How can divesting help build resilience and drive value beyond the crisis?

2020 Global Corporate Divestment Study
India

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

- What is the impact of COVID-19 on strategic divestments?
- How will businesses use the funds raised from the divestment?
- What will the impact of current crisis on divestment strategy?
- What are some of the key elements to maximize value from divestment?
- What will be the nature of buyers post COVID-19?

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The EY Global Corporate Divestment Study 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.
Debt repayment and raising capital are some of the key challenges triggered by COVID-19

Does the potential impact of COVID-19 pandemic on your business mean you will need to:

<table>
<thead>
<tr>
<th>Option</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>Reduce debt through divestment</td>
<td>67%</td>
</tr>
<tr>
<td>Raise capital</td>
<td>58%</td>
</tr>
<tr>
<td>Reshape portfolio for a post-crisis world</td>
<td>50%</td>
</tr>
<tr>
<td>None of the above</td>
<td>8%</td>
</tr>
</tbody>
</table>

- The ongoing pandemic is having a significant impact on the finances of most businesses.
- Many corporates indicate that raising funds through divestment can help reduce debt levels.
- In addition, businesses are looking to raise capital to manage cash and liquidity issues.
- A large number of corporates say they are rebalancing their portfolio as a result of the crisis.
Reinvesting in core business and paying down the debt are major reasons for undertaking divestments

What do you plan to do with funds raised from a divestment? (Select all that apply)

- Invest in core business: 75%
- Pay down debt: 58%
- Return funds to shareholders: 42%
- Fund an acquisition: 25%
- Build liquidity: 25%

As a result of the severe economic crisis, organizations say they need to focus on their core business and reduce debt level to compete effectively.

Divestments are becoming an increasingly important means for businesses to raise funds for a number of measures, such as returning cash to shareholders and funding future acquisitions.
Funding technology investments reported as a key reason for undertaking divestments in the near future

What impact will the following factors have on your divestment plans over the next year?

Need to fund new technology investments
- More likely to divest: 67%
- Less likely to divest: 17%
- No impact on divestment plans: 16%

Suboptimal return on capital from a business unit
- More likely to divest: 58%
- Less likely to divest: 25%
- No impact on divestment plans: 17%

Streamline the operating model
- More likely to divest: 50%
- Less likely to divest: 42%
- No impact on divestment plans: 8%

Need to pay back state guaranteed loans
- More likely to divest: 42%
- Less likely to divest: 25%
- No impact on divestment plans: 33%

The COVID-19 crisis has highlighted the need for enhancing digital capabilities, with two-thirds of companies saying they need to raise funds for technology investments.

Divesting underperforming assets will help organizations:
- Streamline their operating model
- Improve efficiency and profitability
- Improve ROI
- Improve cash flows
Eighty-three percent of Indian companies plan to divest within the next 2 years; 58% within the next 12 months.

When do you expect to initiate your next divestment?

- **Within the next 12 months:**
  - India: 58%
  - Global: 57%

- **Within 2 years:**
  - India: 9%
  - Global: 20%

- **Open to opportunities:**
  - India: 17%
  - Global: 18%

- India is in line with the global sentiment, where the majority of the companies - 58% - are looking to divest within the next 12 months.

- Companies plan to undertake value creation activities and optimize their working capital prior to divestments in order to maximize deal value.
As a result of the economic slowdown, companies say they will increase their level of preparedness for divestments.

Q In which ways is the economic slowdown as a result of COVID-19 affecting your divestment strategy?

- Increase our level of divestment preparation: 67% (India) 46% (APAC)
- Decrease size/scope of divestment: 50% (India) 33% (APAC)
- Create less certainty regarding which assets to divest: 42% (India) 52% (APAC)

The economic slowdown has served as an impetus for organizations to review their operations and take steps to create value prior to selling a business. This detailed evaluation of portfolios will help organizations:

- Identify assets which do not fit the overall strategy
- Clearly define the scope perimeter for divestment
- Evaluate optimal deal structures
The majority of the companies are willing to accept up to 10% reduction in valuation of assets under divestment

Q: If you believe prices will decrease in the near term, how much less are you willing to accept to complete a divestment in the next 6-12 months:

- 0-5%
- 5-10%
- 10-20%
- More than 20%

While many organizations acknowledge that there will be a pressure on valuations, at this stage, a limited number of companies are willing to accept significant reduction in sale prices.

The vast majority - 83% - of companies in India would accept up to a 10% reduction in valuation, compared to 73% globally.

It is interesting to note that none of the companies will accept their valuation to fall below 80% of asking price.
Fifty-eight percent of companies say there will be an increase in distressed sales, while 67% expect that the buyers will be outside their sector.

**Q** Related to divestments, what do you expect to see in the market over the next 12 months?

- **Number of buyers outside the seller's sector**
  - Increased: 67%
  - Stayed the same: 17%
  - Decreased: 16%

- **Number of distressed sales**
  - Increased: 58%
  - Stayed the same: 42%

- **Number of private equity sellers**
  - Increased: 58%
  - Stayed the same: 25%
  - Decreased: 17%

- **Number of willing strategic sellers**
  - Increased: 33%
  - Stayed the same: 33%
  - Decreased: 34%

Most companies say they expect to attract buyers from private equity and companies outside their sectors in the divestment process.

As a result of the crisis, the volume of distressed sale transactions are expected to increase.
How EY teams can help

1. Evaluate corporate portfolio strategy
   - Assess portfolio of assets, including strategic fit, underlying value, and contribution to the overall business and transaction alternatives
   - Support in unlocking the power of big data to support capital allocation strategies at speed and scale

2. Improve divestment value
   - Support the development of a clear value story for buyers and help determine valuation
   - Develop and execute a separation plan at functional level. Provide support for transition and stabilisation post deal close, thus reducing value leakage

3. Grow the remaining business
   - Understand the remaining company’s cost structure, and help identify opportunities for investments in core business
   - Focus on top-line growth, areas to reduce cost and leverage and improve working capital
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