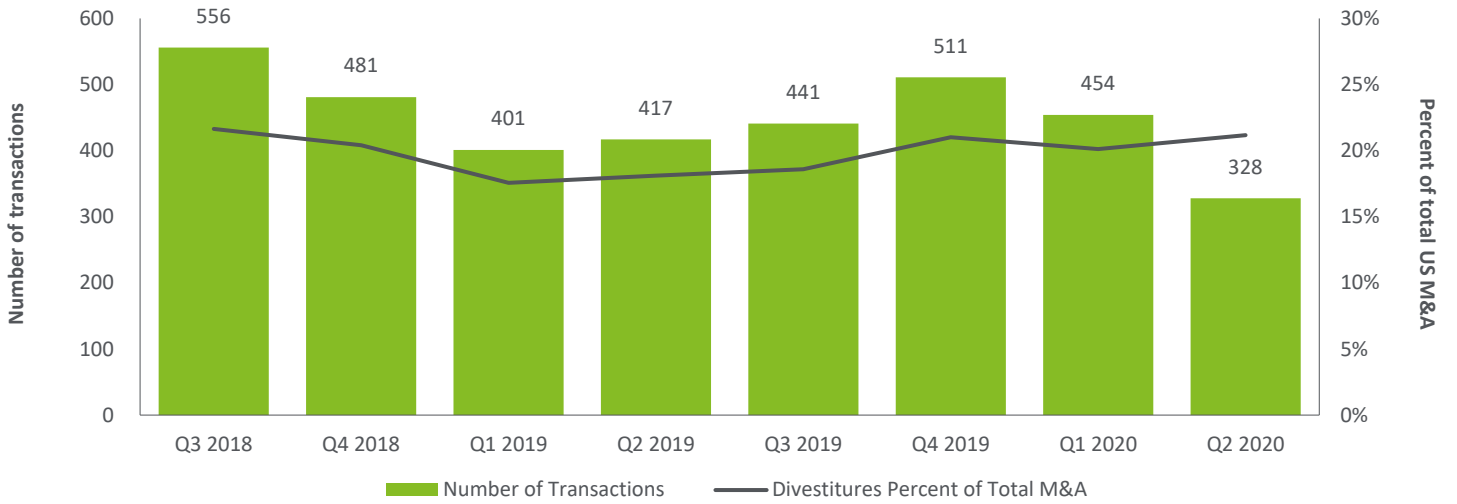
US corporate cash stockpiles of nonfinancial companies ⁵



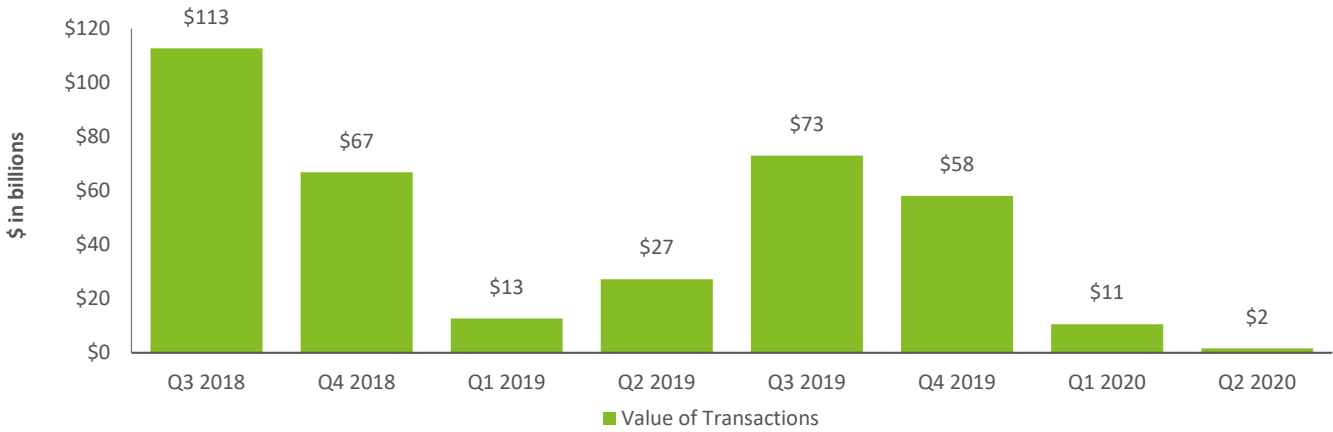
S&P 500 debt/EBITDA level ⁶



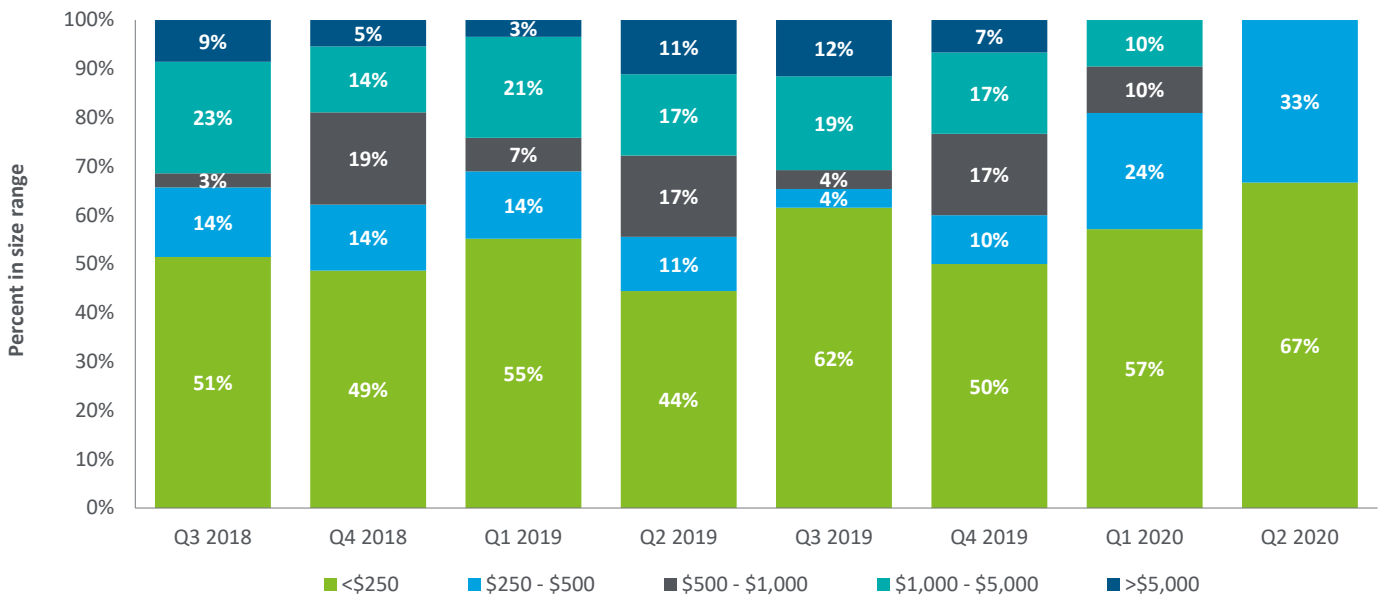
US historical divestiture transaction volumes¹



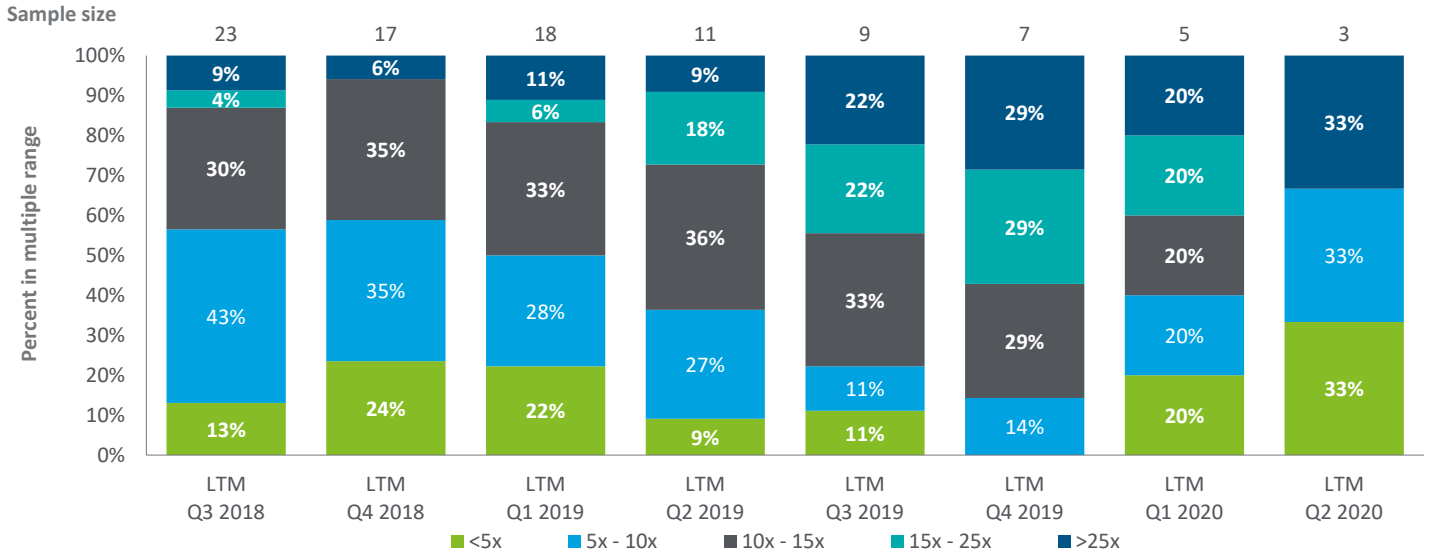
US historical disclosed divestiture transactions value²



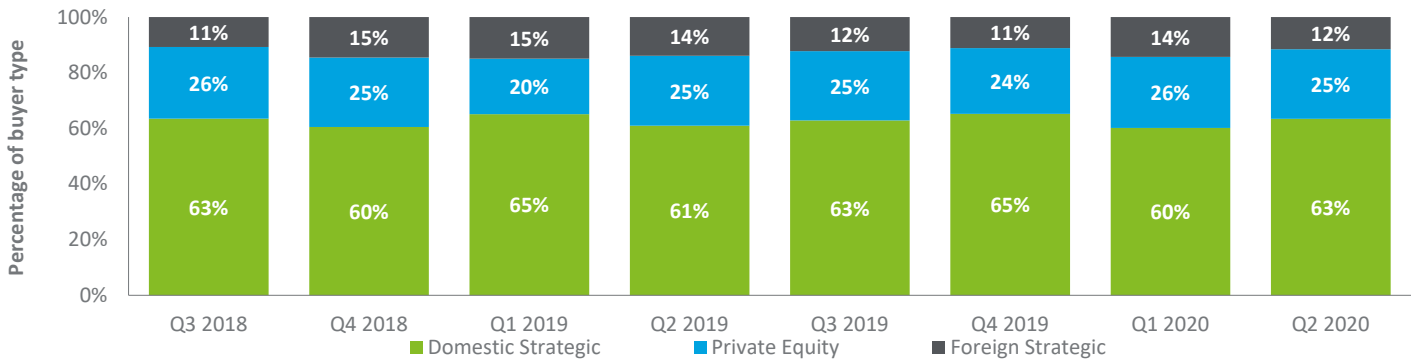
US historical disclosed divestiture transactions by size³



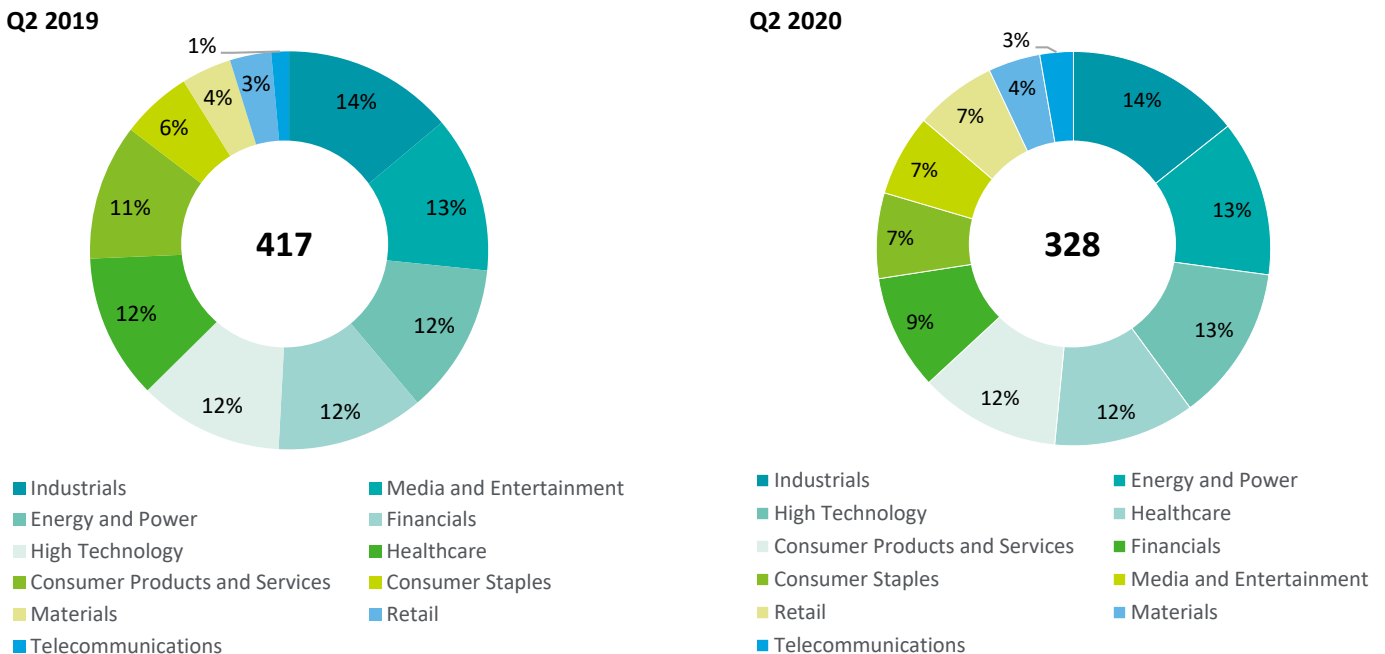
US historical disclosed divestiture transaction multiples¹



US historical divestiture transactions by buyer type²



US historical divestiture transactions by industry³



Most active acquiror countries by region¹

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

Select large US divestitures²

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

A demonstrated approach to divestitures

Key preparation streams



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

CEO, Emerson Electric

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

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3. US Bureau of Labor Statistics. <https://www.bls.gov/>, accessed April 15, 2020. Data as of June 30, 2020.
4. S&P Capital IQ. <https://www.capitaliq.com/>, accessed April 15, 2020. Data as of June 30, 2020.
5. Moody's Investors Services Inc. <https://www.moody.com/>, accessed April 7, 2020. Data as of June 30, 2020.
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Additional Note: All transaction data excludes government, government agency, and real estate company activity.

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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.



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