

# Is your business fit for the next normal?

## Reality reset

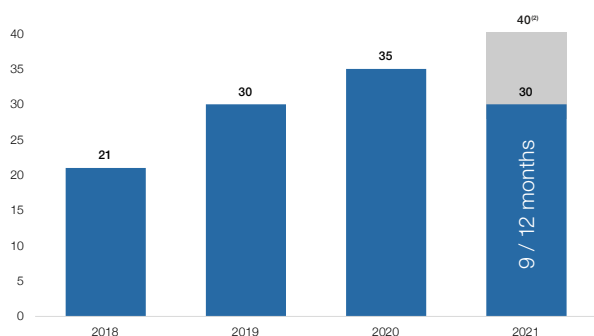
The impact of the COVID-19 pandemic almost immediately propelled many businesses into survival mode. We are already seeing signs of the post-pandemic world creating structural and systematic changes, such as a greater focus on near-shoring and increased home working. It is expected that recovery will be highly asymmetric across regions and sectors.

- Most sectors will need to reinvent themselves in order to thrive. Defensive and offensive strategies will have a strong influence in shaping the “next normal” sector environment.
- We are entering an important phase in which measures put in place over the last 18 months need to be adapted for a longer-term strategy. We see this as a key next step to enable businesses to optimise performance and strengthen for the future.

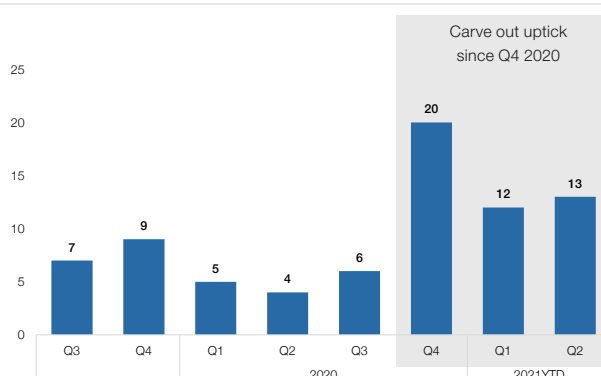
- For some businesses, this will involve reshaping the organisation, leveraging key strengths and value drivers, and focusing time and investment on core operations as they seek to navigate uncharted waters.
- Tackling non-core or underperforming divisions could be a defining moment for a business’s future; one that could create tangible benefits to future profitability and enhance shareholder value.
- Now is the time to be proactive in dealing with parts of a business that are no longer fit. This will help stem the drain on capital and management resources and help avoid a potential crisis caused by delaying difficult decisions.

## Analysis of European Corporate Carve Out Activity by Special Situation Investors

### FY18-FY21YTD<sup>(1)</sup>



### Quarterly analysis<sup>(1)</sup>



Teneo has conducted some proprietary research into the European M&A carve out activity undertaken by a cross-section of the Special Situation (“SS”) investor community. This buyer group is a key player in the acquisition of underperforming corporate carve outs and therefore acts as a strong barometer for the broader non-core operations carve out market.

## Key Findings

European carve out activity by Special Situation investors has increased materially since 2018, a trend which has continued throughout the COVID-19 pandemic. Key observations include:

- **Initial drop off in carve out transactions at the beginning of 2020:** This was driven by investors who paused their activities because they were uncertain about how the onset of the COVID-19 pandemic would impact their business.
- **Significant uptick in activity from Q4 2020:** This demonstrated an increased appetite from investors to deploy capital as confidence in the post-pandemic recovery improved. 45 carve out deals were recorded in the period from Q4 2020 to Q2 2021, with the 20 carve outs in Q4 2020 representing a doubling of deal levels versus Q4 2019.
- **Carve out focus:** Special Situation investors have regularly commented on how their deal pipelines over the past 18 months have been much more carve out focused, notably in the industrial and consumer products sectors, while the broader accelerated M&A market has remained quieter.
- **Early identification of separation issues:** This remains key to achieving a successful carve out deal, with there often being a host of complex financial, operational, legal and reputational considerations pertaining to the target assets / business. Through direct experience on recent transactions, we have found that TUPE<sup>(3)</sup>, TSA<sup>(4)</sup> and central cost allocation across the vendor groups are often key areas of bidder focus and invariably impact on deal value and deliverability.

1. Teneo research

2. Forecast of 40 carve out transactions in 2021 based on pro-rata calculation (30 deals for first 9 months of 2021 \* 4/3)

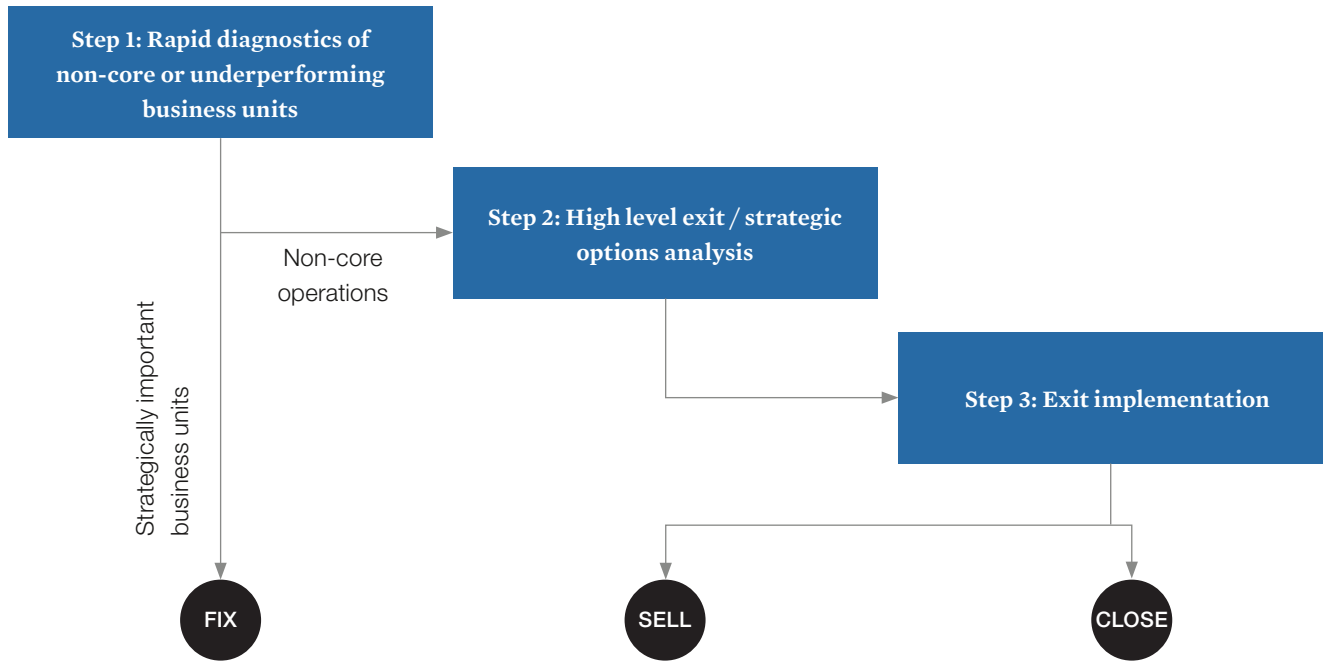
3. TUPE – Transfer of Undertakings (Protection of Employment) regulations

4. TSA – Transitional service agreements



### Where we can assist?

- Implementing an exit without a well-thought-out and carefully structured plan can **negatively impact overall finances** and the **business reputation**.
- We can help to **mitigate risks, freeing up valuable capital and management time** that was previously spent on underperforming and non-core parts of a business.
- We draw upon a multidisciplinary and global team of experts to provide hands-on support to **fix, sell or close** underperforming and/or non-core areas of business.



### Divestiture

- Strategy assessment (full / partial sale)
- Separation risks and opportunities
- Value drivers
- Feasibility analysis

### Wind down

- Exit route analysis
- Process & timeline
- Risk identification
- Impact analysis (financial, reputation and operational)

### Contacts



**Richard Hawes**  
Senior Managing Director

Managed Exit  
+44 20 8052 2417  
+44 77 4833 3869  
richard.hawes@teneo.com



**Simon Harrison**  
Managing Director

Managed Exit  
+44 20 8052 2411  
+44 78 6662 5567  
simon.harrison@teneo.com



**Matt Roe**  
Director

Managed Exit  
+44 20 8052 2417  
+44 79 1789 5536  
matt.roe@teneo.com



**Stuart Pugh**  
Associate Director

Managed Exit  
+44 20 8052 2417  
+44 79 7950 8385  
stuart.pugh@teneo.com

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