

article

Mergers and Acquisitions

September 2019

Despite uncertainties in the current global economy, M&A trends in 2019 point to sustainable, strong deal activity. Amid a turbulent tariff war era, some players are taking a pause, while many others are still seeking opportunities to grow their domestic and international markets. Across many sectors, consolidation remains the key driver of deal activity as well as corporate restructuring and balance sheet deleveraging by highly-indebted players.

As in the past and even more nowadays and across industrial, pharmaceuticals, agribusiness and other sectors, big corporations are divesting specific business units via a “carved out” process.

Corporations therefore opt for “carve-outs” as means to capitalize on a business division or unit by selling or divesting that division or unit from the original company.

Some of the most usual reasons for carve-out are:

- a) Carve-outs allow companies to focus on core business operations and separate those that are not central to the overall strategy, allowing for better alignment of business functions and enhanced decision making at both levels: the parent company and the new company.
- b) Carve-outs allow companies that may have too much debt to monetize a portion of their business to reduce that debt.
- c) Carve-outs allow companies the opportunity to create business value out of standalone activities, becoming a useful financial tool to increase shareholder value for both parties involved. Individual business activities are therefore more likely to become successful turnarounds that can eventually hold higher gains for future buyers. Typically, some private equities are interested in buying carved-out companies based on assumptions that they will succeed in their turnaround.

In the current unsettled economic conditions, carve-outs are therefore viewed as means for companies to focus on their business strategy and strengthen corporate activities that simply don't fit in the larger selling company, while allowing new companies to test their viability in a competitive market and realize significant enhancement within their own businesses. This strategy is becoming more widespread as companies are eager to raise additional capital while retaining their core business objectives.

For carve-out assistance, and in collaboration with its partner Grant Thornton who is usually leading the Financial Due Diligence, Euromena Consulting's work has three main objectives:

1. Specify Standalone P&L and build related restatements

assumption: define a standalone P&L based on proven assumptions for each of the functions requiring a carve-out. Usually, standalone cost & modus operandi is built based on a combination of Top-Down approach (Benchmark) and Bottom-up approach (Discussion with Management and analysis of the current organization). It should be realistic and encompass all components allowing the standalone entity to operate at least with the same level of performance as it was within the global company.

2. Define separation roadmap & related one-off cost:

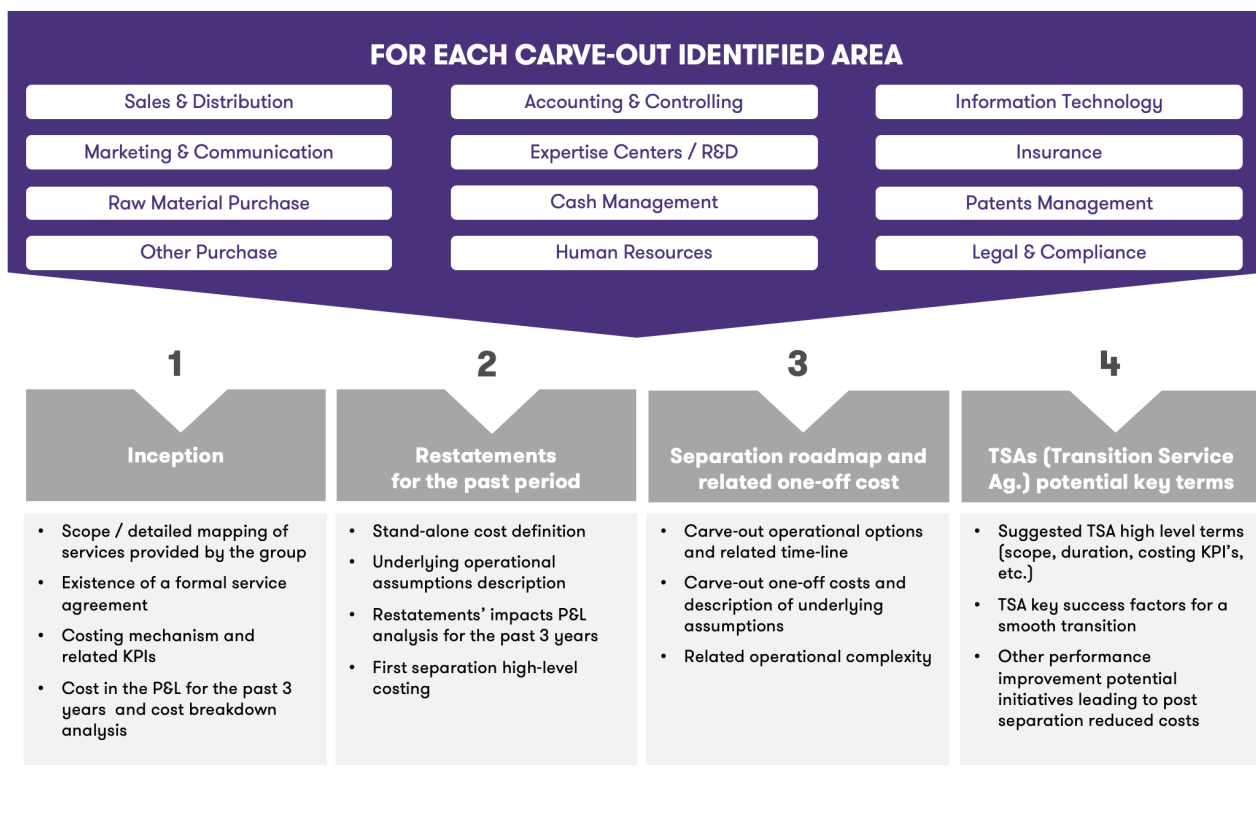
in some cases, the separation is simple and can be resumed to people transfer. In other cases where assets cannot be separated and transferred overnight (mainly shared IT, R&D and when there are Shared Services Centers catering for the back-office functions), a clear separation roadmap should be built, including some variances if needed, and reflected in a separation budget. The separation roadmap usually includes various separation projects to be elaborated per function (Example: Distribution, Supply Chain, IT, Finance, Procurement, HR, etc.).

3. Articulate Transition Service Agreements' terms (TSAs):

when the separation requires time and effort, or when some services are requested expressly by the buyers post-closing, a Transition Service Agreement should be elaborated. A Transition Service Agreement (TSA) is an agreement between a buyer and seller whereby the seller contracts with the buyer its services and know-how for a specified period of time in order to support and to allow the buyer acclimate to its newly acquired assets, infrastructure, systems, etc. (for example: IT service provision for 6 to 12 months, allowing the buyer to migrate to its own ecosystem). TSAs should ensure business continuity based on a pre-defined costing mechanism for rendered services.

To meet above carve-out assistance objectives, Euromena Consulting / Grant Thornton have elaborated a detailed carve-out analysis framework. This framework is based on an in-depth analysis of each of identified carve-out areas structured around 4 sub-sections:

Detailed carve-out analysis framework: in-depth analysis of each of identified carve-out areas structured around 4 sub-sections



In most of the cases, the analysis also includes optimization and performance improvement initiatives in the course of the carve-out process, in particular when our teams work on the carve-out implementation and post deal integration.

Based on our experience across geographies and sectors, key success factors for a carve-out include a comprehensive and realistic anticipation of the carve-out issues, a clear governance of the transition period, and a strong PMO post-closing to drive the operational carve-out in a timely and cost-efficient manner.

Our assistance allows business clients and partners to mitigate the risk of critical carve-out operations via a structured and planned transition, enabling the management to focus on what is the most important: drive the team to grow the business and achieve the company's potential.

Euromena Consulting & Grant Thornton worked recently on various operations across Europe and Asia where Grant Thornton conducted the Financial Due Diligence / Business Plan Review assisted by Euromena Consulting for carve-out analyses.

For any request, kindly contact:

Fayçal EI DARWICHE
Partner at Euromena Consulting

f.eldarwiche@euromenaconsulting.com



Gregory VOLPI
Partner at Grant Thornton
Transaction Advisory Services

gregory.volpi@fr.gt.com

