The shock of the COVID-19 crisis is impacting organizations across all sectors and the technology sector is no different.

As companies navigate the current crisis, and balance short-term cash flow and resilience needs against longer-term recovery and growth ambitions, technology companies are increasingly rebalancing their portfolios through divestitures to fund these pursuits.

The recent EY Global Corporate Divestment Study highlights the shifting sentiment among tech executives as they view their strategic plans through the lens of resilience and focus on their core business. This year our research gathered perspectives from more than 100 global technology executives between November and January 2020, with a resurvey following the onset of the crisis (between April and May 2020).

The EY resurvey reveals that 71% of technology executives expect divestment preparation to increase as a result of the COVID-19 crisis. In addition, executives expect the size of these divestitures to increase indicating a more substantial rebalancing of portfolios.

Echoing the results of the recent EY Capital Confidence Barometer (CCB), respondents also listed driving business resilience as a key priority when assessing their capital agenda during the pandemic.
How tech execs are driving resilience and M&A by divesting

Shedding non-core business

Coming out of the crisis, 62% said they anticipate the need to divest business units that do not currently hold a leading market position within their respective markets. This is a significant increase from the 27% who reported the same before the pandemic marking a notable change in direction. This suggests that the focus is not solely on divesting poor performing businesses, but also those that don’t meet core strategic narratives. In fact, respondents that were more likely to divest a business unit based on sub-optimal performance dropped from 43% to 38%.

Additionally, it is worth noting where these funds will be directed. Most respondents, 86%, indicated that funds raised from divestitures will be invested back into their core business. Respondents may have multiple priorities for raised funds with an additional 62% intending to return cash to shareholders.

Another change in survey results before and after the pandemic began involves an apparent lessening of pressure from activist investors. Study results collected before the COVID-19 crisis showed a quarter of tech executives were planning to divest in response to activist investor pressure. Following the onslaught of the pandemic, study results indicate activist pressure appears to have tempered slightly in the view of tech executives, with an increasing number of respondents (26%) stating that there will be no impact on divestitures compared with 18% reported pre-pandemic.

Building resilience

During the past four months, the imperative of business resilience has been thrust into the spotlight.

Surplus available capital and reduced cost of funds in recent times have allowed companies to pursue high-growth and higher-risk strategies and to develop leaner operations to drive increased shareholder value. This has created an environment which has, in some cases, eroded the resilience of companies who hold large amounts of debt on balance sheets and are highly reliant on outsourced providers, particularly in relation to global supply chains.

In response, tech executives have outlined an intent to direct a significant portion of funds raised from divestments to technology acquisitions, reduction of debt held and improved liquidity.

The global nature of the current crisis has further exposed breakdowns in global cooperation between several key trading partners.

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

- Invest in core business 86%
- Return funds to shareholders 62%
- Pay down debt 38%
- Fund an acquisition 29%
- Build liquidity 29%
Getting the timing right

We are seeing a spike in companies seeking to execute a strategic portfolio rebalance and divest non-core businesses. However, with volatile capital markets and significant uncertainties regarding recovery speeds, it will be important for companies to approach the process cautiously.

Technology executives also want to accelerate the sale process with 76% of respondents aiming to complete divestitures within the next 12 months compared to just 45% pre-crisis.

With the hastened timeline, companies appear to have moved away from driving organic growth in advance of divestitures (only 2% of respondents compared to 30% pre-crisis) with attention moving to supply chain and working capital improvements in advance of sale.

The other factor in achieving the desired outcome in an accelerated timeline will be alignment on valuations between buyers and sellers. While tech executives have indicated they are willing to accept some impact to valuations, this is reasonably limited with 81% of executives saying they would only be willing to accept a reduction in value of up to 10%.

Heightened challenges in executing a divestment

Typical challenges when navigating the divestiture process for technology companies will be heightened during the current climate. While companies look to preserve valuations and drive an accelerated sale process, they are also navigating the process during a time of increased internal pressures and distractions, remote workforces and ongoing geopolitical uncertainty.

How increased strategic divestment intentions across the technology sector correlate with corresponding buy-side trends is yet to be seen.

Under normal circumstances, the separation process is a lengthy and costly exercise with a high risk to valuation if not executed well. In addition, there are risks to operations and performance of the business. These complexities are particularly heightened currently due to social and lockdown challenges.

Uncertainties concerning global and domestic economic recovery will continue to create challenges for companies navigating this crisis. Additionally, these forces are driving an increase in divestitures within the technology sector. The focus on core business and ensuring business resilience will be key enablers of driving long-term value.
About this 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.

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), including companies from 11 industries, with 75% of respondents holding the title of CEO, CFO or other C-level executive.

Technology highlights are based on interviews with 112 technology executives pre-COVID and 42 technology respondents in the resurvey.

Read more at ey.com/divest

Contacts

Ken Welter
EY Global Transactions Technology Leader
kenneth.welter@ey.com
+1 415 894 8502

Adam Wood
EY Oceania Digital Capital Leader
adam.wood@au.ey.com
+61 3 8575 6306

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. For more information about our organization, please visit ey.com

©2020 EYGM Limited.
All Rights Reserved.
EYG no. 003986-20Gbl
BSC No. 1908-3237361
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as legal, accounting, tax or other professional advice. Please refer to your advisors for specific advice.

ey.com