



Rise in European corporate spin-outs expected for third year running

London, 4th June 2018 – An increase in corporate spin-out activity in Europe is predicted for the third year running, according to the findings of AURELIUS Equity Opportunities' ("AURELIUS" or "the Group") annual corporate carve-out survey. This is driven by the need to focus on core business operations, with turnaround and special situations investors expected to be the most likely buyers of divested assets. The industrials sector is projected to witness the most corporate carve-out activity.

Respondents to this year's survey, which canvassed the opinions of AURELIUS' European corporate and advisory contacts, also predicted that the UK will see the most divestment activity, driven by continued uncertainty around the Brexit deal. The Financial Services sector is expected to feel the biggest direct impact of this.

Need to focus on core operations to drive upsurge in European asset divestment activity in 2018

- The volume of corporates looking to spin-out European assets is predicted to be higher this year than last, according to nearly two thirds (65%) of survey participants, the third consecutive year such a prediction has been made¹.
- 63% identified the need to focus on core business areas as the biggest catalyst for divestment, followed by the need to free up capital (14%) and opportunistic/unsolicited approaches from potential buyers (9%).
- Nearly half (47%) of respondents predicted turnaround and special opportunity investors to be the most active buyers of European corporate carve-outs in 2018, followed by traditional financial sponsors (34%) and trade buyers (19%).

Dirk Markus, CEO of AURELIUS, said: "We have witnessed a steady increase in European corporate spin-outs in recent years and we anticipate this trend to persist in 2018 and 2019 as businesses face ongoing macroeconomic challenges, ranging from a rising protectionist agenda to European currency volatility and an ever-changing technology landscape.

Against this backdrop and amid mounting pressures caused by the rise in shareholder activism, there is a greater requirement for businesses to remain competitive through strategic portfolio management and a focus on growth in core business areas. This is often achieved via the sale of low growth or low potential assets which may be dragging down overall performance. In this way, a corporate can strengthen its balance sheet, refocus resources or free up capital for crucial investment into key operations."

"A large proportion of these spin-outs require significant operational attention, often making turnaround firms, who have the required restructuring expertise, the most suitable buyers. That said, carve-outs – perceived by many as the niche domain of special situations or turnaround investors – are becoming more mainstream. For example, there has been a clear increase in interest for these assets from more conventional private equity investors, fueled by excess dry power which continues to drive competition for assets."

¹ 50% of respondents predicted an increase in corporate spin-out activity in 2017 compared with the previous year, with 43% predicting the same in 2016.

Industrials sector projected to witness the most activity

- **62%** of respondents think the industrials sector will witness the most divestment activity in 2018, followed by the business services industry (**27%**).

Tristan Nagler, Managing Director of AURELIUS in the UK, said: *“With a range of technological innovations transforming the industrials space - from robotics to 3D printing to blockchain - divestment in the sector is being largely driven by the need to free up capital for investment into innovation. That said, the industrials space is also witnessing a shift away from the diversified business model towards a more focused approach, resulting in a rise in the carve-out of non-core assets as businesses seek to achieve a more streamlined portfolio and growth strategy”.*

UK to see the highest levels of divestment activity; Financial Services sector to feel biggest impact of this

- The UK will see the highest level of corporate divestment activity in 2018 according to **61%** of respondents, with half (**50%**) attributing this to the lack of clarity around the UK’s Brexit deal.
- Financial Services stood out as the sector likely to see the biggest direct impact of this uncertainty, according to **44%** of corporate and advisory contacts.

Markus notes: *“Ongoing uncertainty around the future of the UK post-Brexit continues to put pressure on businesses, a trend unlikely to change in the immediate term. This may dampen appetite for further investment by international businesses into existing UK operations until a deal becomes clear. Possible consequences of this may include a material increase in divestment activity in three to five years’ time, as these operations start to underperform due to underfunding”.*

Nagler said: *“With capital markets facing a lack of clarity over passporting rights and a number of banks having already decided to move certain operations outside of the UK following the referendum, some are doubting the UK’s future status as Europe’s financial hub. This adds further pressure to a sector already experiencing unprecedented levels of corporate divestment activity, as businesses seek to react to the rising threat of digital disruption by freeing up capital to invest in technological advancements.”*

Ends

Notes to Editors About the survey

In Q1 2018, 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 third of an annual review of the European corporate carve-out market by AURELIUS.

About AURELIUS Equity Opportunities

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 Equity Opportunities 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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