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# 2020 Global Corporate Divestment Study Key findings

# 78%

expect to divest within the next two years; 57% within the next 12 months.

More companies than ever say they are holding onto assets too long. As they face even tougher, and likely more limited, capital allocation decisions in a disrupted business environment, they will need to reshape their portfolios. At the same time, shareholder activists are preparing recommendations for corporate carve-outs as a result of the crisis.

The result is that most companies are planning to divest within the next two years. With the proceeds, sellers will look to invest in core businesses and fund new technology investments as they re-imagine business models for the future.

## Corporate survey highlights

# 72%

say they held onto assets too long when they should have divested them, up from 63% in 2019.

# 65%

say they will reshape their portfolio to prepare for a post-crisis world.

# 54%

say they will continue divestment preparation or accelerate plans to divest as a result of the crisis.

# 52%

say the need to fund technology investments will make them more likely to divest in the next 12 months.

### Key considerations

- ▶ Companies can benefit from taking bold action and exploring avenues beyond traditional sales during the downturn to boost longer-term total shareholder return (TSR).
- ▶ A more aggressive rebalancing of portfolios will help companies free up capital and refocus on their core business.
- ▶ Companies can use divestments to help fund technology in response to rapidly changing customer demand.
- ▶ Greater divestment preparation will be required to preserve value in a downturn, with 73% of sellers reporting they would only accept a 10% or less reduction in sales price in the next 6-12 months.

## Activist survey highlights

# 96%

will recommend carve-outs of underperforming or non-core businesses within 12 months.

# 84%

report that the timetable from initial investment to a corporate divestment is 6 months.

# 76%

say slowing growth and declines in operating margins will influence choice of new targets.

### Key considerations

- ▶ Companies may have only a short time to prepare for what's next on the activist agenda as recommendations for carve-outs are on the horizon.
- ▶ To restore the path forward post-crisis, companies should maintain an always-on portfolio review process to re-focus toward the highest areas of growth and proactively address non-core businesses.
- ▶ By communicating to key stakeholders the path to long-term value, companies can mitigate risk to hostile campaigns and the heightened activist activity set to come in the next 12 months.

## Lesson learned from the global financial crisis

# 24

TSR percentage point outperformance of divestors versus non-divestors following the global financial crisis.\*

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\*EY analysis of S&P Capital IQ data, including 354 companies with a market capitalization greater than US\$1b located in Europe and North America from the life sciences, consumer and industrials sectors. Two hundred and sixty-six companies made divestments and 88 did not during the global financial crisis (GFC), 2008-2010; median change in TSR observed from 2010-2018.

## About the study

The EY *Global Corporate Divestment Study* is an annual survey of C-level executives from large companies around the world conducted by Thought Leadership Consulting, a Euromoney Institutional Investor company.

This year we have included findings from a separate survey among 25 leading global activist investors, providing their perspectives related to corporate divestments.

### Survey focus areas:

- ▶ Impact of the crisis on divestment timing and strategy
- ▶ Forces driving divestments in the next 12 months
- ▶ Steps companies are taking to strengthen financial and operational structure
- ▶ Perspectives from global activist investors

### Participant profile

Results are based on an online survey of 1,010 global corporate executives and 25 global activist investors pre-COVID (conducted between November 2019 and January 2020), and an online survey of 300 corporate executives and 25 global activist investors following the onset of the crisis (conducted between April and May 2020). Seventy-five percent of respondents are CEOs, CFOs or other C-level executives.

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## Contacts



### Rich Mills

EY Global and Americas Divestment Leader  
[rich.mills@ey.com](mailto:rich.mills@ey.com)  
+1 404 817 4397



### Carsten Kniephoff

EY Europe, Middle East, India and Africa Divestment Leader  
[carsten.kniephoff@de.ey.com](mailto:carsten.kniephoff@de.ey.com)  
+49 4036 132 17664



### Paul Murphy

EY Asia-Pacific Divestment Leader  
[paul.murphy@au.ey.com](mailto:paul.murphy@au.ey.com)  
+61 3 9288 8708