Post-Brexit uncertainty to drive increase in European divestment activity by corporates in 2017

Special situations investors likely to be most active acquirers of non-core assets

London, 29 May 2017 - Macroeconomic uncertainty is set to drive an increase in corporate divestment activity across Europe this year, with turnaround investors predicted as the most likely buyers of non-core assets, according to the findings of Aurelius Equity Opportunities' (ISIN DE000A0JK2A8) ("Aurelius" or "the Group") second annual corporate carve-out survey. This year's survey canvassed the opinions of respondents from Aurelius' network of UK and continental European advisory and corporate contacts on their expectations for corporate carve-out activity in the European market in 2017.

Key findings of the survey included:

1. **A predicted increase in the volume of corporates looking to sell operations in Europe in 2017:**
    - Over half (51%) of respondents predicted that the volume of corporates looking to divest European assets would be higher this year than in 2016, with a majority noting that the uncertainty caused by the UK's Brexit vote would likely fuel this increase.
    - Around two thirds (65%) of respondents identified the need for corporates to refocus on core operations as the key driver for disposal activity. 11% of respondents identified the need to free up capital as the next biggest driver, alongside unsolicited approaches from potential buyers (11%).
    - Respondents rated corporate divestment as mutually beneficial for both the core and divested businesses. Using a scale from one to 10 – one being very negative and 10 being very positive – 70% of respondents awarded a score of seven or above when assessing the impact of the disposal on the performance of the selling corporate. Similarly, 73% of respondents awarded a score of seven for the likely impact on the performance of the divested business.

"We have certainly seen a pick-up in corporate carve-out activity across the European market since last summer," said Dirk Markus, CEO of Aurelius Group. *"This increased level of corporate divestment activity has partly been driven by the uncertainty created by the UK's decision to leave the European Union. Currency volatility, trade tariffs, increasing labour costs and a lack of clarity around the freedom of movement for workers are just a few examples of the issues facing businesses this year.*

"Consequently, a carve-out, where a firm seeks to rationalise its business by selling a non-core or potentially underperforming asset, can be hugely beneficial to a corporate, allowing it to refocus on key operations, free up capital and rid its balance sheet of a loss-making entity. A carve-out can be similarly advantageous to the divested asset, which benefits from the increased level of attention and resource allocation that it receives under its new ownership."

2. **UK and DACH region expected to see highest volumes of corporate carve-out activity this year:**

- In line with last year's findings, over a third (33%) of respondents identified the UK as the European geography they expected to experience the most corporate divestment activity in 2017.
- Over a quarter (27%) of respondents anticipated an increase in disposals by corporates with operations in the DACH region, up significantly from 2016 when less than 10% identified the DACH region as likely to see high volumes of corporate carve-out activity.

Dirk Markus commented: *"The UK has already witnessed a number of divestments this year from both domestic plc's seeking to streamline their businesses, and overseas corporates looking to rationalise their UK holdings and in some cases, get out of this market altogether. We expect to see this trend continue.*

"The increasing uncertainty around the future of the UK post-Brexit continues to put pressure on businesses with operations in this market. Consequently, we have seen a wave of profit warnings from corporates including BT, Premier Foods and Next. A natural reaction will be for corporates to review their strategies and rationalise by selling non-core operations.

"Furthermore, whilst the level of corporate divestment activity across continental Europe has been relatively low in recent years, feelings of uncertainty have risen dramatically in the last 12 months. The significant upsurge in anti-global sentiment, as seen by the UK's decision to leave the European Union, the Trump election and the rising popularity of the far-right movement in France, has contributed significantly to this, and with the upcoming election in Germany, ongoing power struggles in countries like Italy, and increasing levels of youth unemployment in southern Europe, we expect to see this sentiment continue in the near term. As such, with corporate decision makers wary of the difficultly of selling off non-core operations in a recession environment, an increase in carve out activity in the region would not be surprising to us."

3. **Turnaround and special opportunities investors driving acquisitions of non-core assets, rather than LBO or trade buyers. Pricing expectations continue to be a challenge in agreeing deals:**

- Almost half (43%) of those surveyed expected turnaround/special situations investors to be the most active buyers of corporate assets in 2017, followed by traditional financial sponsors (34%) and then trade buyers (23%). This contrasts with the results of last year's survey when 57% of respondents predicted that trade buyers would be the more likely acquirers of non-core, European assets being sold by corporates.
- In line with the results of last year's survey, respondents noted that valuations continue to divide vendor and acquirer interests. 30% of those who completed the survey identified a mismatch in valuation expectations as the greatest hurdle to the closing of a deal, from both the buyer and seller's perspective. Other challenges identified from the buyer's perspective included concerns around the integration of business operations post deal (24%) and the ability to complete thorough due diligence in a short time frame (19%). For sellers, it was transaction security (25%) and the ability to commit the resources to deliver a transaction at the speed required (17%).

Tristan Nagler, Managing Director of Aurelius in the UK said: *"We are seeing a number of situations where special opportunities investors, whose offers may have been sidelined initially in favour of higher bids at the start of a sale process, come back as frontrunners. Where a process has been running for some time, sellers are generally under pressure from their board and shareholders to sell an asset quickly. Special situations investors - which are usually able to transact more quickly than trade or private equity buyers, will often provide the best exit solution for the seller.*

"Furthermore, in cases where an asset is losing money and underperforming, the business may not be healthy enough to apply leverage - as a traditional private equity investor would. Or the asset may require too much operational change to interest trade buyers. It's often the case that an investor with operational expertise and restructuring capabilities, such as a turnaround firm, is the best home for the business."

4. **Divestments predicted to be more prevalent in the Industrials sector:**
   - When asked to identify which sectors were expected to experience the highest volume of divestments, 32% of respondents identified Industrials as that most likely to be reviewing operations, followed by the Pharmaceutical and Life Sciences (11%), Business Services (9%), Technology (8%) and Financial Services (8%) sectors.

"We have already seen a number of high-profile corporate divestments in 2017, particularly across the UK Industrials and Business Services sectors, including from Essentra and DCC", said Markus. "Markets hate uncertainty and in several situations including that of outsourcing provider Mitie, we have seen the market react strongly to the slightest slip in numbers. In Mitie's case this led to the disposal of its healthcare arm in March this year. We expect to see more corporates impacted by market uncertainty in the remaining three quarters of 2017."

Conclusion

Dirk Markus concludes: *"As we predicted last year, the findings of this year's survey show that the uncertainty generated by Britain's decision to leave the European Union has continued to fuel a rise in corporate disposal activity, both in the UK and across continental Europe. The UK's position post Brexit will start to become clearer over the next two years, particularly following the June election which will provide clarity around the UK's political future and set the tone for ongoing Brexit negotiations. However, we predict that the level of deal activity in this space will continue to rise in the near term, as wider economic and political events across the European market prompt businesses to seek the benefits of streamlining their operations to re-focus on core strategies."*

"Aurelius had a busy 12 months in 2016, completing eight acquisitions as well as a further three already in 2017, including the acquisition of the European operations of Office Depot Inc. As strong headwinds continue to put divestments on the agenda for major plcs, we expect this deal momentum to continue throughout 2017."

Ends

Notes to Editors

About the survey

In Q1 2017, Aurelius distributed an online multiple-choice survey to a database of advisory and corporate contacts from across the UK, and continental European markets. The Group received responses from over 200 people and the results have subsequently been reviewed and summarised in this report.

This survey represents the second of an annual review of the European corporate carve-out market by Aurelius.

About Aurelius Group

Aurelius is a leading pan-European investment group with offices in Munich, London, Stockholm and Madrid. It invests in companies or brands with development potential across a range of sectors. Under Aurelius' ownership, investee companies are provided with long-term, strategic direction and financial support to help them develop, grow and achieve their full potential.

Currently, Aurelius' portfolio of investments consists of 25 businesses, with operations in Europe, Asia, and the U.S.A. These include traditional consumer brands, services businesses and a number of industrial enterprises.

Shares of AURELIUS SE & Co. KGaA are listed in the m:access segment of the Munich Stock Exchange and are traded on all German stock markets under ISIN DE000A0JK2A8.

For more information, visit www.aureliusinvest.com

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