HELIXR

Our Integrity. Your Future.

Navigating Divestitures

Divesting non-core business can be a key strategy to maximising shareholder value.

NEIL LITTLEJOHN
Founder & Executive Director

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Introducing our Divestitures Expert

Neil's career has been shaped through over 20 years of extensive experience across multiple sectors and disciplines.

His experience in leading high performing teams has ranged from completing financial audits and delivering digitisation initiatives for healthcare practitioners, to delivering complex business restructuring programs within major Life Sciences corporations.

A Founding Director at Helixr, Neil has a hunger and passion for driving progress within the Life Sciences sector. Heading up Business Development at Helixr, he thrives on flexing his visionary and conceptual ability to help craft strategies with realistic and tangible outcomes.

Known for making complex things simple, Neil's motivation and guiding mantra is his resolution and commitment to solving the problems of others. He strongly believes that through collaboration and cohesion, a team can achieve more than the sum of its parts, to the benefit of the whole organisation.

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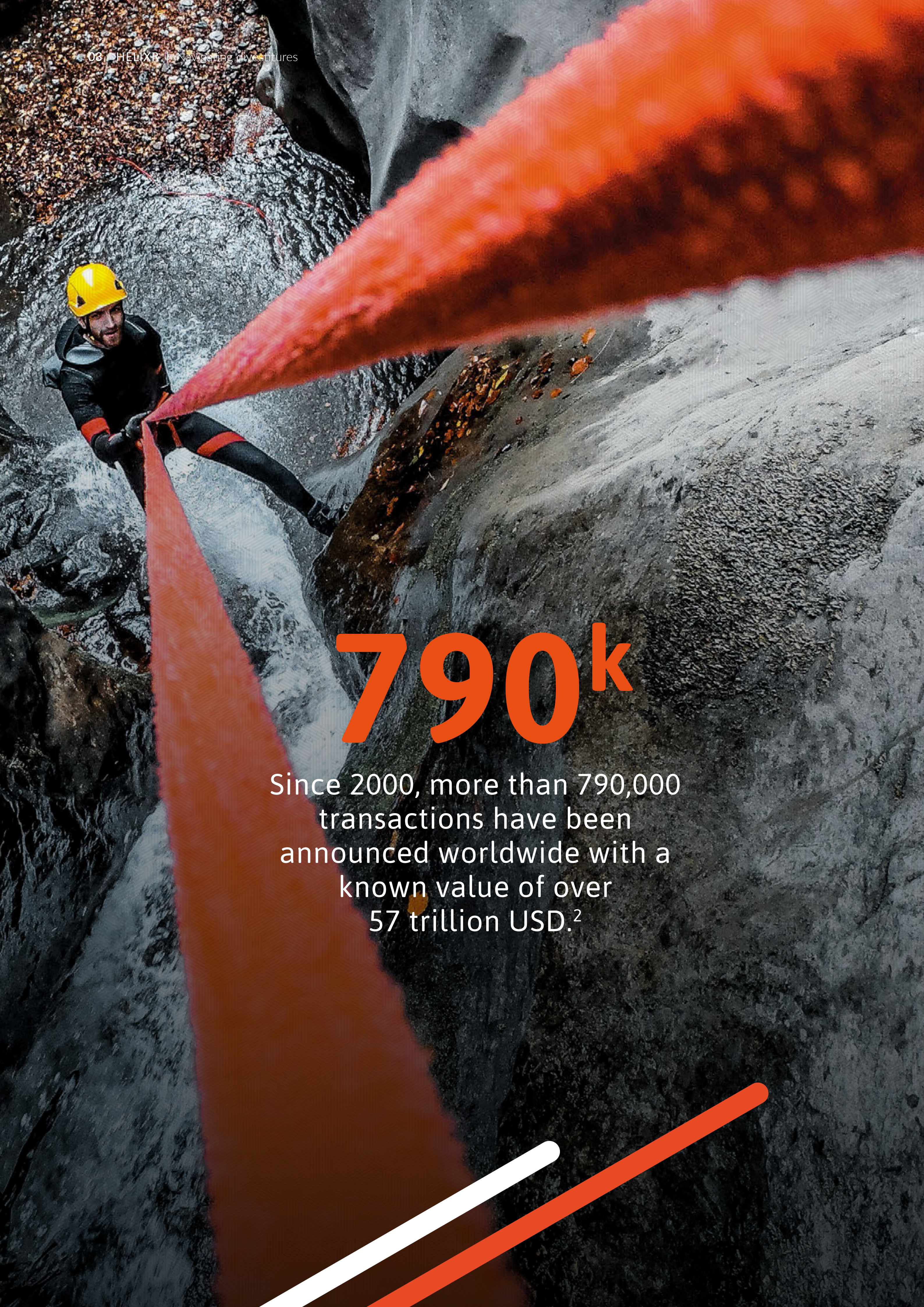


790k

Since 2000, more than 790,000 transactions have been announced worldwide with a known value of over 57 trillion USD.[2]

Executive Summary

Companies are constantly under pressure to maximise shareholder value and successfully implemented divestitures of non-core business can be valuable in achieving this.

This whitepaper will provide insights into the three core phases to ensuring maximum value for both parties:

- **Discovery and planning**– due diligence and pre-transaction preparedness
- **Execution** – avoiding delays and maintaining business continuity
- **Stabilisation** – post-Day One activities

It will cover the necessity to address the following challenges, in order to avoid spiralling costs and delays that will erode the divestiture value:

- Scale and complexity of the business environment
- Time pressures and prioritisation
- Governance structure
- Country planning
- Regulatory requirements
- Legal entities and related tax planning implications
- Financial regulation and fiscal timelines
- Organisational design
- Rebranding requirements
- Seller/Buyer relationships

reference: *2 O'Connell, Sean; Park, Michael; Thomsen, Jannick. "Divestitures: How to Invest for Success

4.7%

Companies that are actively involved in both acquiring and divesting create as much as 1.5 to 4.7 percentage points higher shareholder returns than those primarily focused on acquisitions.[1]

Introduction

As a company grows and their business portfolio diversifies, it can lead to distractions for core activities in pursuit of the latest corporate strategy.

A divestiture is simply the sale or disposal of a company asset to enable the business to focus on core revenue streams and re-align to business objectives. Ultimately, this maximises shareholder value as, when done well with careful planning and execution, a divestiture will render the separate entities as more valuable.

Often included under the Mergers and Acquisitions umbrella, divestitures are fundamentally just a different side of the same business restructuring transaction. However, the risks and challenges can be very different.

Benefits

A company may undertake this restructuring activity to realise a number of key benefits:

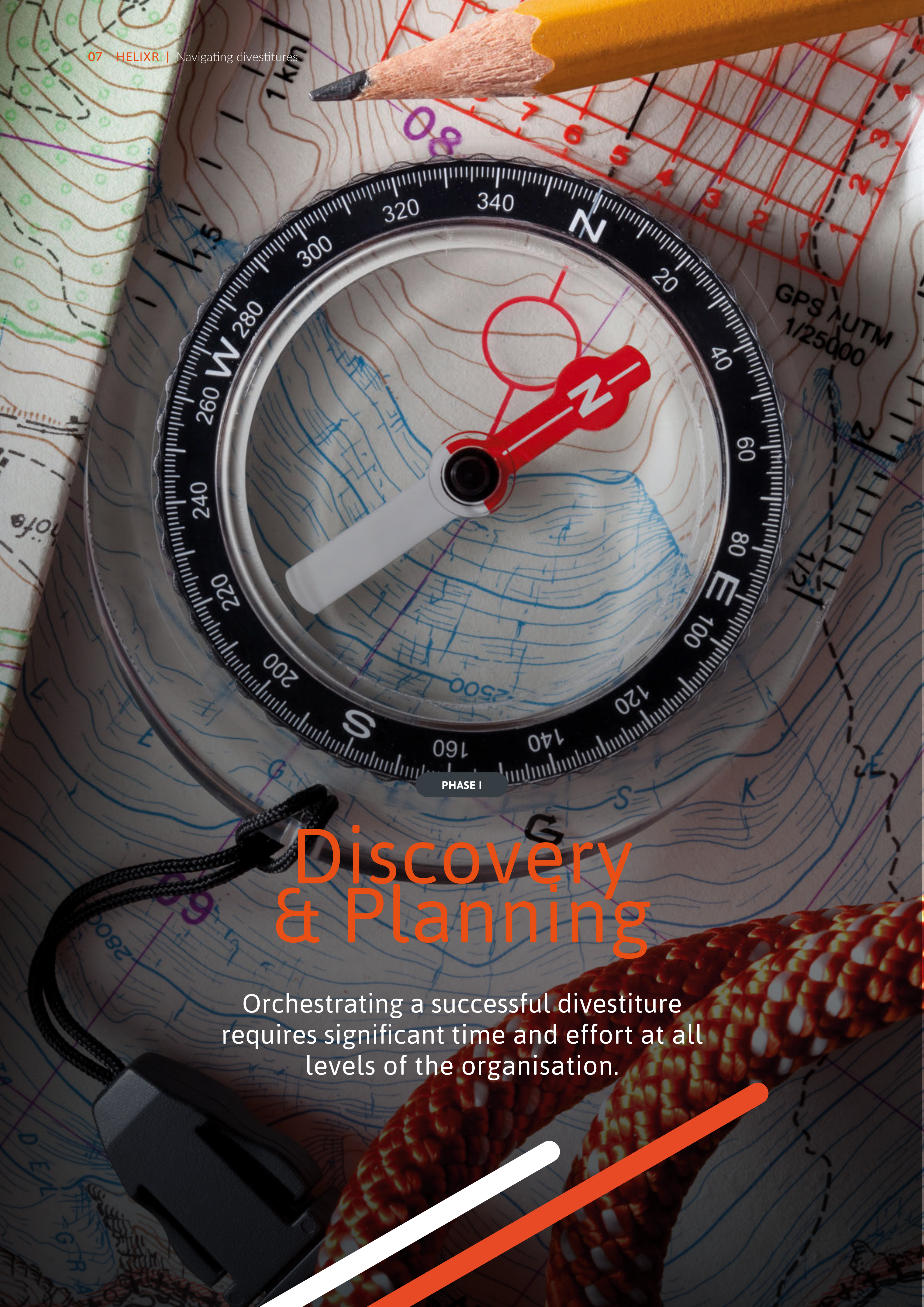
- Return focus of the business to its core (and usually most profitable) activities
- Release cash to pursue an alternative strategic direction or invest in core activities
- External factors due to anti-trust regulations or exiting a geography
- Unlock value that cannot be realised in the current consolidated state
- Avoid or mitigate the impact of a liquidation of the company

Divestiture Types

Divestitures can take the following forms:

- **Sell-Off** – divesting of part of the business as a separate legal entity to a buyer
- **Spin-Off** - divesting of part of the business as a separate legal entity with the issuance of different shares
- **Spin-Merge** – similar to spin-off with the target being a merger with a buyer
- **Asset Sales** – selling of a collection of business assets to a buyer
- **Management Buyout** – transaction to enable the original management team to gain ownership
- **Liquidation** – realizing value from the company to settle company debts

reference: [*1] Institute for Mergers, Acquisitions and Alliances (IMAA) - March 2021



PHASE I

Discovery & Planning

Orchestrating a successful divestiture requires significant time and effort at all levels of the organisation.

The discovery and planning phase of defining business boundaries and conducting due diligence is crucial to enabling the effective transition of the business from the seller to buyer. Many transactions fail or fall subject to significant delays due to seller unpreparedness. Effectively executing the planning phase builds buyer confidence and ultimately maximises the value of the transaction.

How to be prepared

To effectively prepare a company for a divestiture, the following activities should be completed:

- **Define the separation or carve-out strategy** – conduct a detailed analysis of the current activities and define the approach to untwining the retained business from the separated business in terms of financials, customers, employees and vendors.
- **Investigate** any legal or regulatory constraints that could limit the extent and attractiveness of the separation.
- **Determine the company offering**– Evaluate and structure the numerous aspects of the offering, including but not limited to; business strategy and operating model, carve-out approach, IT landscape, financials and assets, sales and marketing plans.
- **Establish the Transition Services Agreements (TSAs)** – outlining the services that will continue to be delivered post Day One, including the consideration and ramp-down process.
- **Form a Separation Management Office (SMO)** – responsible for developing functional carve out plans, managing interdependencies, and providing corporate governance and reporting.
- **Dissect the organisational structure** – effectively separate the functions without negatively affecting other ongoing business operations.
- **Effective management of potential buyers** – conducting buyer presentations, responding to buyer questions and supporting due diligence activities.
- **Conduct buyer due diligence** - ensuring that the buyer is financially stable and a good fit for the business.

How to maximise value

Divestments are lengthy and costly processes in which delays and hidden costs can lead to diminishing the value of the transaction for both parties.
The transaction close is influenced by a number of factors - in particular

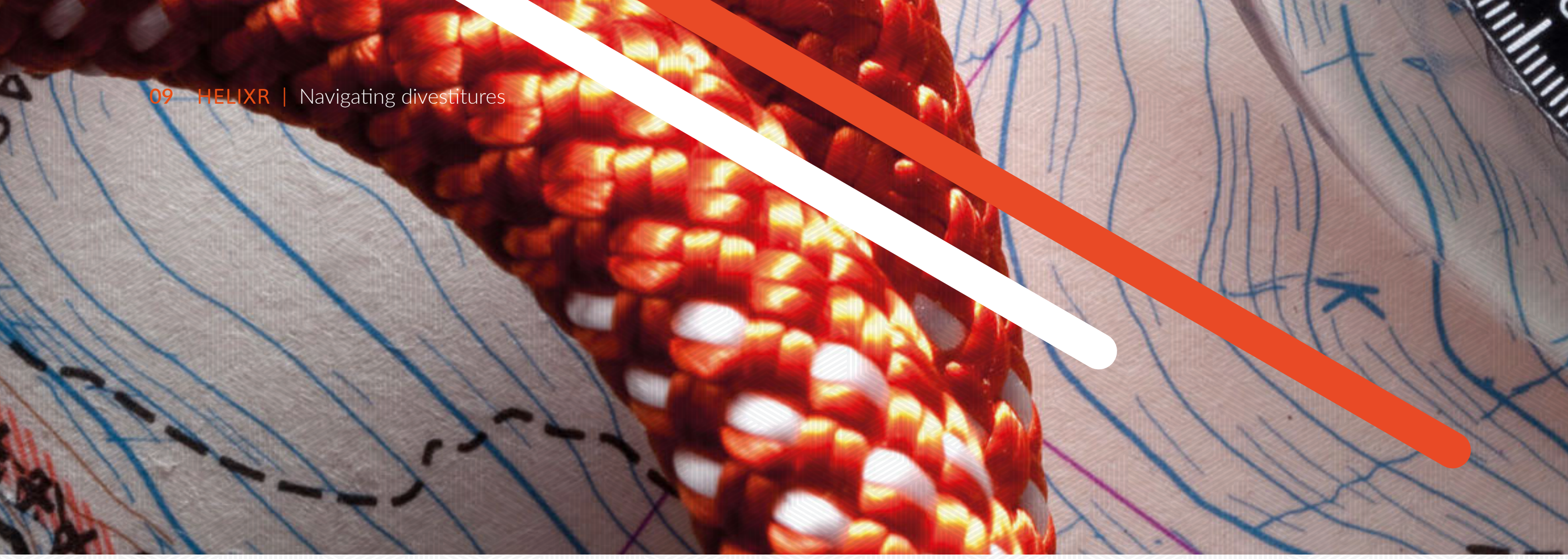
- Legal and regulatory requirements
- Employee legislation
- Functional carve-out requirements

The following strategies should be considered in order to achieve the maximum value from the transaction:

- **Structuring the deal** – creative structuring can lead to quicker realisation of benefits.
- **Fast execution** – Shortening the deal announcement to execution timelines reduces the one-off costs of the divestment and allows the core business to realise the synergies of the transaction as soon as possible.
- **Eliminating costs** – negotiating with the buyer can help avoid one-off costs.
- **Consider outsourcing**– where services such as IT are shared, the seller should consider outsourcing the services to enable a quick close and avoid lengthy TSAs being handled over an extended period

Functional carve-out requirements can be met more effectively by:

- Logical segregation of IT environments to avoid lengthy cloning processes
- Multi-tenancy of directory services included in TSA
- Minimise re-branding prior to deal closure
- Buyer accepting residual risk at deal closure



Key Functional Dependencies

The timelines and speed of closure are hinged on the following functions, which will need to iteratively develop and challenge the interdependencies:

- **Legal** – responsible for the legal entity design, as well as rationalisation and formation processes
- **Human Resources (HR)** – responsible for employee legislation, consultation, union negotiations and target organisational design
- **Regulatory** – responsible for processes such as transfer of marketing authorisations and quality contracts
- **Information Technology (IT)** – responsible for landscape changes that impact cross-functionality, infrastructure and data centres
- **Finance and Tax** – responsible for the separation of financial statements and audit/fiscal compliance, as well as payroll and bank account setups to support the legal entity design

Typically, these functions will be represented on the Divestment Master Plan as separate channels to ensure that dependencies are highlighted and form the basis for delivering different geographies over multiple waves.

IT Asset Separation

The allocation of both tangible assets and intangible assets between the balance sheets of each separate entity is a challenge across the board, particularly for IT assets. They are often co-mingled between the divisions of the parent company and account for a significant portion of the value.

The approach taken is vital to ensure that the valuation of the respective balance sheets are accurate, business continuity is not impacted, and TSA lengths are minimised. The approach will include the following steps:

1. Review and up-version the IT Landscape/ architecture
2. Create asset inventory
3. Categorise assets
   - IT asset type (i.e. data centres, hardware, applications)
   - Nature of the transaction
   - Usage of the assets
   - Business owner
   - Technical owner
4. Assign asset to respective entity (valuation and write-offs may be required)
5. Challenge and refine iteratively

Why is this so important?

The separation of assets has a major impact on the definition of TSA's, IT organisational design and selection, future operating costs and determining IT strategic direction.

Separation Management Office (SMO) and Governance

To ensure that divestments are governed in a manner that engages speed and minimises costs and risks, it is vital that the SMO and governance are setup based on the following principles:

- Appropriate organisational structure that has the requisite business knowledge and transactional experience
- Leadership support at all levels to drive the activities
- Effective governance structure including functional teams, advisors, change management, communications, Day One readiness team, TSA management team, and steering committee
- Established meeting cadence, clearly identifying the roles and escalation pathways

Close and effective working practices with the buyer should be established through:

- Joint governance and dove-tailed meeting cadence
- Agreed data sharing practices and tools
- Fostering an environment for partnership

> “Divestitures aren’t just mergers in reverse – they’re complicated.”

NEIL LITTLEJOHN
Founder & Executive Director

Data Governance

Adherence to data governance by both parties is essential, whilst ensuring that the data disclosure is not limiting. To ensure this, the following should be established:

- During the due diligence phase it is essential that all key personnel are required to sign confidentiality agreements and a clean room/team structure is set up to exchange crucial sensitive data
- After due diligence is complete and agreement is reached by all parties to proceed, the Day One announcement needs to be issued publicly
- Post-Day One, any further requests to complete the execution should be managed by the legal team

PHASE II

Execution.

The primary goal in the execution stage is to conduct the separation activities whilst ensuring business continuity is maintained in terms of operations, customers, vendors, partners and employees.

Retention Programmes

One of the major risks that dominate this phase is ensuring that critical employees do not leave the company. The following steps should be taken to create a retention programme:

- Define critical employees and criteria for eligibility to the programme
- Determine the benefits structure
- Execute relevant change actions and communications
- Establishment of a governance structure for the programme

Organisational Restructuring

As part of the restructuring, there is a significant demand on HR departments to:

- Determine the country and local requirements for employee transfers
- Manage the transfers, including issuance of letters
- Drive employee consultations
- Liaise with employees, councils and trade unions
- Manage HR data transfers and consistency

> "The desire is to transfer ownership as soon and efficiently as possible so you can refocus on your core business and drive your future strategy."

NEIL LITTLEJOHN
Founder & Executive Director

Legal Entity Restructuring

The process of legal entity restructuring is fundamental to executing the separation. Steps need to be taken to:

- Design the new legal entity structure
- Execute relevant legal processes to form, merge, transfer business or close entities
- Re-align importer/exporter licences and processes
- Ensure compliance with regulations and regulatory bodies
- Re-align direct and indirect taxation registrations and processes
- Re-align treasury processes and to financial institutions (e.g. banks)
- Re-align payroll processes and registrations
- Carry out financial carve-outs to align opening balance sheet positions
- IT re-configuration to support legal entity endstate; including end-to-end, cross functional testing
- Manage interdependencies between streams(e.g. legal, tax, finance, IT, HR)

Legal & Tax Activities

As part of the divestment of a business the following legal tax activities need to be executed:

- Determine whether the business is sold as part of an asset or share deal with particular consideration for the local tax, regulatory and employment laws
- Ensure that the appropriate legal structure is in place to protect all entities such as non-disclosure agreements
- Compliance with necessary tax filing/reporting as part of the transaction
- Determine and execute relevant transfer taxes

Rebranding

As part of the separation, rebranding should be minimised (via legal dispensation), particularly when the brand value is a significant portion of the transaction.

However, it is essential to determine the branding strategy early in the process to understand the considerable costs for agencies and trademark registrations, as well as IT redesign (e.g. legal disclaimers, company name changes and logos), implementation and testing.

Managing Customer Journey

One of the major challenges that face companies executing a divestment is ensuring that customer loyalty and value is retained. Often this value can be lost either through external factors (i.e. customer poaching, etc) or customers taking the opportunity to negotiate more favourable terms in the short to longer term to recompense for additional costs and/or inconvenience borne by them.

Therefore, it is essential that the customer journey is effectively managed through:

- Marketing and communications to educate the customers on the vision, strategy and combined product portfolio
- Working with customers to build confidence by ensuring end-to-end connectivity is maintained
- Highlighting the benefits of the change to the customer

Managing the IT Plan

In order to manage the IT application and infrastructure separation, it is essential that a structured approach is defined and effectively managed throughout the lifecycle including:

Preparation Phase: definition of application strategy.

Planning Phase: baselining the current application landscape, disposition, and design, as well as creating an execution blueprint.

Execution Phase: baselining the current application landscape, disposition, and design, as well as creating an execution blueprint.

Early Life Support: managing the transition, ramp-up and TSAs from creation to execution.

Like any major IT project, a strong governance approach should be adopted that includes:

- Standardised tracking and reporting
- Controlled testing strategy and methodology
- A collaborative and empowering work environment

Cutover

Cutover is an essential part of the separation journey whereby at Day One, the following objectives are achieved:

- People, processes and systems are separated
- TSAs are in place to ensure that all business processes are correctly set up
- Customers, suppliers and stakeholders are not compromised

Implementing a successful cutover (whether it is a big bang, phased or combination process) and a seamless return of the business to normal operational levels, requires the following activities to be completed:

- **Effective planning** – cutover plan, rollback plan, black-out calendar and business continuity plan
- **Simulation** – practice run completed for all plans
- **Cutover execution** – a carefully executed cross functional plan (on an hourly or daily basis, depending on the sub-phase)
- **Governance** – structure (incl.command centre and escalation routes), reporting and meeting cadence established and religiously followed

Managing Data and Migration Activities

The quality and accuracy of data migration for divestitures can significantly affect business operations and transaction throughput. There are a number of distinct data challenges:

- The business processes themselves are in flux
- The target landscape may be significantly different from the source in some scenarios
- Determining the data that is not required or redundant to avoid unnecessary migration
- Management of structured versus unstructured data
- A limited access to experts of the target system
- Environmental constraints

Data migration approaches typically fall into the following phases:

Data analysis – process analysis, application analysis and data mapping activities

Strategy and tool design - Extraction, transformation and load

Data migration execution – design, build, unit test, data validation and production load

PHASE III

Stabilisation

During the stabilisation phase, the focus will be on returning both companies back to normal operations. Due to the co-mingled nature of most companies, this will not be achieved on Day One but will be a gradual managed process over a number of weeks or months.

Transition Service Agreements (TSAs)

TSAs covering services such as IT, finance, HR, and legal should be established early in the divestment process and ready to activate on Day One. However, as the provision of these services can be costly and distracting for both companies they should be minimised as much as possible. TSA's should be setup with the following principles:

- Scope should be clear and distinct
- Definition of services provided should be unambiguous
- Service levels should be measurable and auditable
- Services should be time-bound with clear exit dates
- Service exit criteria should be quantifiable and agreed by both parties
- Costs and payment timelines must be defined
- A change request process must be implemented
- Governance structure including both parties should be established
- Reporting and communications frameworks should be established with consultation of key stakeholders

Summary

Divestments are multi-faceted and complex processes that must be efficiently managed to prevent costly delays or ultimately failure of the transaction.

At Helix, our expert team offers a range of services to guide and support our clients through the process, ensuring maximum value for both the seller and buyer.

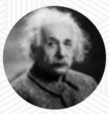
Interested in how Helixr can help your business?

How can Helixr help your business?

For the latest information about our product and services, please see the following resources:

- Read our insights
- Read our Case studies
- Contact us

"Life is like riding a bicycle. To keep your balance you must keep moving."



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Appendices

Appendix 1 - Helixr Service Offerings

CODE	AREA	OFFERING	COMMENTS
A	**Phase I – Discovery & Planning**		
A01	Synergy / Benefit Analysis	●	
A02	Risk Management Services	●	
A03.	Divestiture Strategy Development	⊘	
A04	Target Operating Model & Organisational Design	○	
A05	Due Diligence Services	●	
A06	Deal Structuring	⊘	
A07	Outsourcing Analysis	○	
A08	Planning Services	●	
A09	Deployment Services	●	
A10	IT Asset Separation	●	
A11	SMO and Governance	●	
A12	Data Governance	⊘	
B	**Phase II – Execution**		
B01	Information Technology • ERP • Infrastructure • Sales & Marketing (incl. Digital)	 ● ○ ○	
B02	Legal & Regulatory		
B03	Finance & Tax	○	
B04	HR	⊘	
B05	Commercial	⊘	
B06	R&D	⊘	
B07	Retention Programmes	⊘	
B07	Organisation Restructuring	⊘	
B08	Legal Entity Restructuring	●	ERP implementation only
B09	Deployment Management	●	
B10	Planning Services	●	
B11	Tax Technology Services	●	
B12	Re-branding	●	ERP implementation only
B13	IT Planning Services	●	
B14	Cutover Planning and Management	●	
B15	Data Migration Services	●	
C	**Phase II – Execution**		
C1	Ramp-up / Stabilisation Reporting & Governance	●	
C2	TSA Management	○	

● Full Service ○ Provided by Partner ⊘ Not Provided

HELIXR
Our Integrity. Your Future.

Helixr is a business restructuring and ERP services consultancy, based in the UK, with a global reach, expertise and experience that focuses on the Life Sciences sector.
Want to find out more? Book a consultation today.

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Divestitures/WP 1.1