



Letting go to grow

The secrets to seizing
value from divestitures

Accenture Strategy

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Executives and boards everywhere are under unprecedented pressure. Macroeconomic conditions, geopolitical tensions, rising interest rates, depressed valuations, activist investors and other competing headwinds brought portfolio rebalancing to the top of the C-suite agenda. In turn, executives have approached their rebalancing efforts in much more accelerated, provocative and value-driven ways.

Under these conditions, serial dealmakers know that mergers and acquisitions (M&A) are a crucial lever for growth. But divestitures—as a strategy for growth—remain a muscle that’s rarely used and, as a result, divesting capabilities have generally gone untested in a “serial” sense.

Over the past decade, the going assumption among boards and executives was that every business, geography and product stays unless it is abjectly failing or there is a compelling reason the parent company is not the advantaged owner of a business. The conventional motivation with regard to divesting has been “let go to throw”—in other words, cut out underperforming parts of a company. Further, most time in a divestiture is spent by lawyers, accountants and bankers on the transaction stream to “get the deal done.” This disproportionate attention is to the detriment of where the energy should be invested with divestitures and the value truly lies: the operational stream.

Divestitures are an important lever for growth—and reinvention—and trends indicate they are about to have their time in the sun. Are executives ready?



New prominence, new rationale

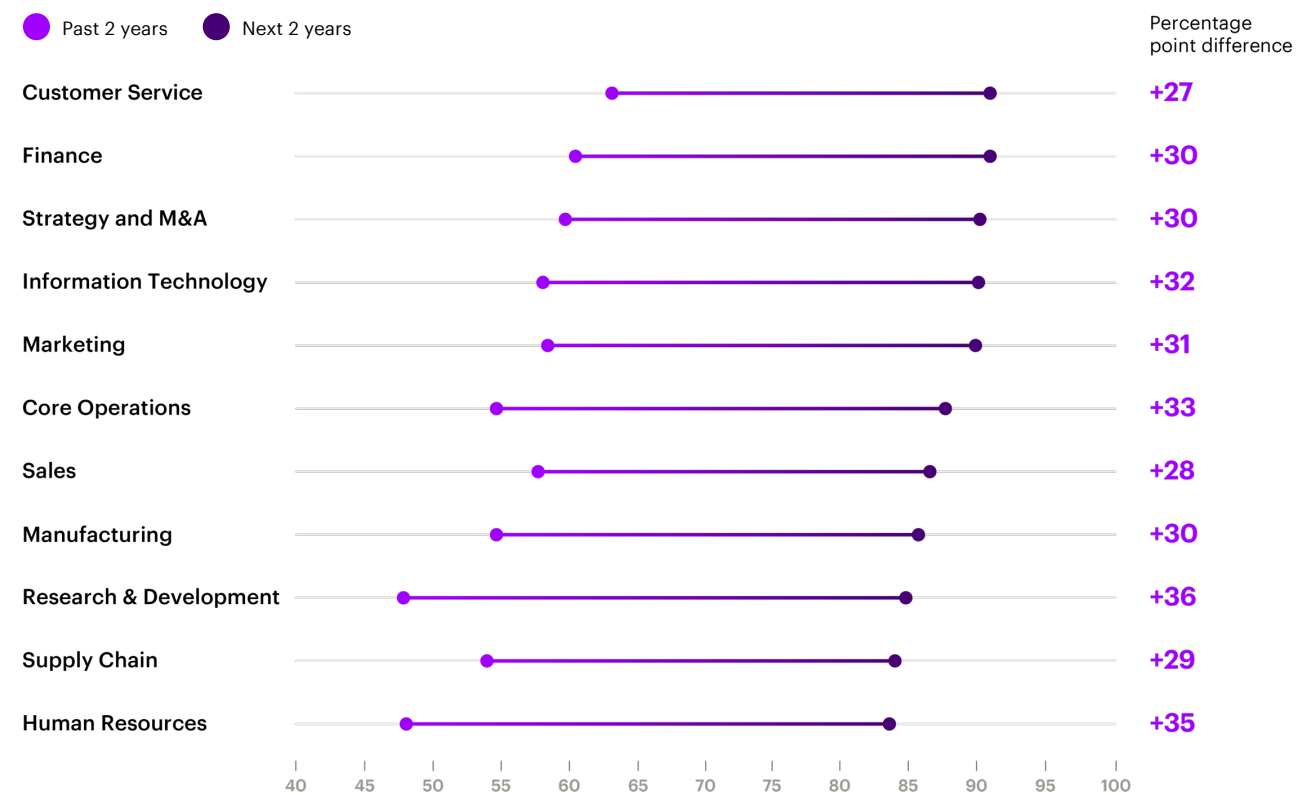
A convergence of forces is increasing volatility. Accenture's Global Disruption Index shows that levels of disruption increased by 200% from 2017 to 2022. "Always on" structural shifts in how companies operate are now the norm. In fact, even in the face of recession in 2023, 75% of executives say the pace of their organizations' reinvention will accelerate.¹

M&A has long been understood as a lever for inorganic growth, and more recently, it's become an essential part of strategies for reinvention. Of 11 functional areas assessed in recent Accenture analysis, [strategy and M&A functions were identified by executives to be among the top three they are fundamentally reinventing](#) (see Figure 1). Business leaders have an opportunity to reimagine the role of divestitures as an essential component of these reinventions and, ultimately, their strategies for growth.

Figure 1

Executives report that strategy and M&A are third on their list of functions they are reinventing in the next two years

“In which of the following functions are you fundamentally reinventing processes by applying new technologies and new ways of working?”



Source: Accenture Total Enterprise Reinvention CxO Survey fielded November 2022. % of respondents; n=1516.

Divestitures defined

The two main methods of divesting are through private and public sales. This report focuses on separations, broadly, but it is useful to distinguish the differences for reference.

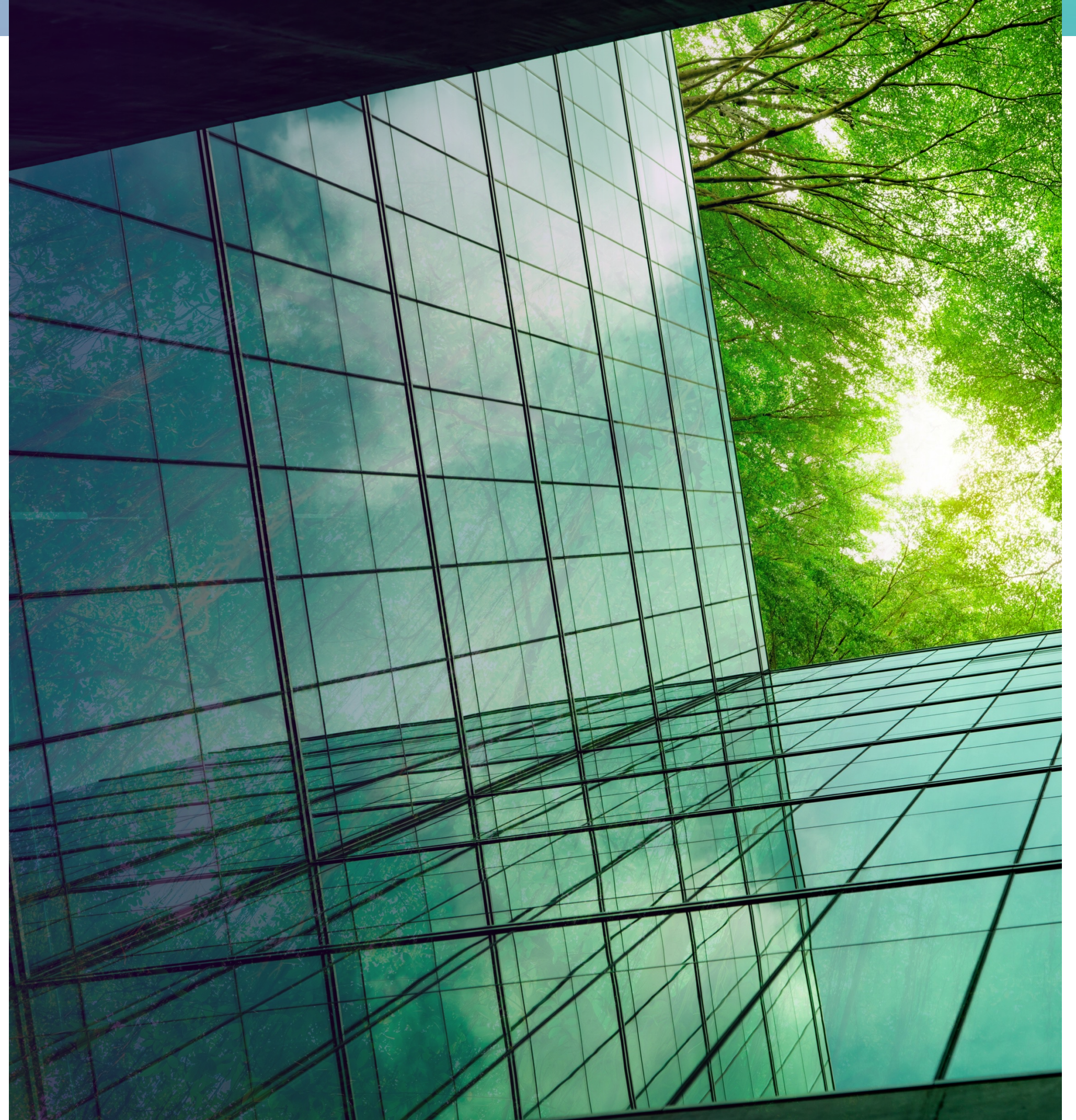
Private sales comprise the sale of assets or whole business units to a trade buyer and / or financial investors.

Public sales include:

- **IPOs**, which feature the public offering of a part of the company's core operations and establish a new group of shareholders;
- **Spin-offs**, in which a company sells a business unit that becomes a new entity, with existing shareholders receiving shares; and
- **Split-ups**, which are like spin-offs except the existing shareholders have the option to retain shares in the parent or get new shares in the newly created entity.

Letting go to grow

Historically, companies have used divestitures as a lever for monetizing under-performing assets in their portfolios or assets that have a different investor profile. Executives assumed that the overall value of the company was greater than the sum of its individual business units.



Now, company leaders are putting more focus on natural synergies versus portfolio diversification, seeking to divest non-core assets or business units that no longer add shareholder value.

Conglomerates are on the decline, while end-market-focused portfolio rebalancing accelerates.² Offloading disadvantaged assets frees up capital for strategic initiatives and focuses management on critical KPIs.

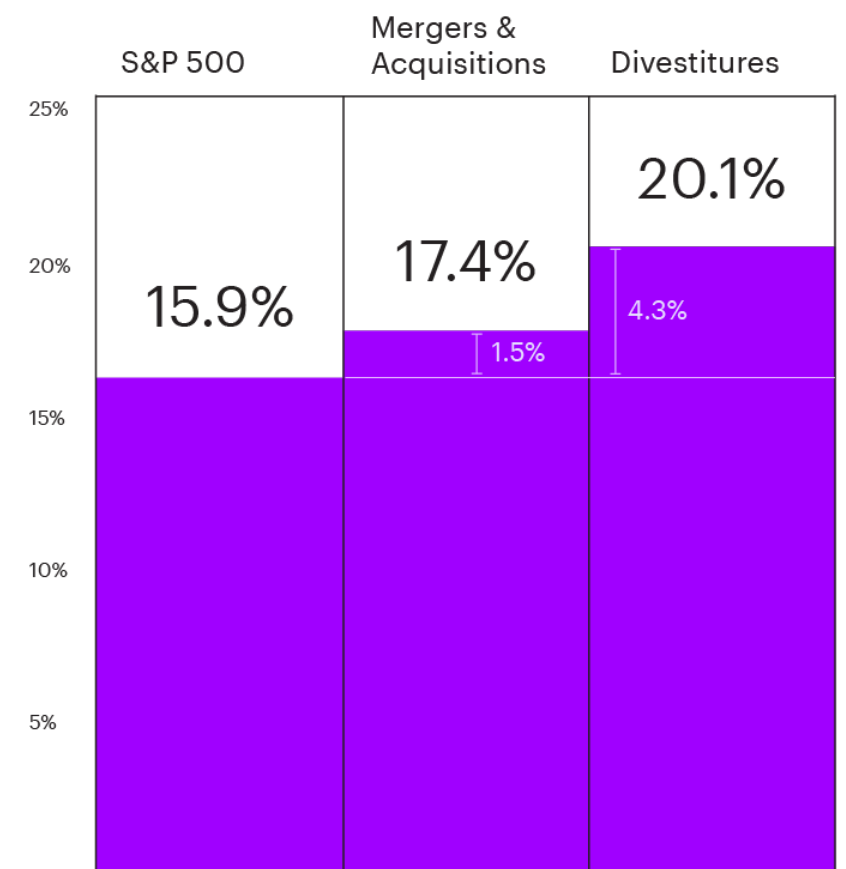
But as a lever for growth, divestitures have—as yet—been underutilized, despite seeing an uptick during the pandemic. That is changing, as leaders increasingly see the value of interrogating their overall portfolios.

Indeed, leading divestors are demonstrating the power of letting go to grow: From 2016 to 2020, businesses that completed divestitures had an average two-year total shareholder return (TSR) that outperformed the S&P 500 at a rate two- to three-times higher than businesses that only made acquisitions during the same period (see Figure 2).

Figure 2

Companies that perform divestitures experience returns that outperform the S&P as well as companies that only perform M&A

Average total shareholder return by deal type, measured 24 months post-close for deals closed between 2016 and 2020



Source: Accenture Research based on Capital IQ global M&A database. N=Total M&A activity, 1966; total divestiture activity, 1358.

When spins win

For spin-offs, being free from the parent company provides a unique set of opportunities. First, the company spun off has the opportunity to create a fit-for-purpose operating model to accelerate initiatives that benefit its value-creation models. The new company also has the opportunity to forge a new culture. Additionally, there is the ability to limit transaction service agreements to those required to run the business which provides time to create the optimal back-office structure and enable the new vision, strategy and business goals.

A spin-off creates its own unique opportunities and challenges. The opportunity to report as a stand-alone company with an independent Board enables the ability to chart a new path. Additionally, access to capital markets and debt markets as a standalone entity provide faster ways to engage in large capex investments at speed—from M&A to new capital investments. However, some companies have used the comfort and safety of the parent company to take risks they wouldn't otherwise take. But creating the external market capability takes time—for example, preparing to report earnings, giving forward-looking guidance and creating an investor relations function.

For all types of divestitures, the special sauce is in getting the larger corporate footprint right. Unilever, for example, reorganized last year to make it easier to divest its food divisions, allowing the company to focus on its core businesses.³ Similarly, Siemens announced plans to sell its commercial vehicles business to another company, “another step in the company’s rigorous implementation of its previously announced plans to sharpen its portfolio as a focused technology company.”⁴

Accenture analysis of divestiture activity from 2016 to 2020 revealed something else: Companies that get the recipe for “serial” divesting right win. Of the more than 1,300 divestiture transactions studied from 2016 to 2020, the vast majority (77%) were by companies that closed only one deal during that period and experienced an average return of nearly 20%.



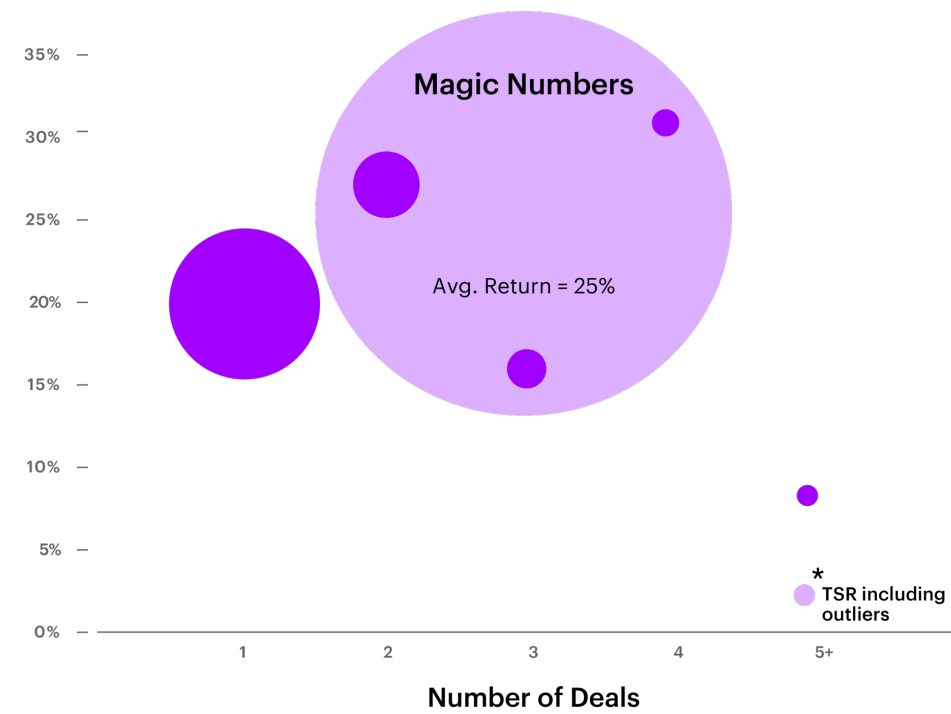
On the flip side, companies that closed more than five deals during that period saw their returns average only 1%. But the remaining 21% of transactions—by companies that closed between two and four deals for the same period—experienced average returns of 25.1% (see Figure 3).

Our analysis revealed similar insights with regard to deal size. Companies performing divestiture deals between \$500 million and \$1 billion—17% of total transactions for the period—experienced significantly higher TSRs than in smaller or larger deals (see Figure 4).

Figure 3

Companies that performed two to four divestitures over the four-year period examined experienced higher post-close returns compared to those that performed fewer or more divestitures

Average total shareholder return by deal quantity, measured 24 months post-close for deals closed between 2016 and 2020

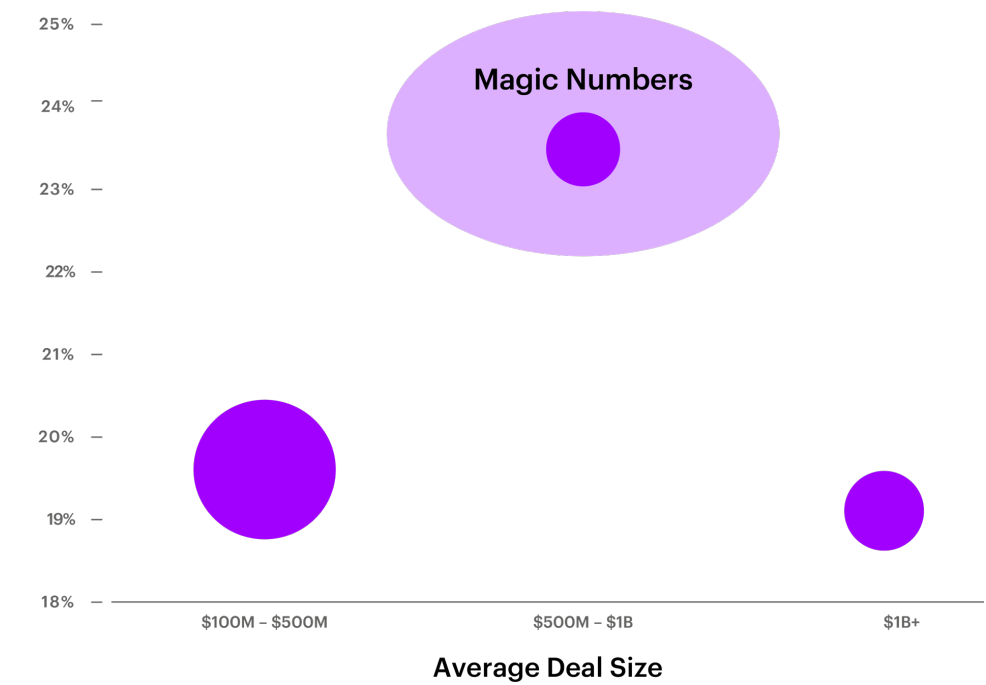


Source: Accenture Research based on Capital IQ global M&AD database. N= Total Divestiture Activity, 1358.

Figure 4

Divestiture deal sizes between \$500 million and \$1 billion outperformed smaller and larger deals for the four-year period examined

Average total shareholder return by deal size, measured 24 months post-close for deals closed between 2016 and 2020



Source: Accenture Research based on Capital IQ global M&AD database. N=Total divestiture activity, 1358.



Doing the deal does not mean 'get it done'

Whether companies are ridding themselves of underperforming parts of the business or disadvantaged assets, it's easy for leaders to get caught up in the transaction itself—in “doing the deal.” But before spending calories on divestitures, companies need to adapt their playbooks.

While deal-oriented activity—negotiations, financial diligence and deal documentation—are necessary for a divestiture, they are insufficient (and relatively insignificant) to value creation for the parent firm and for the business that is to be divested.

A divestiture is not a merger in reverse. In a merger, 80% of the work completed is post-close. In divestitures, it's the opposite. Key to that adjustment is recognizing the importance of the operational stream—in other words, the nuts and bolts in the separation of the new and old companies. Too often, companies focus almost entirely on the transactional stream—the marketing and selling of a business—at the expense of the operational. While it's important to manage the transaction itself, overall deal value—and TSR—is maximized through successfully executing the operations separation.

For both public and private sales, that means employing certain success factors to achieve successful separation and a seamless Day One for both the new entity and the remaining company.

These factors include:

- Defining stand-up objectives and boundaries to establish clear direction from the beginning of the separation process
- Investing in planning and assuring business continuity
- Preparing for conflicts of interest by defining precise guidelines for collaboration
- Handling complexity in a structured way, with coordination between deal and operational requirements
- Establishing effective governance with a strong separation management office (SMO)

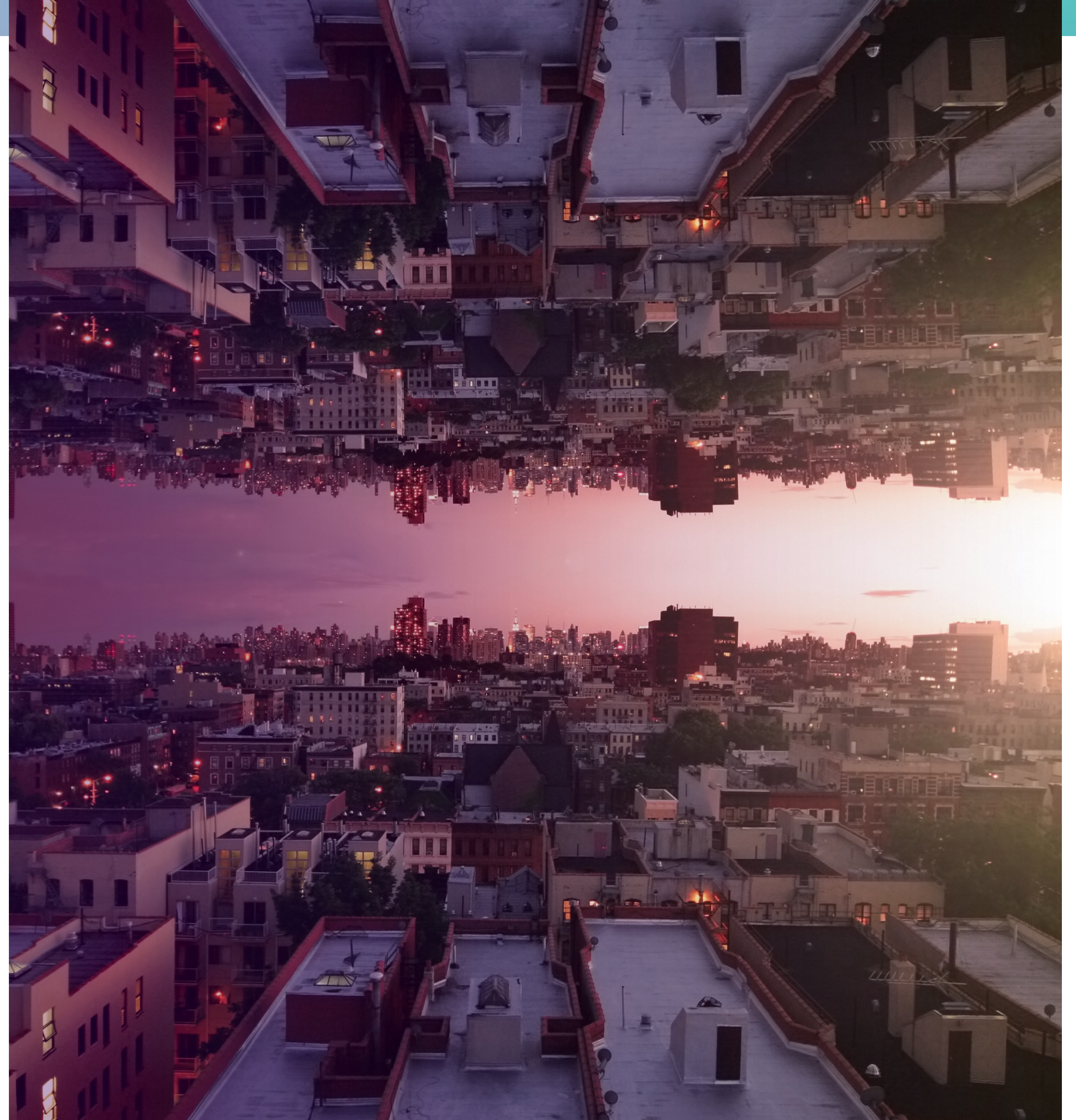
Without the presence of these success factors, things can go downhill—fast. A failed, delayed or ineffective divestiture can result in cascading effects that impact TSR. It can prevent companies from meeting strategic or value creation goals. Sticking with a subpar process leaves unrealized value on the table. Indeed, it is crucial for businesses to have strong separation plans and execution capabilities to minimize risks and maximize benefits.



Secrets to seizing value from divestitures

By leveraging modern techniques, technology and novel commercial constructs with third parties, leaders can separate faster, cheaper and with less risk to the parent company.

Here are four secrets to seizing value from divestitures:



01

Shared services can accelerate containment of stranded costs.

Shared services play a key role in divestiture planning and execution. Partnering with an experienced end-to-end outsourcing provider can deliver speed and value, as well as help mitigate typical separation challenges like transitional services agreements (TSAs).

While the concept of “staple finance” is well-known, many leading companies are using “staple shared services” as a means to create a more robust auction process, entice new buyers, underwrite EBITDA uplift, and reduce carve-out and post-close complexity. TSAs are used to help ensure a smooth and orderly administrative transition between the seller and buyer; they specify how the new entity might continue to receive certain services from its former parent company, from HR and IT to accounting and other financial services. But TSAs

should only be used when necessary. That’s because they continue to bind the parties after the deal closing, muddying the separation waters. Accounting and other operational details, for example, can prevent the “clean break” the parties were hoping for.

Staple outsourcing works best when the decision to sell the business is first made. By “stapling” a value creation option by a third party to a teaser document or confidential information memorandum, for example, bidders can increase confidence in their valuation models and set high purchase-price options early in the auction process. A third-party outsourcing provider can enable an expedited exit from TSAs and help accelerate the capture of stranded costs. It can facilitate the faster release of resources so the seller can focus on the

core business by eliminating dependency on the buyer. It is also essential for the seller to create independent capabilities for the new entity where it can through the close window. For example, sellers can look to implement automation and deploy other process improvements to streamline costs and recognize further savings.

Leveraging the competency of third parties to drive EBITDA allows management time to focus on core operations, strategic initiatives, customer service and growth—organic or inorganic. Without proper planning and execution, companies can land with unmanaged costs, and shared services failure can disrupt customers and employees. Further, it can mean reduced capacity for core support functions.

Transitional service agreements

After a deal's legal close, one area often left as an afterthought but that can create or destroy tangible value is the transitional service agreement (TSA). TSA contracts compel the seller to provide corporate functions from the legal close of the deal until the new company transitions to supporting itself. While TSAs may appear to be administrative in nature, they often have strategic consequences for both buyer and seller. Not paying sufficient attention to TSAs increases risk that the players will leave value on the table.

There are several best practices to address TSA concerns, including setting a clear post-close direction from the start and focusing on TSAs early in the process, establishing a dedicated work stream to manage the large number of complex tasks and interactions related to a TSA, minimizing stranded costs, tightly managing negotiations and implementing robust post-close service governance policies.

Despite being unassuming, TSAs have an outsized impact on the business of both entities going forward, and it makes sense to invest the time and effort required to get them right.

02

Transparency wins over ambiguity.

Unlike mergers, ambiguity in separations is much more prominent given the wide array of possible outcomes. Separations can understandably cause distress among stakeholders who are resistant to change, especially employees. For employees who will migrate to a new entity, or ones who will stay at the existing company in altered roles, the sudden change can be unsettling and can adversely impact morale. That's why companies need a robust and transparent change management strategy to help provide clarity for all stakeholders—especially for “ring fenced” employees and customers (ones who are attached to a business unit being divested).

To ensure transparency, change management processes should have several prongs:

Communications.

Sellers and buyers should coordinate to create synchronized, comprehensive, multichannel communications plans to reach and reassure key audiences such as employees, customers, suppliers, investors, contractors, local government and other stakeholders.

Leadership engagement and sponsorship.

Leaders should be set up as role models for culture at both new and the remaining businesses and demonstrate their buy-in to processes and outcomes.

Change network.

Managers should be equipped to engage with their teams on culture— to sound out employees and others for feedback on the changes happening and to ensure clarity.

Employee journey management plan.

Sellers should map the change journey for employees and stakeholders, bringing transparency to what can be a complex and confusing process.

Training and job aids.

With roles in flux between entities, sellers need to ensure that the right people with the right skills will be in place on Day One. This also means “training the trainers” so that the chain of reskilling will extend into the future.

03

Technology contributes speed to value.

A divestiture can be a catalyst to leapfrog technology, evaluate broader systems migrations and reinforce a company's overall business transformation—and still deliver significant value to shareholders.

Delivering a separation with speed delivers significant value, so sellers will want to get their IT ducks in a row ahead of Day One. Most prominently, that means a focus on speed and security, which have risen to the top of key IT decisions.

Additionally, as data has become more robust, the importance of cybersecurity has increased. As data moves and system access shifts in a separation, overall risk profiles heighten and the danger of mishandling confidential company information becomes a very real possibility.

Again, a third party can effectively assist with the tech transition element of the separation. For example, a third party might use [cloud and AI](#) to aid the transition and to redact confidential data based on predetermined rules. The combinatorial effect of these technologies not only enables data migration at speed but also reduces possible incidents stemming from manual intervention alone.

04

The brand strategy should be a parallel priority.

Divestitures provide companies with significant opportunities to reimagine their brands. But brand failure can create a misalignment on brand perception and complicate the separation. When done right, these comprehensive marketing exercises can set the foundation for long-term growth.

It is essential to determine the North Star for the brand as well as decide what elements are needed to reposition it toward its new purpose, and what will resonate with key stakeholders such as customers and strategic business and supply chain partners.

Global semiconductor company Wolfspeed gave a master class in this. As part of a four-year transformation that included the divestitures of two business units, the company reinvented its brand. Key to their success was a comprehensive, multi-channel, integrated marketing campaign; sharpened focus on their mission; and a well-orchestrated brand launch. As a result, the company experienced a 66% increase in brand equity in the six months following its launch.⁵

Know your buyers

Things to consider with private equity buyers

When private equity (PE) is the buyer, the recommended emphasis on the operational stream of the separation is of paramount importance. That's because the nature of PE transactions has changed in recent years. In the past, a PE buyer might simply be laser-focused on increasing EBITDA with a plan to exit the investment in three to five years. Now, the strategy could go beyond quick wins and operating efficiencies to generate more value through growth. In a recent Accenture survey, [PE leaders cited broken operating models and an inability to scale operations among the biggest issues in the companies they acquire.](#)

There are two likely PE scenarios on the buy side of a divestiture. First, there is the spin-off of a mature business into a merger of equals with one of the PE buyer's existing portfolio companies. In this scenario, both entities will need to transform legacy systems and capture new synergies, goals that can be addressed through the operationally focused separation approach we recommend. The carve-out may be part of a growth platform in which the PE buyer plans to add further acquisitions. Second, there is a standalone scenario in which just getting off the TSA quickly, separating successfully, and focusing on the operating model all pay off to unlock growth and hidden value.

Understanding the underlying investment thesis of the PE buyer helps bring about a more focused separation—one that ensures efficiency, transformation and a seamless Day One, bringing benefits to both parties.



A deal is a terrible thing to waste

All executives recognize the ongoing pressures that now require a constant review of business assets and units to ensure they align with long-term strategic objectives. They also understand that divestitures done right are not just tactics to cut underperforming parts of the business—but powerful levers for growth.

Ultimately, there are three key imperatives for leaders to keep in mind.

01

Transcend the transaction.

Focus on getting the operational stream right instead of belaboring the details of the transactional stream. Paying attention to these operational elements early and intensively will enable a successful divestiture.

02

Use the right capabilities, skills, technology, data and talent to accelerate to close.

Keep in mind that divestitures are an opportunity to create additional deal value by transforming the parent company. In the process, enlist the services of third parties that can help minimize TSAs and contain stranded costs.

03

Learn from the leaders.

Leading “serial divestors” have experienced the greatest returns on their transactions not only by performing fewer, smaller divestitures but also by focusing on manageable deal sizes that make the transaction worth the cost to the business.

As market forces drive an increase in divestiture activity, executives would do well to approach their strategies oriented around growth, rewrite—or write—their playbooks to maximize value from their deals, and create a muscle memory that enables a “serial divestor” mindset.

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