

Divestment activity poised for rebound as companies start to look beyond the fallout of COVID-19

Data compiled by Willis Towers Watson's Divestment Performance Monitor (DPM)



Following a fall in performance in the first half of 2020, companies look to recalibrate their strategies to recover in a post-crisis world.

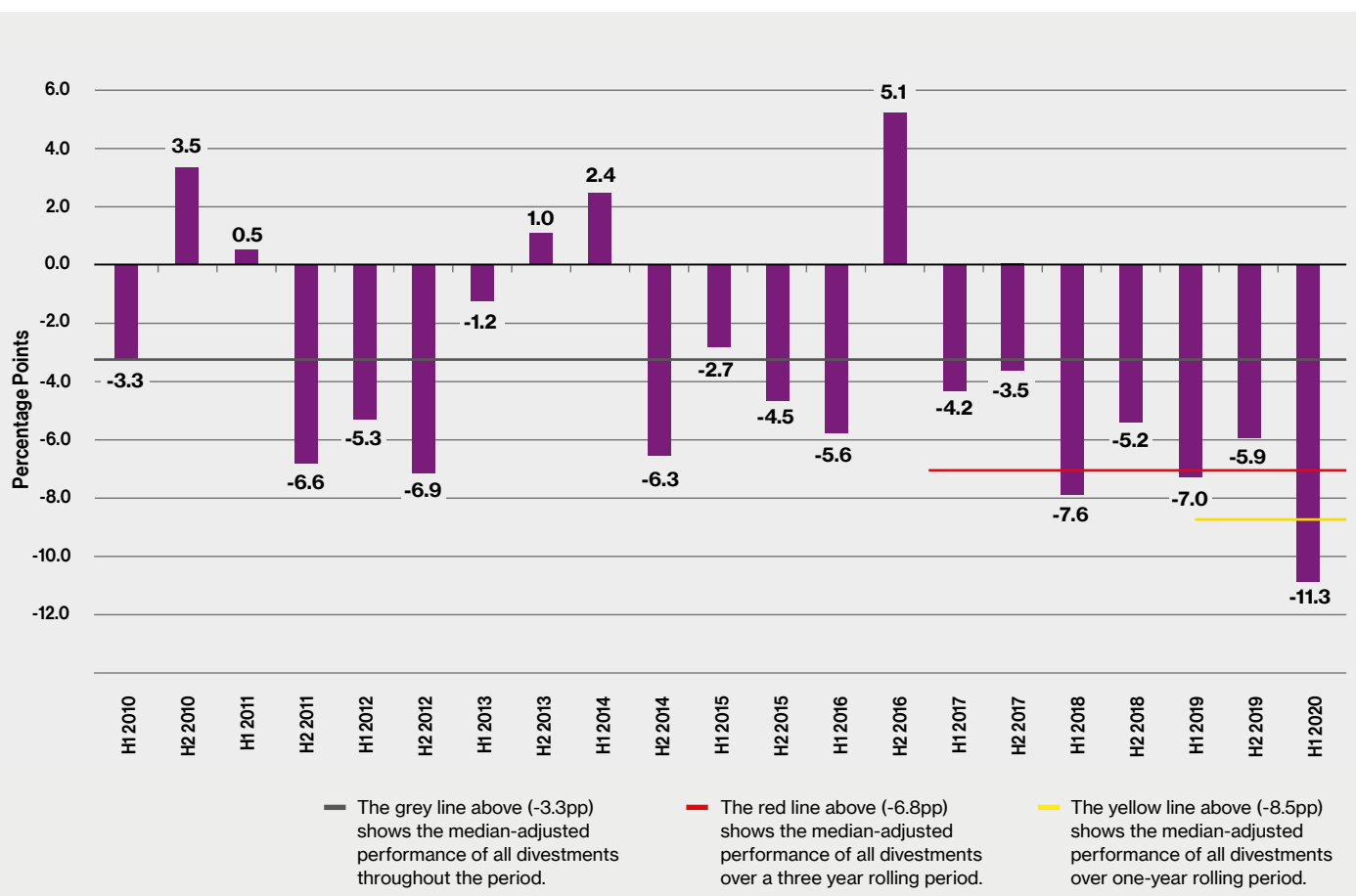
The value of divestment deals plunged to record lows in the first six months of 2020, according to Willis Towers Watson's Divestment Performance Monitor (DPM), in partnership with the Business School (formerly Cass). As the COVID-19 pandemic changed the game, with corporations confronted by a sudden and dramatic shift in their markets, 63% that sold portions of their business in the first half of 2020 underperformed.

Companies actively engaged in divestment deals in the first half of 2020 underperformed the Global Index¹ by an average of 11.3 percentage points (pp). This is an even sharper decline compared to negative performances in H1 2019 (-7.0 pp) and H2 2019 (-5.9 pp), and is the worst six-month period since the divestments database launched in 2010.



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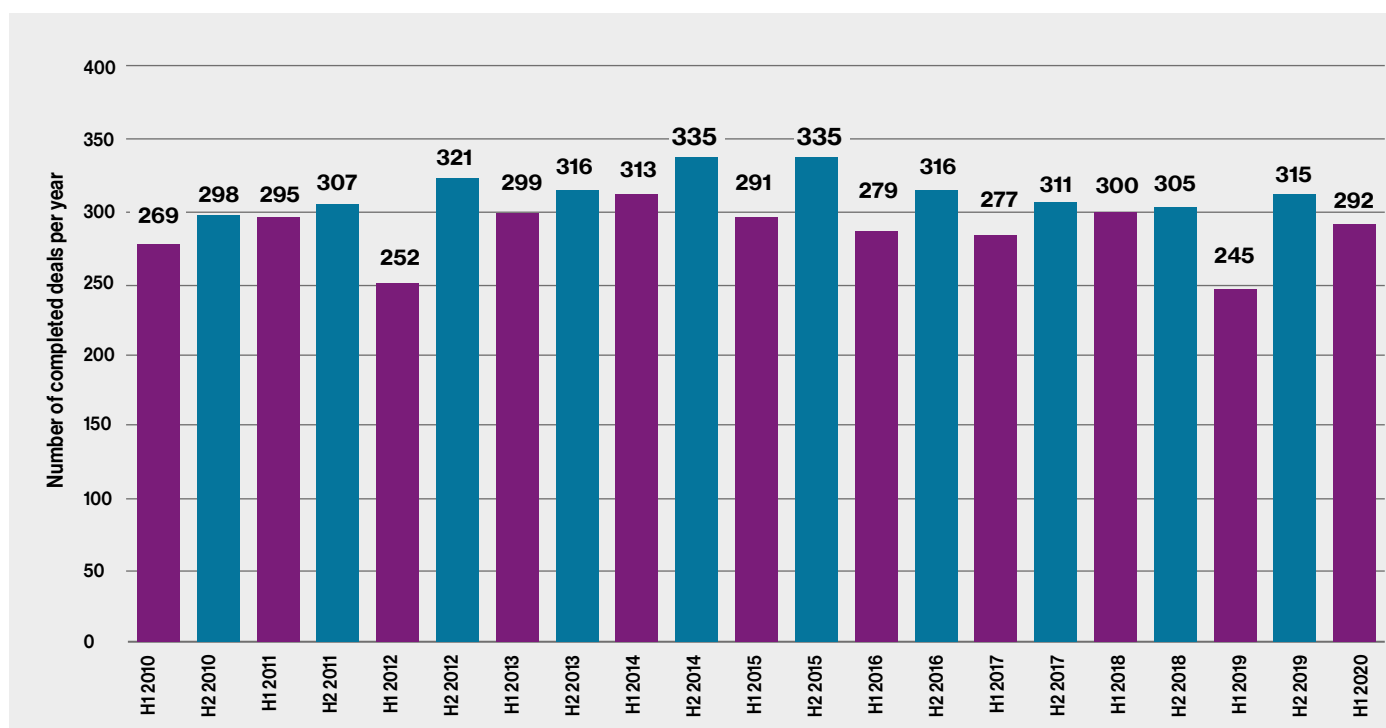
Figure 1. Semi-Annual Analysis – All Divestitures



NB: The share price returns have been adjusted to Index returns over the corresponding period. The MSCI World Index is used as default, unless stated otherwise.

¹ The global database analyses the share price performance of companies selling assets, from six months prior to the divestment announcement to up to six months after the divestment has completed.

Figure 2. Divestiture Semi-Annual Analysis Volume (number)



Divestiture volumes hold up well

While the negative performance is significant, it is not unexpected considering the severity and volatility of the markets in the first half of 2020. Given the defensive role that divestitures can play in distressed circumstances, the absence of a bigger spike in deal volume is perhaps more surprising. With 292 deals completed in the first half of 2020, volumes have been driven by an upsurge in deals in Europe and North America, yet overall numbers are down globally compared to the previous six months (315).

Private Equity (PE) buyer activity fails to materialise

Another unforeseen outcome was the much-anticipated surge in PE buyer activity which has so far failed to materialise, despite that industry holding record levels of capital. Instead, PE buyers accounted for just 22% of all divestments in H1 2020, a market share on par with the same period last year.

Figure 3. Deal Type Analysis (2019 – 2020)

	H1 2019	H2 2019	H1 2020	2019	2020
Mega deals (over or equal \$10bn)	11.2	6.1	-22.4	7.1	-22.4
Large deals (over or equal to \$1bn)	-4.1	-2.2	-11.7	-3.5	-11.7
Medium-sized deals (under \$1bn)	-8.3	-6.8	-11.2	-7.9	-11.2
Domestic	-8.4	-5.2	-15.2	-7.1	-15.2
Cross-border	-4.8	-6.3	-7.7	-6.0	-7.7
Intra-regional	-7.1	-6.0	-14.2	-6.3	-14.2
Cross-regional	-6.2	-7.8	-7.9	-6.2	-7.9
Intra-sector	-6.7	-1.2	-11.1	-4.5	-11.1
Cross-sector	-7.0	-9.7	-12.9	-8.1	-12.9
Quick deals	-4.2	-6.3	-13.6	-5.8	-13.6
Slow deals	-7.2	-6.0	-10.9	-6.6	-10.9

NB: The share price returns have been adjusted to Index returns over the corresponding period. The MSCI World Index is used as default, unless stated otherwise. 'Quick' deals refer to those transactions which had a median time to completion of less than 70 days, whereas 'slow' deals are those which had a time to completion more than or equal to 70 days for the period. Note that the sub-sample analyses for which the data points have grey coloured font include fewer than 25 deals, i.e. below our significance level, and should, therefore, be viewed as indicative.

COVID-19 has sent the M&A business into a deep freeze after a decade-long boom and volumes in the third quarter will most likely remain stuck in low gear, being tied to deal activity occurring just after the full impact of the pandemic struck.

Companies face unprecedented challenges as a result of the crisis' financial impact, forcing many into survival mode. Depending on the severity of the fallout from COVID-19, divesting non-core assets will be key to preserving and enhancing value for many companies, as they reshape their portfolios to recover and thrive in a post-crisis world.

Key insights

Insights from the DPM data, which looks at companies selling portions of a parent company to both listed companies and private equity buyers, include:

- **All regions but Europe underperformed:** North America divestitures performed worst of all regions (-23.5 pp) in H1 2020, followed by Asia Pacific (-17.1 pp). In contrast, European divestitures managed to outperform their industry benchmark by an average of +4.7 pp, boosted by a positive performance of +4.9 pp from UK deals, which account for roughly one quarter of all European divestitures.
- **Mega deal activity on par with 2019:** Six deals closed in H1 2020 compared to five deals in H2 2019. The performance of mega deals dipped sharply, currently at -22.4 pp compared to +6.1 pp for the last six months of 2019.

- **Buyers unable to buck downward trend:** Buying divested assets was the only M&A strategy in 2019 to create shareholder value. Acquirers (-15.7 pp) are now performing worse than sellers (-11.3 pp), suggesting that both parties would have been better off sitting out the market turbulence in the first half of 2020.
- **Selling to PE buyers:** The trend for seller performance to be worse when dealing with PE buyers (-14.6 pp) compared with corporate buyers (-9.5 pp) continued in H1 2020. PE acquirers tend to have professional transaction teams with deeper experience and more regular deal flow, enabling them to negotiate harder. In order to optimise value and ensure that buyers do not win at their expense, sellers will benefit from thorough planning and preparation for sale.

Although the data shows that just over six out of ten deals (63%) from H1 2020 underperformed, this also means that the remaining deals were successful in outperforming rival companies that did not divest.

We do not know exactly what lies beyond the COVID-19 crisis, but current trends driving divestment activity now may accelerate, and many organisations will soon

find themselves without the luxury of choice. There is clear evidence that down-cycles can present unique opportunities and sell-side M&A can be an effective tool as companies enter the recovery stage of COVID-19. The most resilient and successful companies will be those which are able to quickly re-identify non-core assets, which are prepared to execute at the right time, which show discipline and which focus on portfolio transformation.

Further information

For further information about the research, or for help with your M&A activity, please contact your Willis Towers Watson consultant, or

Jana Mercereau

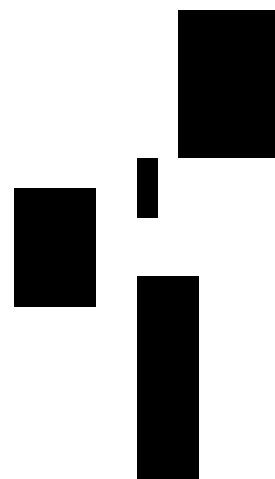
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Appendix

Appendix A. Full data - Deal Volume by Category 2019/2020

	2019	2020
All	571	299
Spin-off	11	7
All Divestitures Only	560	292
Corporate Buyer	455	234
PE Buyer	116	65
Asia-Pacific	194	94
Europe	142	75
North America	193	101
Rest of the world	42	29
Consumer Products & Services	31	11
Consumer Staples	22	12
Energy & Power	79	43
Financials	243	124
Healthcare	26	19
High Technology	26	11
Industrials	52	30
Materials	45	33
Media & Entertainment	11	6
Retail	10	4
Telecommunications	14	6

	2019	2020
Domestic	374	201
Cross-border	197	98
Asia-Pacific	51	30
Europe	80	35
North America	45	24
Rest of the world	21	9
Intra-regional	467	240
Cross-regional	104	59
Asia-Pacific	22	16
Europe	30	18
North America	36	18
Rest of the world	16	7
Intra-sector	299	149
Cross-sector	272	150
Asia-Pacific	106	56
Europe	61	26
North America	86	53
Rest of the world	19	15
Quick deals	230	130
Slow deals	341	169
Large deals (over or equal to \$1bn)	90	48
Mega deals (over or equal to \$10bn)	8	6

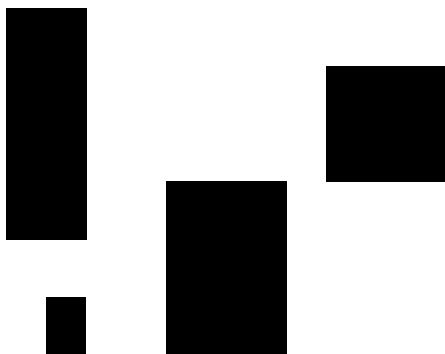


Appendix B. Top 25 Deals by Value of Transaction: H1 2020

Date Announced	Date Effective	Acquirer Name	Seller Name	Value of Transaction (\$ mil)
27/03/19	16/06/20	Saudi Arabian Oil Co	SABIC	69,100
22/01/20	10/04/20	Russian National Wealth Fund	Sberbank Rossii PAO	33,853
29/04/18	01/04/20	T-Mobile US Inc	Sprint Corp	26,761
07/08/19	30/06/20	Shareholders	Match Group Inc	23,917
25/02/19	31/03/20	Danaher Corp	GE-Biopharma Business	21,400
19/07/19	01/06/20	Asahi Group Holdings Ltd	AB INBEV SA/NV-Carlton Brewer	11,320
05/04/19	19/03/20	China CSSC Holdings Ltd	Guangzhou Shipyard Intl Co	8,824
18/12/19	18/06/20	HC Holdings KK	Hitachi Chemical Co Ltd	8,807
30/04/19	29/02/20	Gardner Denver Holdings Inc	Ingersoll-Rand US Holdco Inc	8,736
30/08/18	04/03/20	La Banque Postale SA	CNP Assurances SA	6,320
26/02/20	15/05/20	Blackstone Group Inc	IQ Student Accommodation Group	6,060
21/02/19	25/03/20	INWIT SpA	Vodafone-Mobile Tower Assets	5,805
14/01/20	14/02/20	Investor Group	MGM Resorts Intl-Grand Las	4,600
23/10/18	16/03/20	Aqua America Inc	Peoples Natural Gas Co	4,275
19/12/19	03/06/20	Apergy Corp	ChampionX Holding Inc	4,241
25/11/19	13/02/20	viagogo AG	StubHub Inc	4,050
04/07/19	30/06/20	Outotec Oyj	Metso Minerals Oy	3,986
28/02/20	01/04/20	Shell Midstream Partners LP	Shell Midstream Partners GP	3,808
30/09/19	24/04/20	China Yangtze Power Intl	Peruvian Opportunity Co SAC	3,590
17/12/19	01/04/20	Hellman & Friedman LLC	AutoScout,Finanzcheck	3,222
10/02/20	12/03/20	Change Healthcare Inc	PF2 SpinCo Inc	2,837
26/07/18	14/04/20	Novelis Inc	Aleris Corp	2,800
21/01/20	30/06/20	Illuminate Buyer LLC	Lummus Technology LLC	2,725
11/10/19	05/06/20	Investor Group	Red de Carreteras de Occidente	2,606
24/12/18	14/01/20	CITIC Securities Co Ltd	Guangzhou Securities Co Ltd	2,595

Willis Towers Watson methodology

- All analysis is conducted from the perspective of public sellers.
- Share price performance within the semi-annual study is measured as a percentage change in share price from six months prior to the announcement date to the end of the half-year of completion.
- Only completed divestitures with a value of at least \$50 million which meet the study criteria are included in this research.
- All private equity sellers are excluded in the sample.
- Deal data is sourced from Refinitiv.



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