An aerial photograph of a city, featuring a prominent, modern skyscraper with a glass facade and a unique, angular design. The building is surrounded by other urban structures, including residential blocks and commercial buildings. The image is overlaid with several semi-transparent rectangular boxes of various sizes and colors (white, light blue, light green, light orange), which appear to be part of a data visualization or analysis tool. The overall scene is captured from a high angle, looking down on the city.

# How the best divest: Unlocking more value

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

# Since 2010, the majority of companies have lost value from divestitures



Over **5,500 divestment deals**, each worth over **\$50m in value**, **completed worldwide** from 2010 to 2018, with a **combined value of \$3.9trn**.

## 54%

of these deals underperformed market indices as measured by the study. The remaining 46% outperformed.



Based on share price performance, companies engaged in divestment deals on average **underperformed the Global Index<sup>1</sup> by -2.1pp** between 2010 and 2018.

Over half of the companies that engaged in divestments between 2010 and 2018 lost shareholder value, according to Willis Towers Watson's Divestment Performance Monitor (DPM), which is conducted in partnership with Cass Business School.

The new 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. Poor seller performance in the divestment market is in marked contrast to buyers, who saw deals outperform the market by 3.1 percentage points (pp)<sup>2</sup>, reinforcing the view that most corporations are geared up to buy assets, not sell them.

**Jana Mercereau, Head of Corporate Mergers and Acquisitions for Great Britain, said:**

*"Divestitures are a critical but often overlooked part of shaping a company's business portfolio, offering real potential to achieve higher profitability from better capital allocation, improved focus on core activities and more funds to invest in and support growth. Yet our data shows sellers continuing to struggle to create shareholder value from deals, as investors punish companies whose strategies and execution they disapprove of."*

**Figure 1: All Divestitures – Annual Analysis**



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.

<sup>1</sup>MSCI World Index is used as default, unless stated otherwise and median performance used throughout.

<sup>2</sup>Quarterly Deal Performance Monitor, Willis Towers Watson and Cass Business School.

## Poor performance a global trend

Since 2010, the challenge of achieving value from sales has applied across all regions. Asia Pacific divestitures have shown the worst performance of all regions, with an underperformance of -2.8pp, followed by North American divestitures underperforming their non-divesting rivals by -2.1pp. European divestitures have come closest to matching their regional index with an underperformance of -1.2pp.

Figure 2: M&A Deal Type Analysis 2017-2018

	2017	2018
Mega deals (over or equal \$10bn)	30.6	15.8
Large deals (over or equal to \$1bn)	1.8	-0.4
Medium-sized deals (under \$1bn)	-5.5	-8.0
Domestic	-5.5	-7.5
Cross-border	-1.4	-5.7
Intra-regional	-4.8	-8.0
Cross-regional	-1.6	-2.7
Intra-sector	-2.8	-6.3
Cross-sector	-5.2	-7.0
Quick deals	-9.9	-7.5
Slow deals	0.1	-5.7

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.

## Deals most likely to succeed and fail

The latest data from the DPM shows that all deal types in 2018, except for mega deals, underperformed their respective indices. Mega deals (over \$10bn) outperformed the index by 15.8pp (based on six completed deals)<sup>3</sup>, while large deals (over \$1bn) were closer to being on par with their index at -0.4pp. The largest underperformances were by medium-sized deals (-8pp), intra-regional deals (-8pp) and quick-deals (-7.5pp).

## Making deals work

Analysis of the data since 2010 shows that the value added by the minority of successful sellers (\$2trn of outperformance from 46% of sellers) marginally exceeded the underperformance of the majority that struggled (\$1.9trn from 54% of sellers).

Jana Mercereau said:

*"The success of those asset sales that did add value is likely to have been advanced by the sellers' ability to exploit their unique insight of the businesses being sold. This will allow them to command the highest price by targeting buyers that have the most to gain and negotiating with them from a stronger position."*

Figure 3: A Comparison of Deal and Buyer Types

	Deal type			Buyer type	
	All	Spin	Divestiture	Corporate	PE
3 yr average	-3.3	2.9	-3.5	-3.3	-3.7
10 yr average	-2.1	18.2	-3.1	-2.2	-3.3

## Spin-offs set standard

Many of the better performing separations have been spin-offs which, as shown in Figure 3, outperformed the index by 2.9pp in the last three years and by a significant 18.2pp since 2010. Such deals are often justified by segmenting a successful business to better demonstrate its value separately from the parent.

In our view, this supports the value of pre-deal preparation and the importance of business leaders engaging, both internally and externally, on the rationale for the deal to clearly demonstrate the value of a division being sold and the prospects for the remaining business.

## Private Equity: A hard sell option

Figure 3 shows divestitures to Private Equity (PE) buyers (-3.3pp) underperformed those to corporate buyers (-2.2pp) between 2010 and 2018. While this can be partly explained by PE firms engaging with more distressed sellers, which may lead to lower returns, buy-side PE deal teams also tend to have deeper, professional transaction teams with regular deal flow, enabling them to negotiate harder.

Despite the more recent data reversing this long-term trend, with corporate acquirers (-3.3%) marginally outperforming those with PE acquirers (-3.7%) over the last three years, we would still recommend that if sellers are to optimise value and ensure buyers do not win at their expense, more thorough planning and preparation of the business for sale is essential.

<sup>3</sup>Due to the small sample size of mega deals this performance measure should not be taken to be statistically significant.

## Invest early in the process to succeed

Inadequate resources for executing divestitures is a frequent challenge, especially when compared with the resources typically committed to an acquisition. This is a costly imbalance. Early engagement is essential to a smooth selling process, allowing the seller to form a view on what is to be sold and to fully understand the implications for the remaining business. This ensures the deal team is able to identify and allocate the right people, tools and processes to the asset to be divested, defining an approach to timely separation that will not distract the base business.

By taking a more disciplined approach, a seller will have time before actively engaging with potential buyers to improve the value of the business while they still own it, presenting the asset in the best possible light and allowing them to command a higher price.

### Divestment: Rules of engagement

Our experience and research show that the most effective divestors adhere to the following rules:

- Assess your portfolio for fit and value. Companies should avoid holding on to businesses that are not core to their portfolio.
- Thoroughly plan and prepare. The best divestors have a dedicated deal team and approach a sale with the same level of planning and rigour their counterparts bring to acquisitions.
- Focus selling process on value creation. Once a firm has decided to divest an asset, the next step is to determine what type of separation will best meet its needs and then decide the implementation stages required to generate the maximum value from the separation.
- Communicate benefits to both buyer and employees. The best divestors clearly communicate what's in the deal for all involved.

Jana Mercereau said:

*“Creating value from deals is far from automatic. In difficult market conditions, how much a company can gain or lose depends heavily on taking a more thoughtful approach. Investing the right resources to perform sell-side due diligence, preparing the business for sale and constructing a clear articulation of the rationale before a sale is critical to attracting better suitors. Buyers will make stronger offers for a deal they can see will create more value and will be less able to negotiate against a seller where detailed preparation has been completed. This is especially true when dealing with PE buyers, who have considerable M&A expertise and a track record for aggressive negotiating.”*



# Appendix

**Figure 4: Data Descriptives: 2017/2018**

	2017	2018
All	616	628
Spin-off	28	23
All Divestitures Only	588	605
Corporate Buyer	486	490
PE Buyer	130	138
Asia-Pacific	187	182
Europe	152	151
North America	213	233
Rest of the world	64	62
Consumer Products & Services	19	29
Consumer Staples	34	24
Energy & Power	88	90
Financials	266	280
Healthcare	39	30
High Technology	41	34
Industrials	52	38
Materials	44	62
Media & Entertainment	10	12
Retail	10	15
Telecommunications	13	14

	2017	2018
Domestic	402	431
Cross-border	214	197
Asia-Pacific	48	45
Europe	80	84
North America	47	40
Rest of the world	39	28
Intra-regional	479	516
Cross-regional	137	112
Asia-Pacific	28	21
Europe	42	33
North America	38	37
Rest of the world	29	21
Intra-sector	312	334
Cross-sector	304	294
Asia-Pacific	111	100
Europe	73	55
North America	84	104
Rest of the world	36	35
Quick deals	264	255
Slow deals	352	373
Large deals (+/- \$1bn)	105	107
Mega deals (+/- \$10bn)	3	6



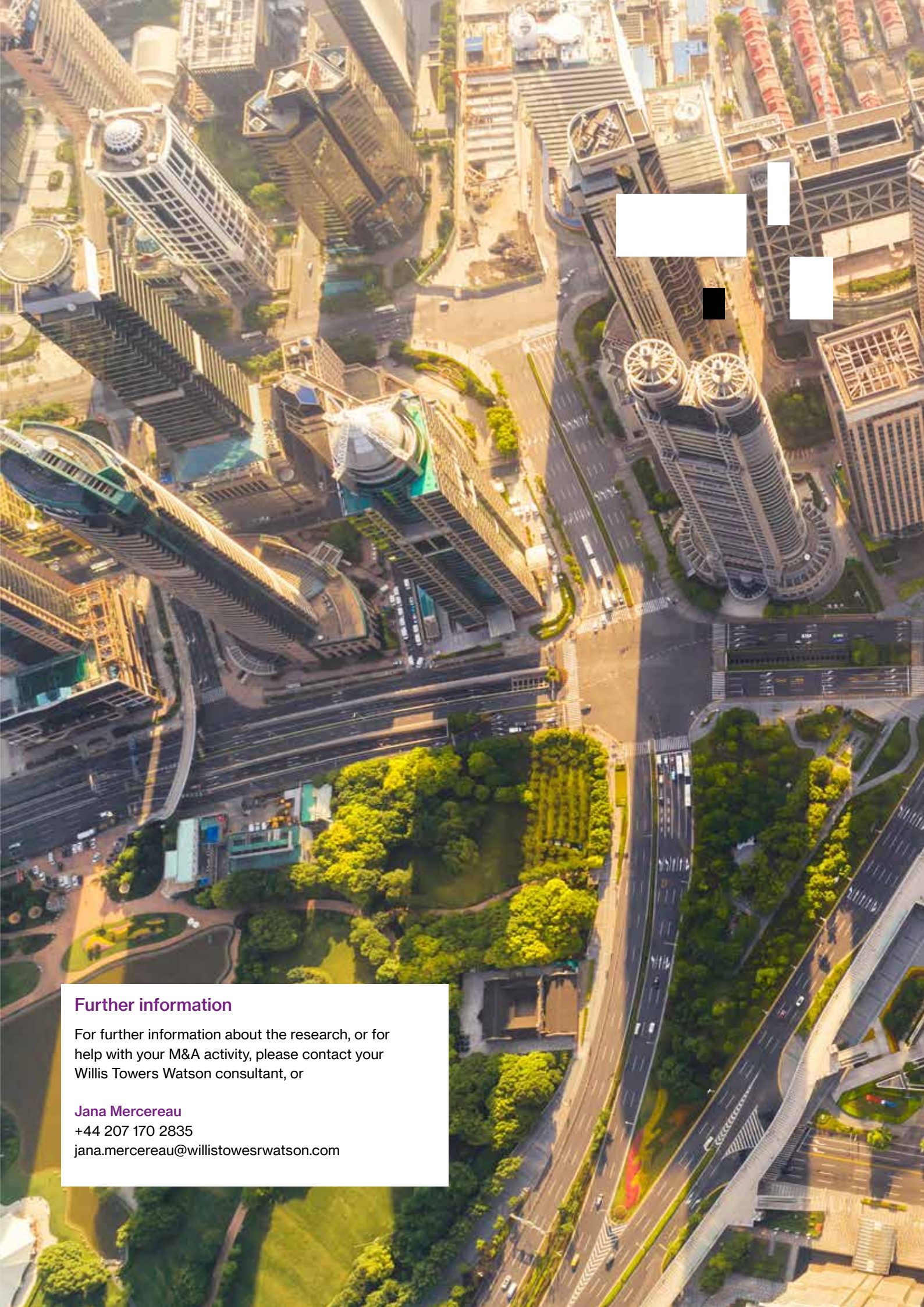
# Appendix

Figure 5: Top 25 Deals by Value of Transaction: H2 2018

Date Announced	Date Effective	Acquirer Name	Seller Name	Value of Transaction (\$ mil)
02/07/2018	28/12/2018	Dell Technologies Inc	VMware Class V Tracking Stock	31,696
27/03/2018	01/10/2018	Starfruit Finco BV	Akzo Nobel NV-Specialty Chem	12,566
20/03/2017	31/08/2018	Vodafone Grp PLC-Vodafone Asts	Idea Cellular Ltd-Mobile Bus	11,627
16/03/2018	28/11/2018	Shareholders	Coles Group Ltd	11,039
26/07/2018	01/11/2018	BP America Production Co	Petrohawk Energy Corp	10,500
15/12/2017	02/07/2018	KKR & Co LP	Unilever PLC-Spreads Business	8,038
07/02/2018	31/08/2018	Global Infrastructure	Zephyr Renewables LLC	7,849
13/10/2017	01/08/2018	BASF SE	Bayer-Crop Science Business	6,981
05/07/2018	03/12/2018	Taiyo Nippon Sanso Corp	Praxair Inc-European Business	5,827
10/04/2018	01/10/2018	Tenneco Inc	Federal-Mogul Holdings Corp	5,400
04/01/2018	01/08/2018	Brookfield Business Partners	Westinghouse Electric Co LLC	4,600
01/05/2018	09/10/2018	Boeing Co	Klx Inc	4,197
19/04/2018	01/12/2018	Procter & Gamble Co	Merck-Health Business	4,176
23/02/2018	31/08/2018	Phoenix Group Holdings Ltd	Standard Life Assurance Ltd	4,124
10/01/2018	03/12/2018	Investor Group	Intesa Sanpaolo SpA-NPL	3,822
14/09/2017	02/07/2018	Shareholders	Autoliv-Electronics Business	3,711
10/10/2017	29/10/2018	Shareholders	Honeywell Intl Inc-Homes &	3,438
21/03/2018	31/07/2018	PPF Group NV	Telenor Asa-Cntrl & Estn Ops	3,427
06/06/2018	18/07/2018	Global Infrastructure	Enlink Midstream Manager LLC	3,125
31/08/2017	01/09/2018	Nova Scotia Inversiones Ltda	Banco Bilbao Vizcaya	3,099
07/03/2018	01/10/2018	Altra Industrial Motion Corp	Stevens Hldg Co Inc	2,961
10/10/2017	29/08/2018	Adani Transmission Ltd	Reliance Infrastructure Ltd-Mu	2,932
26/07/2017	01/10/2018	Shareholders	Frontdoor Inc	2,847
08/05/2018	01/10/2018	Investor Group	Siren Holdings Korea Co Ltd	2,723
26/02/2018	15/10/2018	Telia Co AB	Get AS	2,593

## Willis Towers Watson DPM 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 sourced from Refinitiv



### Further information

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

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## About Willis Towers Watson M&A

Willis Towers Watson's M&A practice combines our expertise in risk and human capital to offer a full range of M&A services and solutions, including insurance solutions, covering all stages of the M&A process. We have particular expertise in the areas of planning, due diligence, risk transfer and post transaction integration, areas that define the success of any transaction.

## About Willis Towers Watson

Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 45,000 employees serving more than 140 countries and markets. We design and deliver solutions that manage risk, optimize benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas – the dynamic formula that drives business performance. Together, we unlock potential. Learn more at [willistowerswatson.com](http://willistowerswatson.com).



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