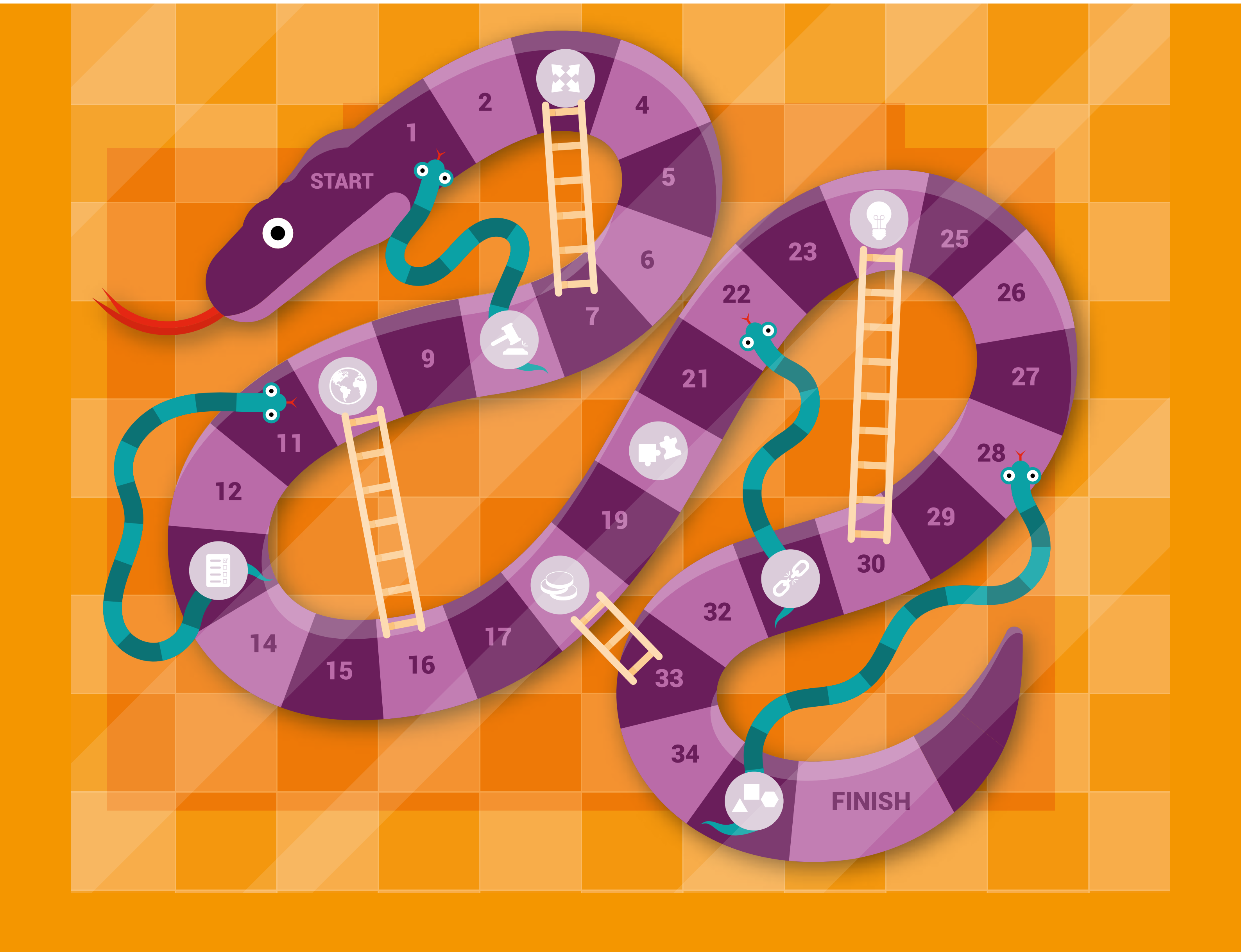
Global reach
Local knowledge

Cross-border carve-outs

Why one third fail and how to get them right



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AT A GLANCE
Cross-border carve-outs

Background

19% of corporates say their most recent deal took longer than expected.

24% of private equity (PE) firms say the same.

27% of corporates say their most recent deal was mostly strategically unsuccessful.

34% of PE firms say the same.

59% of corporate acquisitions operated in four or more countries (10% of those involved ten to 19).

42% of PE carve-outs operated across four or more countries.

Top three drivers*

Corporates

Expand products or services	**77%**
Potential organisational synergies	67%
Expand presence in existing markets	63%

Private equity firms

Value for money	**84%**
Expand products or services	70%
Acquire IP/technology	64%

Top three challenges*

Corporates

Legal and regulatory	**52%**
Operating models misaligned	43%
Difficulty with robust financial assessment of carve-out	38%

Private equity firms

Legal and regulatory	**48%**
Operating models misaligned	46%
Limited support from seller to fill operational gaps	42%

Respondents selected 'all that apply'

Keys to success

Local presence

38% of dealmakers with no/low presence in the target country say their most recent deal was mostly strategically unsuccessful.

38% of dealmakers with no/low presence in the target country say their most recent deal took longer than expected.

Preparation

78% of corporates and **64%** of PE that experienced delays believe they could have been avoided with more preparation.

48% of respondents' most recent successful cross-border carve-out involved a thoroughly prepared plan for value creation.

67% say that for their most recent unsuccessful cross-border carve-out, they were neither prepared nor equipped to meet the tax and accounting regulatory requirements.

Realistic timetable

84% of deals completed within four months were mostly successful in achieving strategic goals.

19% of corporates and **24%** of PE say their most recent deal took longer than expected. Of those that have experienced delays, 21% of corporates and 12% of PE say the deal overran by more than four months.

16% was the average increase in cost for a delay of more than four months. The impact of delays can be significant, given that some carve-outs cost more than US$1 billion.

92% of PE firms experiencing delays say these cost them 10% or more of the original deal value.

85% of corporates experiencing delays say that these delays cost them 10% or more of the original deal value. Of these, 38% put the increase at 16% or more.

76% of PE firms and **75%** of corporates experiencing delays say legal and regulatory issues were main cause.

METHODOLOGY

In late 2019, TMF Group, in association with Mergermarket, surveyed 200 C-suite executives at corporate institutions and PE firms based in 29 countries with buy-side experience of a cross-border carve-out over the past three years.

The aim of the survey was to analyse the source of value creation and value destruction in these often highly complex transactions.

Job titles included CEO, CFO, Director of M&A, Head of M&A, Managing Director and Partner.

FOREWORD

Testing times for cross-border carve-outs

At the time of commissioning this study of carve-out transactions, we were operating in a relatively buoyant M&A market with demand for proprietary acquisitions largely outstripping supply. The onset of COVID-19 is a human tragedy that will have a substantial economic impact across the globe. This will ultimately reduce deal volumes in 2020, as investors prioritise the safety and needs of their own people and clients, and postpone investment decisions.

As the situation develops over the months ahead, many of the factors that had driven a three-fold increase in the annual volume of spin-offs and carve-outs since 2016 will remain*. As uncertainty prevails, management teams previously encouraged to simplify their businesses and de-risk their balance sheets, may no longer have a choice – sales of non-core assets will be inevitable during the spate of restructurings that will follow in the wake of COVID-19.

Activist investors have been a major catalyst of carve-outs: Lazard's *2019 Review of Shareholder Activism* reveals that, of the activist campaigns made public in 2019, 47% focused on divestments to unlock shareholder value. These funds will be joined by PE and vulture funds keen to capitalise on depressed valuations and the forced sale of attractive assets.

Before the onset of COVID-19, competition for quality assets was driving up valuations: data from S&P shows that average multiples paid for leveraged buyouts have increased to c. 11x EBITDA over the last three years. This was driven by the pent-up demand created by a record level of PE dry powder, which stood at around US$1.5 trillion at the end of 2019. Opportunities that arise out of the current uncertainty should therefore suit sponsors that have had to become more creative, focusing on carve-out situations and investing significant resources to identify bilateral opportunities.

We expect a significant reduction in deal activity in the build up to the mid-year as the macroeconomic environment stabilises and the debt markets return to support PE investment. Once this happens, our survey shows that the appetite for carve-outs will remain, as cash-rich buyers seek to side-step competition and tap into good, but non-core, assets that would not otherwise come to market.

The increased complexity of a carve-out creates both opportunity and risk for buyers. On the one hand, there are a limited number of firms with the expertise to manage the operational demands of lifting a business out of a parent structure, which reduces competition and can be favourable for pricing. On the other hand, the execution risk is much higher and value can be fast eroded if it is not done right.

Our survey highlights the scale of the challenge. Some 34% of PE firms and 27% of corporates say that their most recent cross-border carve-out was 'mostly unsuccessful'. Furthermore, 19% of corporates and 24% of PE firms say that their most recent deal took longer than expected. These delays can be costly. Our research shows that the average cost overrun for a delay of more than four months is 16% – the stakes are high.

Deal overruns may be commonplace but can be avoided. Buyers need a keen sense of how long processes will take on a market-by-market basis and therefore what the cadence of the deal needs to be. In some regions, companies can run six processes in parallel, while in others, each task needs to be completed in sequence. The project list, therefore, needs to be detailed and comprehensive.

Untangling a business across jurisdictions to create a fully standalone entity is no easy feat. Acquirers often miss out on practical, local advice, especially when the business operates across multiple countries and the buyer hasn't worked in them before. To be successful, cross-border carve-outs need deep local knowledge and expertise.

The report reveals that the key concern is legal and regulatory risk. That is unsurprising given the multiple jurisdictions, the increased execution risk and the scale of sanctions for a breach. This is why TMF Group has created a dedicated M&A service, marshalling all our operational capabilities in legal, accounting and employee management across 120 locations, to help sponsors manage the transition safely.

Mark Weil
CEO, TMF Group

Thomson Reuters and Dealogic

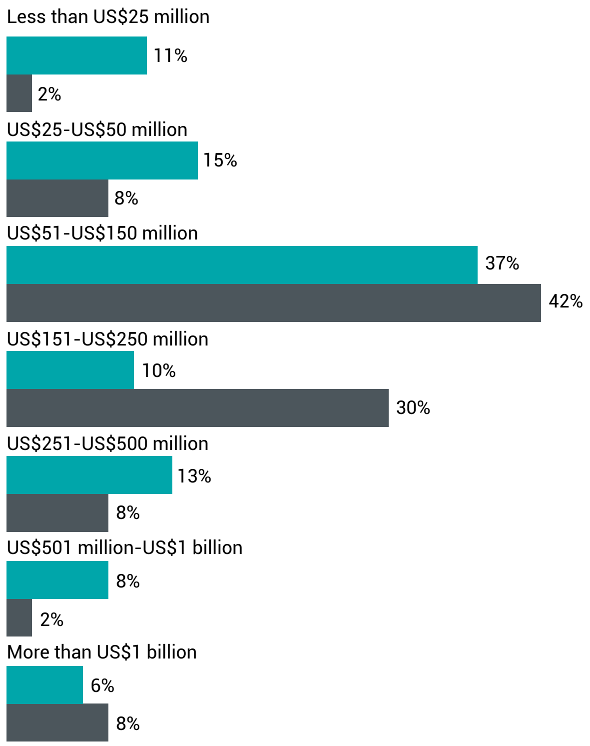
THE CARVE-OUT FUNDAMENTALS

Cross-border carve-outs are far from straightforward – they are often time-consuming and nearly always involve multiple jurisdictions.

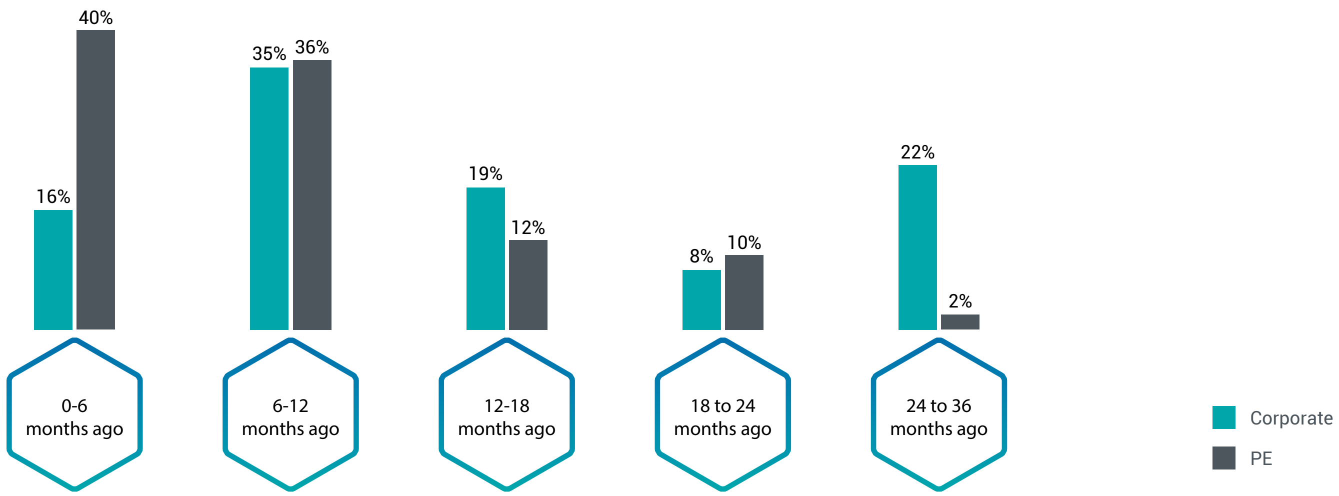
The US was the most popular location for acquisitions' headquarters, with 18% of deals based there, followed by Germany (8%) and the UK (7%).

However, the complexity of carve-outs becomes highly apparent when examining the number of countries involved. Nearly 60% of corporate acquisitions had operations in four or more countries (including 10% involving ten to 19) while 42% of PE cross-border carve-outs were businesses operating across four or more.

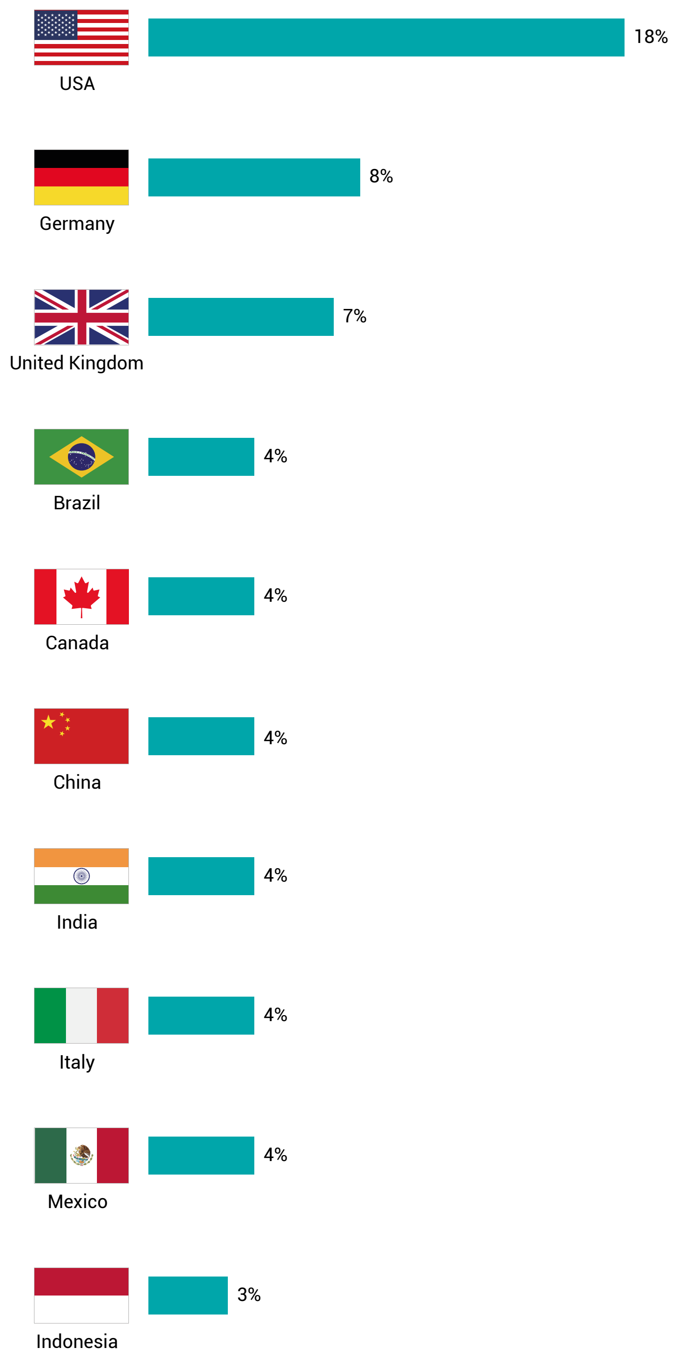
What was the value of your most recent cross-border carve-out acquisition?



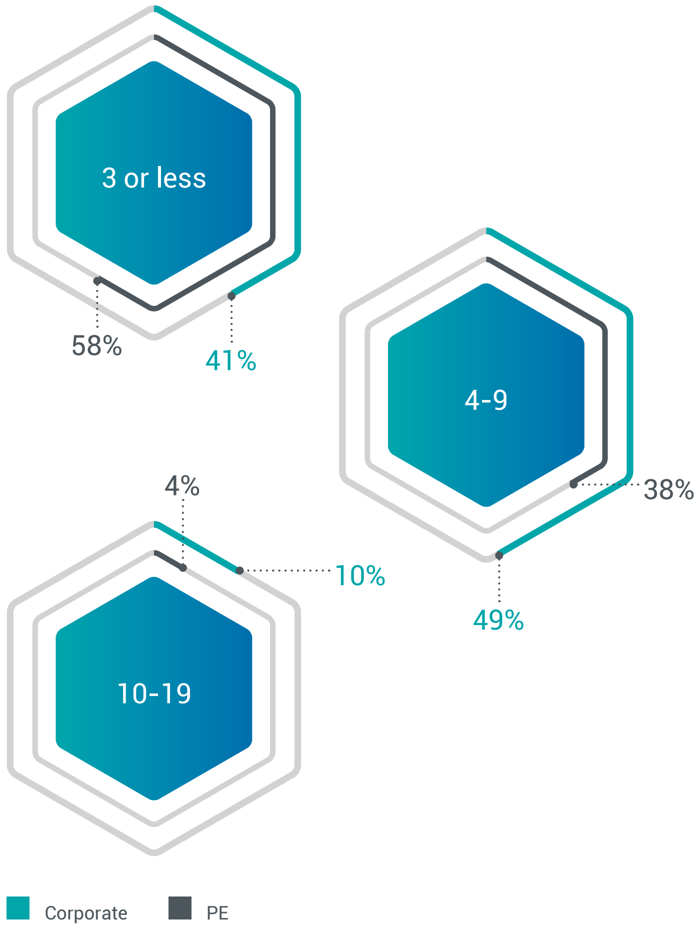
How long ago did you complete your most recent cross-border carve-out acquisition?



In which country was the target of the deal headquartered (or most dominant in)? (Top 10 results shown)



How many countries were involved in the integration of your most recent cross-border carve-out deal?



DEAL DRIVERS

In terms of the factors that motivated their deals, corporates and PE diverge. The top driver for corporates was product and service range expansion, mentioned by 77%, followed by synergy potential (67%).

This strategy of global expansion is typified by a Japanese corporate head of finance, who asserts that carve-outs had the potential to optimise operations: "Cross-border transactions will increase our geographic reach in the coming three years. Upcoming strategies are aimed at streamlining activities."

This comment may reflect the ongoing restructuring of conglomerates taking place in Japan as companies with operations across multiple sectors trim down. Machinery business Hitachi recently sold its two subsidiaries – chemicals and diagnostics – to streamline and invest in the Internet of Things and research and development.

Financial sponsors seek value

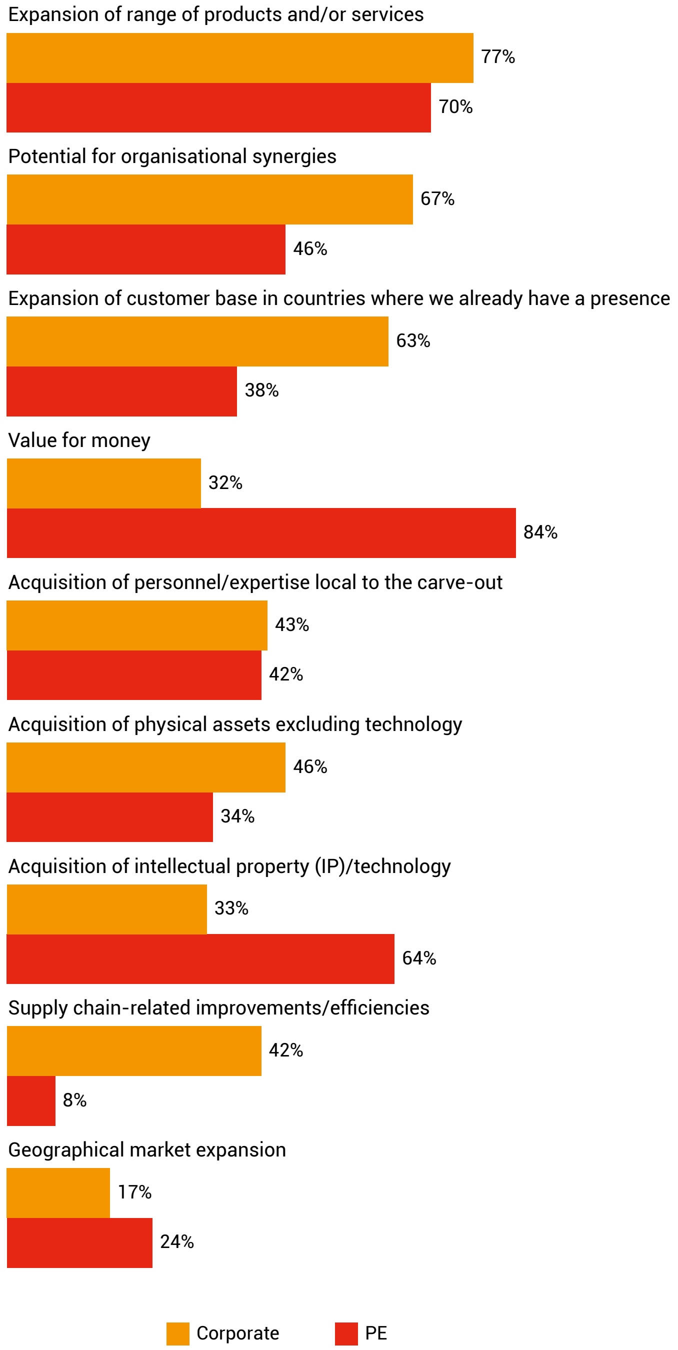
For PE firms in pursuit of value creation, the potential exists for acquisitions at lower multiples in an intensely competitive market.

"Carve-out deals can offer faster returns when a suitable target is identified," says the managing director of a Hong Kong-based PE firm. "PE funds will want to leverage these opportunities, especially when there is growing competition in the market."

PE houses were much more interested in acquiring intellectual property and technology, with 64% stating this was a driver, compared with just 33% of corporates.

Cross-border carve-outs can offer PE firms strong platforms from which to expand through buy-and-build strategies. As multiples on buyouts rise, add-on acquisitions of smaller businesses can bring the overall multiple down as well as generate synergies. Add-ons accounted for over two-thirds of all US PE buyouts in Q3 2019, according to research firm Pitchbook, attesting to the strategy's popularity in today's market.

What were the main drivers for your most recent cross-border carve-out acquisition? (Select all that apply)



Outside influences

Deal volumes in the short term will be adversely affected by the human tragedy and economic chaos caused by the COVID-19 outbreak. Once markets start to stabilise, the historic drivers of cross-border carve-outs are likely to remain: corporates will face further pressure to divest non-core assets, given the pressure of a potential post COVID-19 downturn.

Distressed sales will become, without doubt, more prevalent as companies impacted by COVID-19 are forced to restructure their businesses to address liquidity issues and improve their balance sheets. Both conventional PE investors and specialists in distressed assets will have opportunities to acquire and restructure – or carve out – businesses that would not otherwise have been available.

> "We have always been selective when it comes to investing in distressed assets. The main driver for the last acquisition was that we wanted to expand our business range and geographical reach. It was also good value for money, which helped the decision along."
>
> Managing director, US

SUCCESS RATES

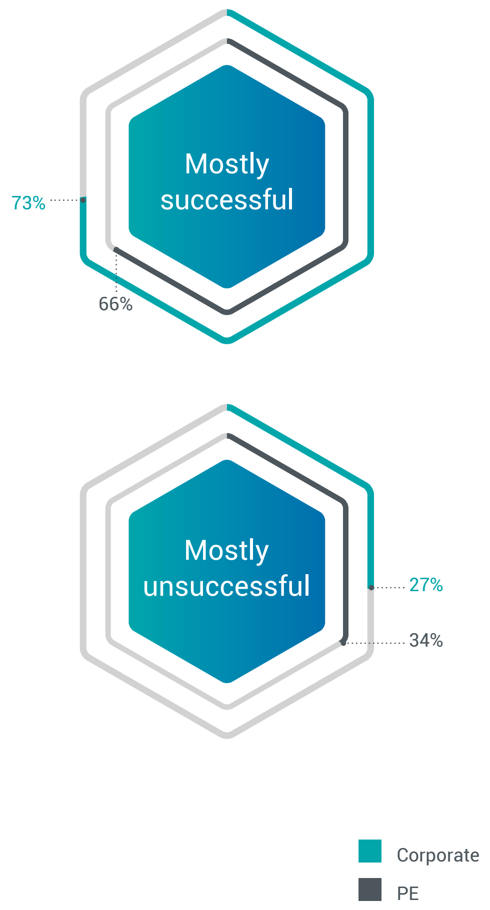
While most respondents rated their most recent cross-border carve-out deals as successes, a sizable minority revealed they had been mostly unsuccessful.

Overall, 73% of corporates are satisfied with the outcome of their most recent cross-border carve-out, with 66% of PE respondents saying the same. The fact that most dealmakers were positive demonstrates that these transactions have the potential to generate substantial value.

However, that still leaves 27% of corporates and 34% of PE firms feeling they had been mostly unsuccessful in reaching their strategic goals – a significant minority. A similar percentage from both groups (28% and 36%, respectively) said their acquisition did not create value within their expected timeframes. Given the effort, cost and time required to complete these transactions, this represents a significant waste of opportunity and value-creation potential.

Our analysis of the factors that hampered deal progression and completion clearly shows there is plenty of room to improve processes, optimise operations post-transaction and, ultimately, increase return on investment.

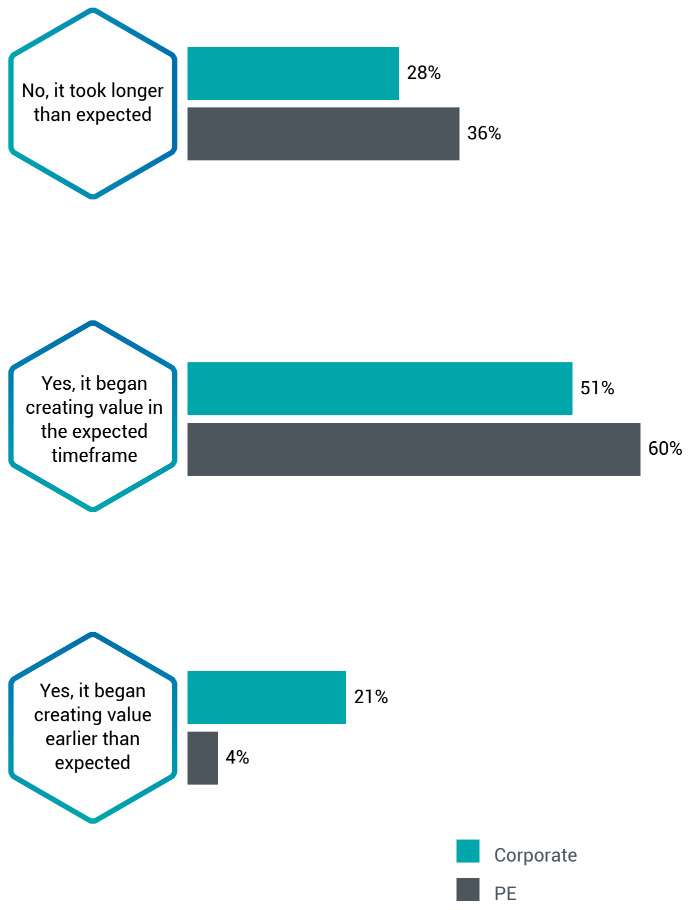
How successful was your most recent cross-border carve-out acquisition in terms of achieving its strategic goals?



"The reason behind the success would be the efficiency of our teams and the strategies that we applied. Information was not withheld from the sell-side, which helped in proceeding with the assessment and completion. I wouldn't exactly call it seamless, but organisation on both sides was impressive."

Group head, Australia

Did your acquisition create value within the expected timeframe?



"The acquisition was mostly unsuccessful as there were disturbances in integration, such as cultural differences and methods of management. In the end, we were able to strike the balance required to achieve consistent performance, but it took time."

Head of finance, Japan

THE ROAD TO SUCCESS 1

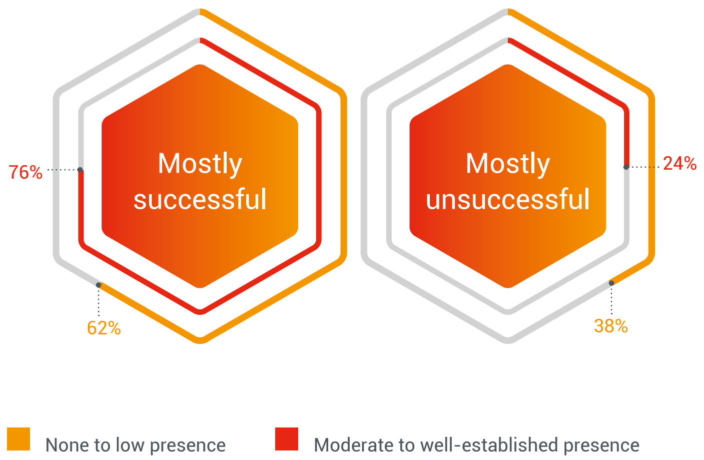
Make your presence felt

The slogan ‘Think global, act local’ has never been more relevant in this context. Access to deep local knowledge and understanding of domestic business norms is critical to optimising value creation in a cross-border carve-out.

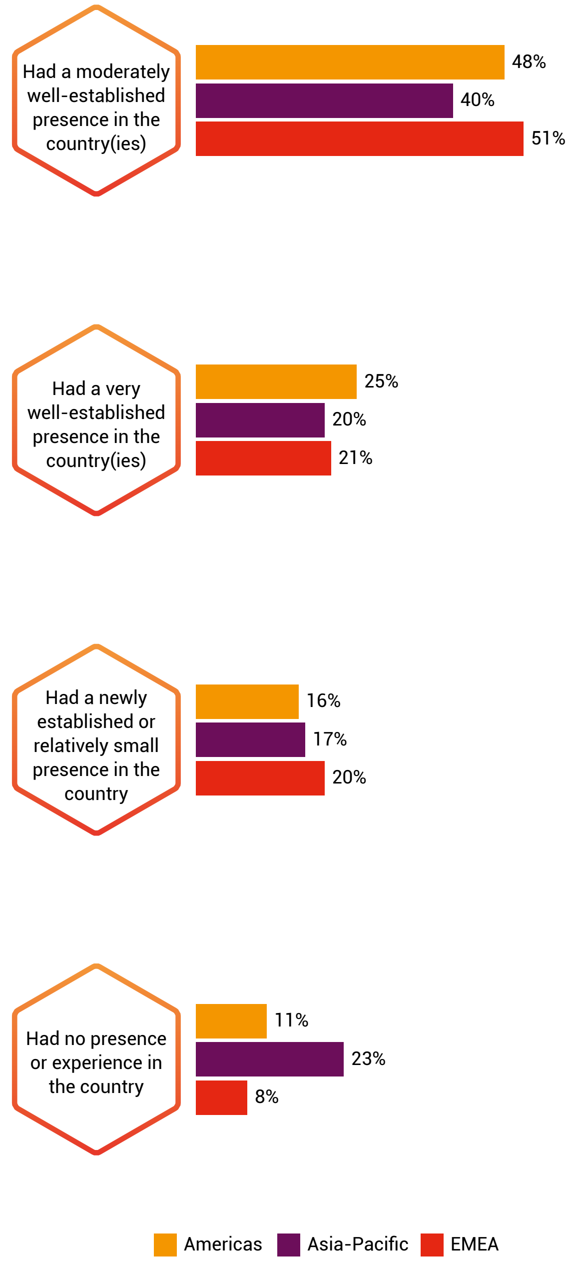
This is borne out by our survey. Most respondents had a moderately or well-established presence in the country where the target was headquartered. Buyers were most frequently based in the Americas (73%), followed by EMEA countries (72%). 40% of those based in Asia-Pacific, perhaps reflecting their relatively smaller global footprint, were the most likely to pursue targets with a headquarters where they had no or limited presence. 40% said this, including 23% with no presence or experience at all.

Those with a limited or no presence in the target’s country were more likely to have disappointing outcomes. Indeed, 38% of respondents who had limited or no presence at all in the carve-out’s jurisdiction say their most recent carve-out had been mostly unsuccessful in terms of reaching its strategic goals.

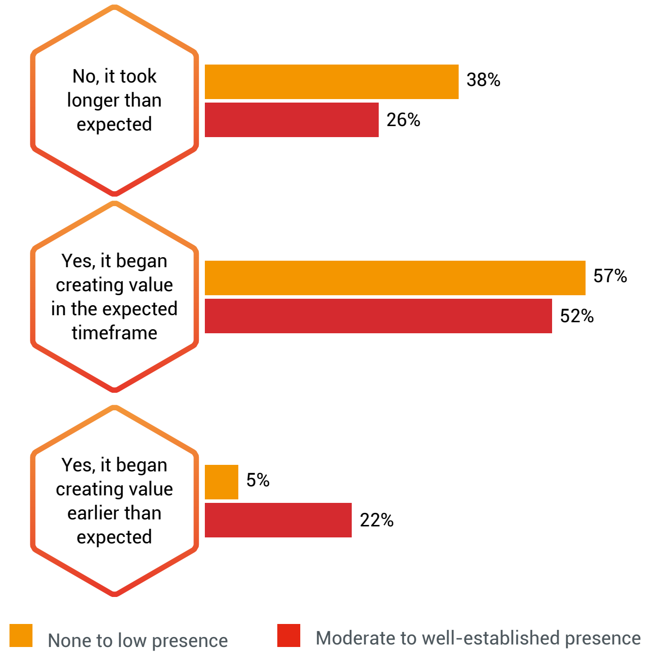
Success/lack of success of most recent cross-border carve-out acquisition in terms of achieving its strategic goals vs. level of prior-established presence in target country(ies)



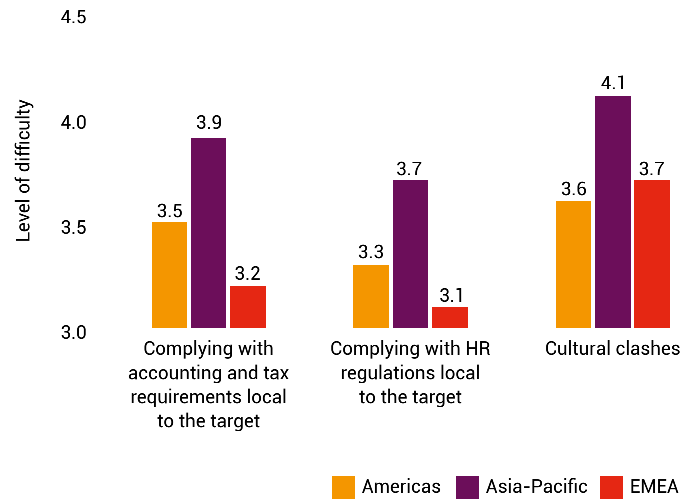
Overall, which of the following best describes your organisation’s presence in the country(ies) where your most recent [completed/lapsed] cross-border carve-out acquisition target HQ was based?



Time taken to create value vs. level of prior-established presence in target country(ies)



How difficult did you find the following issues in your most recent cross-border carve-out acquisition? (Please rate out of 5 where 1 = no problem at all, 5 = extremely difficult)



These deals also took longer to create value. More than a third of respondents (38%) with limited or no presence in the target’s local market said it took longer than expected to generate value.

The devil is in the detail

A lack of experience in the country where a target business is headquartered clearly creates challenges when it comes to the detail of getting the new company established and operating efficiently.

Indeed, Asia-Pacific respondents (who were most likely to have limited or no presence) ranked issues such as cultural clashes, complying with local accounting and tax requirements and human resources regulations as much more difficult than those in other regions.

Cultural misunderstandings were mentioned by a significant number of interviewees in the survey, with one Japanese respondent, whose deal was mostly unsuccessful, saying: “Culture clashes impacted our role in negotiations and integration. Work culture and schedule adherence were some of the instances where there was disparity in practice.”

The detail of local business establishment requirements and timeframes can be traps for the unwary, particularly where deals involve several jurisdictions. For buyers unfamiliar with the markets in which their acquisition operates, this can cause frustration and significant delay.

In some markets, it can take up to 60 days to open a bank account, while in others, business licences are required before the new entity can register for VAT, while the company may need a local fiscal representative or director.

Such issues were cited by many interviewees who identified a deal as being mostly unsuccessful, including a head of finance at a Finnish corporate, who says: “Complying with the domestic requirements, such as legal, accounting and taxation, were the most difficult aspects for us to manage. It meant that, rather than solving complex operational issues, we were more concerned with getting the company ready for various compliance items.”

The challenges of cross-border carve-outs

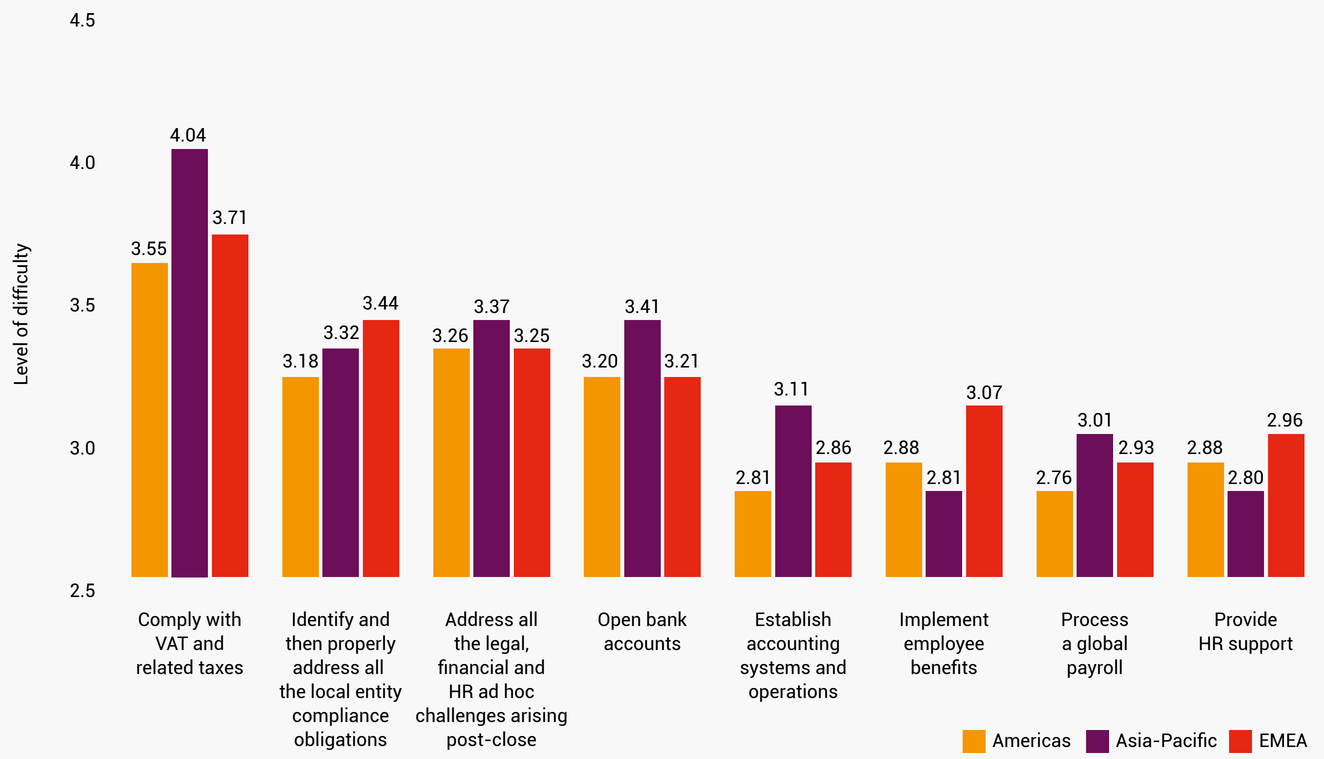
The complexity of separating out a business from its parent, particularly when several jurisdictions are involved, will cause challenges for buyers. The main obstacle mentioned by all respondents was dealing with legal and regulatory issues, cited by 52% of corporates and 48% of PE firms. This was followed by a misalignment of operating models, mentioned by 43% and 46%, respectively.

These challenges occurred despite the clear majority of buyers seeking local advice on areas such as legal and regulatory compliance, tax and accounting, and operational readiness (relating to people, processes, technology and ability to trade). Both types of acquirer had trouble making a robust financial assessment of the target's past and future performance (mentioned by 36% of PE respondents and 38% of corporates).

In terms of the difficulties in launching operations in all required locations, legal, financial and HR challenges post-close came in third position across buyers from all regions, followed by opening bank accounts – a task critical to the functioning of a business.

Indeed, across all eight requirements, responses were rather closer to 'nearly impossible' than to 'no problem at all'. These results highlight the importance of dedicating the right resources to the deal. Local expertise is essential to assist with the detailed tasks necessary to fulfil legal, regulatory, tax and HR requirements, while fully separating the target to operate efficiently on a standalone basis from day one.

Following your latest cross-border carve-out acquisition, how difficult was it to launch these operational requirements in all required locations? (Please rate out of 5 where 1 = simple and 5 = nearly impossible) Mean values shown.



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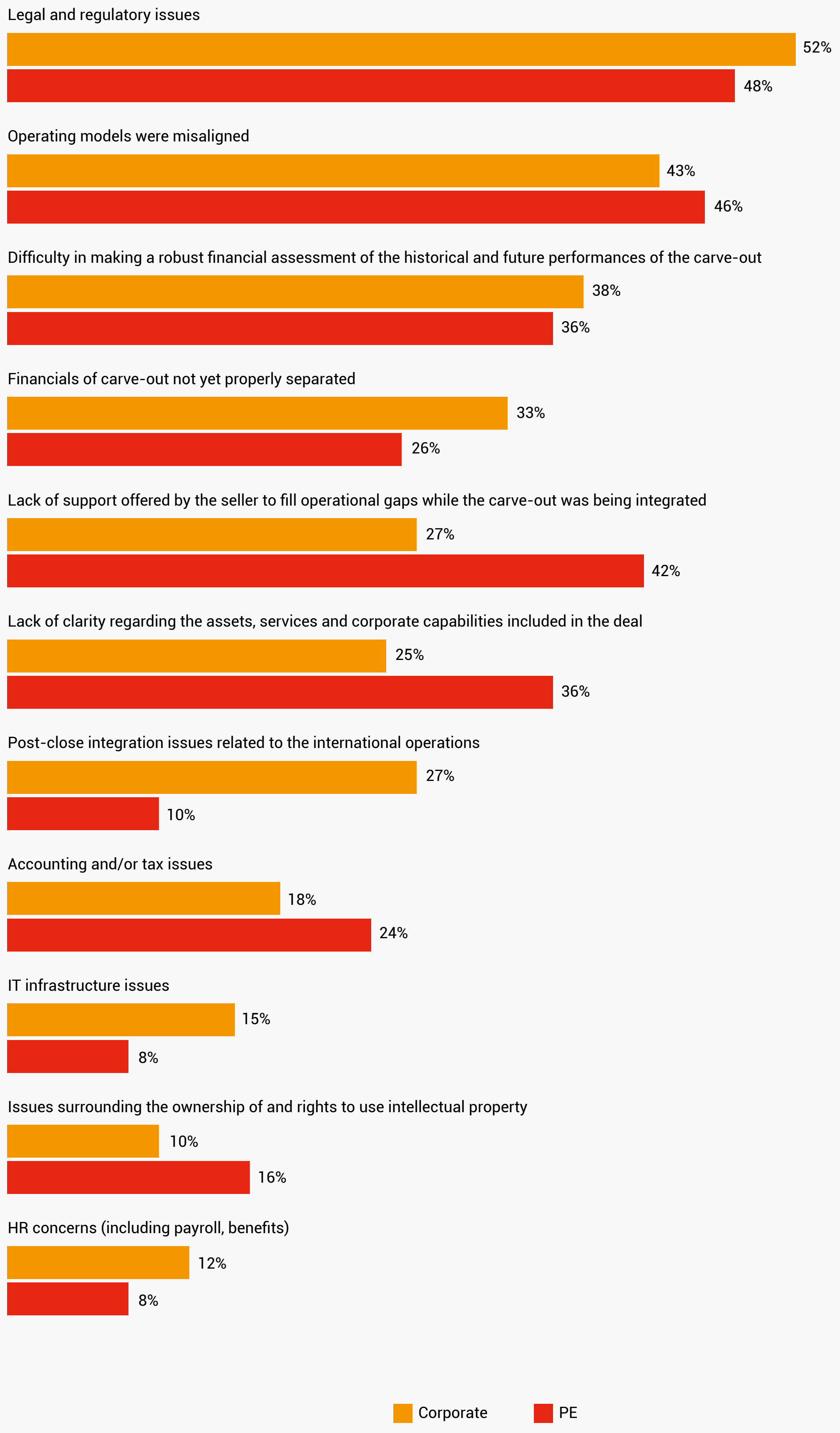
Which of the following did you consider the greatest challenges in your most recent cross-border carve-out acquisition? (Select top three)



THE ROAD TO SUCCESS 2

Time is money

Speed of execution is a hugely significant factor in completing successful deals. An October 2019 report from research firm Gartner stated that the average M&A deal takes 38 days to complete post-announcement. This figure rises to 106 days for mid-size deals (US$500 million to US$5 billion) and 279 days for megadeals (more than US$25 billion).

Our survey found that, on average, these more complex cross-border carve-outs took longer – around 145 days from initial interest in the target to deal completion. Over half (52%) took up to four months, while 48% of all respondents said it took five months or more. For 14% of corporates, timelines stretched to eight months or more.

The results confirm that PE tends to work to more aggressive schedules than many corporates, reflecting the need to generate returns on investment within the fund's hold period, with 94% of PE firms completing within seven months, versus 86% of corporates.

PE prone to overruns

PE's shorter timeframe expectations were apparent in responses about deal overruns. While 26% of PE respondents completed in a shorter time than expected, 24% said the deal took longer, compared with 19% of corporates. Asia-Pacific buyers were much more likely than those in other regions to experience deal delays: a third said this, against just 18% of those in the Americas and 16% in EMEA.

The difference between corporate and PE expectations was evident in relation to previous cross-border carve-outs. Nearly four-fifths (79%) of PE respondents who completed their latest deal within their expected timeframe said they had overrun on a deal of this type in the past three years. Only just over half (52%) of corporates said the same.

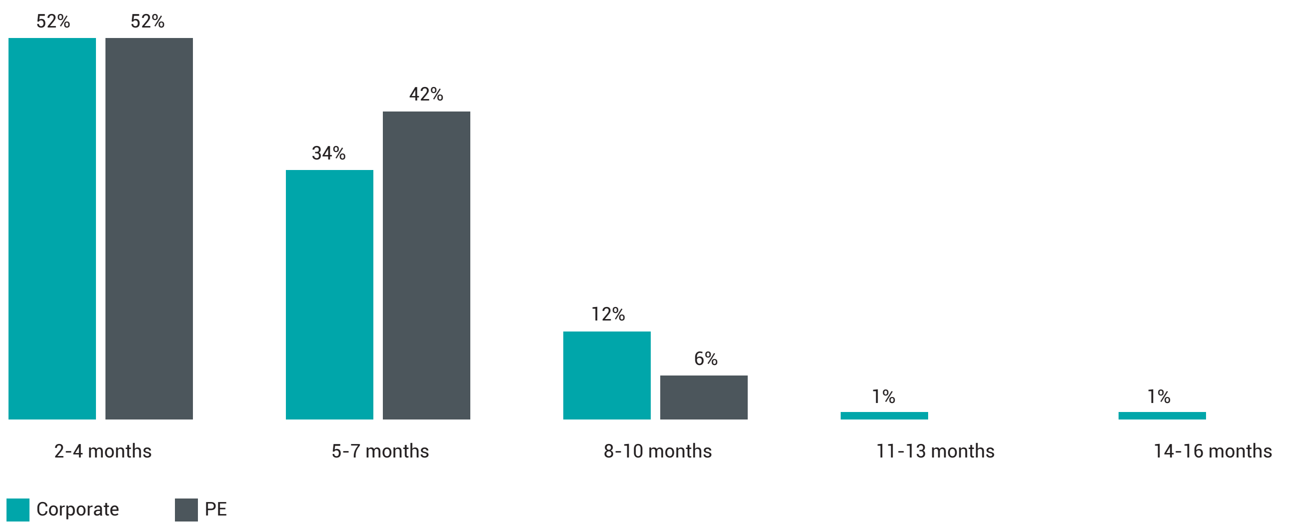
Among those who experienced a delay in completing a corporate carve-out, the overrun was often significant. Some 52% of PE and 57% of corporates said the deal was delayed by three months or more, with corporates almost twice as likely to overrun by more than four months.

These overruns have a significant impact on the outcome of the deal. The longer the timeframe, the greater the likelihood the deal will be ultimately unsuccessful in achieving its strategic goals. While 84% of deals completed within four months were successful in this regard, this fell to fewer than two-thirds when completion was reached between five and seven months after initial interest. Well over half of transactions completed after eight months or more were deemed mostly unsuccessful in their outcome.

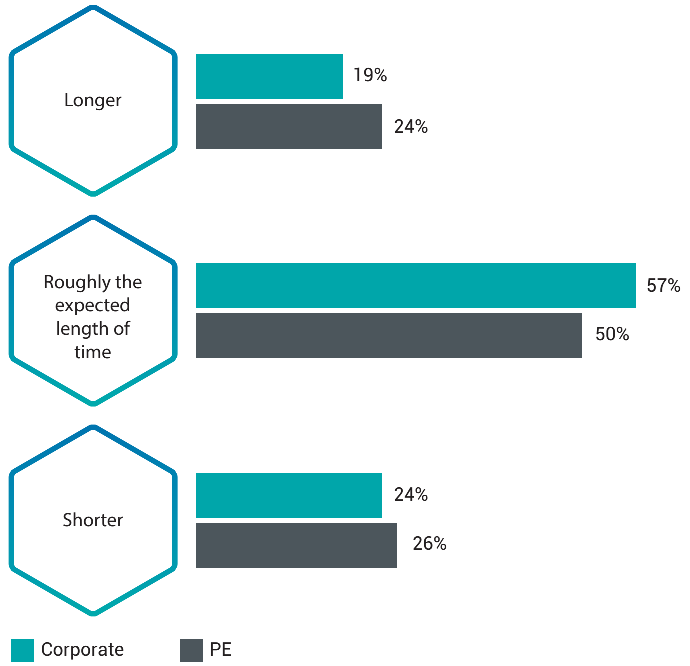
Drag on returns

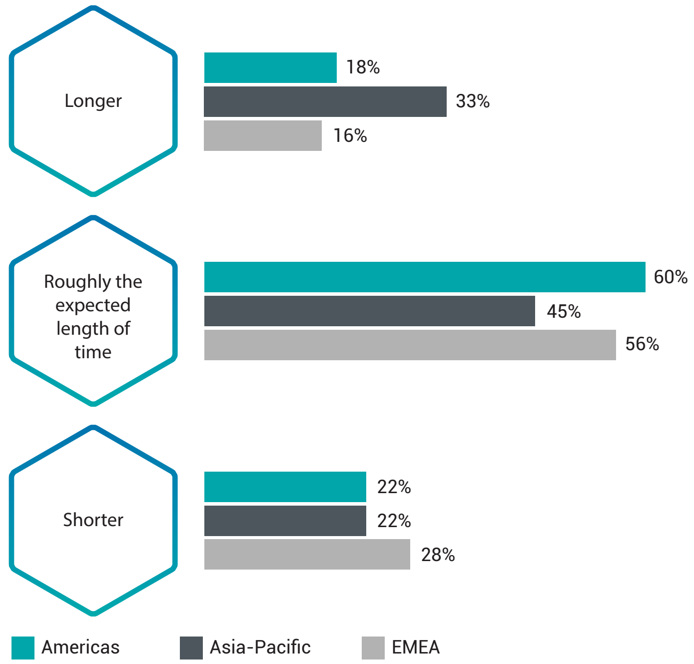
The cost of overruns can have a significant impact on a buyer's capacity to generate value from a deal. Where delay increased cost, the clear majority of PE acquirers (92%) said it added 10% or more of the original value of the deal, including 30% who said it increased by more than 16%. The figure for corporates is similarly high: of those that said the delay increased costs, 85% said they

In your most recent completed cross-border carve-out acquisition, how long did it take to go from initial interest in the target to completion of the deal?

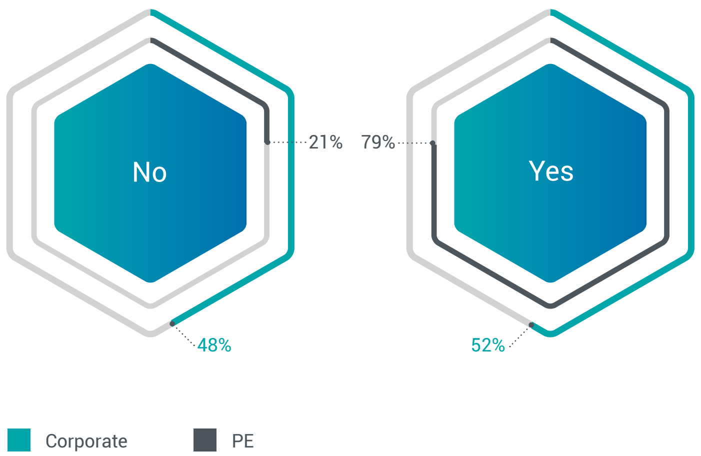


In your most recent completed cross-border carve-out acquisition, was the time taken to go from initial interest to completion of the deal shorter/longer than expected?

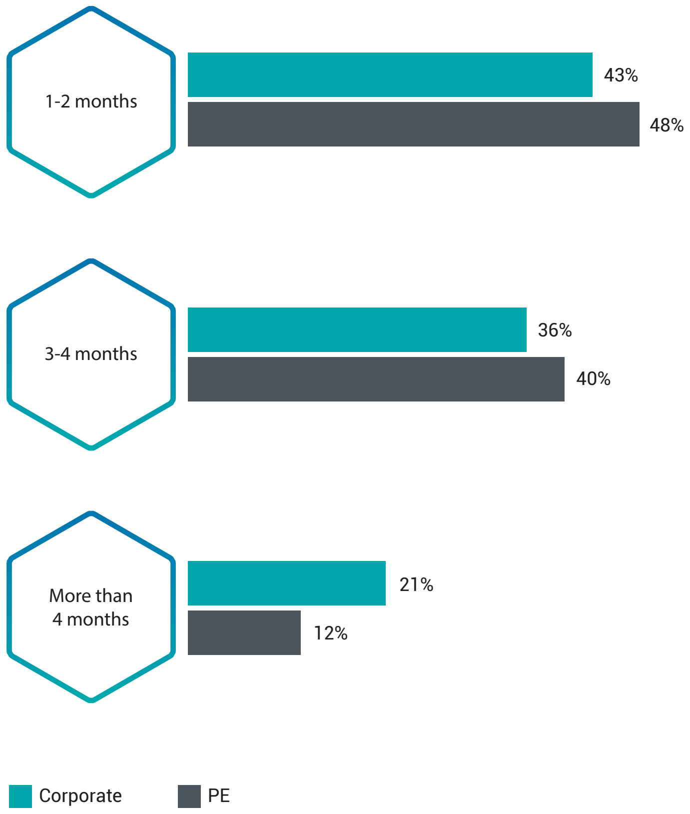




[If you answered 'Shorter' or 'Roughly the expected length of time'] Have you completed a carve-out acquisition that took longer than expected in the past three years?



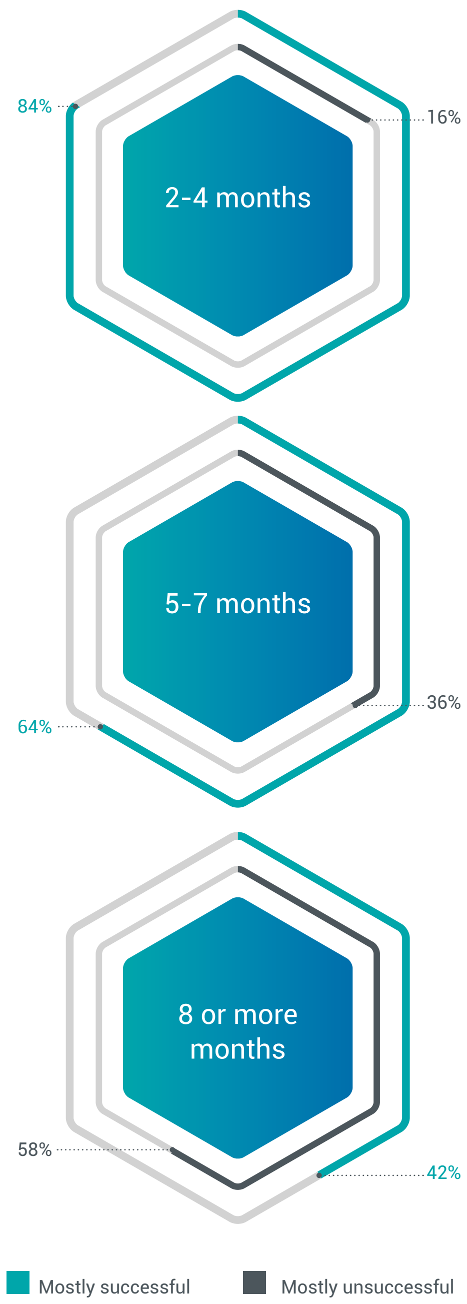
In your most recent completed cross-border carve-out acquisition that experienced delays, approximately how long did the deal overrun by?



"There was a significant amount of time that was lost due to various inefficiencies. Lack of detailed information and records, among other issues, increased the cost of acquisition."

Director of M&A, Canada

Length of time from initial interest in target to completion vs. successful/unsuccessful deals



had risen by 10% or more, including 38% who put the increase at 16% or more.

There is a direct correlation between the length of overrun and additional cost. A one- to two-month delay adds a 10% increase, with deals taking over four months more than expected costing an average extra 16% of the original value.

This was reflected in responses from interviewees. "There was a significant increase in the cost of the acquisition, mainly caused by delays," says a head of M&A at an Indian corporate. "We hadn't expected it to be seamless, but we weren't prepared for the effect on costs and we had to make some hasty financial decisions to get the deal over the line."

Why the delay?

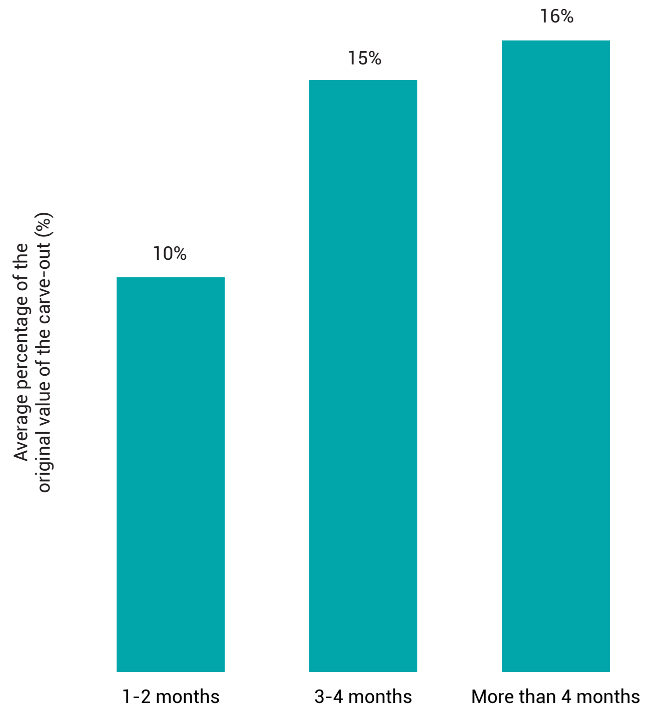
The complexity of completing carve-outs across multiple jurisdictions is apparent in the biggest reason for deal overruns. Around three-quarters of both PE and corporate respondents said that legal and regulatory issues contributed to delay in completion. As the corporate director of M&A at a Brazilian corporate says: "We weren't familiar with the regulations and so compliance took extra effort, which meant that time management suffered."

With the right expertise in place, potential hold-ups can be identified early on and included in project management schedules. Many interviewees who conducted successful deals found this an important element in smoothing the deal process. "We had previous experience and we brought in additional expertise to deal with legal issues," says the managing director at an Australian PE firm. "Cross-border acquisitions invariably throw up unforeseen challenges, but provided they can be identified early on, you can plan adequately for them."

The second biggest cause for delay lay in the financial aspects of the carve-out not being properly separated from the parent company while misaligned operating models were also common.

While 'misaligned operating models' can encompass a wide variety of problems, mismatched and legacy technology systems are a common factor in cost and timing overruns. The right platform for a medium-sized business may not be the expensive and complex automated system that suits a large corporate. Replicating these systems and processes, rather than simplifying architecture to suit the size of the new company, will inevitably cause expensive delays.

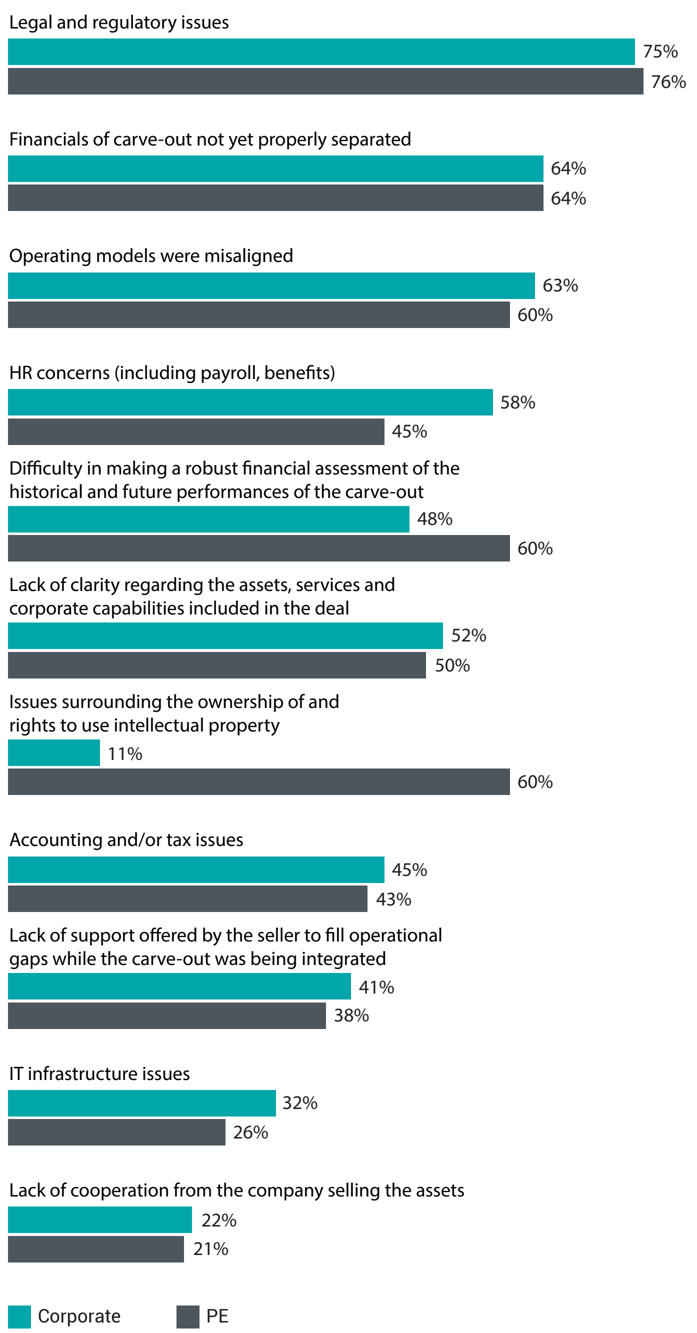
Average percentage of the original value of the carve-out costs went up by due to the delay vs. how long deal overran by



> There was an increase in the cost, and we were not prepared. The delays in establishing the cause of the problems and deriving solutions was difficult. Local expertise was used in many areas, and they were instrumental in addressing problems and offering useful solutions."

Director of M&A, Japan

In your most recent completed cross-border carve-out acquisition that experienced delays, what caused the delay? (Select all that apply)



Getting through the transition

Transition services agreements (TSAs) govern the provision and cost of back office services from the seller to the buyer during the separation process. They are an established and effective way of keeping the business running until go-live and offer a back-up plan if some areas are not ready for day one.

Of those using TSAs in their most recent carve-outs, the majority involved over four agreements, with durations mostly of less than six months.

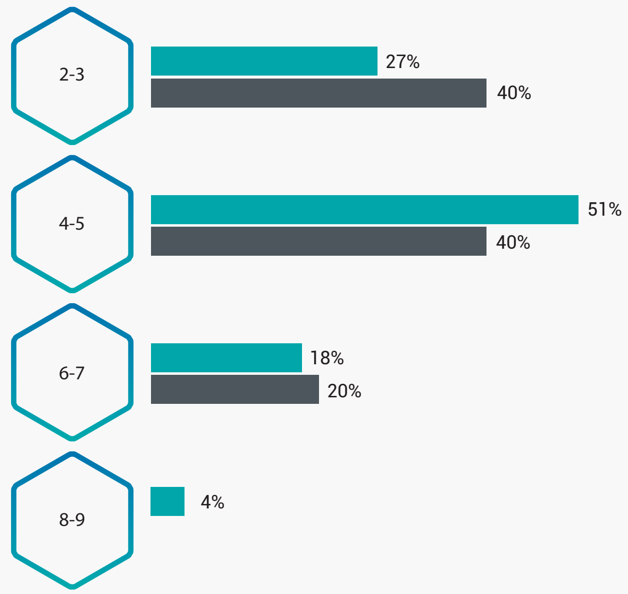
However, not all respondents were using TSAs, suggesting that buyers may be overlooking a valuable source of resource and support during complex separations. While this may be acceptable for smaller transactions where a TSA might not be worth the time and cost, they are vital for large deals.

There can be value in moving critical administrative functions as soon as possible from the parent, but having to deal with the establishment or transfer of back office operations at the same time as managing regulatory, tax and legal issues can be fraught with difficulty.

That said, buyers should seek TSAs that are as short as possible, to minimise costs. Functions can be outsourced to experienced providers. The right partner can considerably reduce the length of TSAs required by the buyer.

The importance of this is highlighted by the finding that, among respondents with TSAs in place, two-fifths of PE firms and 30% of corporates said the carve-out was not operationally ready when the agreements expired.

If your most recent cross-border carve-out acquisition involved any TSAs, how many were involved? (Please answer whole number)



How long was the average duration of the TSA(s)?

THE ROAD TO SUCCESS 3

Think ahead and be prepared

When it comes to cross-border carve-outs, our report indicates that the right expertise and resources need to be brought on board as early as possible.

Of those who experienced delays in completion, 78% of corporate and 64% of PE respondents believe they could have avoided the overrun and additional costs if they had been better prepared. The head of M&A at a Brazilian corporate, whose most recent deal was delayed by legal and regulatory issues, says: "We were initially clear about the strategic intent of the deal, but lack of cooperation from the seller caused issues. We should have brought in additional resource earlier."

No substitute for preparation

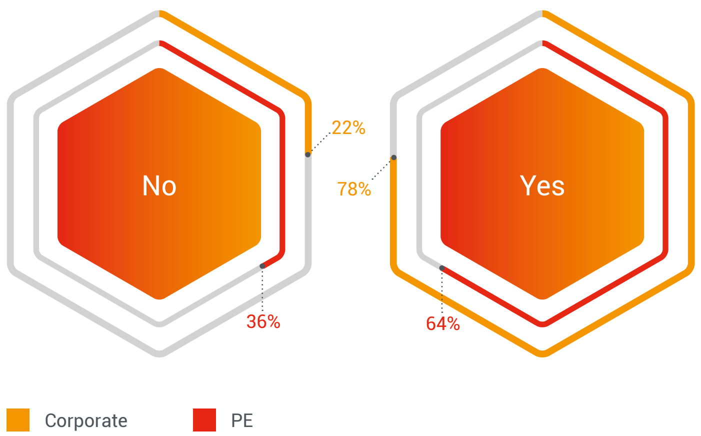
Rigorous and thorough preparation generates results in cross-border carve-outs. This becomes starkly evident when we compare the level of preparation across a range of areas between those whose most recent deal had been mostly successful and those who had a less positive outcome.

Virtually all those with successful recent deals had spent time preparing a strategy for communicating with relevant stakeholders and say they had prepared at least moderately in designing a value creation plan.

By contrast, those with unsuccessful deals had not done their homework, having prepared slightly or not at all. Some 53% had not prepared a value creation plan; 54% did not have the knowledge or resources to deal with industry and country regulatory issues; and 67% said the same about tax and accounting regulation.

Given that value creation is at the heart of any M&A deal, some buyers' failure to prepare a plan is most surprising. With M&A in general and cross-border carve-outs, buyers often overestimate the extent of synergies and cost efficiencies they will gain from the deal, while underestimating the time it will take to achieve them.

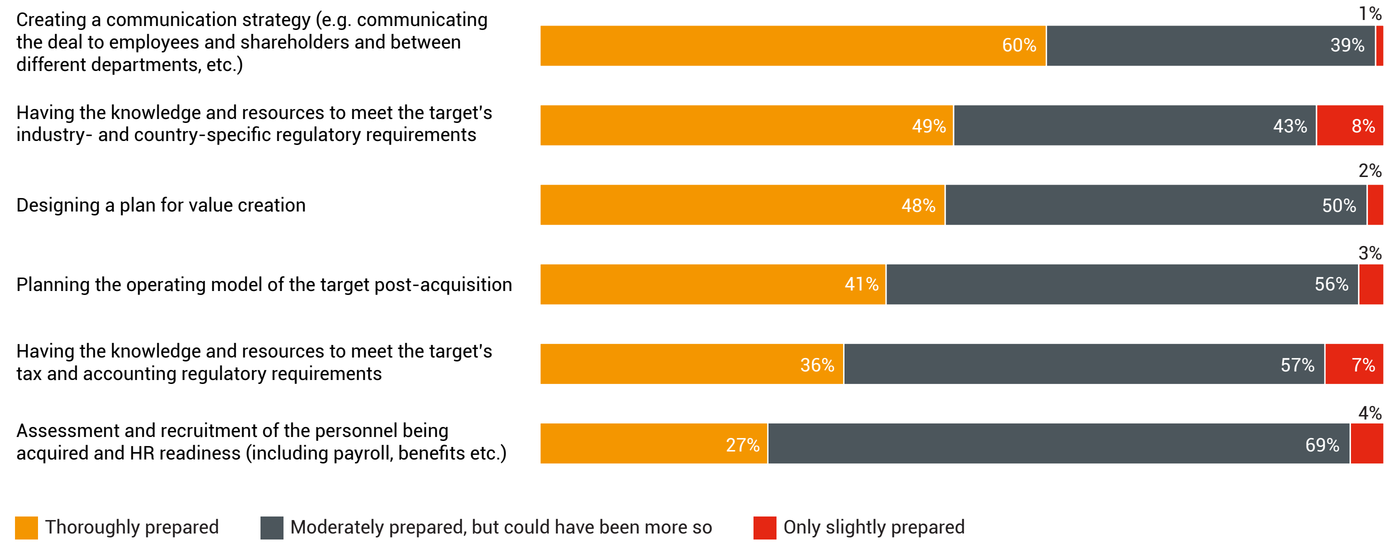
If you experienced delays during a cross-border carve-out acquisition, do you believe they could have been avoided with more preparation on your side?



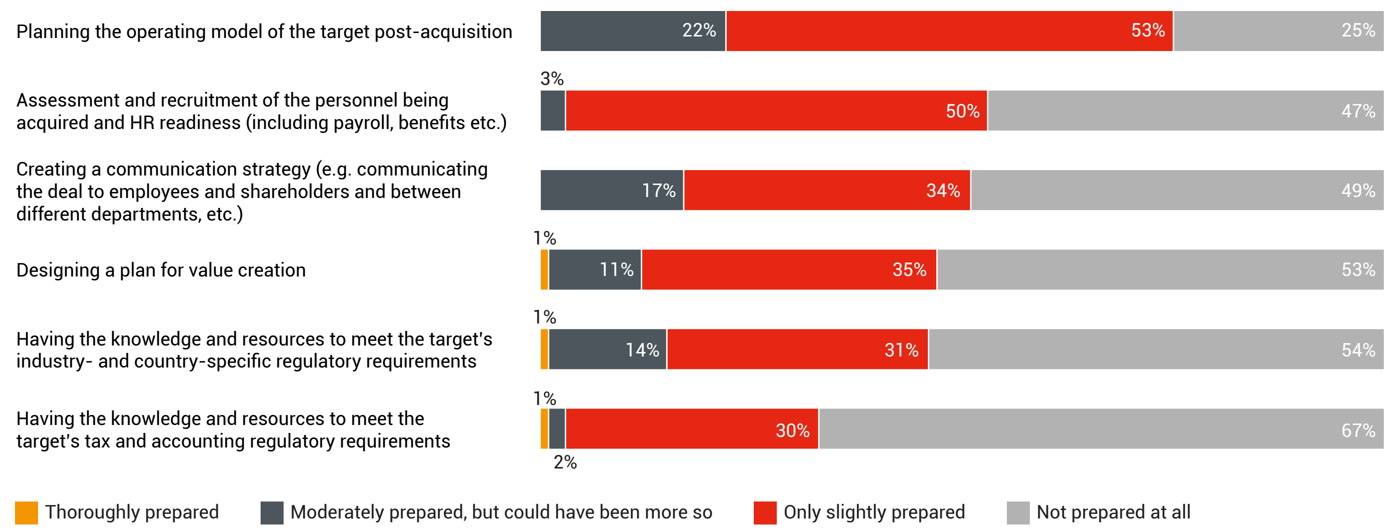
"There could have been more preparation from our side. We anticipated some problems such as HR, infrastructure and accounting issues, but we were not prepared to handle the rest. Nevertheless, we have crossed these barriers and have come a long way since then."

Director M&A, Japan

In your opinion, how prepared were you in the following areas ahead of completing your most recent successful cross-border carve-out acquisition?



In your opinion, how prepared were you in the following areas ahead of completing your most recent unsuccessful cross-border carve-out acquisition?



"Being an established organisation and having operations in multiple countries, we are aware of each aspect in legal and regulatory systems that need attention. The delays were mainly because of the lack of preparation on the seller's end."

Senior director, corporate development, US

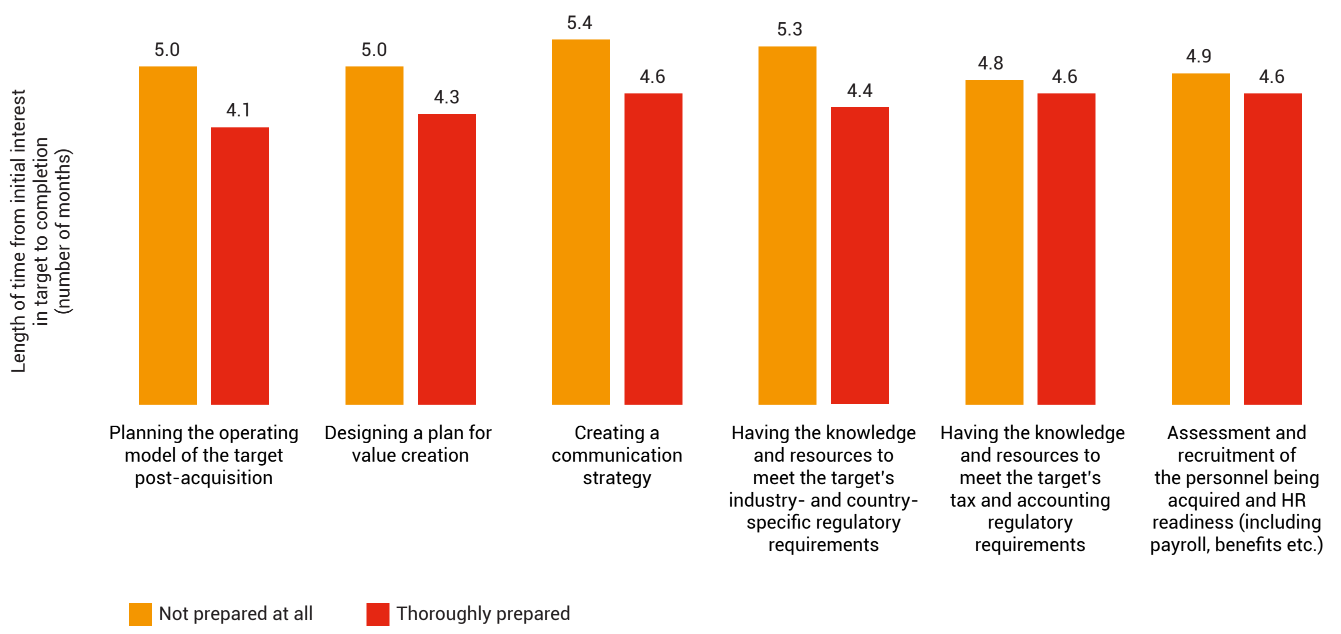
Exemplifying this shortcoming, the managing partner of a PE firm in Singapore says: "We had anticipated a level of integration to support our future goals and plans, but this hasn't yet materialised. We've put in maximum effort to increase target efficiency, but we have not seen this in terms of revenue."

Lack of preparation means time lags

Being underprepared across these areas lengthened deal processes. For instance, respondents who had not prepared at all in planning the operating model of the target took an average of five months from initial interest to completion, compared with just over four months for those who had thoroughly prepared for this.

There are similar disparities in preparation for creating a communication strategy and having the knowledge to meet industry and market regulatory requirements.

Length of time from initial interest in target to completion vs. preparedness across various areas



Interviewees who rated their most recent deal as largely successful frequently pointed to preparation and organisation as the main reasons for the carve-out producing good results. "The acquisition was mostly successful because we had ensured enough preparation at our end to tackle the challenges we faced," says the managing director of a PE firm in Chile. "Even before the deal proceedings had begun, the teams were well aware of the constraints that would need handling and they managed the resources well."

Overall, there is a clear correlation between the level of preparedness for a cross-border carve-out and the outcome. The adage of 'fail to prepare, prepare to fail' applies only too well in these deals.

"We can assume at this point that further preparation at the time would have delivered better results. We were not prepared to meet the level of hostility by the sell-side management team."

CFO, Germany

CONCLUSION

Six points on the road to carve-out success

With the appetite for cross-border carve-outs set to grow in the next three years, it's important that buyers of these assets understand how to gain maximum value from their deals.

Our report clearly shows that success relies on having access to local knowledge and expertise, minimising the potential for delays and, underpinning these two factors, rigorous and thorough preparation.

While this sounds straightforward, it is not. Buyers need to take note of the following six points if their cross-border carve-outs are to create value from day one.

1. Do your homework

A deep understanding of local legislation is crucial in a cross-border carve-out's success, as is an appreciation of local culture. Buyers need to take time to engage with sellers, keep communication lines open and gain buy-in from employees, who will be critical to value creation in the new organisation.

2. Local advisors are imperative

Seek out specialist help to manage specific steps that are required to get the business running – from applying for business licences, opening local bank accounts and payroll tax registrations through to electronic filing applications and establishing employee benefits. In some regions, these can become the 'long poles' that add complexity, delaying operational readiness if not properly managed.

3. Take local timelines into account

Some delays are out of a buyer's hands, but there is much that acquirers can do to ensure plans take account of local timelines. As the head of finance at a Japanese corporate says: "We were able to keep tabs on the delays and whether they would have any particular impact on the calculated numbers. Predictions and feasible solutions made it possible for us to stay within the limits."

4. Keep it simple

Buyers should also consider simplifying operations to make them more appropriate for what is likely to be a smaller business, despite retaining an international footprint. Rather than deploying a global Enterprise Resource Planning system to all countries where there isn't a business case for system localisation, consider a straightforward outsourced solution that works from day one, enabling management to focus on strategic direction, revenue, transitional arrangements for employees and retaining customers.

5. Preparation is key

The results of the survey clearly demonstrate the value of preparing well when targeting a cross-border carve-out. Rigorous analysis ahead of the deal should help identify potential issues that need to be managed and fed into a detailed project plan based on realistic timeframes. This type of groundwork enables a buyer to determine where dedicated external resources will be needed to support management teams and provides a framework around which advisors and outsourcing specialists can coalesce.

6. Keep your eyes on the prize

There can be dark days in carve-outs. When the going gets tough and deal fatigue sets in – perhaps cooperation over service transition between buyer and seller is faltering – that's when a leader must be ready to stand in a conference room at 11 o'clock at night and remind the integration team about the value proposition and what all the hard yards are for.

If you would like to find out more about how TMF Group's dedicated M&A service team can support you, please contact us via this link.

SNAKES AND LADDERS

One step forward, ten steps back

Such is life for the integration PMO, wrestling with a complex, international acquisition. You must part company with your parent fast. At the same time, you need to stand up a new global infrastructure that delivers HR and payroll, accounting and tax and legal foundations on the ground, anywhere you want to trade.

If it's a multi-country deal involving many jurisdictions, it can't be a game of chance – not when it comes to complying with the local laws and regulations that can delay your transaction.

And certainly not if you want to keep within your TSA. If you're not ready, expect escalating financial penalties, month by month.

What looks simple from a global perspective in terms of your target operating model, can look very different on the ground if you haven't asked the questions that never seem to be high enough on the deal agenda – until everyone is down to the wire.

How is that operating model going to work? How long will it take to set up? How much is it going to cost? And did you factor all this into the evaluation?

WHAT SURPRISES MANY CLIENTS is that you just can't copy what the seller is doing in each country and leave it there.

Transferring workforces alone can be extremely intricate in many territories. Then there's the choreography of incorporation and entity activation. Sometimes it's sequential, sometimes not. Sometimes tax registrations are combined with the social security elements and sometimes they are separate.

Who tracks those requirements at federal – and even provincial – levels so entity activation can be expedited? The permutations of operating compliance worldwide can be headache-inducing if you aren't used to it.

If you get it wrong, you've lost time. You might lose the confidence of employees and regulators. You might dent your revenue model. You might lose the deal.

We know this because we've seen it happen – but not on our watch.

WE ARE EXPANSION EXPERTS. We've been setting up companies abroad for over 30 years. Now we're bringing those hard-won skills and expertise to bear in complex international transactions, which our business model is perfectly designed to service.

We're neither a partnership nor an affiliation of independent providers.

All our experts – nearly 8,000 of them – are retained, operating from 120 wholly-owned offices, covering the 80 or so jurisdictions that produce 95% of global GDP.

And we all specialise in just one thing: getting deals over the line, on time, in dozens of countries – set up right from the start, no costly remedial action needed.

As the transaction progresses to completion, working with our friends – your global transaction advisors – we set management teams free to do the thing they do best – grow businesses.

That's because we have been able to do the thing we do best: expedite global carve-outs by standing up companies on time, fully compliant with local laws and regulations, and ready to trade – virtually anywhere in the world.

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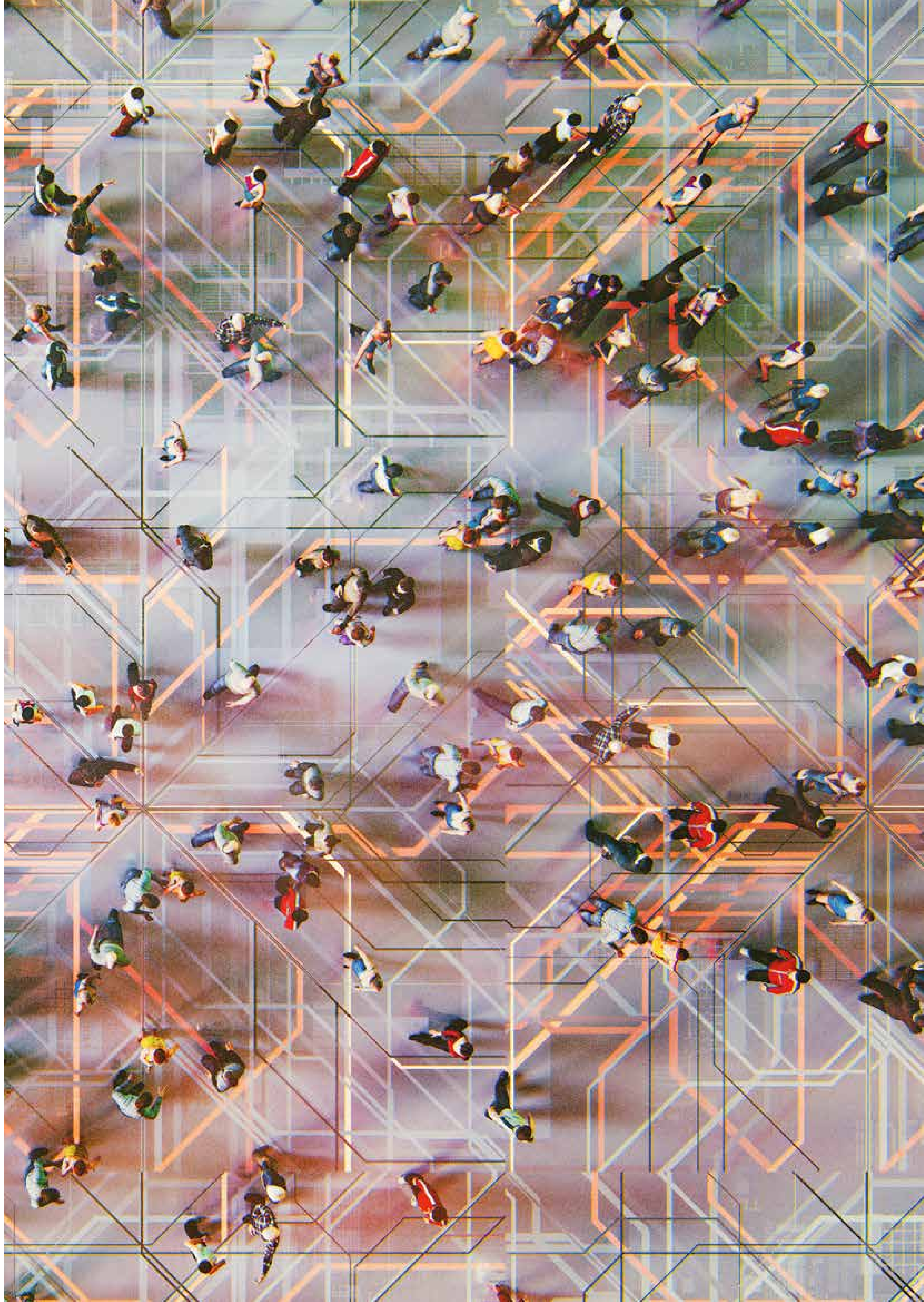
TMF Group is the leading provider of administrative support services, helping clients access some of the world's most attractive markets – no matter how complex – swiftly, safely and efficiently.

With some 7,800 experts – in-house, on the ground in over 80 locations – we are the only company worldwide to provide the combination of fiduciary, company secretarial, accounting and tax, and HR and payroll services essential to the success of businesses investing, operating and expanding across multiple jurisdictions.

That's why over 60% of the Fortune Global 500 and FTSE 100, and almost half of the top 300 private equity firms, use us.

Mergermarket is an unparalleled, independent mergers & acquisitions (M&A) proprietary intelligence tool. Unlike any other service of its kind, Mergermarket provides a complete overview of the M&A market by offering both a forward-looking intelligence database and a historical deals database, achieving real revenues for Mergermarket clients.



If you would like to find out more about how TMF Group's dedicated M&A service team can support you, please contact us via this link.

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