Can divesting what holds you back move your strategy forward?

2021 Global Corporate Divestment Study
India

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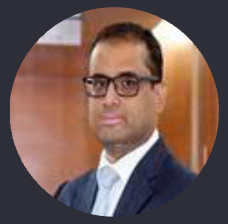
About the study

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.

- How do businesses maximize value from their divestment?
- How do businesses identify non-core assets to divest?
- How are businesses using funds raised from divestments?
- What are the key challenges faced by CEOs while making decision to divest?
- What metrics are businesses using to monitor their portfolio?
- Are companies realizing the strategic benefits through divestments?

Author



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Produced in association with

Thought Leadership Consulting
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Executive summary

How CEOs can develop a successful divestment strategy

60%

of CEOs consider assets that do not contribute to long-term value creation as non-core.

80%

of companies used the proceeds from their divestment to invest in technologies to enhance digital capabilities.

86%

of CEOs acknowledge challenges in providing better guidance of what's core vs. non-core in relation to their corporate strategy.

How CFOs can drive strategic decisions through portfolio reviews

86%

of CEOs acknowledge the need to provide better guidance on what is core vs. non-core.

71%

of companies use earnings per share and return on invested capital as key KPIs to monitor business health.

53%

companies say the top strategic benefit of their last divestment was a redefined growth strategy focused on core businesses.

Why divestments should be a catalyst for CEOs to reimagine RemainCo

50%

of companies acknowledge not placing enough emphasis on RemainCo during their last divestment.

71%

of companies find maintaining operating performance of RemainCo during divestment period a challenge.

53%

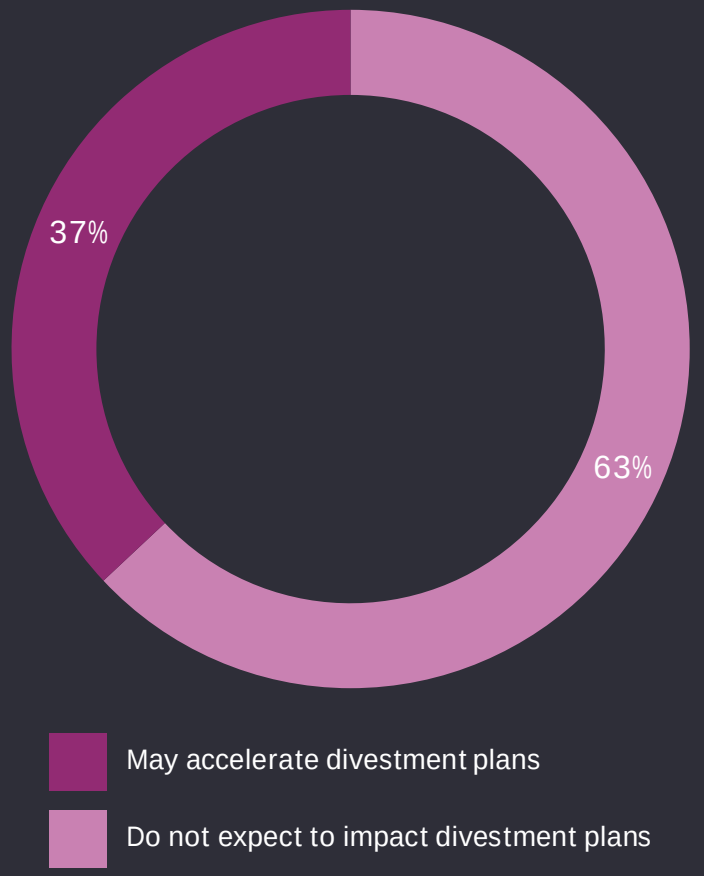
say they failed to achieve results in streamlining RemainCo's management structure in their last major divestment.

1

How CEOs can develop a successful divestment strategy

The pandemic has companies looking at divestments as a way to generate funds from non-strategic assets

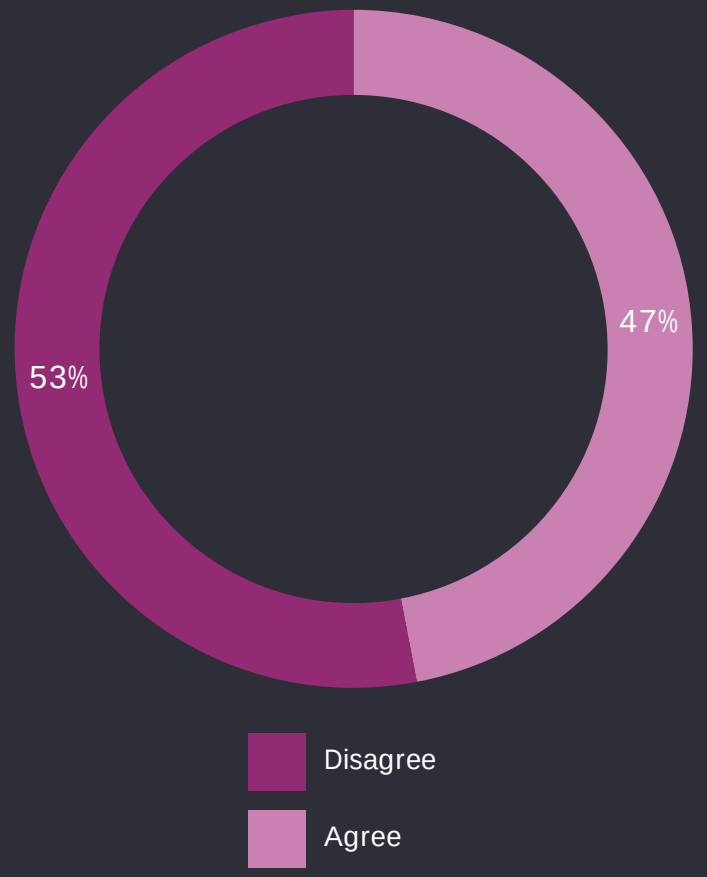
Q Will the continuing effects of the COVID-19 pandemic affect your plans to divest?



- Seventy-three percent (74%) of respondents say they are planning to divest in the next 24 months, as the COVID-19 pandemic has created a need for capital to support business requirements.
- While most companies expect to continue with their divestment process, nearly 40% plan to accelerate their divestment plans.
- Timely divestment of assets can provide companies with the much required funds to manage liquidity and fuel growth during this crisis.

Divestments provide companies with an effective avenue to raise funds for capital allocation even though they are not viewed as such

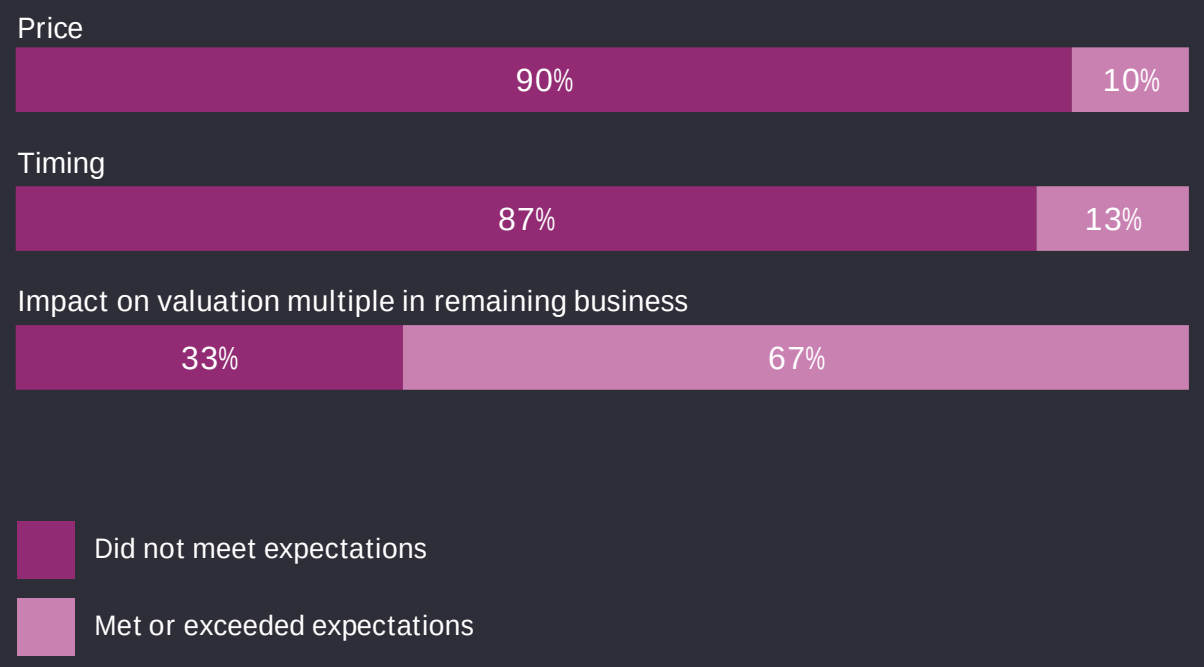
Q Do you agree or disagree with the following statement: Divestments are viewed as an essential part of the capital allocation process?



- The majority of companies do not consider divestments during their capital allocation process.
- Companies should actively consider divestments as a significant source of raising capital for investment in growth opportunities.

Better preparation by sellers can accelerate the divestment process and decrease the price gap

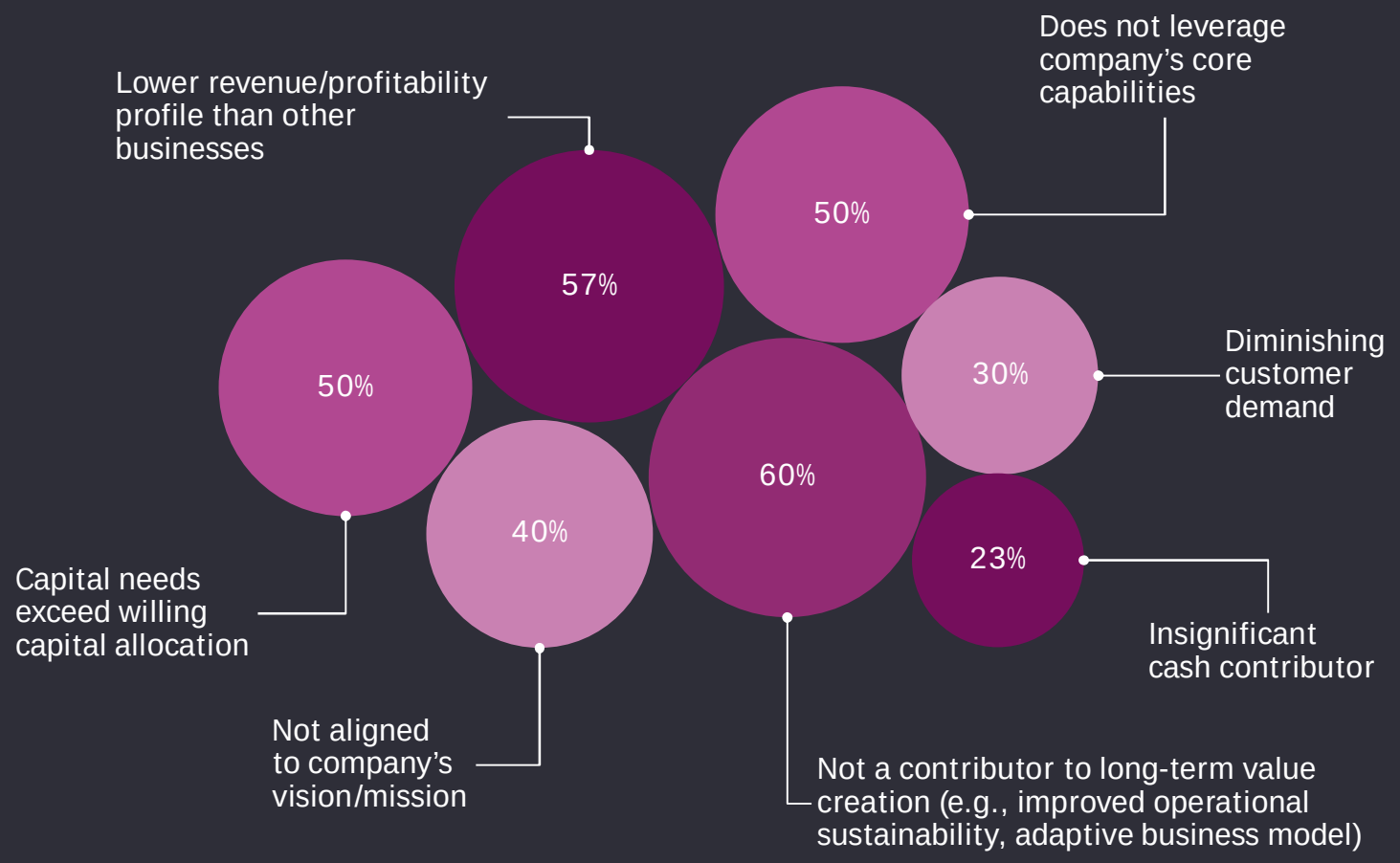
Q Thinking through your company's most recent major divestment, how would you assess the results against expectations in the following areas?



- Almost 90% of respondents acknowledge that it is challenging to meet divestment expectations on price and timing.
- In fact, 100% of the respondents indicate that there is a 10% price gap between a seller's expectation and what a buyer is willing to pay.
- A well-managed divestment process, including comprehensive sell-side diligence (commercial, financial, operational, etc.), enables the company to better prepare for buyer's diligence, thus decreasing the price expectation gap.

Businesses that do not support long-term value creation and are not aligned with company's capital allocation strategy are prime candidates for divestments

Q What factors do you use to identify non-core businesses/assets for divestments? (Select all that apply.)



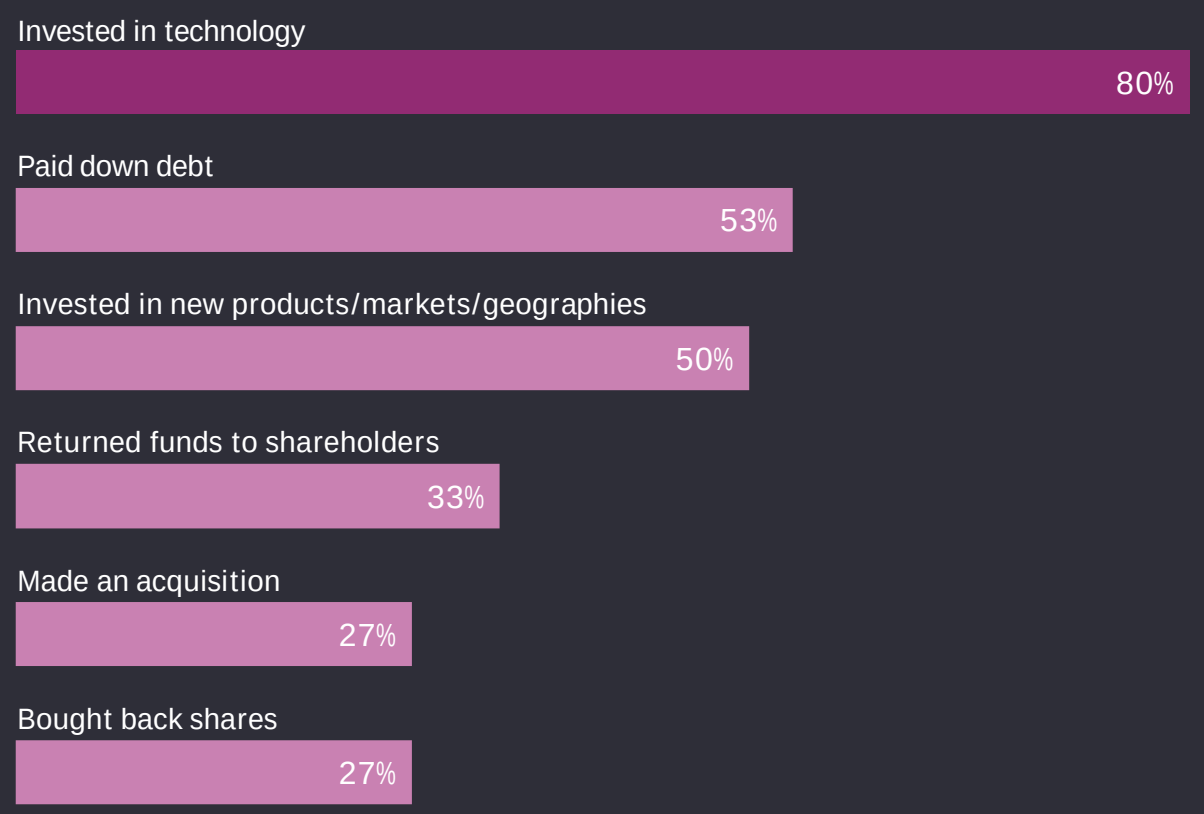
- While determining which assets are core, companies are prioritizing factors such as potential for long-term value creation, growth profile and alignment of capital needs.

Case study

A large Indian conglomerate has been divesting its non-core and sub-scale assets in insurance, ports, etc. They wanted to focus on its core businesses of EPC (engineering, procurement and construction) and services as its broader horizontal approach across industries no longer supports shareholder value creation.

Divestments have provided the funds for companies to enhance digital capabilities to overcome business challenges due to the COVID-19 pandemic

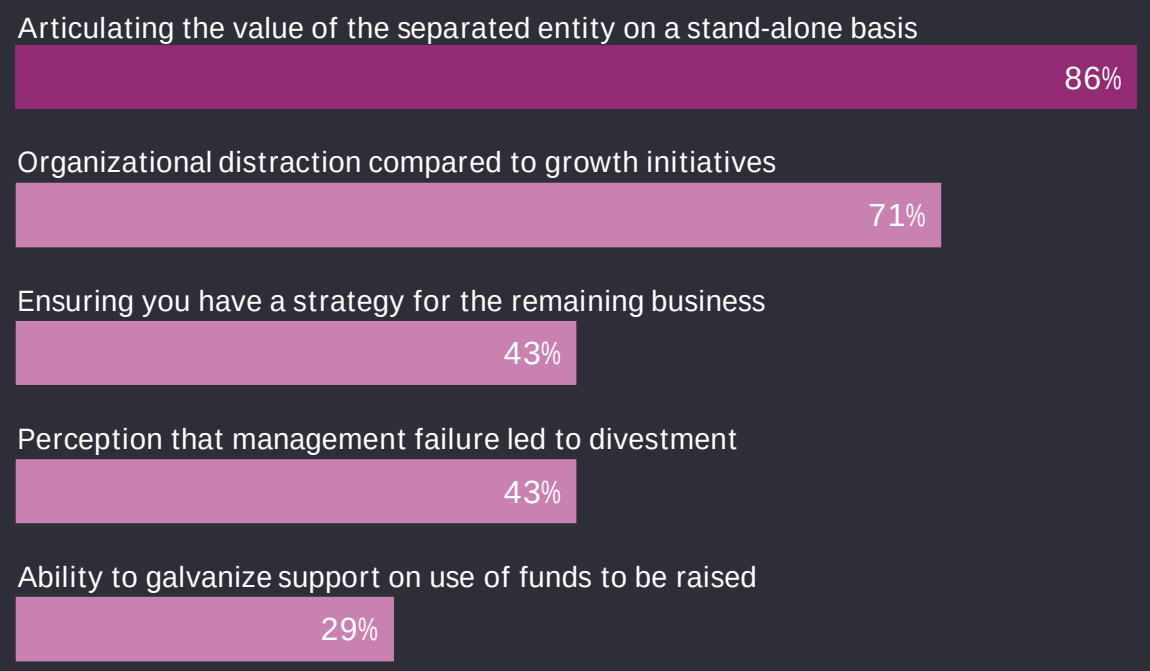
Q What did you do with the funds raised from your most recent divestment? (Select all that apply.)



- The COVID-19 crisis has highlighted the need to enhance digital capabilities, with 80% of companies using the divestment proceeds to invest in technology.
- Divesting underperforming assets will help organizations in:
  - Streamlining their operating model
  - Raising funds to deleverage
  - Investing in capabilities for future growth

CEOs face multiple challenges during divestments, including finalizing a business strategy for RemainCo

Q What are key challenges that CEOs face when deciding to divest? (Select all that apply.)

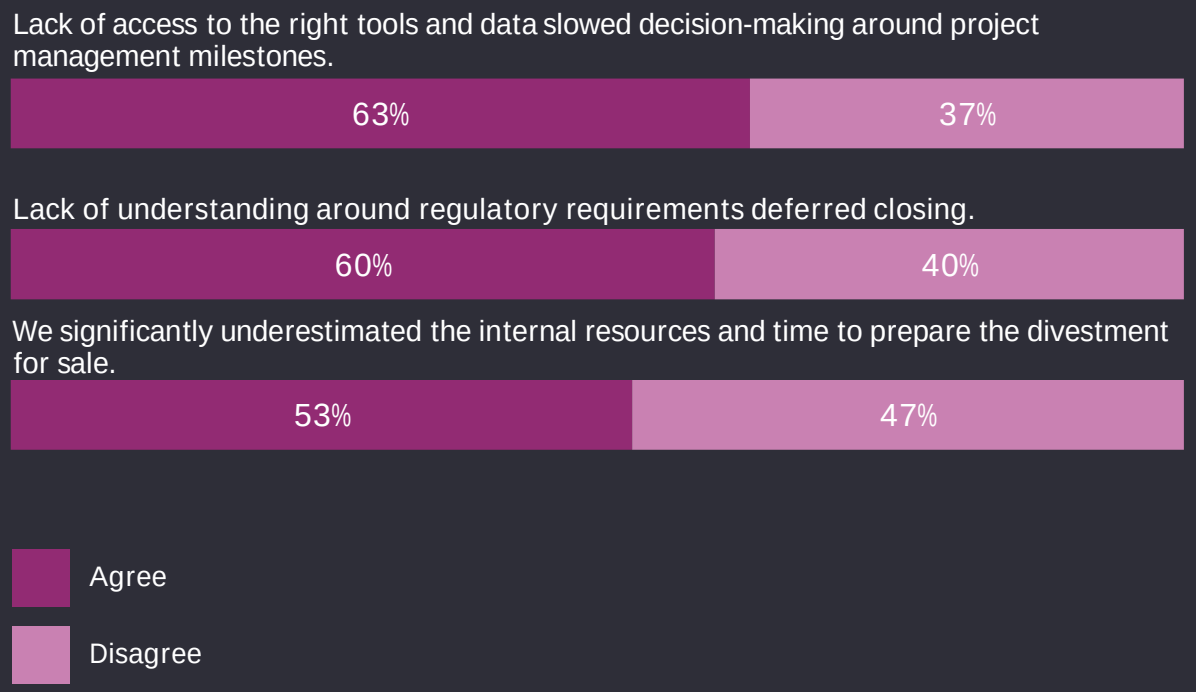


Base = 7 Indian CEOs

- Articulating the value of a divestment to stakeholders is one of the toughest challenges being faced by the CEOs.
- In addition to sharing the divestment rationale, CEOs should share a vision on how RemainCo can unlock value and grow as a result of the divestment.
- A well-formulated divestment strategy will help CEOs effectively communicate the go-to-market strategy, potential operational synergies from related products and technology, or geographic coverage for RemainCo.

A robust project management process and the right tools and resources are critical to enhance value from divestments

Q With respect to your last major divestment, would you agree or disagree with the following statements?



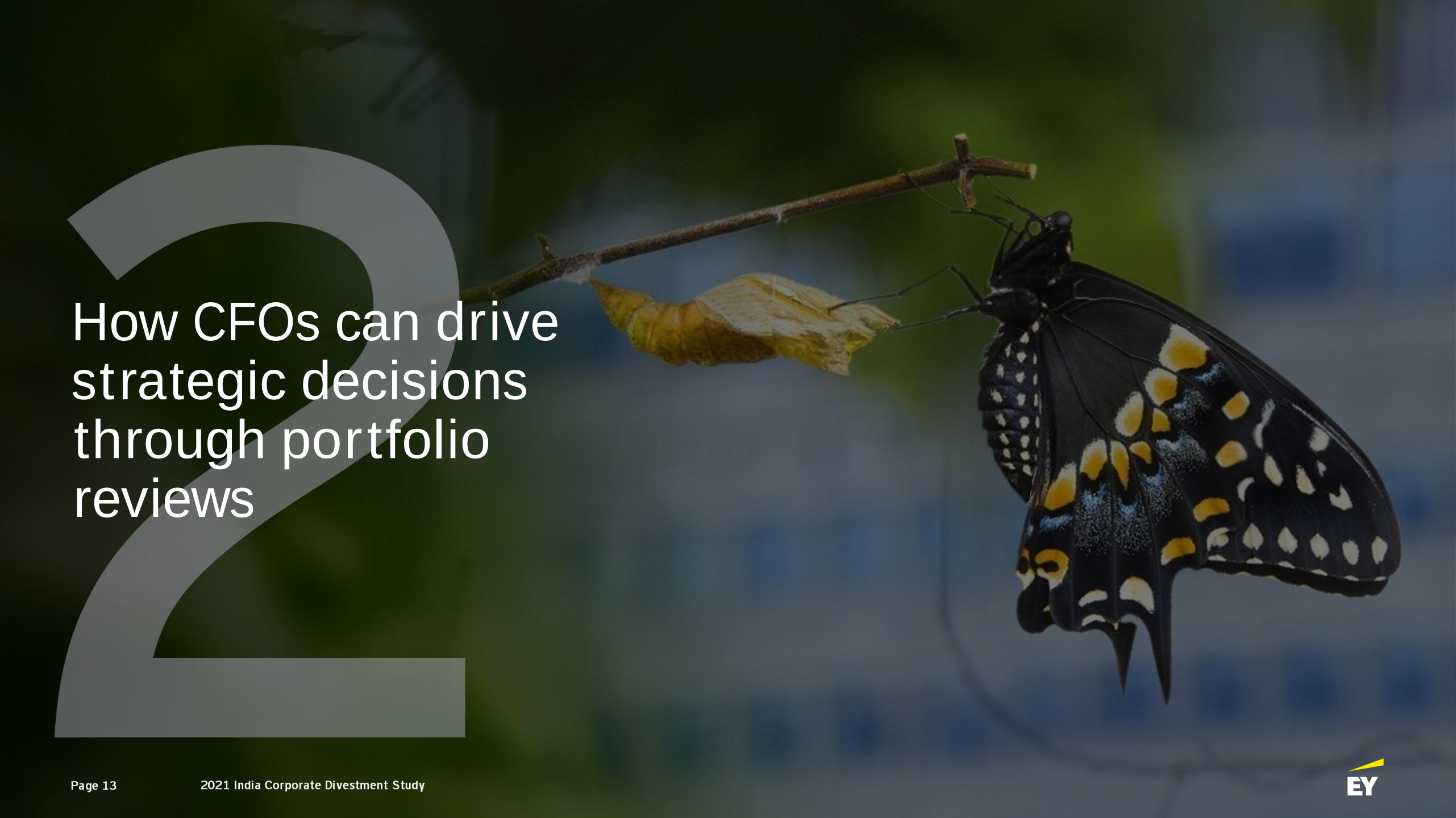
- A divestment is a complex process with interdependencies across business units and functions.
- Companies need to implement a robust program management process with adequate internal resources to drive divestments.
- Ninety-three percent (93%) of companies anticipate that tax-related issues will continue to impact their divestment strategy over the next 12 months.

Key takeaways

- Have a clear view on strategic alignment, competitive advantage and potential for long-term value creation for each business
- Pursue divestments to help accelerate investments in technology, new products or geographies and to fuel new growth for RemainCo
- Communicate efficiently with stakeholders the need to divest a business that is not a strategic fit, even if it has strong performance

2

How CFOs can drive strategic decisions through portfolio reviews



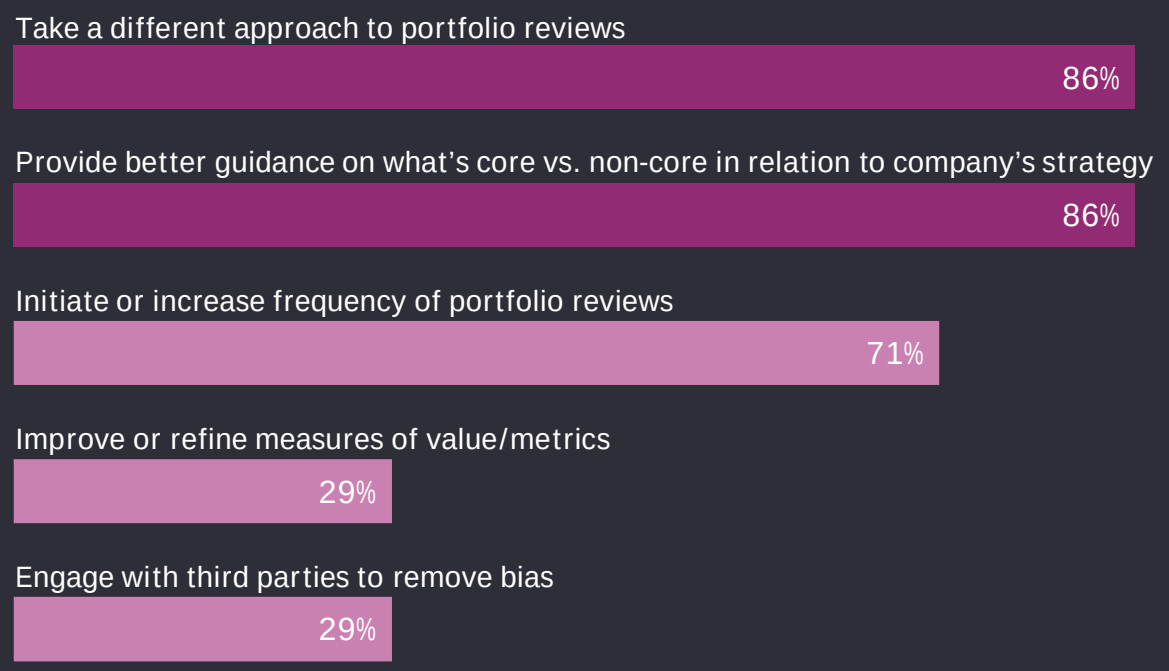
Divestments should be a core part of corporate strategy rather than treated as one-off decision based on short-term needs

Q Do you agree or disagree with the following statements?

- The majority of executives acknowledge the need to act faster to divest non-core assets that can help accelerate shareholder return.
- A well-defined portfolio strategy, coupled with the right resources and expertise to manage divestments, should give companies more confidence to divest at right time.
- Companies can pursue a “carve-out platform” approach to make businesses divestment ready where systems, processes and legal entity separation work begins before the deal process starts.

Better portfolio reviews can help companies identify the right asset and the right time to divest

Q What specific actions could CEOs take to enhance identification of a divestiture candidate? (Select all that apply.)

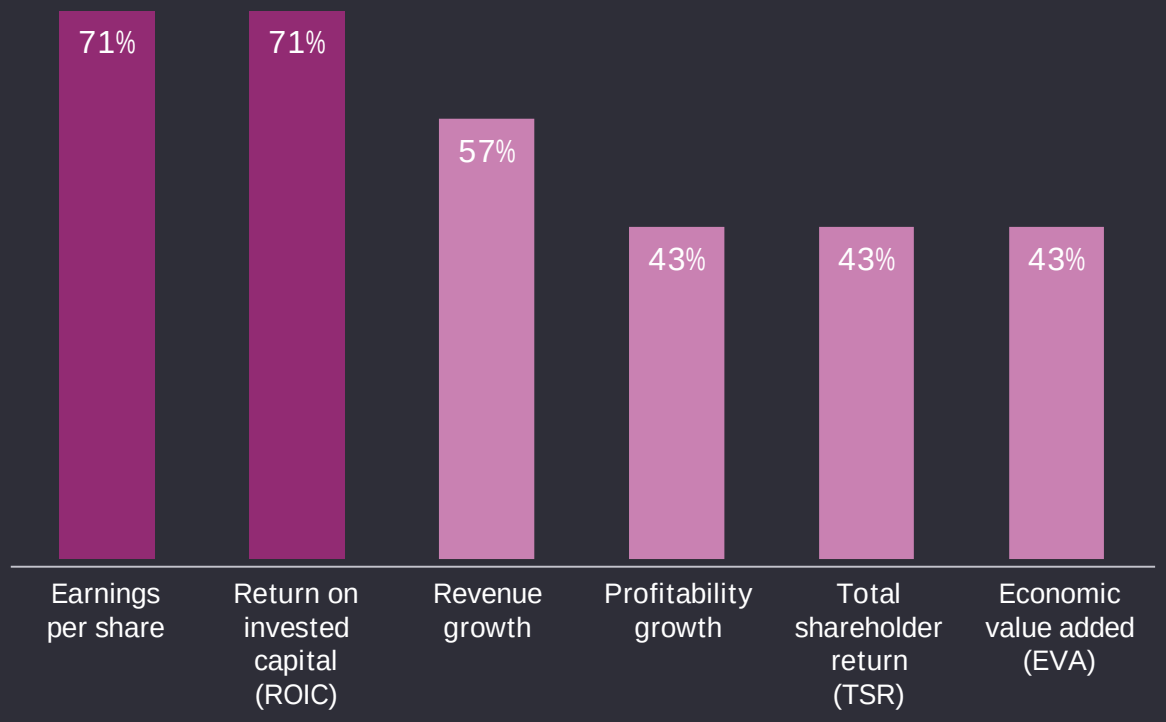


Base = 7 Indian CEOs

- To enhance identification of potential divestments, CEOs are looking for more from portfolio reviews.
- Reviews should be conducted at a level that closely aligns with potential carve-outs and with evolving KPIs that can help predict future growth.
- Effective portfolio reviews focus on a few key metrics that measure how each business complements the enterprise strategy and contributes to total shareholder return through a combination of growth and return on invested capital.

CFOs need to use forward-looking measures in tandem with backward-looking KPIs such as ROIC

Q What KPIs are being used to measure and monitor the overall business on an ongoing basis? (Select all that apply)



Base = 7 Indian CFOs

- KPIs shouldn't remain static. If business priorities change, new KPIs should be considered. However, only 73% of businesses say they evaluated their KPIs in the past three years.
- Forward-looking metrics also need to take into account the challenge of forecasting future growth as companies try to determine which pandemic-driven customer behaviors will remain and which are temporary.

Case study

A company implemented a portfolio review process with three distinct criteria – path to an agreed return on equity (ROE), path to profitability and strategic importance – to identify assets for divestment.

Divestments can help companies sharpen their focus on core businesses as additional capital becomes available

Q What has proven to be a strategic benefit after you have executed a divestiture? (Select all that apply.)

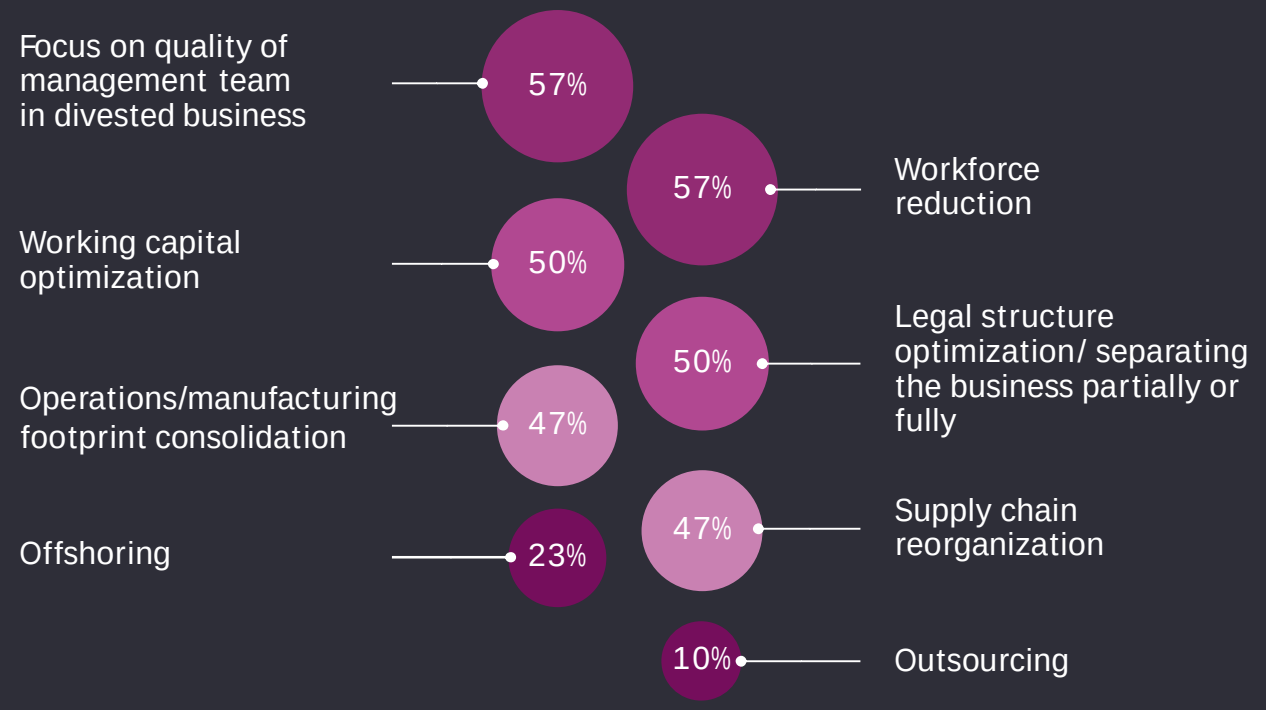
- As a result of divestments, companies can capture strategic benefits that support growth plans for the remaining portfolio.
- Executives indicate that divestments allow them to streamline their operations and place attention on higher growth opportunities.

Case study

One of India's largest integrated power companies divested its non-core assets in defense to focus on growth opportunities, including renewable energy business.

Pursuing value creation strategies ahead of divestments can help the seller maximize sales value and decrease the price gap

Q Please select sources of value in your last divestment. (Select all that apply.)



- Businesses have been able to maximize sales price from their divested assets by implementing value creation activities.
- In fact, 67% of CFOs say that value creation activities such as working capital optimization and operational improvements can enhance sales value.
- Private equity controlled firms regularly undertake value creation activities in their portfolio prior to sale.

Key takeaways

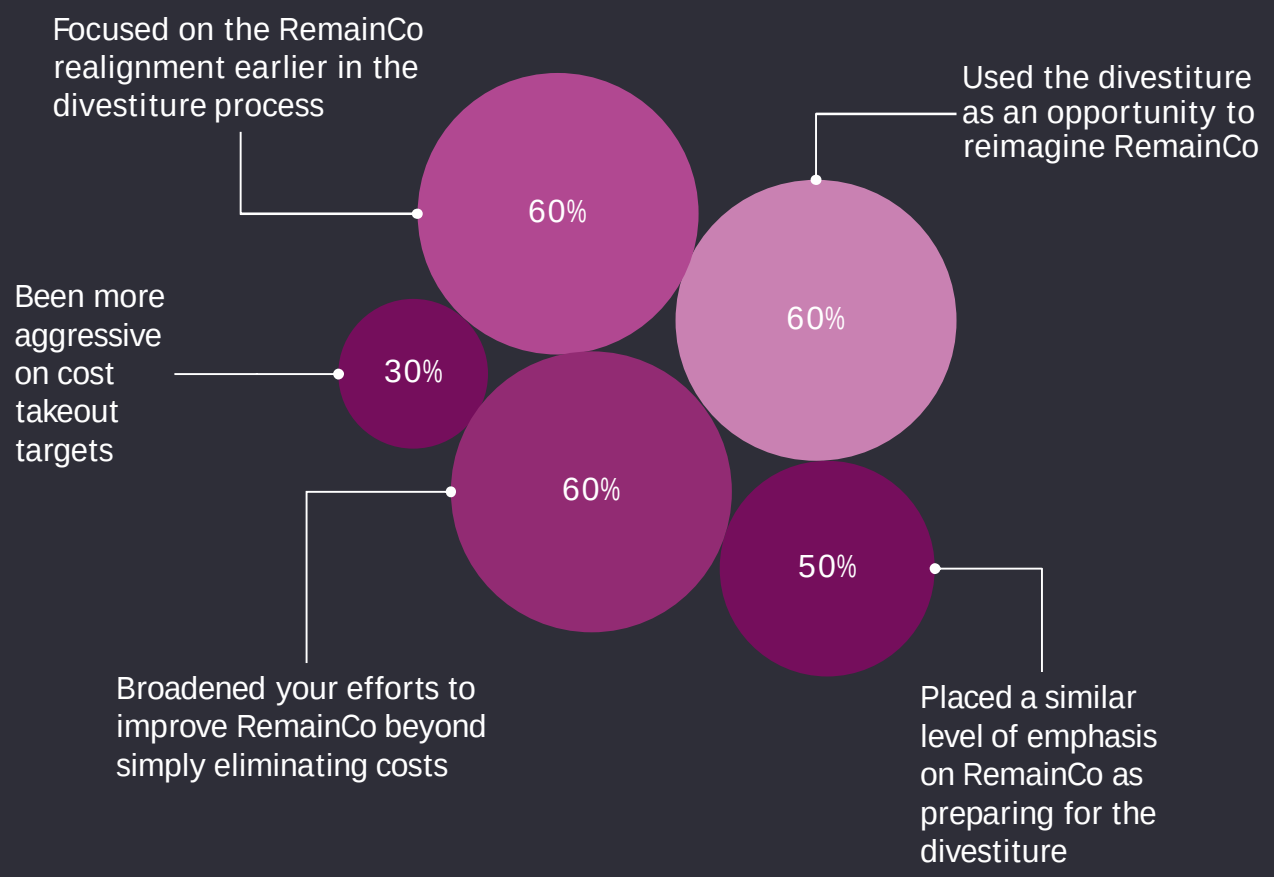
- Make divesting part of management's strategy to focus on core businesses rather than treating it as a one-off decision in order to invest in opportunities that yield long-term value
- Rigorously review the portfolio using key metrics to define how each business complements the enterprise strategy and contributes to total shareholder return
- Focus on value-creation activities to improve operational efficiencies and expand value of divestments

3

Why divestments should be a catalyst for CEOs to reimagine RemainCo

Divestments should be viewed as an opportunity to reimagine RemainCo, which will help drive significant shareholder returns

Q What additional steps did you not take, but wish you would have taken, to capture a larger benefit to the remaining organization? (Select all that apply.)



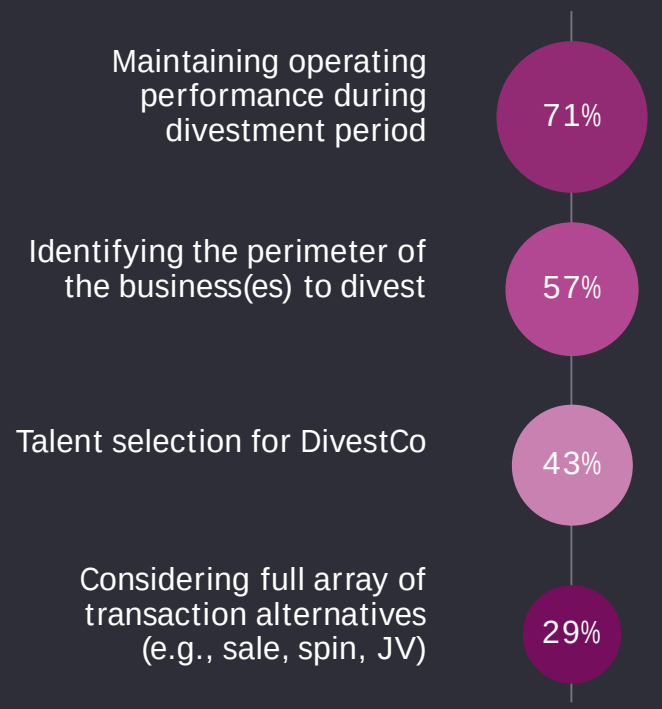
- Executives often regret not using divestment as an opportunity to transform the remaining company and drive long-term value.
- A company's divestment rationale should include the benefits to RemainCo's future business.

Case study

A major global industrial company delayed the announcement of a divestiture until the CEO was confident of management's plan to unlock over half a billion dollars of value in RemainCo for the shareholders over the next three years.

The complex process of divesting can affect the operational performance of RemainCo

Q What are the key challenges that CEOs face in effectuating a divestment? (Select all that apply.)



Base = 7 Indian CEOs

- The key to successful divestments and creating value for RemainCo is to be laser focused on the operational performance of the RemainCo, which 7 out of 10 companies agree is critical in limiting disruption during the divestment period.
- Companies should have a clear organizational structure for RemainCo to overcome the challenges of finalizing the deal perimeter and talent selection for DivestCo.

Streamlining management structure and managing market perception are significant challenges for successful divestments

Q In which areas did you fail to achieve the intended results on the remaining organization during your most recent divestiture? (Select all that apply.)

- Executives report that streamlining the management structure and improving the organization's perception in the market are areas of significant challenge in divestments.
- Investors and other stakeholders are increasingly demanding that companies do more across all three environmental, social and governance (ESG) pillars.
- Companies must take a holistic approach that recognizes the need to identify, measure and embed ESG factors to improve access to capital and generate long-term value for stakeholders.

Key takeaways

- Divestments can provide an indispensable opportunity for management to reassess, reimagine and realign RemainCo to create greater value.
- Limiting disruption of the remaining business operations should be one of the key metrics to measure a successful divestment.
- To successfully execute a divestment, management must make a clear plan to streamline management structure and improve market perception for RemainCo.

4

How EY can help?

How EY can help

EY teams help companies evaluate their strategy, manage the portfolio, improve divestment value and grow their remaining business. Dedicated, multifunctional EY professionals work with corporate and private equity clients on sales of the entire company, carve-outs, spin-offs and joint ventures (JVs).

Evaluating corporate strategy

- Purpose-led strategy development and long-term value creation
- Business model reinvention
- New market entry opportunities
- Digital strategy and innovation
- Go-to-market strategy

Managing the portfolio

- Strategic alternatives analysis
- Financial forecasts and scenario planning
- Capital allocation strategy
- Stress testing of divestment hypothesis

Improving divestment value and timing

- Value creation ahead of divesting
- Multidisciplinary transaction governance
- Day 1 of future state operating model design
- Advanced analytics to support buyer negotiation
- Working capital optimization
- Value story development
- Efficient tax restructuring

Growing the remaining business

- Remaining company cost structure
- Customer experience and growth strategy
- Cybersecurity risks and remediation
- Organizational structure
- People and performance management
- Digital and technology strategy

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Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

About EY Strategy and Transactions
EY Strategy and Transactions teams work with clients to navigate complexity by helping them to reimagine their ecosystems, reshape their portfolios and reinvent themselves for a better future. With global connectivity and scale, EY Strategy and Transactions teams help clients drive corporate, capital, transaction and turnaround strategies through to execution, supporting fast-track value creation in all types of market environments. EY Strategy and Transactions teams help support the flow of capital across borders and help bring new products and innovation to market. In doing so, EY Strategy and Transactions teams help clients to build a better working world by fostering long-term value. For more information, please visit ey.com/strategyandtransactions.

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