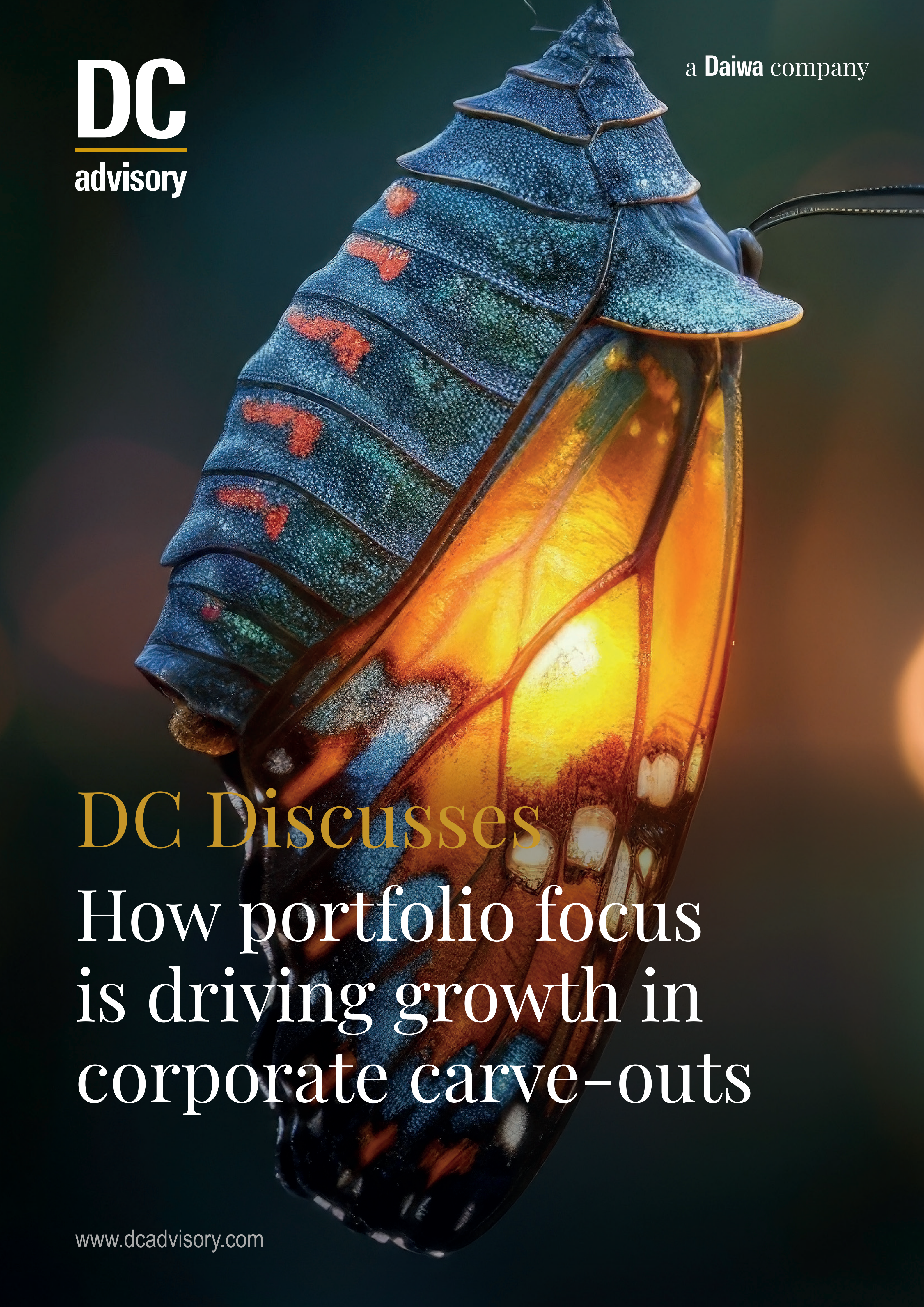

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How portfolio focus is driving growth in corporate carve-outs

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Carve-outs have long been part of corporate portfolio management, but we see boards increasingly reassessing ownership with greater frequency and intensity. Performance remains important, but also the ‘fit’ of a business within the group’s strategy and the current owner’s ability to support its next stage of growth. So while historically a disposal or carve-out would suggest a pressured situation or underperforming asset, we believe the tide has turned more strategic. Activity also started 2026 strongly. Mergermarket recorded 1,025 announced global carve-outs and spin-offs in the first four months of the year, an 18% increase on the same period in 2025 and the strongest start in five years[1].

For private equity and corporate buyers of carve-outs and corporate disposals, we believe opportunity can be found in more focused ownership.

In this article, we explore:

- Why proactive portfolio management is driving today’s carve-out activity
- Why “non-core” is not an indicator of business performance and why there continues to be strong buyer interest
- How operational complexity has become a reason to buy
- How governance reform in Japan and economic pressure in Germany stem from the same forces
- Why healthcare groups are shrinking to grow
- Why whole country operations are increasingly sold

Disposal as a proactive strategy

Capital costs more than it did through the last cycle in the 2010s[2], so every dollar or euro tied up in a business that no longer 'fits' now carries a comparatively higher opportunity cost. In the current environment, boards can scrutinize returns more closely; activists can be quicker to question why a group holds assets worth more elsewhere; and management attention may be stretched across competing demands, from automation to supply-chain resilience.

A business can be perfectly good quality, and still be classed and sold as a non-core asset, because the capital and management time it absorbs could work harder elsewhere. Non-core assets being sold can be market leaders with strong management, loyal customers and proven products, but they may just not be the right fit for the parent company. For a buyer, acquiring such a business can be a faster, more certain route to scale than building the same capabilities from scratch. The opportunity is to give a good asset the focus and support its former parent could not provide. We believe this is now driving a rising share of divestitures, even in a stronger market.

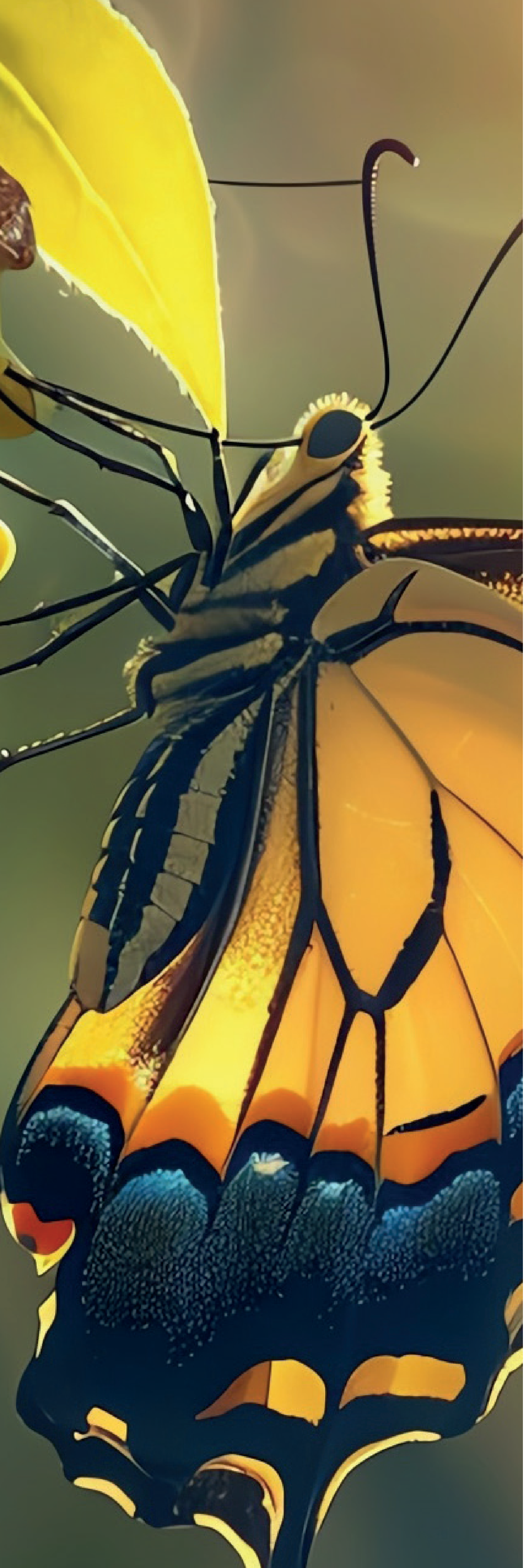
Carve-outs now account for almost one in every three deals worldwide, a share that is rising, and more than half of 2024 carve-outs were driven by a desire to focus on the core[3]. Following suit, private equity acquisitions of assets and business units reached $23.7 bn across 145 deals in the first five months of 2025, up from $19.4 bn across 127 deals in the same period a year earlier [4]. In one annual carve-out survey, deleveraging fell to 5% of divestment drivers in 2026, from 9% a year earlier and 52% two years before, while refocusing on the core rose to 73%[5].

Why complexity can attract the right buyer

If these businesses are so attractive, why do they so often end up with private equity rather than a trade buyer? We believe part of the answer is complexity.

Systems, supply chains, procurement, and support functions can remain entangled with the parent well after signing. We often see that the more complex the separation, the less appetite from strategic buyers who are rarely set up to manage transition service agreements, stranded costs, and shared infrastructure. Dealmakers identify operational separation, valuation complexity, and IT and data separation as the three most material hurdles to carve-out success [6]. Sellers and buyers also weigh those risks differently, with sellers prioritizing speed, certainty and execution reliability while buyers focus on integration feasibility and value after close [7]. Financial sponsors are often able to bridge that gap, treating separation as a core driver of value creation.

The ability to complete a difficult separation and build a credible standalone company matters just as much as the price. Deal certainty can weigh more heavily than headline price because when a business is already earmarked as non-core, knowing the deal will get done cleanly can outweigh a higher but less certain offer. In one 2026 survey, 59% of respondents named deliverability as the key differentiator between bidders, compared with 25% naming price [8].



How governance reform is reshaping ownership in Japan

Governance reform, scrutiny of capital efficiency and pressure on portfolio returns have pushed corporates to re-examine holdings that might once have stayed within the group indefinitely, with the Tokyo Stock Exchange's guidance[9] prompting boards to justify what they own. The exchange updated that guidance in July 2026, with a particular focus on the appropriate allocation of management resources[10]. We believe this has prompted many Japanese corporates to reassess businesses that sit outside their core strategic priorities.

We have seen this trend directly across recent mandates, acting for both Japanese sellers and for the private equity buyers of their assets. For example, in May this year, we advised Japan's Cosel on the carve-out of Powerbox, a Swedish-headquartered maker of bespoke power supplies for the defense, medical, transport and industrial markets, with a second production site in Germany, which was sold to carve-out specialist Hypax[11]. On the buy side, in August 2025, we advised Aurelius on its acquisition of FIAMM Energy Technology, an Italian-headquartered energy storage and advanced battery business, from Japan's Resonac[12]. More recently, in August 2026, we acted as exclusive financial adviser to Midas Atlantic Partners and The Najafi Companies on their acquisition of Panasonic Industry's European Power and Battery Control Solutions business, comprising operations in Germany and Slovakia[13]. In our view these transactions highlight how Japanese corporates are becoming more willing to divest businesses that sit outside their core focus and long-term strategic priorities.

One nuance is that we have observed this kind of activity more on the sell-side than the buy-side. When Japanese and other Asian acquirers buy in Europe, we believe they generally prefer a clean, standalone target to a complex carve-out. They also tend to be more hesitant than US corporates to sell off parts of their own business. There may be a strong attachment to businesses that a group has built or held for decades, a sense of duty to not be seen letting employees go, and there can be an element of losing face in divesting. For many Asian corporates, a disposal is not yet a routine portfolio decision in the way it has become in the US, though we believe governance reform in Japan is changing that.

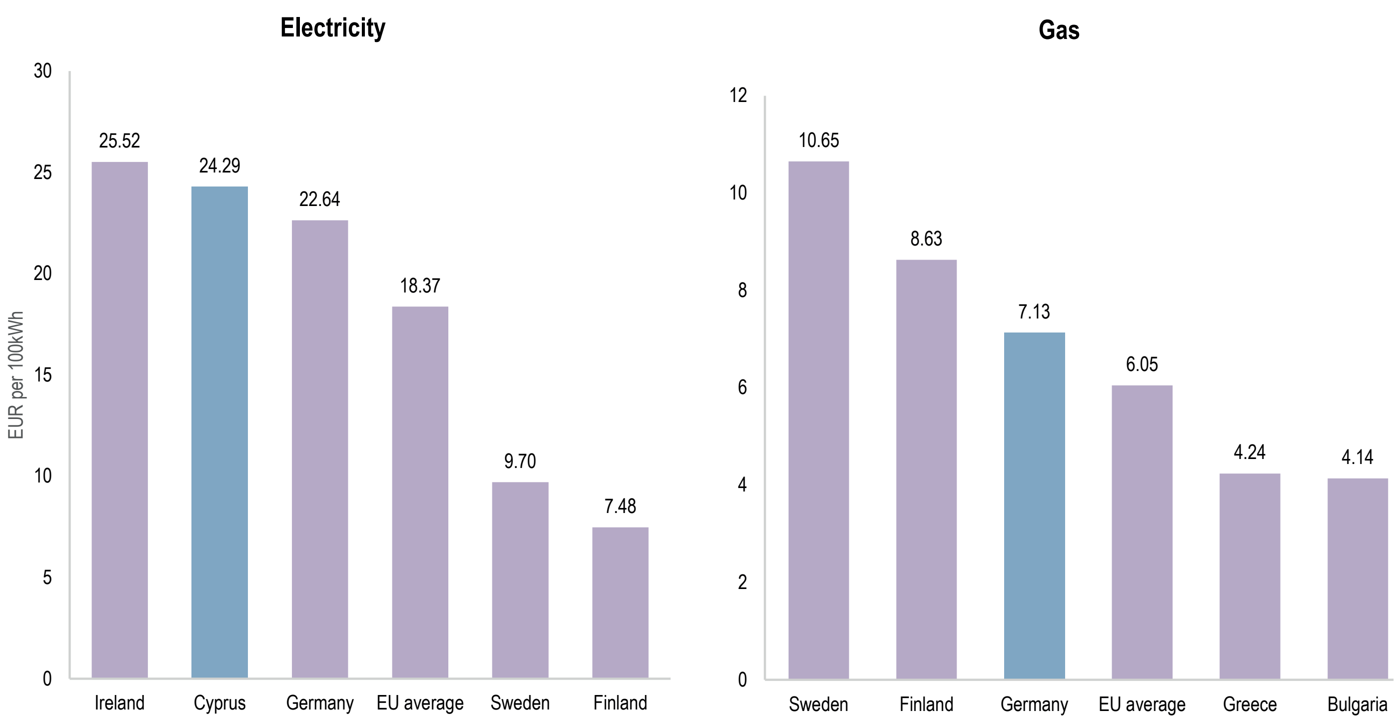
Portfolio discipline under economic pressure in Germany

Portfolio discipline is particularly visible in Germany, where a weak economy has fueled the trend. Large industrial groups are divesting businesses, with Volkswagen and ThyssenKrupp among the most prominent names streamlining to recover profitability. Volkswagen has said it is aligning its equity and investment portfolio with strategic contribution, return and capital commitment, and its divestment of a majority stake in Everllence generated approximately €7.4 bn[14]. ThyssenKrupp has spun off its defense business and sold its Automation Engineering unit as it moves toward a holding structure[15].

One sector under pressure is automotive, as OEMs and suppliers clean up sprawling portfolios while absorbing the cost of the shift to electric vehicles and confronting overcapacity. Another is energy. German industrial electricity was the third most expensive in the EU in the second half of 2025, at €22.64 per 100 kWh against an EU average of €18.37[16] and industrial gas was likewise third highest[17] With those costs, asset-heavy and energy-intensive businesses – including commodity chemicals – are increasingly hard to justify on German soil. As such, recent disposals by German conglomerates and in long-held private equity portfolios can feel closer to a last opportunity to exit.

Distressed cases, such as Porsche's acquisition of a majority stake in Varta's V4Drive cylindrical-cell subsidiary within a wider court-supervised restructuring[18], sit in a different category from a disciplined disposal. For the more difficult but still sound situations, Germany has a deep bench of specialist investors built around carve-outs, including Aurelius, Mutares and Aequita. In our view, their proposition rests on certainty rather than price, as they can take on complex separations that strategic buyers avoid, and find value in the difficulty of the separation as much as for the asset.

Germany is the third most expensive EU market for industrial energy



Source: Eurostat, Eurostat, non-household energy prices, H2 2025. Electricity prices for industrial consumers (nrg_pc_205): https://ec.europa.eu/eurostat/databrowser/view/nrg_pc_205/default/table; Natural gas prices for industrial consumers (nrg_pc_203): https://ec.europa.eu/eurostat/databrowser/view/nrg_pc_203/default/table

Shrinking to grow in Healthcare

In Healthcare, we see carve-outs often driven by the pursuit of growth rather than the need to raise capital. We are seeing more carve-outs than at any point in recent years, and we believe the great majority are planned well in advance to improve focus, growth and margins.

The main method, long championed by Pharma, is ‘shrink-to-grow’: concentrating on where you can win over a ten-year horizon and divesting tail-end products, particularly those facing patent expiry, to free capital for growth. Alongside this strategy is a focus on faster-growing segments and unlocking a conglomerate discount by taking private under-optimized public companies and pruning for corporate simplicity.

In Pharma, a wave of tail-end brand disposals has created the next generation of specialty generics manufacturers. In MedTech, we see competition and the need for category scale prompting many exits. In December 2025, Teleflex agreed to sell its Acute Care and Interventional Urology businesses to Intersurgical[19] and its OEM arm to Montagu and Kohlberg for a combined $2.03 bn, having first intended to separate them into a new listed company. In consumer health, a long cycle is turning again as Pharma refocuses on prescription portfolios, while government privatizations and family businesses feed the same pipeline.

We also see smaller carve-outs drawing strategic bidders, while the larger and more complex ones attract far more private equity. In August, we advised Halma plc on the sale of NovaBone Products, a Florida-based orthobiologics business, to Isto Biologics, a Keensight Capital portfolio company, for $60 m on a cash and debt free basis[20]. Halma had owned NovaBone since 2020, and after a strategic review had concluded that the business was best placed to grow under ownership more closely aligned to its market and investment needs, mentioning the divestment reflected its disciplined approach to capital allocation[21]. In our view, the winners are not getting bigger but getting sharper, and every disposal is a decision on where to double down.

Historically, scale was the prevailing strategic objective in MedTech. Companies such as Medtronic, Johnson & Johnson, BD and GE Healthcare spent decades acquiring businesses across multiple therapeutic areas, technologies, and geographies in pursuit of becoming the broadest and most comprehensive healthcare platforms[22]. The prevailing view was that larger portfolios created stronger competitive positions, greater cross-selling opportunities, and increased resilience. Today, however, many investors are placing greater emphasis on portfolio focus and category leadership, prompting management teams to question whether every business continues to fit within a diversified portfolio[23].

As a result, we believe large MedTech companies are undertaking a growing number of carve-outs and divestitures to sharpen their strategic focus and improve capital allocation. Many legacy businesses operate in slower-growth or more mature segments and compete internally for resources against higher-growth opportunities such as robotics, digital surgery, AI-enabled diagnostics, structural heart, and advanced therapeutics. In our view, by divesting non-core assets, corporates can redeploy capital toward areas with stronger growth prospects, higher margins, and greater strategic importance, while also simplifying their operating models and management agendas.

At the same time, standalone businesses often attract higher valuations under dedicated ownership than they do as smaller divisions within a large conglomerate. Public market investors increasingly favor focused pure-play companies, while private equity firms have become active buyers of corporate carve-outs, recognizing the opportunity to accelerate growth through targeted investment and management attention[24]. Consequently, many divestitures are not driven by poor asset quality, but rather by a belief that the business can achieve greater value and strategic relevance outside of a large corporate structure than within it.

Consolidation and the disciplined seller in Chemicals & Materials

Chemicals & Materials is a consistent sector for generating carve-outs, as we have observed across our recent mandates. In our view, the main drivers are: private equity capital raised specifically for carve-outs; new chief executives pruning the portfolio; and lastly, consolidation. A recent example of this is the AkzoNobel–Axalta merger of equals which was approved by both shareholder bases in August 2026 and is expected to close around the turn of the year[25]. We anticipate combinations of that scale to prompt spin-offs and defensive carve-outs from rivals seeking scale.

Another driver worth noting is strategic repositioning. Particularly in Europe, high energy costs, complex logistics and inflexible labor markets have left a cohort of assets hard to underwrite, attracting differing responses to this challenging environment. As an example, Dow has elected to close higher-cost, energy-intensive European assets outright, among them an ethylene cracker at Böhlen and chlor-alkali and vinyl assets at Schkopau[26]. At the same time, LyondellBasell has sold four European olefins and polyolefins sites to Aequita, completing in May 2026, as part of what it describes as growing and upgrading its core[27]. Sales of this kind often attract specialist buyers, such as Aequita, Mutares, Aurelius, the Flacks Group, who have the appetite and operating capability to take them on. We saw this scale recently with SABIC who sold its European petrochemicals business to Aequita, as well as its engineering thermoplastics business in the Americas and Europe to Mutares, for a combined enterprise value of $950 m as part of a portfolio-optimization program[28]. However, we believe distressed European disposals are distinct from the disciplined carve-outs that dominate elsewhere.

Much of the flow, though, involves good businesses – a small unit sold because it commands a premium multiple, or a sound business divested by an overleveraged Asian owner for lack of scale within the parent. We recently advised Compagnie Chargeurs Invest on the sale of a controlling interest in its surface-protection business, Novacel, to KPS Capital Partners, with Chargeurs retaining a minority stake[29]. The sector's international character also lets advisers to add value beyond running a process, in particular by testing the wider buyer universe when a single unsolicited approach risks underpricing a business.

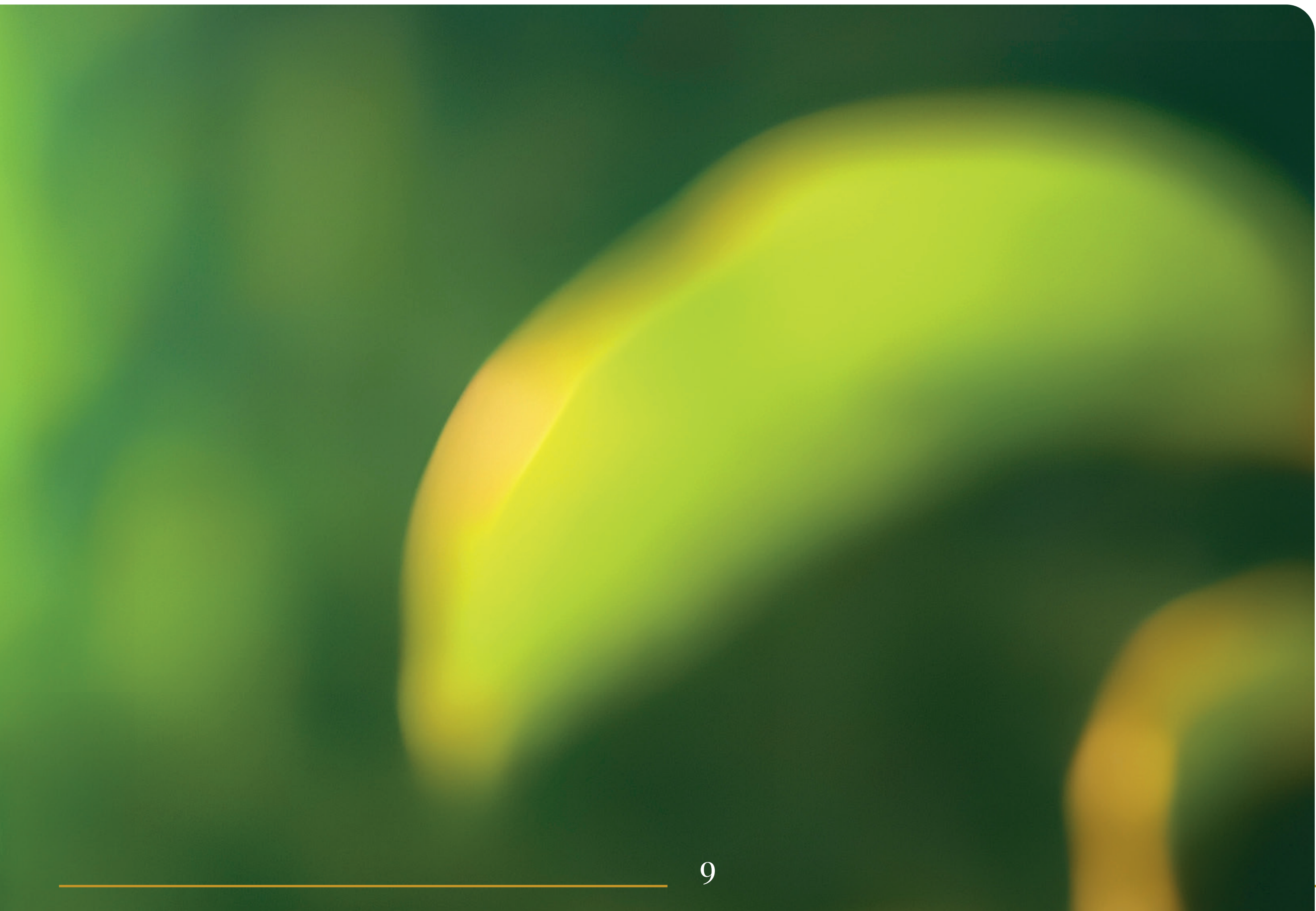
Carving out geographies

A related trend is the disposal of whole country operations. The clearest pattern we see in Europe is US corporates divesting some continental European activities. This may be due to the distance from headquarters, slower growth than in the US or Asia, and small scale within a large group that pushes them down the priority list, even when they perform well. The buyers in these situations are, as we have observed, overwhelmingly investment funds that believe focused ownership can grow a business that the parent had stopped prioritizing; among these are Dutch investors such as Torqx Capital Partners and Nimbus.

Several Dutch groups have been reinvented through successive transformations and are practiced at letting businesses go. Philips is a clear example, moving from lighting to consumer electronics to healthcare[30]. ASML began in 1984 as a joint venture with ASM International, formed to commercialize a wafer stepper developed inside Philip[31]. In 2006, Philips then sold an 80.1% stake in its semiconductors business to a private equity consortium, creating NXP[32]. Both show the scale and value that focused ownership can unlock, and NXP shows how long the most complex separations have been going to financial buyers.

Getting a carve-out right

Getting a carve-out right can be harder than a normal sale, which is where the right advice earns its place. For the future success of a business being carved out, it is crucial to understand which owners are the best fit, which are best placed to realize its potential, and the cultural nuances that can make a difference.



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