



Separating value

Getting the most from your disposals

As many financial services organizations may be taking their first steps on the road to recovery, most analysts agree that there is likely to be a wave of complex disposals and separations across the industry. Smart sell-side separation planning could enhance your realized deal value by as much as 30 percent. **Scott Marcello, Moh Sheikh, and Chris McGolpin** discuss some of the common separation challenges and present their blueprint for a positive separation.



Scott Marcello



Moh Sheikh



Chris McGolpin

Identifying the hotspots

Separation could be more complex and costly if your organization has:

- Shared service centers
- Cross selling
- Shared sales forces
- Shared facilities / buildings
- Joint customers or intermediaries
- Group procurement contracts
- Single or shared brands
- Group policies and procedures
- Global systems / applications and data sources
- Outsourced contracts / service model questions

Ignore separation planning at your peril

Following the turmoil in the financial services sector, a significant increase in the level of disposals and restructurings is expected. But in the rush to get the deal done, it can be easy to underestimate the complexity and financial impact of separating businesses – and that can have a serious negative impact on the deal value, success of the separation efforts and ongoing success of the retained business.

When it comes to carving out part of the organization, many businesses lack a coherent grasp of how their people, processes, assets, contracts and technology are integrated around the world and across functions. Knowledge of these issues tends to be fragmented, with no infrastructure to develop an informed view. This can make separation very challenging and more importantly, failing to address this can increase complexity and destroy value.

What can also be neglected is the emotional and political impact of separation on people. Managers and employees tend to separate behaviorally before the deal is done. It's vital to deploy a process that aligns the interests of both the selling and separating entity, and fosters a collaborative rather than an adversarial approach to separation. Too often we see clients failing to do this.

Good separation planning boosts buyer confidence and protects value

In a market subject to aggressive 'price chipping' by purchasers, good planning focused on value and risk drivers is one of the best tools to make the most of value from disposals. Demonstrating a detailed understanding of what it will take to transition from an integrated to a separated state will enhance the vendor's confidence in the carve-out financials and your ability to deliver the separation, giving potential purchasers less ground to discount their offer. In our firms' recent experience, prompt and well structured separation planning can help enhance valuations by up to 30 percent. It also enables effective execution, mitigation of key issues and risks and maximizes the value of the remaining business.

Building the separation blueprint

Working with a number of financial services organizations KPMG firms' professionals have found that one of the keys to effective separation is the creation of a detailed blueprint. It enables bidders to value the business and, putting it together helps the vendor and the separating business understand the nature of their future relationships. The blueprint should clearly articulate what the business operating model looks like *today*, when the deal is *closed* and at full *separation*.

Demonstrating a detailed understanding of what it will take to transition from an integrated to a separated state will enhance the vendor's confidence in the carve-out financials and your ability to deliver the separation, giving potential purchasers less ground to discount their offer.

A detailed implementation plan should also be in place. Key components of a separation blueprint should include:

- 1. Confirm the separation principles** – define and agree at executive level the core principles that will shape the scope and scale of separation. For example, do you migrate the standalone business to a new technology infrastructure at deal close, or will you 'clone and go' or will you carve-out the technology platform and transfer across? What basis will you use to decide which people go with the separating business? Issues like this will affect the scale of work involved in separating and enable timely and consistent decision making.

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2.

Prepare a 'separation hotspot' matrix to identify key operational touch points highlighting those that are materially significant and need to be addressed for deal close. Once interconnected parts of the business – like technology platforms, people and shared service centers – are identified, it is easier to break down potential issues according to their impact on people, processes, technology, contracts and assets and to quantify the cost impacts and separation challenges.

- Often there are between 200 and 300 separation hotspots identified between parent and separating entity, where management originally thought there were few. In our firms experience the top 20 'hotspot' issues typically account for 80 percent of the separation costs, so it is imperative that these are identified and actioned early. Many organizations underestimate the challenge and workload involved in separation.

3.

Define detailed functional Service Delivery Models (SDM) – define how each function will operate at key stages over the transaction cycle (as-is, deal close and final separation) in terms of people, processes, assets, contracts and technology. Separated entities may well not be fully standalone at deal close, so vendors need to prepare a broad range of Transitional Services Agreements (TSAs) early to decide what is/is not offered and at what price to try to ensure operational integrity. A detailed set of functional SDMs will assist the identification and articulation of the required TSAs to support the standalone business.

4.

Create a separation cost adjustment model to understand the cost implications of separation: what are the one-off costs of separation? What are the ongoing cost impacts of separation? This will allow sellers to strip out group allocated cost and direct costs and rebuild a bottom-up cost model for the separating entity.

Plan well = increase the value

Selling a business or division may make strategic sense, but unless the separation challenges and the cost implications are understood, it can massively impact the sale value of the business. It can also leave the operational team responsible for the separation with a major headache. One of the key lessons is to invest time and effort upfront to identify all the separation touch points and prioritize those where costs and risks will be material as this can potentially boost the sale price and mitigate the risk of damage to the parent business.

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Learning from other industries

The Jaguar Land Rover sale

Ford manufactures and distributes cars in over 200 countries around the world. In separating its Jaguar and Land Rover businesses for sale, KPMG's assistance helped to highlight over 350 separation issues that had to be addressed with the management teams. KPMG worked with Ford to help them develop a separation plan and a robust standalone business plan so that the separation issues were addressed and managed in such a way as to appreciably increase the value of the sale.

Source: *Getting under the bonnet: The Jaguar Land Rover sale*, KPMG in the UK, March 2008.

In the real world

Maximizing valuation is a key area of focus for Executives. Recent examples of businesses KPMG firms have worked with highlight how you can potentially improve purchaser's valuations by challenging key management assumptions.

Information technology function

A carved-out business which was accountable for 25 percent of revenues, after our analysis, needed only half the number proportionally of IT staff expected, thus making significant savings.

Value: **+US\$52 million** to the overall valuation.

Finance function

An additional cost of US\$8 million per annum was anticipated to replicate the function. However, after our analysis the lack of complexity of the separating business meant that cost was only US\$2million.

Value: **+US\$20million** deal value.