Factors driving the need to divest assets include:

- Raising capital to address cash needs
- Continuing activist pressure for more corporate focus and simplicity
- Advancing technology that lowers barriers to entry and increases the likelihood of disruption
- Rapidly changing customer demand, requiring increased investment in technology
- Re-evaluating ownership of non-core assets through an asset-light approach and migrating to an ecosystem of strategic partners

In addition, we have seen companies use past economic downturns as catalyst to transform their businesses and emerge stronger. Companies that divested during the 2008-2010 Global Financial Crisis (GFC) outperformed those that did not by 24 percentage points in median total shareholder return (TSR).

According to the EY 2020 Global Corporate Divestment Study, almost all (96%) activists surveyed plan to recommend that a target company divest non-core or underperforming businesses, a sharp increase from the 64% pre-crisis. The timeline has also significantly shortened. Previously, those expecting that such a divestment should take place within six months was 36%; this has now increased to 84%.

Economic conditions, business needs and activist pressures have increased the need to accelerate the divestiture process.
Divestitures are complicated and can often take 9 or more months to complete; critical activities need to be understood and addressed to accelerate timelines

**Launch**

Month 1
- Establish governance model
- Implement governance model

Month 2
- Identify and highlight tax attributes and step-up benefits for buyer
- Develop tax structuring including optimized seller’s tax position
- Calculate stock and asset basis and estimate tax costs of sale
- Determine whether carve-out tax provision is needed
- Consider legal entity structure
- Complete carve-out tax provision (if required)

Month 3
- Define perimeter of business
- Consider financial statement alternatives
- Accumulate and aggregate data
- Identify shared and corporate costs and bridge historical to stand-alone costs
- Develop value story and prepare for buyers
- Prepare and issue self-side diligence report
- Compile deal-basis information and present normalized EBITDA
- Develop forecast and value drivers
- Develop view of stand-alone and one-time costs
- Populate data room

Month 4
- Define current-state operating model
- Assess time required to establish new legal entities
- Define Day 1 and the future operating model for the business and related separation strategy
- Determine Day 1 IT requirements
- Scale organization size and establish process to transfer employees
- Define TSA requirements and service-delivery model
- Initiate separation planning and begin mobilizing resources

Month 5
- Implement Day 1 strategy and timeline
- Determine appropriate roles for buyer, seller and DivestCo
- Leverage technology-based tools
- Address issues identified in buyer’s tax diligence (as needed)
- True-up tax attributes and modify tax structuring
- Complete carve-out tax provision (if required)
- Evaluate tax accounting impact of internal structuring
- Complete working capital and debt-like items for contract positioning

Month 6
- Prepare and issue sell-side diligence report
- Monitor financial results and synergy realization vs. forecast
- Confirm TSA service-delivery model
- Reconfirm current-state operations
- Payroll and benefits setup
- Execute separation plan

Month 7
- Conduct Day 1 readiness workshop with buyer
- Evaluate Day 1 readiness within 30-45 days of close
- Tailor the communications strategy to each constituent
- Assign high priority to closing out work council and union negotiations (where required)

Ernst & Young LLP brings several accelerators to help divestors achieve faster timelines

**EY Capital Edge suite**
- Single source of truth and customizable cloud-based M&A platform

**Accelerated operating model design workshop**
- A framework of how the business is run today and how it will change for Day 1

**Embedded data analytics**
- Real-time data analytics exploration and visualization
### Critical path activities

**Consider deal options and define the deal perimeter early** to avoid time-consuming iterations

**Regulatory approvals** can be time-consuming and complicated by seller and buyer industry dynamics

**Sell-side financials** could be subject to time-intensive carve-out audit requirements

**Buyer due diligence** requires significant time to understand business interdependencies, cost structure and allocations

**Tailoring the transaction structure** to account for all tax considerations

**Employee transition** can be delayed due to labor relations (e.g., EU works council) approval

**Payroll and benefits set-up** requires significant lead time and can be difficult for buyer to merge into their own plans and/or outsourcing plans

**IT systems and infrastructure separation** complexities can prevent business continuity

**Creating step plans to form operationalize legal entities** requires cross-functional input and collaboration

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### Levers to accelerate timeline

- • Involve key decision makers early to finalize deal perimeter
- • Select assets that are easy to carve-out and identify buyers with readily available financing
- • Selectively target buyer pool that would limit antitrust concerns (e.g., due to industry concentrations)
- • Prioritize smaller, digestible assets to not trigger audit
- • Prepare focused outside-in financials that support the value story around quality of earnings, key trends
- • Invest time to detail out operating model (i.e., shared vs. dedicated capabilities), cost allocations and a future-state stand-alone cost model
- • Accept potential tax leakage in order to divest quickly
- • Initiate notice periods and negotiations as soon as possible
- • Utilize professional employer organizations (PEOs) or employee leasing agreements to avoid delayed country closings
- • Amend employee matters agreement and enable buyer to establish programs
- • Minimize systems and infrastructure separation; leverage TSAs where necessary
- • Prioritize setup of significant legal entities
- • Establish Day 1 workarounds (e.g., agency models, TSAs) where setup not possible

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*Note: Preparation for buyer diligence not only increases speed, but also results in greater deal value*
During economic uncertainty, divesting assets is often the most effective measure companies can take to generate liquidity and facilitate recovery. Critical-path activities need to be addressed in order to accelerate the divestiture timeline. Leveraging collective skill, tackling anticipated challenges and applying the right mix of strategic and tactical levers will help set up your team for success.

Case study:

Helping a Fortune 50 company divest digital assets in record time

For one diversified conglomerate, scenario models from digital tools illustrated why a recently acquired business was a better divestiture candidate than a US$1b deeply entangled business. In order to pivot, prepare the business for sale and execute quickly, EY Capital Edge supported analysis on speed and value capture relative to go-to-market strategy, tax structure, operational continuity and localization requirements. In leveraging digital accelerators, the deal teams were able to quickly toggle dynamic sell-side financials between buyer pools and establish Day 1 workaround options. This allowed the seller to successfully complete divestiture preparation and close within an accelerated timeframe never before achieved by the company.

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