

AURELIUS Equity Opportunities

(“AURELIUS” or “the Group”)

COVID-19 to Accelerate Non-Core Corporate Divestments of European Assets in 2021

London, 22 February 2021 - The COVID-19 pandemic will accelerate UK and European corporates’ plans to divest non-core businesses, increasing corporate carve-out activity across the continent in 2021, according to the findings of the AURELIUS Equity Opportunities European Corporate Carve-Out Survey. The sixth annual survey conducted by AURELIUS reveals that despite 61% of respondents predicting that increased complexity in the valuing of assets will be the biggest barrier to transacting (up from 38% in 2020), 89% expect the volume of corporate carve-outs to increase in 2021 (versus only 60% in 2020).

These findings align strongly to continued uncertainty, macro-economic conditions and mounting corporate debt which are complicating due diligence and business valuations. This contrasts to previous years, consecutively revealing the highest bidder¹ and ability to execute² would drive corporate carve-out activity, before the unprecedented volatility created by COVID-19.

Every year the AURELIUS European Corporate Carve-Out Survey canvasses corporate and advisory professionals to reveal year-on-year trends in the market and predictions of what lies ahead. This year’s survey was conducted between 12 January and 5 February 2021.

Key findings:

The COVID-19 pandemic will accelerate plans at UK and European corporates to divest of non-core businesses in 2021.

- **85%** of respondents expect the impact of the COVID-19 pandemic will be to **accelerate plans** to divest non-core businesses.
- **85%** of respondents also believe that the COVID-19 pandemic will increase the **overall volume** of non-core corporate divestment activity by European and UK corporates in 2021.

The vast majority of specialist advisors anticipate a frenetic year of corporate carve-out activity and non-core corporate divestment processes to be initiated by global groups.

- **89%** of respondents expect the number of **UK and European corporates** seeking to sell non-core businesses to increase in 2021 vs 2020 (29% increase YOY).³

¹ In 2019, 14% of respondents expected the highest bid would be the most important factor for corporate sellers when choosing a buyer for non-core businesses.

² In 2020, 47% predicted a buyer’s ability to execute the acquisition of a non-core asset would be the most important factor for corporate sellers when choosing a buyer.

³ Before the COVID-19 pandemic, last year only 60% predicted the volume of European corporates looking to sell non-core assets would increase in 2020 vs 2019.

- **66%** of respondents expect the number of **corporates from outside Europe** seeking to sell non-core European businesses to increase in 2021 vs 2020 (30% increase YOY).⁴

The increased complexity of valuation will be the biggest barrier to transacting corporate carve-outs, making the buyer's ability to execute even more important.

- **61%** of respondents predict complexity in the **valuation of assets** will be the biggest barrier to the completion of successful divestments (versus only 38% in 2020).
- **84%** of respondents expect a buyer's **ability to execute** an acquisition of a non-core asset will be the most important factor again this year for corporate sellers when choosing a buyer.

Matthias Täubl, CEO of AURELIUS, said: *"The collective insight of our investment and advisory network confirms that we are reaching a tipping point in the level of corporate divestment activity. COVID-19 continues to create uncertainty, despite the commencement of the vaccine roll-out, which will likely lead to an increase in and acceleration of deals, as corporates seek to shore up balance sheets and simplify their operations. The landscape is primed for special situations investors and there are strong carve-out and turnaround opportunities across Europe."*

Tristan Nagler, UK Managing Director of AURELIUS, added: *"These findings have highlighted clear trends in corporate divestments, with the disruption of COVID-19 set to increase activity in 2021. The survey confirms much of what we have long been seeing at AURELIUS, as European and global corporates look to rationalise their portfolios after a year of government support. As an experienced special situations investor with a strong track record in complex carve-outs, we clearly see this moment as an opportunity."*

Full report summary:

- **The COVID-19 pandemic has shifted the paradigm and core imperatives of European and UK corporates in the sale of non-core businesses in 2021.**
 - Ranked in order of priority, the vast majority of respondents pointed to a need to refocus on core operations (**92%**), followed by a need for liquidity due to the pandemic (**69%**), and to reduce debt burden (**38%**).
- **Record levels of corporate debt will spark a wave of non-core divestments in 2021, in part driven by the fallout of COVID-19.**
 - **76%** of respondents agreed or strongly agreed that *"Record levels of UK and European corporate debt, in part driven by the Covid-19 pandemic, will drive UK and European corporates to divest non-core assets in 2021."*

⁴ Only 36% expected an increase in the number of corporates from outside Europe wanting to sell non-core European businesses in 2020 vs 2019.

- **68%** of respondents also agreed or strongly agreed that *“There will be increased divestment of non-core businesses by UK and European corporates based in the countries most affected by the Covid-19 pandemic economically.”*
- **For the third consecutive year, respondents predicted the two sectors that would see the most sales of non-core assets in 2021 would be Industrials and Retail.**
 - Of the top two, more than three quarters of respondents identified Industrials, with only half selecting Retail as the sector likely to see the most carve-outs.
 - Other sectors ranked included in order of likelihood after the top two were: Consumer, Business services, Food and Beverage, Energy, TMT, Financial Services, Healthcare, Pharma and Life sciences, and Other.
- **Survey respondents clearly expected the UK market to see the most corporate disposals of non-core assets in 2021, with the Brexit trade deal becoming an important driver.**
 - **72%** of respondents agreed or strongly agreed that *“Despite the Brexit trade deal, cross-border M&A will become more complex and difficult to execute with UK-EU divergence.”*
- **Turnaround and special situations investors will be the most active buyers of non-core assets, backed by an ability to execute.**
 - **57%** of respondents identified turnaround and special situations investors, versus only 26% traditional financial sponsors.⁵
 - This could account for the **84%** of respondents expecting a buyer’s ability to execute as critical for sellers when choosing a buyer.
- **End of COVID-19 support from government will lead to the divestment of non-core businesses.**
 - **60%** of respondents agreed or strongly agreed that the winding down of government support initiatives launched in response to the COVID-19 pandemic will contribute to the divestment trend of non-core business disposals by UK and European corporates.
- **Shareholder activism remains a key driver of corporate carve-out activity in Europe.**
 - **56%** of respondents agreed or strongly agreed that shareholder activism will remain a key driver of corporate divestment activity (up from 49% in 2020).

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⁵ In 2020, 42% predicted traditional financial sponsors would be the most active buyers of European non-core corporate assets, with only 34% naming turnaround and special situations investors.

Notes to Editor:

ABOUT AURELIUS

AURELIUS Group is a pan-European investment group with offices in Munich, London, Stockholm, Madrid and Amsterdam. Since it was founded in 2006, AURELIUS has grown from a local turnaround investor to an international multi-asset manager.

AURELIUS Equity Opportunities SE & Co. KGaA (ISIN: DE000A0JK2A8, ticker symbol: AR4) is the listed entity within AURELIUS Group and focuses on investing in mid-market corporate carve-outs and platform build-ups in a broad range of industries. With a team of approximately 100 in-house operations experts, AURELIUS actively supports its portfolio companies in their long-term development. AURELIUS Equity Opportunities currently has 26 portfolio companies located across Europe which employ around 13,000 people and generate annual revenues of approx. EUR 3.0 billion. The shares of AURELIUS Equity Opportunities are traded on all German stock exchanges.

AURELIUS Group also operates in the areas of growth capital, real estate opportunities and debt. AURELIUS Growth Investments invests in leveraged buyouts usually in succession or corporate spin-off situations. AURELIUS Real Estate Opportunities focuses on real estate investments, the value of which can be increased in the long-term by means of active management. AURELIUS Finance Company is an alternative direct lender, focused on providing flexible debt solutions to small and mid-market firms across Europe.

With its group charity AURELIUS Refugee Initiative e.V., AURELIUS provides comprehensive support for refugees on their way towards a better life.

To find out more, visit www.aureliusinvest.com.

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