Global dealmakers 2024:
Divestitures in M&A transactions

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Foreword

Dealmakers are contending with an increasingly complex business environment – and many in the US market are reassessing growth strategies to include asset sales and divestitures to navigate future uncertainties.

Global M&A has undergone significant shifts in recent years, shaped by economic uncertainties, geopolitical tensions and evolving business strategies. While dealmakers continue to pursue acquisitions to achieve growth and outward expansion, many are looking inward to reassess their portfolios and shed non-core assets. As a result, divestitures have emerged as a critical strategy for organisations seeking to sharpen their focus, raise capital and unlock shareholder value.

Several factors are driving these trends. Economic uncertainty, influenced by inflation, rising interest rates and the looming risk of a global recession have promoted dealmakers to adopt a more cautious approach to capital allocation. Divesting non-core assets allows organisations to free up resources, enabling them to reinvest in higher-growth areas or bolster their balance sheets in anticipation of potential economic challenges.

Regulatory pressures have also come into play, as governments worldwide impose stricter oversight on cross-border M&A. In response, companies are increasingly divesting foreign assets or restructuring supply chains to minimise dependence on specific markets or regions.

In the US, the world's largest M&A market, the divestiture trend is particularly robust, as indicated by an international group of dealmakers interviewed as part of the research for this report. All participants had completed at least one divestiture in the past 12-24 months – and almost half (48%) say they are looking to offload more businesses and operations in the year ahead.

Many are turning to carve-outs as part of their divestment strategies. These transactions, where a parent company separates a business unit to operate independently, are becoming increasingly popular in corporate America as industrial giants look to refocus their efforts and boost shareholder value. As we look ahead, the growing emphasis on divestitures and carve-outs in the US M&A market signals a shift towards more agile and focused organisations.

This trend is likely to have far-reaching implications for the broader business ecosystem, potentially catalysing increased M&A activity, driving sector consolidation and spurring innovation as companies seek to optimise their market positions. For dealmakers and executive decision-makers, understanding and leveraging this divestiture trend will be crucial to navigating the evolving M&A landscape and identifying opportunities for value creation in the years to come.

The insights in this report set out the current trends shaping the US M&A market. It also provides a snapshot of best practices and actionable steps that other dealmakers can follow if they are considering or planning divestitures of their own, providing a valuable roadmap for success.

In today's economic environment, divestitures have become a crucial strategy for organisations to streamline operations and refocus on core business activities. By shedding non-core assets, organisations free up cash, simplify operations, unlock shareholder value and position themselves for long-term growth in a dynamic market. Baker Tilly's corporate finance teams can help organisations successfully navigate the complexities of divestitures, ensuring a clean break while maximising returns and minimising costs."

Harsh Maheshwari
Head of Corporate Finance,
Baker Tilly International

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About this report: In Q2 2024, Mergermarket surveyed 60 global dealmakers to gain insights into their investment intentions and perceptions regarding divestitures and M&A trends in the US market. Respondents were evenly distributed, with 50% based in North America and 50% in Europe. All participants had completed at least one divestiture in the US market in the last 12-24 months. By organisation type, 50% were corporations and 50% were private equity (PE)/ venture capital (VC) firms. All responses are anonymous and results are presented in aggregate. When totals exceed 100%, respondents were allowed to select multiple responses.

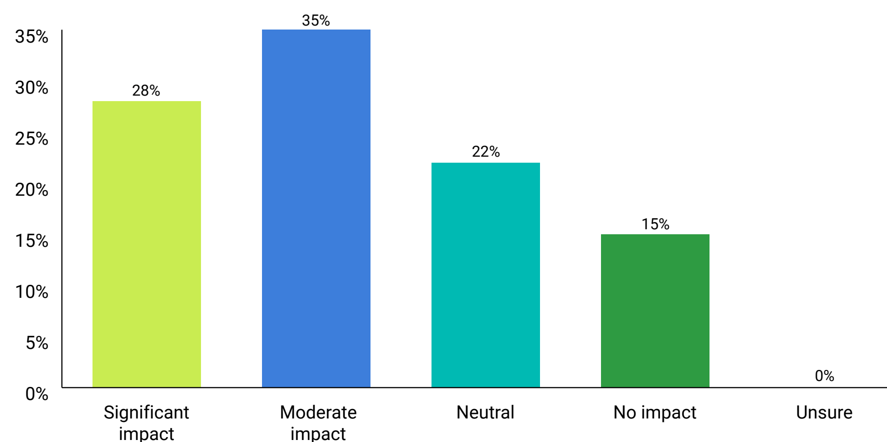
The divestiture dividend: Dealmakers fuel growth through strategic sell-offs

Dealmakers are sending strong and clear signals that divestitures will play a pivotal role in shaping corporate strategies and driving M&A in the US market going forward.

Nearly two-thirds (63%) of respondents say these actions will have a major impact on overall short-term M&A trends (Figure 1). This underscores a growing recognition of the value that divestitures can bring to organisations, not merely as a means of shedding non-core assets but as a strategic manoeuvre to streamline operations and enhance financial performance.

“As markets become more competitive, divestitures can open new doors for companies that have been stuck with the same market position for a long-time. They can invest in better assets with better synergetic potential,” says the head of strategy at a US corporation.

Figure 1. How much of an impact will divestitures have on driving M&A activity in the US market in the year ahead?



Equally significant, nearly half of dealmakers (48%) are considering further divestitures or carve-outs, having already completed at least one such transaction in the past 12-24 months (Figure 2). This underscores the growing role of divestitures as a recurring strategic tool, with 13% of respondents actively exploring additional sell-offs in the immediate future.

Out with the old: Recent divestitures score high marks

One of the most compelling cases for divestitures is the overwhelmingly positive outcomes being realised. Dealmaker sentiments highlight that these benefits have been multifaceted and significant:

Improved financial performance: Most dealmakers (55%) reported that recent divestitures allowed their organisations to enhance their financial positions (Figure 3), allowing them to reinvest in more profitable areas of the business, reduce debt or increase liquidity. "The financial performance was impacted positively by the deal. It improved the funds available for alternative investment options," says the managing partner at a PE/VC firm from the Netherlands.

Operational cost reductions: Half of dealmakers (50%) also said that divestitures helped lower operational expenses. By divesting assets, organisations can streamline their operations, reduce overheads and achieve greater operational efficiency.

Enhanced focus on core activities: 47% of respondents noted that divestitures allowed their organisations to sharpen their focus on core business areas. By divesting, they were able to reallocate more resources and management attention to primary operations, driving innovation and growth in these critical areas. Equally, 33% of respondents say proceeds from recent divestitures were used to reinvest in strategic business areas, the second-greatest use of these funds (Figure 4). "Rather than opt for debt options, we used the proceeds from the divestiture to enhance automation and implementation of the latest technologies in our industry," says the CEO of an Austrian corporation.

Figure 2. What future plans does your organisation have regarding further divestitures/carve-outs?

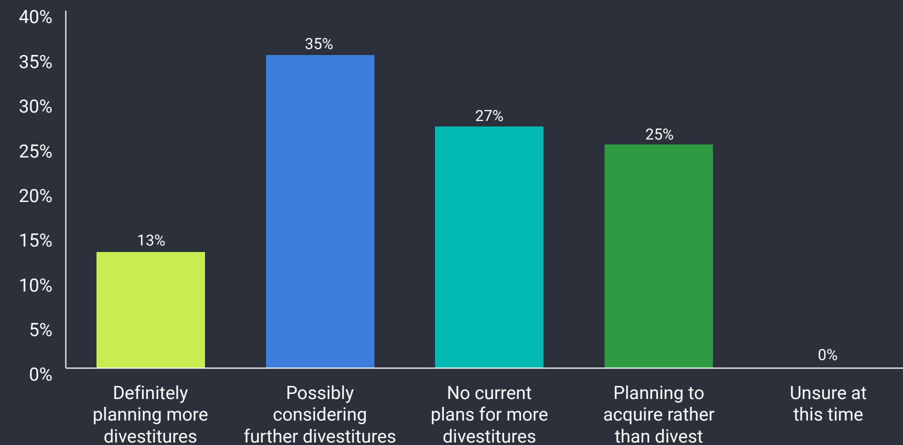
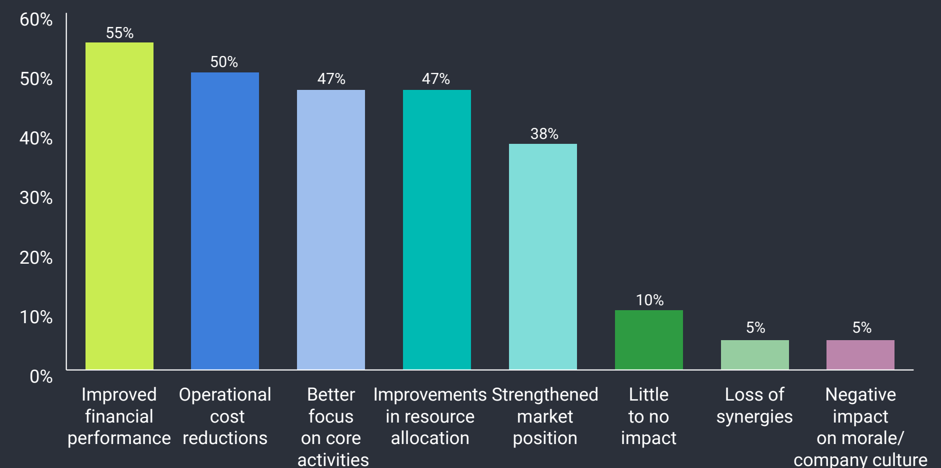


Figure 3. What was the impact of the divestiture/carve-out on the rest of the organisation?



In with the new: M&A and expansion

Beyond the immediate operational and financial benefits, recent divestitures provided dealmakers with greater financial firepower to fund new investments. Most respondents (40%) say that proceeds from their recent divestitures were used to make acquisitions of other businesses (Figure 4). This approach allowed them to rapidly pivot towards more promising market segments or technologies.

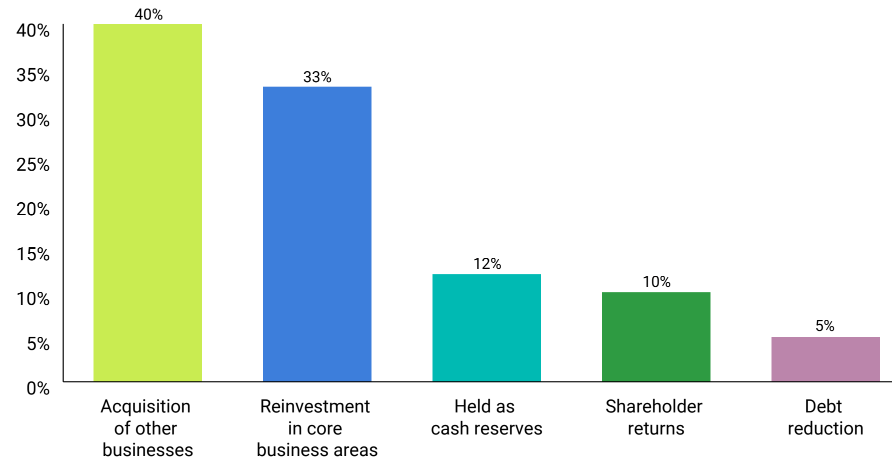
“We need to improve our portfolios on a regular basis, and usually divestments are considered with the intention to fund new acquisitions,” says the managing director of a PE/VC firm in the US.

The strategic use of divestiture proceeds demonstrates that these transactions are not merely about shedding assets or reducing costs. Rather, they are increasingly viewed as a means of unlocking capital to fund transformative change and drive long-term value creation.

Divestitures are emerging as a vital strategy across sectors like technology, healthcare and industrials, allowing organisations to enhance financial performance and streamline operations. With 63% of dealmakers predicting a significant impact on short-term M&A trends, these strategic sell-offs are particularly reshaping industries where agility and innovation are key.”

Xavier Mercadé
CEO, Baker Tilly Spain

Figure 4. How were the proceeds from the divestiture/carve-out utilised?



US market update: M&A and divestiture trends

The M&A environment in the US has been challenging over the past year, to say the least.

Rising interest rates, inflationary pressures and geopolitical uncertainties have created headwinds for dealmaking. These factors have led to increased caution among dealmakers, with some opting to delay or reconsider possible acquisitions. Additionally, regulatory scrutiny is arising as another hurdle many dealmakers must contend with.

That being said, M&A totals in 1H2024 showed a slight increase compared to the previous half-year (Figure 5). Despite the uptick, overall volumes remain below pre-pandemic levels, although deal values seem to have bounced back to some extent following depressed levels in late 2022 and early 2023.

Divestiture activity has followed a similar pattern. Declining divestitures saw a sharp reversal in 1H2024 as companies put greater emphasis on reassessing their portfolios (Figure 6). Increased regulatory scrutiny in industries like technology and healthcare is prompting some companies to divest assets to avoid antitrust issues, while others have been divesting assets as part of their sustainability efforts.

Figure 5. US M&A: Total deals

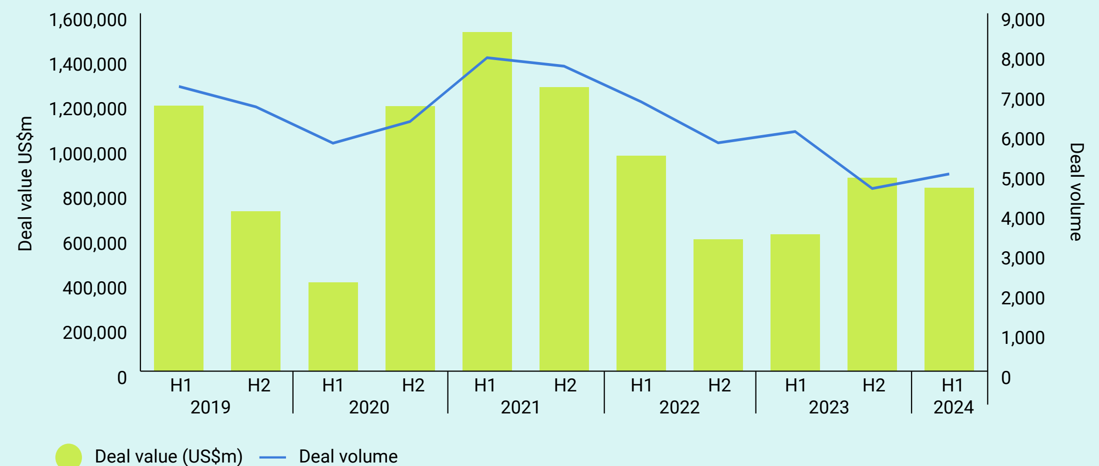
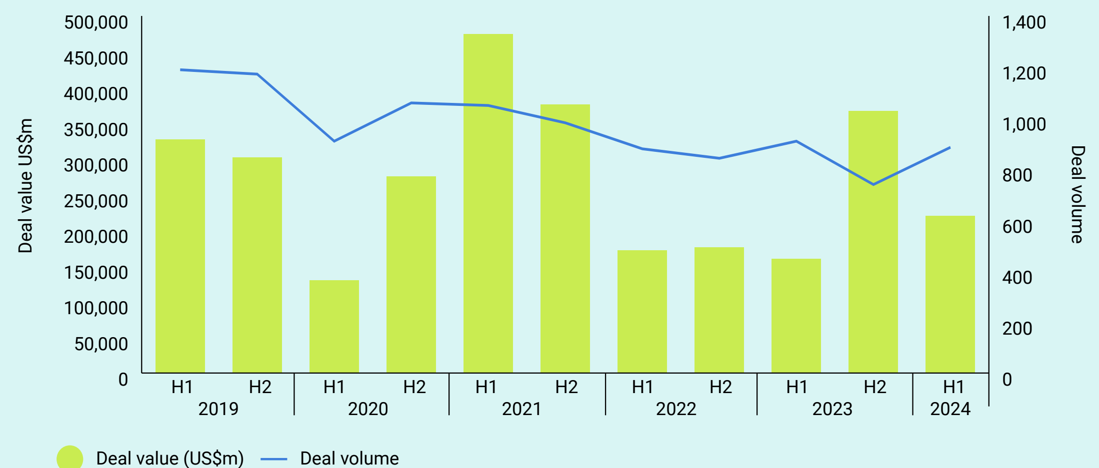


Figure 6. US M&A: Divestitures



One notable trend in divestitures has been the rise of carve-outs, where companies are selling a subsidiary or division that operates independently of the parent company. Carve-outs have become an attractive option for companies looking to unlock value from non-core assets while retaining some level of ownership or involvement. For example, General Electric's decision to spin off its healthcare division into a separate company is a prime example of a strategic carve-out aimed at focusing on core industrial operations.

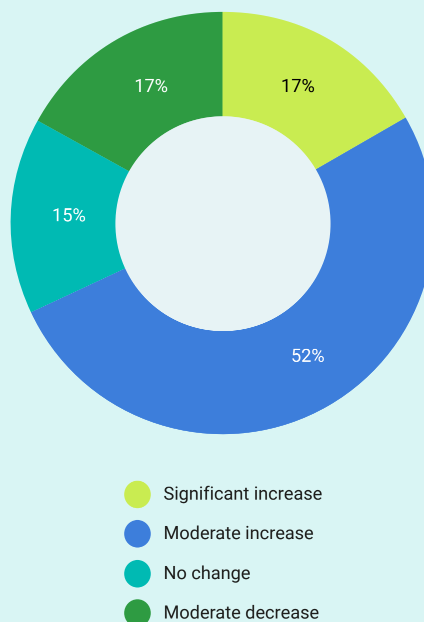
Outlook 2025

Going forward, while the US M&A market is likely to face headwinds in the near term, the fundamental drivers of dealmaking remain intact. Companies will need to be strategic and adaptable in navigating the evolving landscape, balancing growth ambitions with the need to manage risks and regulatory challenges. As such, deal volumes and values are expected to stabilise at more moderate levels, driven by selective acquisitions.

On the divestiture front, asset sales are expected to remain a prominent trend in 2025, as companies continue to optimise their portfolios. Looking ahead, respondent sentiment suggests a potential robust increase in divestitures over the next 12-24 months, with 69% anticipating a rise, particularly in carve-outs (Figure 7). Additionally, the role of activist investors is expected to grow, driving more companies to divest underperforming assets to unlock value.

Ultimately, the pace of divestments will largely depend on broader economic conditions. In a volatile market, companies may accelerate plans to sell assets to raise cash and strengthen balance sheets.

Figure 7. Do you foresee an increase or decrease in divestitures/carve-outs in the US market over the next 12-24 months?



The rise of carve-outs: Advantages and opportunities

Carve-outs have emerged as a powerful tool in dealmaker strategies, offering key advantages over other divestiture methods.

This approach allows organisations to separate specific assets, divisions or business units from the parent company, facilitating more focused management and potentially higher-value realisation. Dealmaker sentiments provide insight into how carve-outs have gained prominence due to their unique benefits.

Flexibility in transaction structure

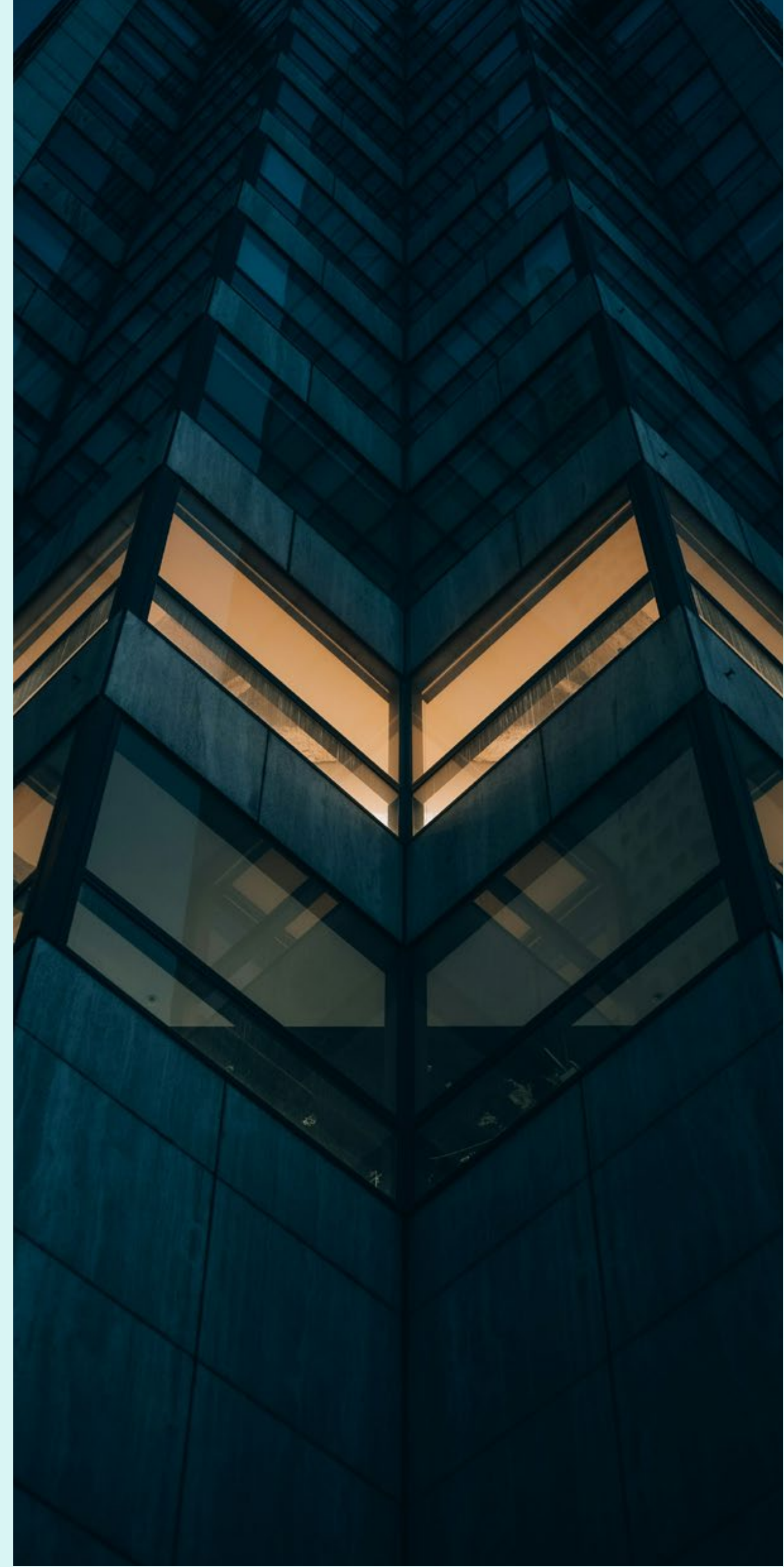
Almost two-thirds of respondents (65%) say the main advantage of carve-outs is the flexibility they offer in structuring the transaction (Figure 8). Carve-outs enable companies to tailor the divestiture process to meet specific strategic and financial objectives. Unlike outright sales, carve-outs also offer a range of options in terms of how much control the parent company retains, how the transaction is financed and how the newly separated entity is positioned in the market.

For example, a parent company might choose to retain a minority stake in the carved-out business, allowing it to benefit from future growth. This can be an attractive option when the parent company believes in the long-term potential of the business being divested but wants to reduce its exposure.

Value maximisation

More than half of respondents (58%) also say that carve-outs lead to greater value maximisation. By separating a business unit or asset from the parent company, carve-outs can unlock hidden value and attract buyers or investors who are specifically interested in that particular business. This newly independent entity can often command a higher valuation as a standalone business, free from the constraints and competing priorities of its former parent.

“Value maximisation is one of the main benefits. Divesting fully from the non-core unit can provide a substantial amount of funds within a short amount of time. It allows companies to improve their competitive position,” says the head of strategy at a US corporation.



Risk management

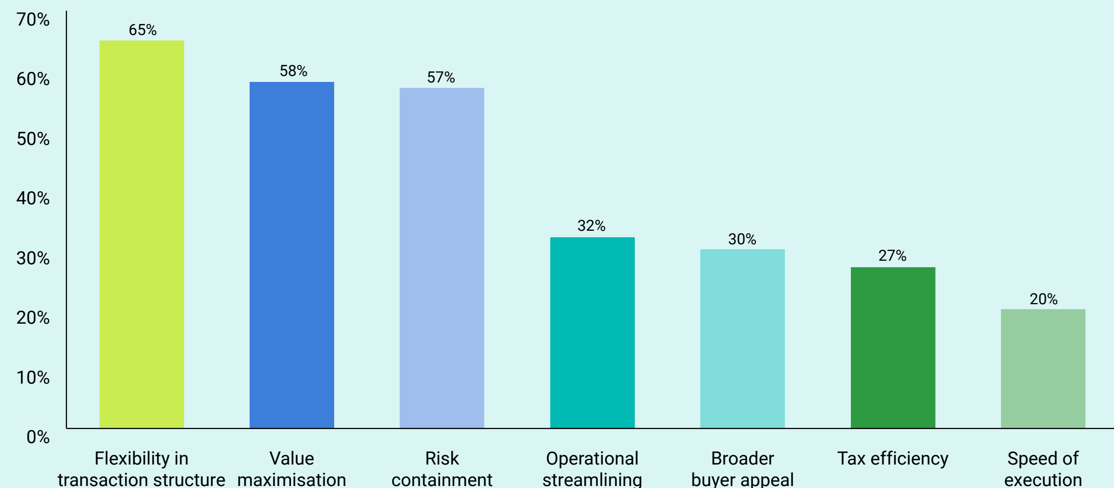
Carve-outs also offer advantages in terms of risk management, according to 57% of respondents. In today's increasingly complex and uncertain business environment, carve-outs enable the parent company to isolate riskier or non-core businesses from its main operations, thereby protecting the broader organisation from potential downsides.

"The risk containment potential is good compared to other divestiture methods. If companies ensure proper legal and compliance methods over time, there are fewer risks and maximised value during the carve-out," says the head of strategy at a Swedish company.

In the current US M&A landscape, divestitures are not only a means of shedding non-core assets but also a powerful strategy for unlocking capital to fund new investments. With 40% of US dealmakers using divestiture proceeds for acquisitions, companies are rapidly pivoting towards promising markets and technologies. Carve-outs, in particular, are becoming a preferred method, offering flexibility and value maximisation while helping organisations navigate regulatory and operational complexities."

Bill Chapman
Principal, Baker Tilly (US)

Figure 8. What are the key advantages of using carve-outs to divest assets or business units, compared to other divestiture methods in an M&A strategy?



Divestiture drivers

Divestitures and carve-outs are allowing companies to adapt to rapidly changing market dynamics. Survey sentiment sheds light on why dealmakers are opting to sell off parts of their operations or carve out specific units.

Technological disruption and digital transformation

Most respondents (62%) stated that technological disruption was the primary reason behind their decision to divest assets (Figure 9). As industries undergo digital transformation, dealmakers are being forced to reassess business models and focus on areas where they can maintain a competitive advantage. This often means divesting legacy assets that are no longer aligned with the organisation's long-term strategic goals.

This trend is particularly evident in sectors where traditional business models are being upended by automation and digitalisation. In manufacturing, for example, firms are opting to divest legacy production facilities that are ill equipped to handle the demand of a digitally driven market.

Similarly, in retail, divestitures are a growing trend. Impacted by the rise of e-commerce, traditional brick-and-mortar retailers are selling off real estate and other non-core assets to focus on expanding their online presence and enhance their digital capabilities.

Market competition and agility

The second most significant driver (58%) is intensifying market competition and the need for greater agility. In today's fast-paced business environment, organisations must be able to pivot quickly in response to market shifts and emerging opportunities. Divestitures provide a means to streamline operations, reduce complexity and enhance overall responsiveness to market demands. By divesting non-core or underperforming assets, companies can become nimbler, allowing them to reallocate resources more efficiently and focus on their core strengths.

Divestitures are increasingly driven by technological disruption, market competition and the need for financial restructuring. As industries adapt to digital transformation and rising ESG expectations, companies are shedding legacy assets to remain competitive and agile. Growing pressure from investors, consumers and regulators is pushing organisations to align with sustainable business practices, making ESG considerations a key factor in divestiture decisions."

Olivier Willems
CEO, Baker Tilly Belgium

"Market competition increased in several sectors. There's been significant changes in the strategies employed for building competitive value. Executing divestitures and focusing on new investments have become more important," says the partner at a US-based PE/VC firm.

Financial restructuring and capital needs

Nearly half (47%) of respondents say that financial considerations played a role in their decision to divest. In an era of economic uncertainty and rapidly changing market conditions, companies are increasingly looking to optimise their capital structures and shore up their financial positions. Divestitures can provide a valuable source of capital, allowing them to pay down debt, fund new investments or return value to shareholders.

"Financial restructuring decisions are somewhat risky, but delays are not ideal for the continuance of the company. We decided to divest from the asset in order to build a better financial position," says the chief strategy officer at an Italian company.

Sustainability and environmental, social and governance (ESG)

An emerging trend in divestiture motivations is the growing emphasis on sustainability and ESG factors. 45% of respondents cited these considerations as motivators of recent divestitures, reflecting the growing impact of sustainable business practices and potential pressure from investors, consumers and regulators to address environmental and social concerns.

The big picture: Organisation-wide restructuring

Importantly, sentiment indicates that recent divestitures and carve-outs are frequently integrated into broader restructuring initiatives rather than being standalone decisions. In fact, 62% of respondents report that their recent asset sales were part of a comprehensive effort to reorganise operations and refine overall business structures (Figure 10).

This suggests that dealmakers are adopting a holistic approach to portfolio management, leveraging divestitures as a strategic tool to reshape their organisations for future growth and enhanced competitiveness. By aligning divestitures with broader restructuring efforts, firms can achieve more significant transformational impact and position themselves more effectively in their target markets.

Figure 9. What are the main drivers behind your decision to complete a divestiture (select all that apply)?

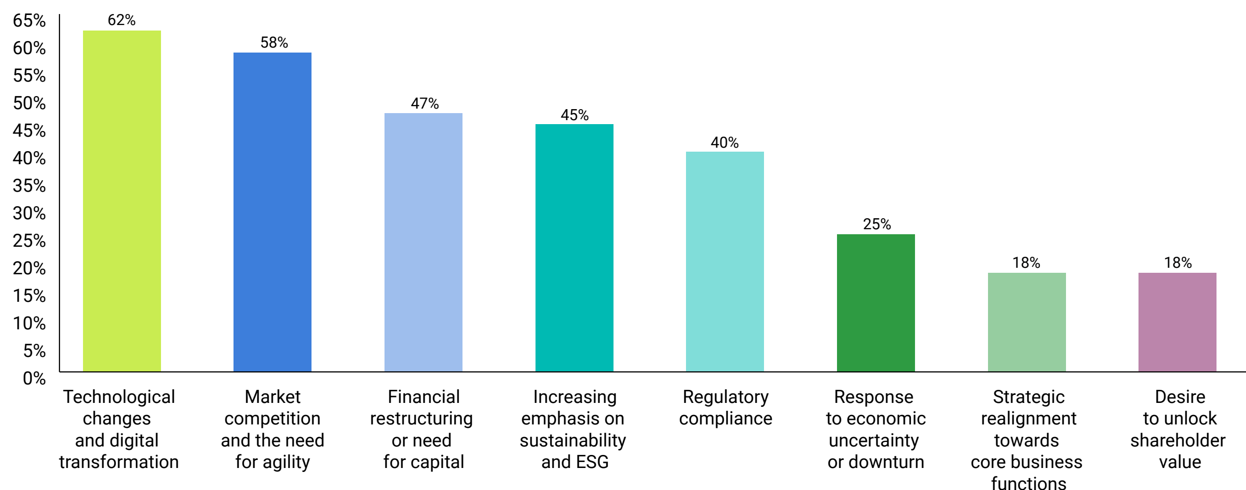
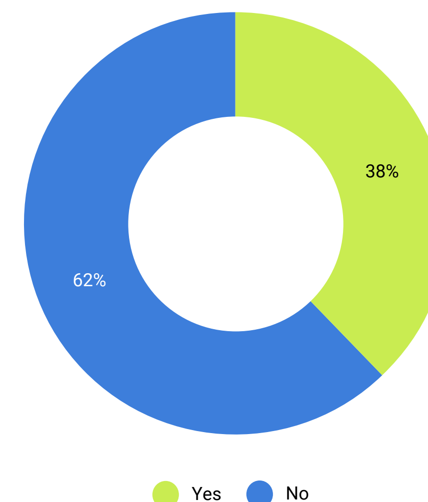


Figure 10. Was your most recent divestiture/ carve-out part of a broader strategic restructuring of the business?



Strategies for success: Maximising value and minimising disruptions

Respondent sentiment provides valuable insights into how dealmakers are planning and executing divestitures. These best practices can help dealmakers navigate the complex process of divestitures more effectively and achieve their strategic objectives.

Securing higher valuations

One of the most critical aspects of a successful divestiture is maximising the valuation of the divested asset. Among the strategies respondents have turned to, the most prominent, cited by 62% of respondents, involved providing clear and transparent financials (Figure 11). Transparent financial reporting builds trust and reduces perceived risks, making the asset more attractive to buyers. Equally, potential buyers are more likely to offer a higher price when they have a thorough understanding of the financial health and performance of the business being sold.

Effective marketing is another critical factor (according to 57%). By highlighting the strengths, growth potential and unique selling points of the business unit, companies can generate greater interest and competitive bidding among potential buyers. A well-executed marketing campaign can significantly enhance the perceived value of the asset.

Investing in new technology prior to the sale was another key action to boost valuation, according to 55% of respondents. Upgrading technology can improve operational efficiency, reduce costs and demonstrate the asset's readiness for future growth. This investment not only enhances the immediate appeal of the business but also positions it as a forward-thinking and innovative entity – thereby commanding a higher price.

According to a partner at a US-based PE/VC firm, "I feel that investing in technology and innovation can really drive up the value of business units. It's about making the company appear to be future-focused, and technology alone can make this happen."

Managing the transition

Conducting risk assessments is a critical step when managing the transition of the asset from seller to buyer – 72% of respondents say they engaged in this practice to manage potential challenges (Figure 12). Identifying and addressing risks proactively helps develop contingency plans and ensures that the divestiture process proceeds without major disruptions.

Change management strategies have also been vital, as indicated by 62% of respondents. Divestitures can cause uncertainty and anxiety among employees, customers and stakeholders. By addressing concerns and maintaining morale, companies can ensure a smoother transition and sustain productivity during the divestiture process.

60% of respondents emphasised the importance of conducting joint planning sessions with buyers. Close collaboration facilitates a deeper understanding of each party's expectations, timelines and integration plans. This approach fosters a positive relationship and can ultimately contribute to the success of the divestiture.

Figure 11. What are some of the best ways to increase the valuation of divested assets/carved-out business entities prior to sale?

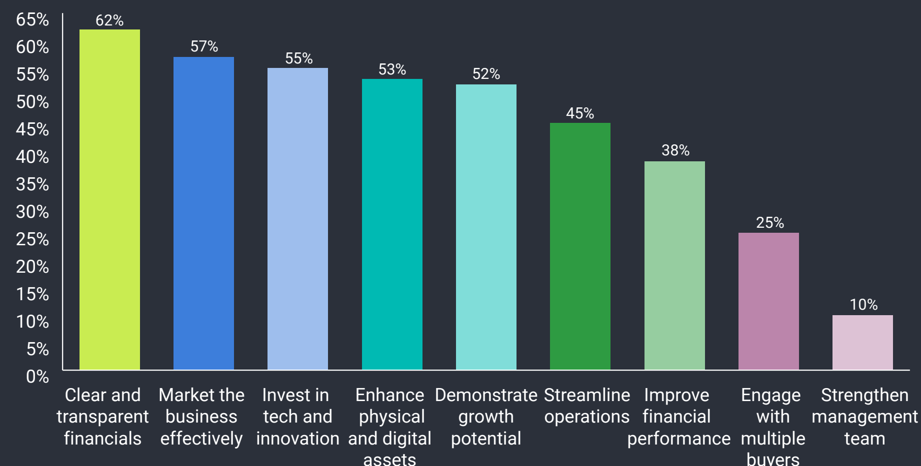
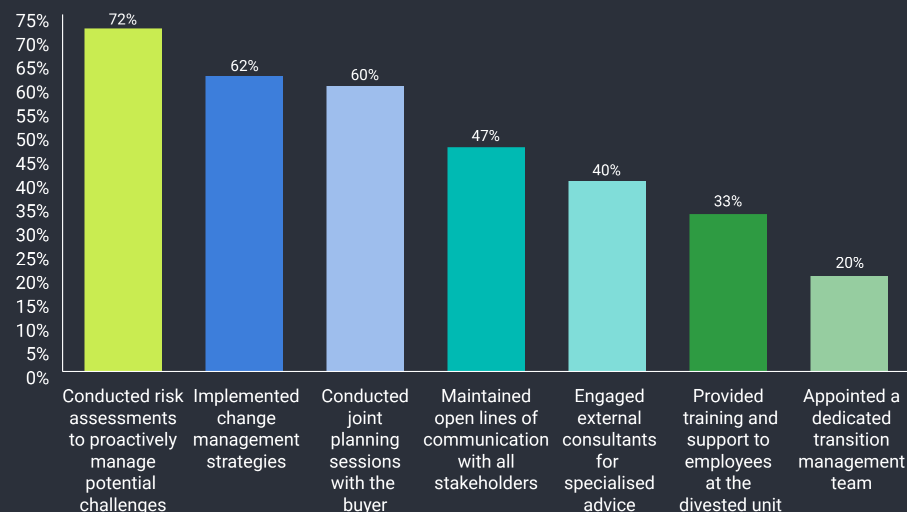


Figure 12. What measure did you undertake to ensure a smooth transition and minimal disruption during the carve-out process?



Key challenges and opportunities for improvement

Divestitures are complex and challenging undertakings that demand meticulous planning, execution and communication. So, where are dealmakers facing the most challenges when completing divestitures, and how do they intend to adjust their strategies for future transactions?

Negotiations

The most significant challenge respondents faced was negotiating deal terms (68%) (Figure 13). This high percentage underscores the intricate nature of divestiture negotiations, which often involve complex discussions around transition service agreements, employee transfers and intellectual property rights, as well as differing valuation perspectives and the need to balance buyer and seller expectations. Difficulty in aligning interests of buyers and sellers, especially in a market where buyers are increasingly cautious and selective, contributes to the challenges of negotiations.

For these reasons and others, 50% of respondents say that they would take different steps during future negotiations (Figure 14). Many recognise that effective negotiation is central to securing favourable deal terms. This could involve adopting more flexible tactics, engaging with multiple potential buyers or involving third-party advisers to provide objective perspectives.

Employee transition management

Many (65%) respondents say managing employee challenges was a major hurdle. This reflects the human aspect of divestitures, which can often be overlooked in favour of financial and operational considerations. Transferring employees to a new ownership structure can create uncertainty among the workforce. Ensuring a smooth transition is crucial not only for maintaining morale but also for preserving the operational continuity of the business being divested.

Maximising the valuation of divested assets is essential for dealmakers, with transparent financial reporting, effective marketing and investing in technology identified as key strategies. Clear financials reduce risk and attract higher bids, while showcasing the asset's growth potential through strategic marketing boosts buyer interest. By investing in new technology, companies can demonstrate innovation and position the asset for future success, ultimately commanding a higher price."

Michael Sonego
Partner, Pitcher Partners

Valuations

Accurately valuing the business being divested is another area where respondents (55%) faced difficulties. Valuation is a critical step in the process and sets the foundation for negotiations and ultimately the financial success of the deal. However, arriving at a fair valuation can be difficult, especially in markets with high volatility or when the business has complex financial structures.

Regulatory challenges

Regulatory approvals were cited by 47% of respondents as a major obstacle. Securing these approvals can prove a major hurdle, often involving a time-consuming and uncertain process. Delays in obtaining the necessary approvals can derail timelines, increase costs and in some cases, even result in the abandonment of the deal.

Lessons learned and future strategies

In addition to refining their approach to negotiations, respondents also highlight several other areas where they would have made changes to enhance outcomes for future divestitures:

Moving faster to capture value. One of the most frequently mentioned lessons was the importance of speed in completing the divestiture (according to 58% in Figure 14). As the partner at a Swedish PE/VC firm illustrates, "I would have focused on faster execution. The process was not organised. The due diligence process took much longer than we expected, and the negotiations were also more time-consuming than usual."

Enhancing stakeholder communications. 43% of respondents say they would have improved communications with stakeholders. Transparent and timely communication is critical to managing expectations and maintaining trust throughout the process. Clear communication can mitigate the uncertainty that often accompanies divestitures and helps ensure a smoother transition for all parties involved.

Figure 13. What do you believe is the biggest challenge in executing a divesture/carve-out? (Select all that apply)

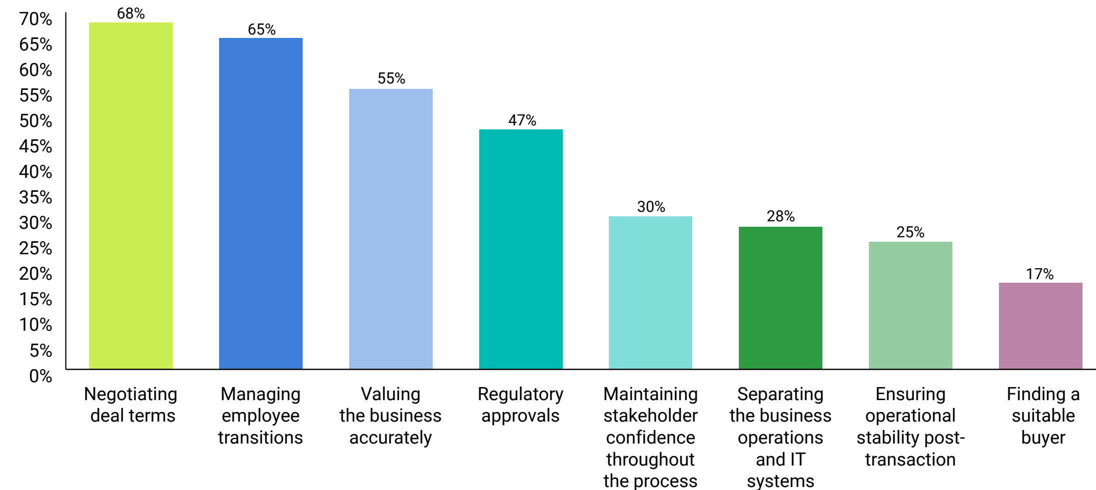
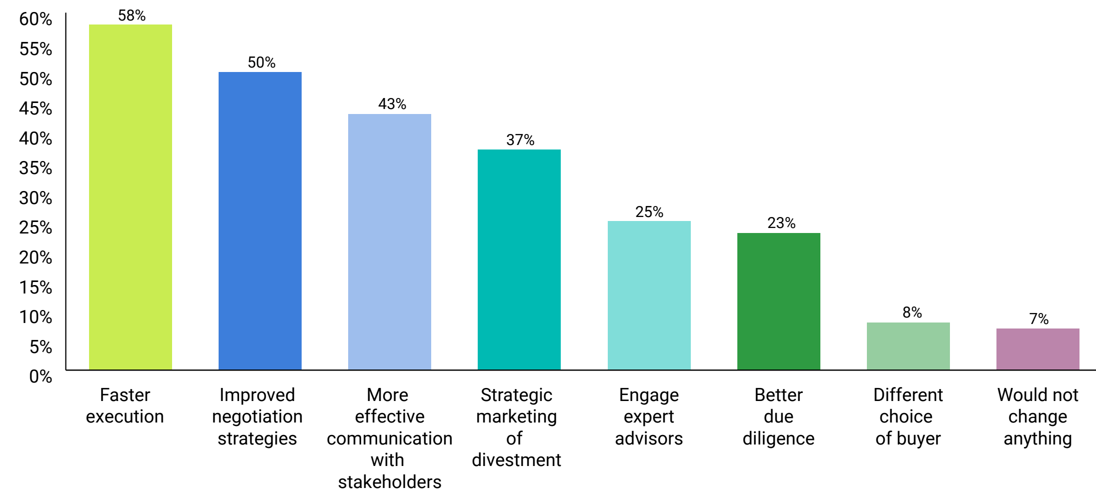


Figure 14. Looking back, what would you have done differently in the divestiture/carve-out process to improve the overall outcome?



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