PE Rediscovers Divestitures as a Value Creation Strategy

A deep dive into trends driving the rebound of PE-led carveout acquisitions

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Key takeaways

- Divestitures' share of buyout deal activity had been on a gradual decline for eight years as sponsors focused more on growth than value when seeking out acquisition candidates. This was supported by ultralow borrowing costs and steadily rising valuations, which bailed out many deals even when they fell well short of growth expectations. However, this trend reversed as borrowing costs soared and the opportunity for multiple expansion diminished, and PE firms have adopted a more value-oriented approach as a result.

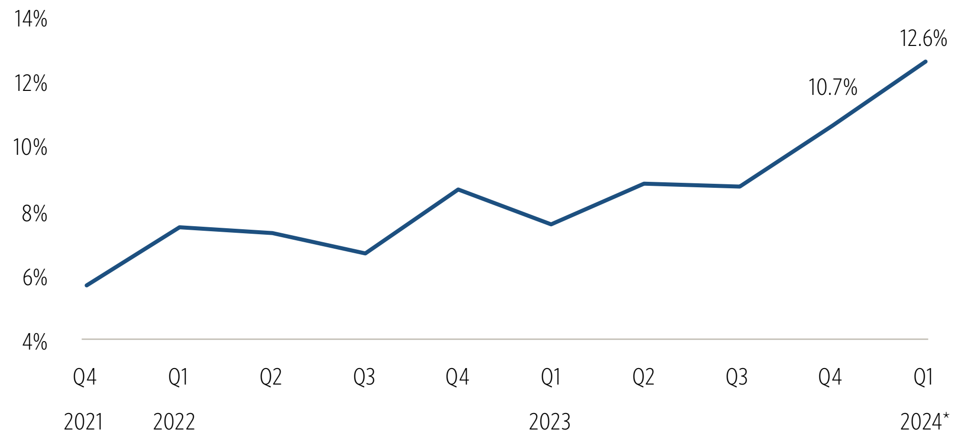
- We have observed a clear trend in favor of PE firms buying divestitures. Divestitures' share of all PE buyouts has risen steadily from an all-time low of 5.7% in Q4 2021 to 12.6% in Q1 2024. We think this trend is firmly in place and has several more years to run.

- Historically, divested assets are less expensive than other buyout targets, and now that financial leverage is a less critical driver to success than operating leverage, divested assets allow PE firms to implement a value creation plan with an equal or better chance to achieve a higher exit multiple than more growth-oriented buy-and-build strategies.

Thesis

Divestitures, also known as carveouts, occur when one company sells off a piece of its operations to another company or financial sponsor. This deal type had been on a steady decline for nearly a decade. Beginning in 2022, however, divestitures have increasingly gained favor. This has been especially pronounced among PE buyers, where divestitures' share of all buyouts has nearly doubled. We believe this reflects a broader shift from growth to value investing by PE buyout firms, with higher borrowing costs serving as the main catalyst. These higher costs have made it much more challenging for PE firms to execute on a value creation plan, sparking renewed interest in divestitures. Our work confirms that divestitures historically are less expensive than other buyout targets. Often, this reflects a lower growth profile but also a greater turnaround opportunity and potential for higher exit multiples than the original purchase price paid.

Carveouts/divestitures as a share of all PE buyouts by quarter



Source: PitchBook • Geography: US • *As of March 31, 2024

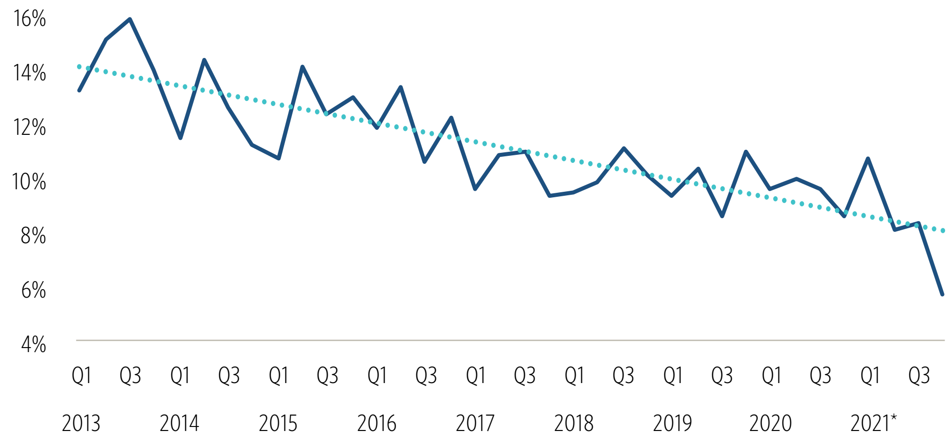
PE’s shifting playbook

Throughout the years, acquiring divested assets has consistently served as a dependable source of deal flow for PE firms. After hitting a low of 5.7% of all buyout deals in Q4 2021, carveouts experienced a resurgence by closing Q1 2024 at 12.6% of all buyout deals, marking their highest percentage since Q2 2016. Moreover, business units are being divested as sellers refocus on post-COVID-19-pandemic opportunities and navigate current market uncertainty, presenting increased buying opportunities for PE firms. As PE investors shift back to a more value-oriented investing strategy, they have sought out carveout acquisitions at a higher rate. In the short term, while dealmaking remains more challenging, we expect the attractive features of carveouts to push their mix of deals higher, further extending their run after an extended period where their mix of deals declined. Given that we are just two years into this shift after an eight-year decline—and the fact that we have retraced only half of that decline—we believe that the recovery in PE divestiture buyouts has many more years to run.

PE’s playbook has shifted to more of a value approach, getting back to the basics of buying low and selling high. Growth is still an important requirement, but as in traditional asset management, PE is turning to growth at a reasonable price (GARP) as opposed to growth at all costs (GAAC). When it was all about growth, carveouts were shunned for their lack of growth and the greater time and skill it took to turn them around, and carveouts’ share of total PE deal flow declined as a result. The new PE playbook uses operating leverage and lower entry valuations to compensate for the lack of financial leverage, and that combination has made carveouts decidedly more attractive.

Carveouts were out of favor

Carveouts/divestitures as a declining share of all PE buyouts by quarter*



Source: PitchBook • Geography: US • *As of March 31, 2024

In the eight years leading up to their record low point, divestitures witnessed a gradual decrease in their proportion of all buyout transactions. From a peak of 15.8% of all buyout transactions, this figure steadily declined over the subsequent eight years, hitting 8.6% by the close of 2020 and 5.7% in Q4 2021—an all-time low. During this time, borrowing costs were low, and PE took advantage of this opportunity to focus on buying into growth by acquiring new, high-growth companies to scale or add to legacy businesses. Conversely, divested assets, which usually consist of an older company with lower growth prospects or a company that is in a declining growth phase, are viewed as more of a turnaround opportunity and are less attractive in a GAAC landscape that is fueled by cheap money.

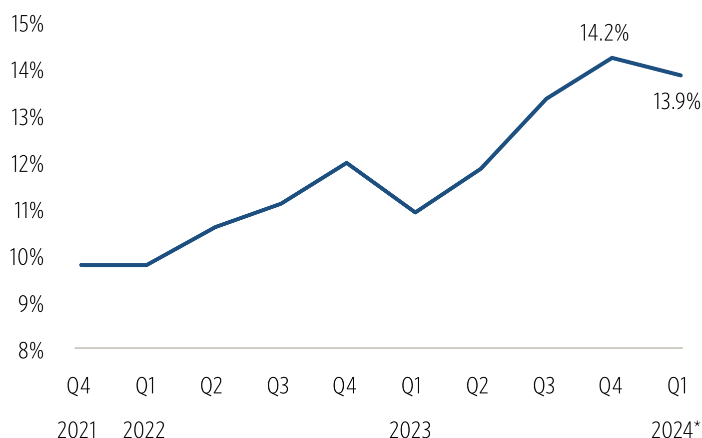
Carveouts' share hit its all-time low in 2021. This decline occurred in a year that marked the peak of deal activity within the PE ecosystem. Interestingly, 2021 was a year when carveout deal count and value peaked, but overall deal activity was so strong that carveouts saw their share of deal activity go down. In 2021, there was a GAAC investing mentality, and it was a perfect storm of conditions to drive deal flow. It was an environment of ultralow interest rates paired with ample dry powder, with deals that were pushed back from 2020 because of pandemic-related uncertainty. Similarly, corporations were just as acquisitive as PE firms, as 2021 was a year where M&A activity reached new highs. Corporations were dealt the same tailwinds and were building out business segments rather than divesting business units and streamlining portfolios like they are in the current environment. These factors led carveouts to see their share of PE deal activity bottom out. The investing mindset has now shifted to value investing or GARP. This shift has helped carveouts and their percentage of buyout deal activity rebound.

Carveout activity rebounds: Why PE firms are buying

After troughing in Q4 2021, carveouts made a strong comeback, ending Q1 2024 at 12.6% of all buyout deals, a twofold improvement in just nine quarters. As the dealmaking environment proved more challenging, more sponsors turned to carveouts due to a myriad of reasons, which we discuss below. We believe that the catalyst for this reversal in the divestiture trend was the commencement of interest rate hikes by the Federal Reserve and other central banks. Over the course of that rate hike cycle—which persisted for 16 months and turned out to be the steepest in more than 40 years—the cost of borrowing to fund new LBO deals more than doubled from 5.0% in Q4 2021 to a peak of 12.4% in Q4 2023, as measured by the US broadly syndicated loan market.[1] Almost overnight, PE's search for acquisition targets shifted from high-growth but lean EBITDA companies to more mature businesses and industries that are cash flow rich and capable of supporting a higher cost of borrowing. Often these more mature businesses are embedded in larger companies that are often publicly held. This translates to a longer track record of audited and transparent operating results, which makes divested assets more bankable at the margin for more risk-averse lenders. These all added up to advantages for divestiture deals, which became more pronounced and apparent after historic central bank hikes and the new interest rate regime.

While PE has seen divestitures account for a larger percentage of all buyouts in the past two years, it is a trend that aligns with the broader global M&A ecosystem. Both PE and M&A have seen divestitures' share of deal count increase since the beginning of 2022. When looking over the course of the past 10 years, carveouts saw their share of all M&A deals slowly decline before bottoming out in Q1 2022 at 9.8% of all deals. Following this, divestitures' share of global M&A ended Q1 2024 at 13.9% of all deals.

Carveouts/divestitures as a share of all M&A by quarter



Source: PitchBook • Geography: Global • *As of March 31, 2024

Carveouts/divestitures as a share of all PE buyouts versus LBO borrowing costs by quarter

Source: PitchBook | LCD • Geography: US • *As of March 31, 2024

Note: There was a lack of observations in Q4 2022 to provide meaningful averages.

1: "US LBO Debt Quarterly Trend Lines 4Q 2023," LCD, Sara Wahba, January 8, 2024.

Carveout activity rebounds: Why corporate owners are selling

At the same time interest rates inflected upward for PE borrowers, earnings growth inflected downward for business owners and corporations. Earnings per share growth on S&P 500 companies has stagnated over the past two years, including three straight quarters of decline between Q4 2022 and Q2 2023 and three quarters of low-single-digit growth since then.[2] For large companies tasked with achieving faster growth than the overall economy or peers, divestitures have always been a constant companion to the corporate strategist. When needing to kick growth into a higher gear, boardrooms can decide to either acquire what they do not own or divest what they do own. With growth rates as anemic as they have been over the past two years, this has caused more large companies to contemplate the latter, especially given the high cost of capital to fund a new purchase and the perceived likelihood of a recession. Large corporate owners were thus motivated to conserve cash and review what they own; at the same time, PE firms were more amenable to buying divested assets. With a more motivated universe of potential sellers, the bid-ask spread has been less disrupted than other areas of the M&A deal market.

Optimizing operations

Streamlining a company's operations and focusing on core business activities is a key driver behind divestitures. This is taking shape even more now as companies look to increase efficiency, cost-effectiveness, and agility to navigate the challenges posed by market uncertainties. By shedding noncore or underperforming assets, businesses can allocate resources more effectively and devote management attention to their biggest and strongest growth vectors. Divestitures are often part of a broader strategic repositioning, involving exiting markets or industries that no longer align with the company's vision and reallocating resources to emerging markets. They can also simplify complex organizational structures, making them more efficient and easier to manage. These initiatives are further intensified during times of uncertainty. This means focusing on areas where the business has a competitive advantage and can generate the most value. For example, in October 2023, drugmaker Viatris sold its over-the-counter drug business to Coopération Pharmaceutique Française, a portfolio company of CVC Capital Partners, for $2.2 billion. This divestiture aligns with Viatris' long-term strategy of focusing on its core therapeutic areas: ophthalmology, gastroenterology, and dermatology.[3] Similarly, IBM agreed to sell The Weather Channel to Francisco Partners for $1.1 billion as part of its business-streamlining efforts. IBM's strategy shift aims to focus on key drivers such as software, cloud services, and AI. Divestitures offer companies the opportunity to optimize their operations, sharpen their focus, and position themselves for long-term success.

2: "Earnings Season to Test Stock-Market Rally," The Wall Street Journal, Hannah Miao, April 7, 2024.
3: "Drugmaker Viatris to Divest Some Businesses for $3.6 Bln," Reuters, October 2, 2023.

Debt reduction

Divestitures can generate funds that companies can use to repay debt, making them particularly valuable when a corporation aims to strengthen its balance sheet or reduce its debt burden to enhance creditworthiness and financial stability. By reducing debt in an uncertain macroeconomic environment, it can give a company more financial flexibility, enhance long-term sustainability, and help it weather economic uncertainties that may arise. During challenging times, having flexibility in managing capital, addressing operational needs, and pursuing strategic initiatives become very important for both short- and long-term success. In Q2 2023, Baxter International announced its plan to divest its BioPharma Solutions business to Advent International and Warburg Pincus for $4.2 billion, marking the largest divestiture of the year. Baxter used the after-tax proceeds to reduce its debt, which increased following the $10.5 billion acquisition of Hillrom that concluded at the end of 2021. Divestitures offer cost-saving opportunities, as companies can eliminate operating costs associated with the divested assets, including overhead, employee salaries, and maintenance expenses. Baxter is actively implementing measures to cut costs and, in addition to the divestiture, has announced a workforce reduction of approximately 5%. At the time, these job cuts and restructuring initiatives were estimated to save Baxter over $300 million in 2023.[4]

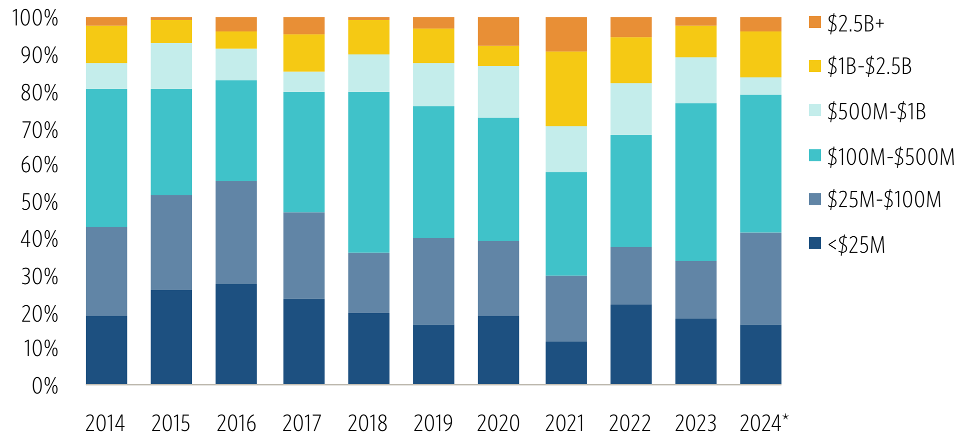
Shareholder value

Companies can undertake divestitures to enhance shareholder value. By divesting underperforming or noncore assets, they can recast financials and strive to improve the overall profitability and competitiveness of their business. This, in turn, can have a positive impact on the companies' stock prices and dividends. The pursuit of shareholder value often drives strategic decision-making, especially during an unfavorable market. Companies will reassess their business portfolios, divest noncore assets, and streamline operations to maximize returns. These decisions are about positioning the corporation to weather the storm and drive long-term success. Divestitures also play a role in improving bottom-line stability. By shedding underperforming business units or noncore assets, companies are able to reduce costs, reinvest, and focus on their core business directions. Additionally, divestitures allow them to pay off debt and streamline their operations. Ultimately, this approach can lead to an increase in shareholder value. For example, in August 2023, Paramount Global announced its decision to divest book publisher Simon & Schuster to KKR for $1.6 billion. This strategic move not only provides Paramount with additional financial flexibility but also empowers it to create long-term value for its shareholders while deleveraging its balance sheet.

4: "Baxter Reports Fourth-Quarter and Full-Year 2022 Results," Baxter, February 9, 2023.

Divestiture deals are smaller and cheaper

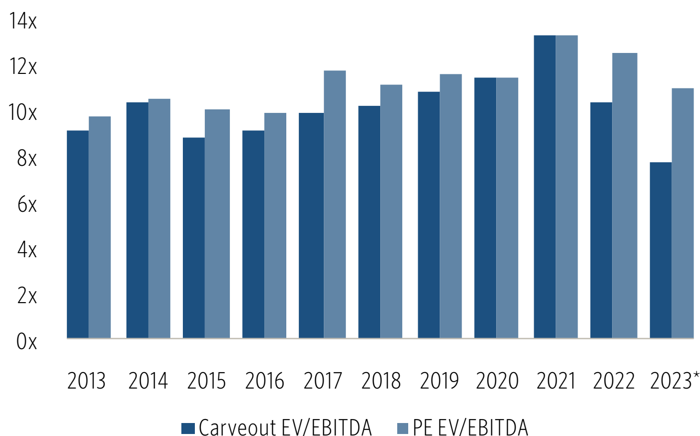
Share of carveout deal count by size bucket



Source: PitchBook • Geography: US • *As of March 31, 2024

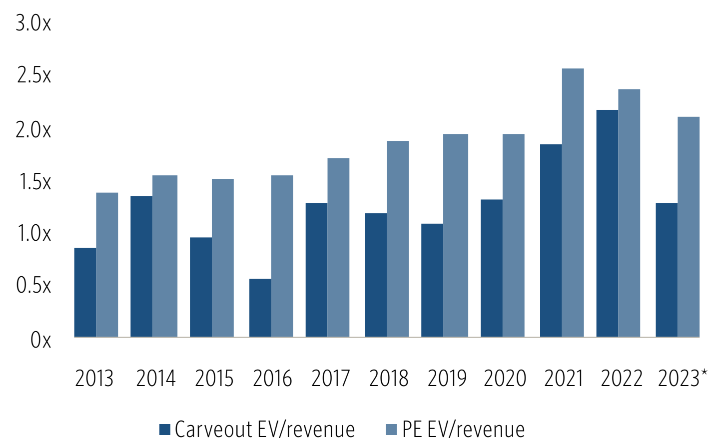
With constrained access to leverage and higher borrowing costs, sponsors have shifted their focus further downmarket, now looking at smaller deals to deploy capital. These smaller deals, unlike small companies that tend to be startups or have immature revenue streams, have produced seasoned results. Carveouts and divestitures have followed accordingly and witnessed an increase in their proportion of all middle-market deals ($25 million to $1 billion) for the first time since 2015. Carveouts tend to favor the $100 million to $500 million size bucket, also known as the core middle market, with a 10-year average of 33.4% of all carveouts taking place in this size bucket. This figure jumped in 2023 to 43.3% of all deals. In 2022, 60.2% of all carveouts occurred in the middle markets—a number that surged to 71.1% in 2023.

Median enterprise value (EV)/EBITDA multiples



Source: PitchBook • Geography: North America and Europe • *As of December 31, 2023

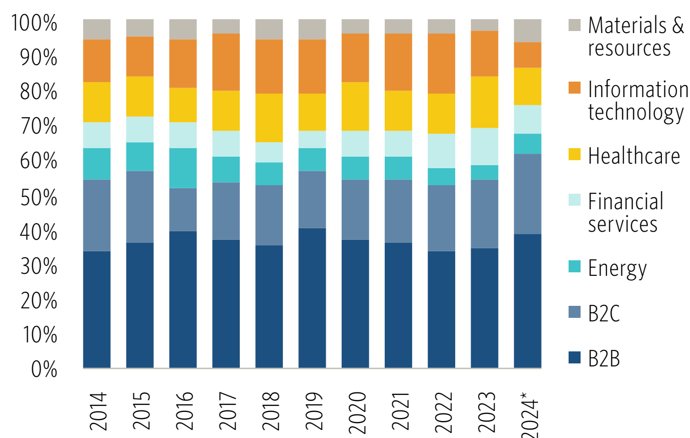
Median EV/revenue multiples



Source: PitchBook • Geography: North America and Europe • *As of December 31, 2023

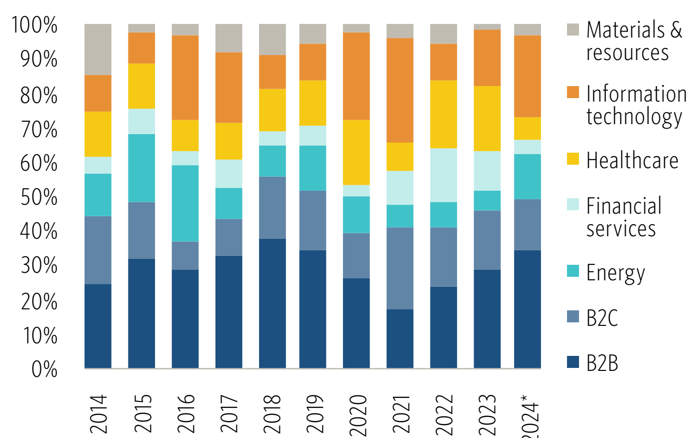
Carveouts tend to come at a discount to the broader PE dealmaking ecosystem, as seen with both EV/EBITDA and EV/revenue multiples. This is not a new trend, but one that has held constant through the ups and downs of the economic cycle. Mature, profitable businesses that tend to come at a discount relative to overall PE dealmaking prove to be attractive investments for sponsors. Furthermore, these lower valuations become even more important in a dealmaking environment constrained by higher interest rates and borrowing costs. While EV/EBITDA multiples for both carveouts and broader PE transactions peaked in 2021 at 13.3x, both have seen a decline, with the broader PE market seeing valuations reset more toward the pre-pandemic (2017 to 2019) median of 11.6x. However, carveout transactions have now fallen below their pre-pandemic level of 10.1x and sit at 7.1x, their lowest level since 2010. The recent low represents a 28.6% difference from the EV/EBITDA multiples for the broader PE universe—well above the 10-year median difference of 7.7%—signifying that the valuation gap between the two is at a new high and further displaying the discount that divested assets come at relative to the broad PE dealmaking ecosystem. In terms of revenue multiples, there has historically been a median difference of nearly 35% between carveout revenue multiples and broader PE revenue multiples. With 2023 carveout revenue multiples and broader PE revenue multiples sitting at 1.3x and 2.1x, respectively, this gap extended to 38.6%, the highest difference since 2019. These cheaper valuations will continue to attract investors looking to create value at a favorable purchase price.

Share of carveout deal count by sector



Source: PitchBook • Geography: US • *As of March 31, 2024

Share of carveout deal value by sector



Source: PitchBook • Geography: US • *As of March 31, 2024

Why PE buyers like divestiture buyouts

Divestitures are less expensive

PE firms may acquire divested assets at prices that are perceived as a discount to their intrinsic value. The discounted valuations can stem from the neglect or insufficient capital infusion by the parent company. These assets can also present a lower growth profile, therefore decreasing the value of the business. Typically, large corporations motivated to streamline operations or reduce debt divest noncore assets. This motivation can make them more willing to negotiate on price, presenting opportunities for PE firms to acquire assets at favorable prices. Moreover, PE firms possess the flexibility and agility to quickly adapt to changing market conditions, which can be advantageous when negotiating among numerous bidders. In the current landscape, PE funds must focus on improving the fundamental operations of their portfolio companies by rolling up their sleeves and going back to the basics of value creation via a GARP investment strategy. Additionally, the reduced valuation makes the deal more financially viable, which is a crucial consideration in a dealmaking environment characterized by limited access to leverage and higher borrowing costs. Notably, carveouts accounted for approximately 20% of all deal activity below $100 million in 2023.

Divestitures provide opportunity for value creation

PE firms specialize in enhancing business performance. When acquiring divested subsidiaries or business units, they view it as an opportunity to improve operational efficiency, profitability, and overall value. By leveraging their expertise, resources, and management talent, PE firms can drive growth and implement necessary operational enhancements. These divested businesses often hold untapped growth potential. Capitalizing on market opportunities, expanding the business, and exploring new revenue streams are attractive investment avenues for PE firms. As a result, sponsors can come in and swiftly implement these new transformative measures to drive top-line growth and enhance profit margins. For instance, Nexus Capital Management recently agreed to acquire a 65% stake in Dollar Shave Club, a razor brand previously owned by Unilever, which acquired Dollar Shave Club for $1.0 billion in 2016. Nexus Capital Management plans to invest in cutting-edge marketing, product quality, and innovative strategies while utilizing this acquisition as a platform for additional brands.[5] Sector specialization is another factor contributing to the value-add provided by PE firms. In 2021, Platinum Equity Partners acquired Ingram Micro from HNA Technology for $7.2 billion. This transaction represents one of the largest-ever PE-led carveout acquisitions in the asset class. Leveraging its expertise in the IT industry spanning over a decade, Platinum aims to drive growth by focusing on Ingram's core distribution business while also enhancing its capabilities in logistics services and cloud and hybrid cloud solutions.[6]

5: "Unilever Announces the Sale of Dollar Shave Club," Unilever, October 26, 2023.
6: "Platinum Equity Completes Acquisition of Ingram Micro for $7.2 Billion," Platinum Equity, July 7, 2021.

Divestitures can be used as add-on platforms

Divested assets are often viewed as an attractive add-on opportunity. These assets can provide additional value to existing portfolio companies and serve as a catalyst for inorganic growth. Add-ons are typically categorized as smaller deals, which can mean they are easier to finance. This is an attractive quality for PE buyers struggling with constrained access to leverage, which has made the current dealmaking landscape more difficult. Out of the 495 carveouts that transpired in the US in 2023, 371, or 75.0%, were add-on deals. Such add-ons can generate cost, revenue, and financial synergies, ultimately boosting production, profitability, and returns for the PE manager. Pursuing a carved-out business that aligns seamlessly with a portfolio company gives a PE bidder a competitive advantage. By doing so, the PE investor can enjoy the benefits of a strategic buyer while maintaining control and preserving the original vision of the deal. This approach allows for the realization of traditional cost benefits associated with business integration, as well as the potential for revenue synergies. Through add-ons, PE firms can scale and capture market share within a sector with high competition. For instance, STG Logistics, an operator of a logistics company that offers import/export warehouse logistics services to customers and a portfolio company of Wind Point Partners and Oaktree Capital Management, has been very active in add-on activity. The portfolio company has completed 12 add-ons since it was acquired in 2016, and of the 12, one-third of those add-ons were for divested assets.

The profile of divested assets

Divested assets typically refer to mature and well-established businesses with ample financial records and a proven performance history. These entities are profitable and are spun out of a larger corporation. They are often businesses that have received insufficient capital or attention. As large companies expand, they may find themselves burdened with numerous subsidiaries, some of which are unrelated to their core operations or have low margins. This prompts companies to divest these units, allowing them to focus on more lucrative ventures and enhance overall business performance.

Buyout funds often acquire corporate divisions, business units, or subsidiaries and incorporate them into an existing portfolio company or establish them as standalone entities, also known as a platform company. This strategy proves valuable for business units that are no longer aligned with a corporation's core strategy or were unsuccessfully integrated during a merger or an acquisition. These divisions often do not receive adequate attention from top management, appropriate funding, or talent relative to other, more dynamic business units. Moreover, they may suffer from suboptimal structures due to bloated cost structures or inefficient allocation of overhead expenses. In carveout acquisitions, PE firms principally unlock value by developing a robust strategy for the new, add-on, or platform company, establishing governance and control systems and providing adequate funding to expand business operations.

In the current challenging dealmaking landscape, PE firms are actively pursuing corporate carveouts and divestitures from large corporations. Their objective is to uncover hidden gems within these divested assets. This emerging trend is driven by corporations coming out of the pandemic with a new vision for the business, leading them to streamline their portfolios by offloading noncore units. For the parent companies, divesting these assets presents an opportunity to reshape their financials by eliminating underperforming or nonstrategic divisions. Not only does this process streamline operations, but it also allows management to present a more positive financial narrative to investors, free from the burden of these so-called albatross assets.

Carveout case studies

TPG

Carveouts have been a successful transaction type for TPG over the course of its more than 30-year history. The firm has invested in more than 30 carveouts and has found that its expertise in the area and demonstrable operating value-add have made the firm a partner of choice to parent companies.

In 2017, TPG acquired a 51% stake in cybersecurity software developer McAfee from Intel for $4.2 billion. The chipmaker bought McAfee for $7.7 billion in 2010, and the two firms had seven up-and-down years, with changing business plans being a significant factor in Intel's decision to divest McAfee. Intel was reeling from the recent PC collapse and struggled to build up a business in chips for cloud-type datacenters. This made McAfee, along with other software assets that Intel acquired under its previous leadership, less attractive to current management.

In 2020, TPG took McAfee public, raising $620.0 million, which valued McAfee at $8.6 billion based on total shares outstanding. In the years leading up to the IPO, McAfee had grown its main cybersecurity software business, focusing on consumers through price increases, new partner programs, and retention rates. After the IPO, TPG remained the largest shareholder in McAfee with a nearly 40% stake. In 2022, a consortium led by Advent International agreed to take McAfee private for $14.2 billion in a transaction that saw TPG exit its investment in McAfee nearly five years after its initial acquisition.

Between the time McAfee debuted on the Nasdaq and its take-private, the company made a major change to its business strategy. McAfee narrowed its focus to prioritize the consumer segment of the cybersecurity market. Until earlier in 2022, McAfee sold cybersecurity software not only for consumers but also for enterprises. The company's enterprise business grew about 5% in the fourth quarter of its 2020 fiscal year. The consumer cybersecurity division that now constitutes McAfee's core focus, in turn, increased its top line by 23.0%. In March 2022, McAfee decided to refocus entirely on the consumer market by selling its enterprise business to PE firm Symphony Technology Group for $4.0 billion.

Advent International

Advent International is a very active investor in divested assets, as seen in the table below entitled "Most active PE investors in carveouts." The firm offers up case studies on its website across its various PE-related deal types.[7] Amid the global financial crisis, Advent International and Fifth Third Bancorp embarked on a $2.4 billion joint venture to transform the bank's processing solutions division, then called Fifth Third Processing Solutions (FTPS), into an independent entity. Advent purchased 51.0% of FTPS, with Fifth Third retaining a 49.0% stake, in June 2009.

7: For more Advent International case studies, refer to Advent International's website.

Advent and Fifth Third both recognized that creating a new, free-standing business had several important benefits to FTPS: sharper strategic focus, a long-term capital commitment, greater ability to add talent and depth to the management team, and the opportunity to add to the technology platform, as it was rebuilt away from Fifth Third's environment.

Executing the transaction presented significant practical and technical challenges—the biggest of which was creating an IT system specifically designed for the payment processing business. Separating the complex IT platform from the bank's system was like "un-mixing paint," as one executive at Fifth Third described it, involving more than 200,000 discrete tasks, from changing documentation to installing a new mainframe.

The transition included an investment of nearly $100 million over two years. But the resulting highly sophisticated IT system enabled FTPS to grow in ways it could not have done using the system that had been designed for the bank's broader needs. The separation was completed in mid-2011 when FTPS was rebranded as Vantiv and moved into new headquarters. In March 2012, the company completed an IPO, listing on the New York Stock Exchange at $17.00 per share.

Beyond the IT separation process and IPO, Advent supported Vantiv in making six strategic acquisitions during its ownership. These transactions helped the company build a national sales force, diversify its sales channels, compete more effectively in the small and midsize enterprise market, and shorten its time to market in the dynamic card-not-present and integrated payments channels.

During its five years as an investor, Vantiv's net revenue grew 2.6x, from $451.0 million in 2008 to $1.2 billion in 2013, while EBITDA doubled from $279.0 million to $583.0 million. Advent realized its position in the company over two years through several secondary offerings and block trades. At the time of Advent's final exit in March 2014, the stock was trading above $31.00, 85.0% higher than the IPO price.

Most active PE investors in carveouts*

Investor	Investments in the past five years	Total investments in the past five years	Share of total deals	AUM ($M)	HQ location
Mutares	49	70	70.0%	N/A	Munich, Germany
Aurelius Group	25	87	28.7%	N/A	Munich, Germany
PAI Partners	25	131	19.1%	$28,282.0	Paris, France
One Equity Partners	26	151	17.2%	$10,000.0	New York, US
Platinum Equity	30	196	15.3%	$47,000.0	Beverly Hills, US
ICG Enterprise Trust	36	256	14.1%	$1,738.0	London, UK
Francisco Partners	29	210	13.8%	$45,000.0	San Francisco, US
Clayton, Dubilier & Rice	25	182	13.7%	$66,936.6	New York, US
Apollo Global Management	39	284	13.7%	$651,000.0	New York, US
Advent International	49	358	13.7%	$92,000.0	Boston, US
Cinven	26	195	13.3%	$42,423.0	London, UK
BC Partners	26	198	13.1%	$43,510.8	London, UK
Caisse de dépôt et placement du Québec	55	423	13.0%	$313,402.4	Quebec City, Canada
Public Sector Pension Investment Board	30	242	12.4%	$244,000.0	Montreal, Canada
H.I.G. Capital	37	302	12.3%	$60,000.0	Miami, US
Bain Capital	51	422	12.1%	$180,000.0	Boston, US
Madison Dearborn Partners	30	249	12.0%	$15,623.1	Chicago, US
Alaska Permanent Fund	20	167	12.0%	$80,649.7	Juneau, US
CVC Capital Partners	46	386	11.9%	$204,500.8	Luxembourg, Luxembourg
Inflexion Private Equity Partners	27	232	11.6%	$10,177.4	London, UK
Bridgepoint Advisers	23	200	11.5%	$42,966.9	London, UK
Triton	32	284	11.3%	$16,000.0	London, UK
Hellman & Friedman	38	339	11.2%	$92,000.0	San Francisco, US
The Carlyle Group	93	841	11.1%	$426,000.0	Washington, DC, US
Intermediate Capital Group	36	329	10.9%	$81,000.0	London, UK

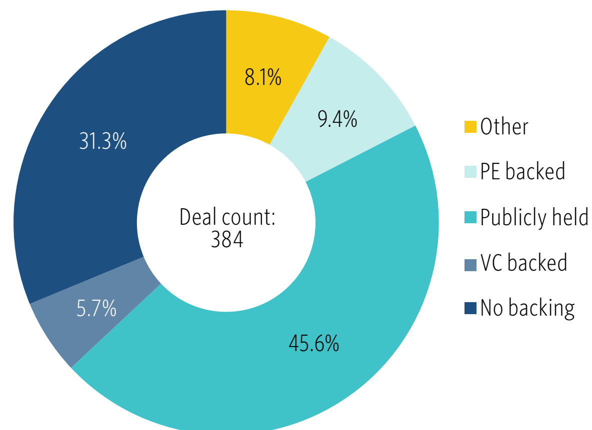
Source: PitchBook • Geography: Global • *As of March 25, 2024

Carveouts by backing status

In 2023, 45.6% of divested assets acquired by PE firms came from public companies. Historically, public companies have been the primary source for selling these assets to PE firms. These public companies often include some of the largest corporations, divesting business units to sharpen strategic focus, optimize their portfolios, and boost financial performance. The second-largest group of sellers of divested assets is companies without backing, known as nonbacked, accounting for 31.3% of deals in 2023. These businesses, regardless of size, divest business segments for reasons similar to public companies, yet they have not received outside funding from investors.

PE-backed companies represent the third-largest selling group. This group accounted for 9.4% of divestitures to other PE firms in 2023. PE firms can divest assets for several reasons. One instance is when a PE firm takes a company private. Once acquired, the sponsor can divest assets to increase efficiency and focus its operations on certain industries or geographies. For example, if the PE firm takes a US-based company private, it may divest its European operations as it looks to focus on and grow its US business. Divesting a business unit may increase the attractiveness of the remaining business, simplify the investment thesis, and facilitate a smoother exit process. It is also a way to get cash back to investors on an accelerated basis.

Share of carveout/divestiture deal count by backing status in 2023*



Source: PitchBook • Geography: US • *As of December 31, 2023

Outlook

In the short term, we expect carveouts to continue to push higher in the current value-oriented environment. The deal type offers multiple opportunities for valuation creation, often at more favorable valuations for investors, which helps to compensate for the lack of leverage and higher borrowing costs. While many corporations have divested assets in part due to the volatile macro environment, some companies with greater flexibility chose to hold off until economic conditions improved to ensure a more seamless asset sale process. This strategic delay can provide certain corporates with the opportunity to refine their future business strategies and identify which units to divest. A deal also helps management stay ahead of a potential recession, even if the consensus is that one will be avoided. So, if the economy rebounds and a soft landing occurs, carveouts will remain a valuable opportunity for PE firms to pursue and drive value creation in mature, cash-flowing businesses.

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