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2018 *Global Corporate Divestment Study*

Key tax considerations for divestment success

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Our 2018 *Global Corporate Divestment Study* shows 87% of companies are planning to divest in the next two years, compared with 43% in 2017. C-suite executives are telling us that tax plays a key role in maximizing value on divestments as new tax policies are reshaping the tax profile of businesses, from US tax reform to the OECD/ G20 Base Erosion and Profit Shifting (BEPS) project cascading throughout Europe. Here, we focus on some of the key tax findings from our survey.

Tax is increasingly a part of strategic decision-making

More than ever, macro risks are affecting companies' ability to divest and achieve their desired valuation. Nearly one-third of executives are seeing an increase over the last 12 months in tax challenges impacting the ease of executing deals. Understanding the tax dynamics of any divestment is increasingly becoming a part of the strategic decision-making of whether and how to divest, rather than being a point of detail in the execution once the decision to divest has been made.

Not managing tax risk continues to impact deal values

Companies increasingly see that tax contributes significantly to deal value. This was the area highlighted by most executives when considering which step they did not take but now feel they would have benefited from the most – almost twice the next highest area highlighted. It is clear that value is still being left on the table by not fully preparing for a divestment process, in terms of both mitigating and communicating tax risks. With shifts in the global tax landscape, tax risk is increasingly arising in areas that were historically well understood and quantifying such risks is becoming more complex. When action is left until late in a process, tax risks invariably lead to value being lost.

The structure of deals is becoming more complex

The form of divestments is changing – only 7% of companies say their last divestment was a full enterprise sale, meaning more complex carve-outs of divisions, partial divestments and joint ventures. Tax is vital to realizing value in these intricate scenarios. Over a quarter of companies indicate that having an optimized structure was the most important step for enhancing value in their last divestment and nearly two-thirds of executives indicated that the lack of flexibility in the structure was seen as a cause of value erosion. The importance of this flexibility increases with the complexity of the deal. In fact, 45% of companies say their ability to achieve a higher sale through flexibility in deal structure has increased over the last 12 months.

“This study clearly shows that the market sees tax as a huge value driver and this is not being fully exploited in many cases, leaving money on the table.”

Bridget Walsh

EY Global Transaction Tax Leader

80% say tax policy changes are a geopolitical driver in their plans to divest.

61% say lack of preparation in dealing with tax risk was a cause of value erosion in their last divestment.

93% of companies say their last divestment was a carve-out, partial divestment or joint venture.

Keeping flexibility to retain value

Nearly two-thirds of companies indicate that the lack of flexibility in sale structure was a leading cause of value erosion in their last divestment. When it comes to maintaining flexibility, sellers should:

- ▶ Prepare for structural separation early in the process
- ▶ Allow sufficient time to make decisions based on preparatory work
- ▶ Resist the temptation to make decisions in isolation
- ▶ Build in time for divestment scenario planning
- ▶ Conduct exit workshops to identify potential buyers and look at the business through their eyes

“In turbulent times, demonstrating inherent tax value is critical, which means sellers need to be focusing on tax at the outset, highlighting tax upsides and not being shy to point these out to potential buyers.”

Michael Adolf

EY Transaction Tax Partner

About the study

The *EY Global Corporate Divestment Study* focuses on how companies should approach portfolio strategy, improve divestment execution and future-proof their remaining business amid rapid technological change.

CEOs, CFOs or other C-suite-level executives make up 85% of executives surveyed.

The 2018 study results are based on 1,000 interviews with 900 senior corporate executives and 100 private equity executives. The survey was conducted between October and December 2017 by FT Remark, the research and publishing arm of the Financial Times Group.

To learn more and to have a conversation about your divestment strategy, please contact us:

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