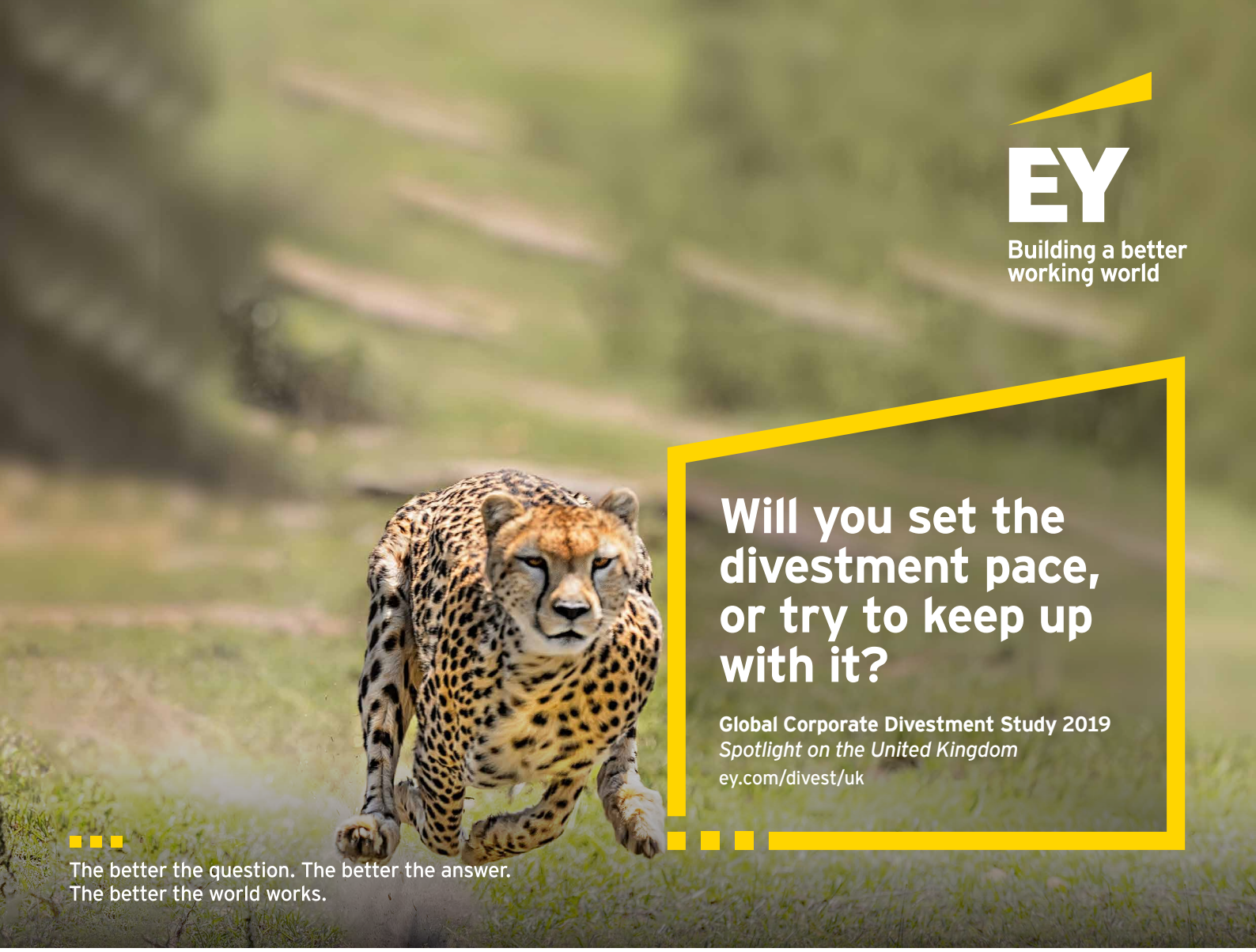


Building a better working world

Will you set the divestment pace, or try to keep up with it?

Global Corporate Divestment Study 2019
Spotlight on the United Kingdom
ey.com/divest/uk

The better the question. The better the answer.
The better the world works.

Divestments remain high on the UK corporate agenda. A fluid outlook can hinder deals, but it can ultimately promote activity as companies adjust their portfolios to new realities. Moreover, whatever the geopolitical reality, companies still need to adapt to rapid structural change. In such a changing environment, a sharp focus on execution is vital.

With 88% of UK companies intending to divest within the next two years – 72% in the next 12 months – this deal activity will continue.

The necessity to streamline portfolios and reinvest capital, to build new capabilities or return this to shareholders, is once again a significant theme. Nevertheless, UK disposal intentions, while historically high, have softened by 11 percentage points in the last year. This could be due to a widening gap between seller and buyer price expectations and a greater priority given to achieving target valuations over exit speed. Vendors clearly aren't prepared to sell at any price.

This widening value gap underscores the need for sellers to focus on measures that maximize deal value. Our survey shows the clear benefits of creating a clear deal perimeter (financially, operationally, commercially, legally, and from tax and regulatory angles) and forming a compelling case for each buyer.

> "Many companies need to divest to make the best use of their capital. But, the separation process often requires far more preparation than they expect. It's vital to understand the critical steps for disposal success."

Charles Honnywill
EY UK&I Divestment Leader

Waiting on Brexit

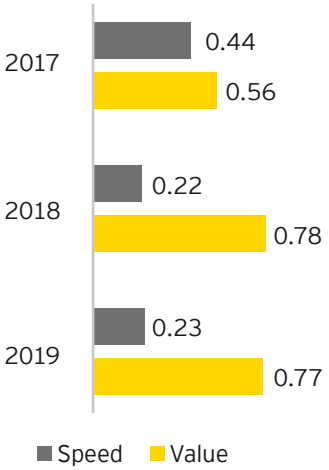
79% of UK respondents say Brexit may affect their plans to divest.

Brexit is still an unknown quantity. Indirectly, a weaker pound has made UK assets more affordable – especially for US buyers, bolstered by the stronger dollar and US tax reform – but there is still the big question of what comes next.

Direct Brexit deal impacts are yet to come. Over three-quarters of UK companies say it may influence their plans to divest in the next year and 61% say that macroeconomic and geopolitical triggers will play into their divestment decisions, compared with 52% at a global level.

But underlying all this geopolitical uncertainty is the need to streamline operating models, which remains the most compelling reason for UK companies to divest. Disposal proceeds have primarily been invested back into the core business (59%) and into new products and markets (52%) to support future growth. Three-quarters of UK respondents said their divestments were directly influenced by the evolving technological landscape.

What was UK companies' main priority in their last divestment?



Prioritizing value

More regular portfolio reviews have left UK companies less vulnerable and more prepared for opportunist bids, which accounted for 43% of UK companies last major disposals compared with 69% a year ago. Almost three-quarters of UK companies are also confident they can value a business at short notice.

Even with this confidence, UK respondents are more likely than their global peers to create price tension after receiving an unsolicited offer, either by opening the process up to another buyer (83%) or competitive auction (70%). A relatively high use of vendor due-diligence and investment bank-led auction processes may explain why more UK sales are process driven and more likely to meet price expectations than their global peers.

Nevertheless, 61% of UK companies said that they held onto an asset too long and almost three in five UK respondents said the price gap in their last deal was over 20%, which is double 2017's figure. The contrast between bullish equity markets and economic uncertainty has exacerbated this valuation gap and halted some disposals as UK companies continue to prioritize value over speed.

Optimizing analytics

62% of UK respondents provide potential buyers with data/output of advanced analytics.

Analytics now play a significant role in all parts of the disposal process, from identifying businesses for sale, through to enhancing pre-sale value and presenting synergy cases for buyers.

Analytics techniques are most often used in UK deals to help decide what to divest. Eight in 10 companies have used them in this way, while half said this helped demonstrate value to bidders in their latest deal. But companies aren't always using data to greatest effect. Using analytic technologies to stress test data from a buyer's perspective fell to 42%, from 70% last year. Meanwhile, over half of respondents who hadn't used analytic techniques in buyer negotiations, wished that they had. Increasingly, whether used by buyers or not, analytic technologies are being used in buyside due diligence to change a vendor's business plan.

Thus, it's vital that sellers don't just focus on analysing data per se, but think about how it fits within a broader process of creating value.

Creating a robust perimeter

A significant proportion of "seller remorse" also links back to creating a clear perimeter, the most difficult, but vital, part of the carveout process. Three issues stand out in our survey.

- **Don't dither on the boundary:** UK companies say the biggest perimeter challenge is who decides where this lies, with 71% saying that leadership alignment was the biggest difficulty. Deal teams should involve leadership team early, but to set clear parameters to avoid a drawn-out process.
- **Don't forget tax and regulation:** Too often these have been afterthoughts; but US and European tax changes and the rise in protectionist measures have pushed both issues up the perimeter agenda. Almost half of our UK respondents said that their most recent closing was delayed by a lack of regulatory understanding. Underestimating tax risk was cited as the biggest cause of value erosion, occurring in 71% of UK companies' most recent divestments.
- **Know when to be flexible:** Sellers should set a clear perimeter, but stand ready to flex that boundary. For example, to meet a buyer's regulatory needs or as issues inevitably arise in today's volatile markets. More than half of UK companies said that a lack of flexibility in the sale structure eroded the value of their last divestment.

In all of this, sellers need to keep the buyers' perspective upper-most in their thinking.

71% of UK companies said that leadership alignment was one of the biggest challenges they'd faced in developing the deal perimeter.

Building a Private Equity (PE) strategy

Most companies benefit from building relationships with PE houses to gain a better understanding of how they see the market and approach deals. A mature relationship with one or two chosen PE investors can help a company think afresh about its portfolio reviews and how others may see value in disposal candidates.

PE houses will be significant buyers and sellers of assets in the next 12 months due to their significant war chest of capital available to invest and portfolio of assets for sale. In our survey, 81% of UK companies expect an increase in PE sellers in the next year, against 65% who expect more willing strategic sellers.

Working with PE buyers can be demanding. The biggest challenges picked out in our survey are the time taken to support lender diligence requests (68%) and the need to develop a realistic picture of stand-alone costs (64%). But the involvement of PE buyers also reduced the time to close in over half of cases and raised the multiple in 41% of deals.

> "Having strategic relationships with PE houses will help companies understand how PE sees the market and your business."

Charles Honnywill
EY UK&I Divestment Leader

About this study

The EY *Global Corporate Divestment Study* focuses on how companies should approach portfolio strategy, improve divestment execution and future-proof their remaining business. The 2019 study results are based on 1,030 interviews with 930 senior corporate executives and 100 private equity executives. The survey was conducted between September and November 2018 by Acuris.

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Enabling strategic growth through better-integrated and operationalized acquisitions, joint ventures and alliances

Enabling strategic portfolio management, and better divestments to help you maximize value from a sale

Helping you transform or restructure your organization for a better future by enabling business-critical and capital investment decisions

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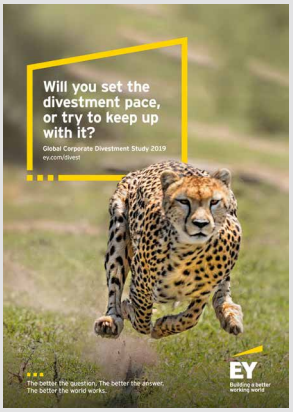

- Advanced manufacturing
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- Private equity
- Technology

To learn more and to have a conversation about your divestment strategy, please contact us:

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