



NextGen Performance<sup>™</sup>

# Buying Carved-out Assets or Operations

## Optimising Transaction Value (Buy-side Services)

In today's market, companies are seeking various strategies in order to restructure or reposition themselves for longer term competitive success. This includes divesting or selling assets or operations which are no longer considered core to the go-forward strategy. This creates significant opportunities for potential buyers who clearly understand what is entailed in acquiring a carved-out business. Essentially, there is a two-step process required:

- Separation Planning
- Integration Planning

### SEPARATION PLANNING

#### Understand the Separation Issues

The predominant issues the potential buyer needs to understand with respect to the transaction are:

- All the functional interdependencies between the seller's organisation and the asset or operations to be sold
- The full extent of separation issues

Functional interdependencies impact both the historical financial information and the prospective performance of the operations post-closing. Sample interdependencies may include central engineering services, information systems, finance and accounting, insurance and risk management, procurement, supply chain, logistics, and human resources.

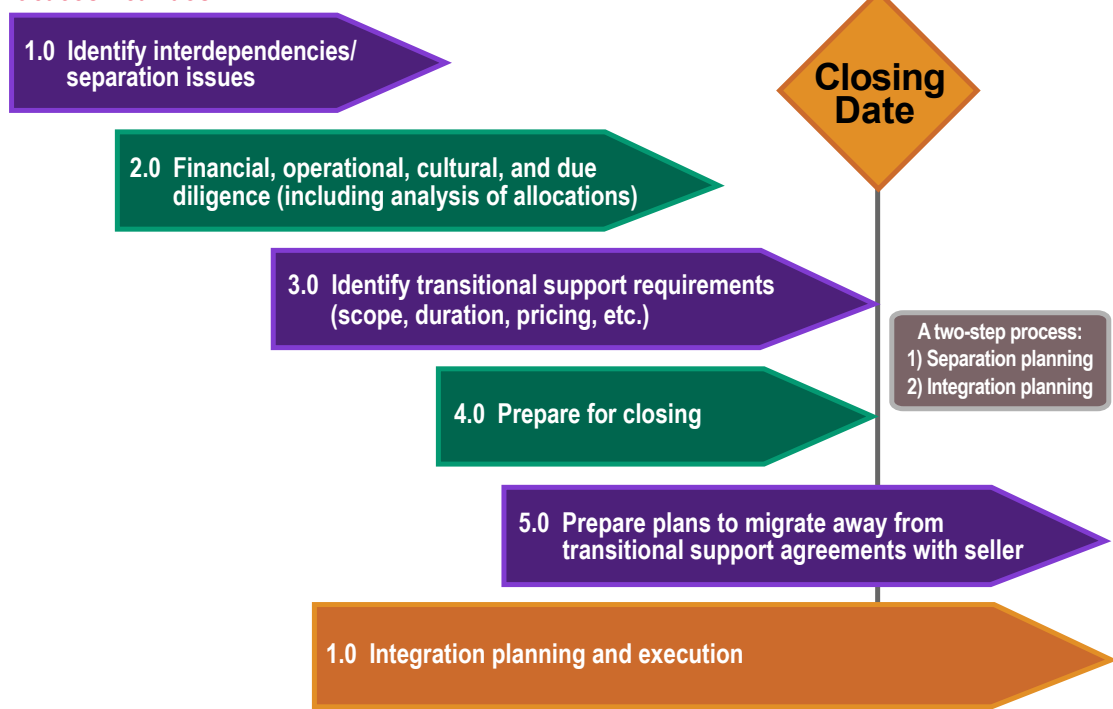
#### Separation: Historical Financial Implications

In terms of financial due diligence, the prospective buyer will need to carefully assess the level of dependency on services provided by the selling organisation, to the assets or operations to be sold, and how such services have been billed to the operations on a historical basis. Often, such services may be accounted for through a general allocation. However, such general allocations do not provide an accurate reflection of the actual level of effort, and thus the underlying costs associated with such services. The buyer will need to carefully analyse such allocations accordingly to determine adequacy.

#### Separation: Prospective Financial Implications

Once understanding the level of services provided by the selling organisation to the assets or operations to be sold, the prospective buyer needs to determine how such services will be provided immediately after closing and in the future. The key presumption is that the assets or operations to be acquired will need to continue to function on a stand-alone basis – even if in the short-term there may continue to some support from the former parent (selling organisation). Sample options to consider are transferring certain centralised personnel or resources to the buyer in connection with the transaction, negotiating a Transition Support Agreement ("TSA") for an interim period until a longer-term solution is developed, outsourcing certain support to a third-party, or

### Buyer Best Practices Activities



(Continued)

hiring and developing relevant talent within the acquirer's organisation. It is highly likely that on the closing date the buyer will continue to have some level of dependence on the seller for support requirements in order for the acquired assets or operations to function as if on a stand-alone basis. From our perspective, the planning associated with how the acquired operations function immediately post-closing as a stand-alone operation is a high criticality item.

### **Determine TSA Requirements as of the Closing Date**

For functional interdependencies requiring TSAs immediately post-closing, the buyer needs to understand the scope of services to be provided, the term for such services, the pricing of such services, and the billing method. Such agreements are typically finalised and included as part of the purchase and sale agreement, which means they need to be addressed prior to closing the transaction.

### **Address How Separation Issues will be Handled at the Closing Date**

While employee issues are often the most complex in this type of transaction, this is not the only area the astute buyer needs to consider. Other examples of separation issues are in the areas of corporate procurement, insurance, risk management, IT systems, and other areas in which assets or operations to be sold are currently enjoying benefits by being associated with the former parent organisation, which may or may not continue post-closing. The buyer needs to have plans in place to address each key separation issue, which can potentially impact negotiations.

### **Planning the Migration Away from TSAs**

Post-closing, the buyer will need to address migration away from the transition support agreements. Usually TSAs are for a limited period of time, and the buyer will need to move rapidly to:

- Mitigate the risk of being dependent on the former parent
- Have an effective solution in place before the TSA term ends

## **INTEGRATION PLANNING**

In addition to the potential separation activities associated with acquiring assets or operations which are not stand-alone, the buyer will still continue to face the traditional integration challenges: maintaining strategic relationships, retaining key people, cultural alignment, operational alignment, synergy realisation, alignment of policies and process, alignment of systems, financial reporting, and environmental, health, and safety issues. The additional challenges associated with acquiring carve-out assets or operations increases overall transaction complexity and risk.

### **Opportunities for the Astute Buyer**

To be successful, the prospective buyer must have a solid understanding of the complexities involved, particularly those associated with the separation of the assets or operations from the former parent as part of the overall transaction. Through proper planning and assessment, such risks can be successfully mitigated, thus allowing the buyer to take advantage of opportunistic purchases and transactions.

### **KBC SERVICES PROVIDED:**

- Strategic transaction advice/purchase strategy
- Operational due diligence
- Negotiation support/contract strategy
- Transition Management Office advice
- Function-by-function interdependency analysis and separation strategies
- Separation risk assessment
- Transition services agreement advice (scope, duration, pricing)
- Synergy capture/realisation assistance through technical assessment of acquired assets, throughputs, and potential
- Operational risk identification (potential latent maintenance issues; safety, health, and environmental concerns; concerns over operational practices)
- Business enterprise assessments
- Facility assessments
- Asset valuation/certified appraisals
- Tax valuation support
- Project finance support
- Project configuration and feasibility studies

## **Your Company + KBC Produces NextGen Performance<sup>®</sup>**

*We collaborate with our clients to create unique solutions to their specific challenges. Some of these challenges may include:*



### **Strategic Challenges**

- Effective Business Strategy/Decisions
- Increased Return on Investments
- Enhanced Returns on Acquisitions/Divestitures
- Reduced Risk (Strategic, Capital, Other)

### **Market Challenges**

- Enhanced Yields
- Effective Responses to Crude/Feedstock and Product Markets
- Improved Financial Performance
- Market Risk Management

### **Environmental Challenges**

- Reduced Emissions
- Enhanced Compliance

### **Operating Challenges**

- Improved Organisational Effectiveness
- Reduced Maintenance Costs
- Improved Energy Efficiency
- Behaviour-based Reliability/Performance
- Improved Safety Performance
- Operational Risk Management

**NextGen Performance<sup>®</sup>**

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