How businesses manage their capital today will define their competitive position tomorrow. Executives are learning that a greater focus on capital can result in differentiating enterprise performance. Divestitures, a primary means of optimizing the portfolio and preserving and raising capital value, therefore deserve greater attention.

Divestiture Advisory Services include advice and insight to help clients expedite the transaction process and maximize deal value.

Are you reviewing a business portfolio or evaluating strategic alternatives for non-core operations and assets? Are you selling a company or considering carving out or spinning off a business? If so, we recommend that you consider:

- Analyzing your business from a buyer’s perspective, including its information needs
- Developing a financial, tax and operational carve-out project plan
- Evaluating the experience and capacity of your team to navigate the transaction’s complexities and achieve your timeline

A company’s focus on preserving, optimizing and raising capital often translates into divestitures, such as asset sales, spin-offs, joint ventures and related portfolio rationalization. Still, companies tend to pay less attention to divestitures than to other corporate actions such as acquisitions. Not devoting adequate focus and resources to divestiture transactions can be a costly decision.

Well-prepared companies can use divestitures to raise and optimize capital:

- Stress and distress – e.g., liquidity issues and turnaround plans
- Customer and supplier analysis
- Preserving tax assets and minimizing costs
- Refinancing or restructuring debt, equity and other obligations
- Dealing with stakeholder relationships and pressure
- Dispute resolution
- Optimizing asset portfolio
- Delivery of synergies and effective integration
- Improving working capital and releasing cash
- Optimizing capital structure
- Optimizing tax and corporate structure
- Acquisitions and alliances
- Planning and structuring transactions to optimize stakeholder return
- Focused due diligence to mitigate risk and drive value
- Asset valuations
- Cost- and tax-efficient structures
- Fundraising (equity and debt): IPO readiness, rights issues, private equity, private placement and capital markets
- Optimizing funding structures
- Asset divestment
- Infrastructure projects
- Cost- and tax-efficient structures
Our services

How we can help

EY dedicated Divestiture Advisory Services (DAS) professionals work with clients on a variety of divestitures, including carve-outs, spin-offs and joint ventures. Depending on your resources and needs, we can support you throughout the entire process, or focus on individual aspects of the transaction, including the following:

- **Portfolio management** — Assess portfolio/business unit value and its contribution to the overall business
- **Transaction project management** — Develop realistic deal timelines and project plans. Identify inter-dependencies and enhance collaboration among HR, finance, IT, tax and other functional work stream teams to help drive execution
- **Tax analyses** — Understand the seller’s tax position and structuring alternatives to improve tax efficiency
- **Pre-sale diligence from a “buyer’s view”** — Assist with preparation of financial, tax, HR and operational information based on an understanding of the buyers’ needs/priorities, and through the preparation of reports, schedules and/or data room support
- **Carve-out financial statement preparation** — Assist with carve-out financial statement matters and bridging audited financial statements to deal-basis statements
- **Valuation** — Fairness opinions, valuation of legal entities with new tax bases, and modeling and sensitivity analysis to determine valuation of the divested entity and “RemainCo”
- **Operational preparedness** — Assist with preparing for Day One readiness; consider employee, customer and supplier retention, IT and infrastructure rationalization and business process redesign as they relate to transition service agreements (TSAs), working capital optimization, stranded and stand-alone costs and order-to-cash requirements

Potential client benefits

Inadequate sale preparation and lack of transparency can lead to value erosion and an elongated deal time line. They can even put the entire transaction in jeopardy. We can help your business thoroughly prepare for a divestiture and help you become a more informed negotiator. Specifically, we can help you achieve the following:

<table>
<thead>
<tr>
<th>Value preservation with no surprises</th>
<th>Disruptions minimized</th>
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<tbody>
<tr>
<td>Potential stumbling blocks identified before buyer engagement</td>
<td>- Comprehensive and self-service data room that streamlines interaction</td>
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<tr>
<td>Post-close adjustments reduced</td>
<td>- Rigorous preparation for bidder due diligence performed upfront</td>
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<td>- Potential tax issues addressed early for shareholders, buyers and the seller</td>
<td>- Management able to focus on running the business instead of the transaction</td>
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<th>Closing on schedule</th>
<th>Enhanced credibility</th>
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<tr>
<td>Enhanced seller ability to manage multiple buyers, dictate terms and compress duration of due diligence phase</td>
<td>- Management is prepared for presentations, and can answer buyer questions and instill buyer confidence</td>
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<tr>
<td>- Transparency enables a smooth and time-efficient process</td>
<td>- Corporate reputation enhanced through a well-executed deal</td>
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Navigating financial and operational complexities

Preparing carve-out financial information with CARVEx

DAS uses its proprietary CARVEx tool to help clients prepare all types of carve-out reporting, and add speed and value to the process. Carve-out audited financial statements for US GAAP reporting typically do not represent the “deal-basis” financials that are critical for evaluating transaction value. CARVEx efficiently transitions information into various formats and highlights differences that must be reconciled.

**EY’s CARVEx tool**

*Carve-out, Analysis, Reporting and Value-added Execution*

- Helps highlight information that can be important to potential buyers
- Bridges audit and diligence work streams with user-friendly functionality
- Links information across financial statements to improve transparency for transaction participants

Aligning work streams for carve-out success

Empowering a carve-out management office with executive sponsorship and aligned resources is critical to a carve-out process because it enables:

- Clear messaging from senior leadership
- Identification of interdependencies and critical path items
- Accountability across functions
- Structure to resolve issues and manage changes

DAS supports the carve-out management office by promoting collaboration among work streams to help drive execution, accumulate findings and enhance deal value.
Suggested best practices

Early and thorough preparation is the key to driving successful divestiture transactions. Below are some thoughts on how we believe our clients can create value and accelerate deal closing.

**Strategy/Planning**
- Conduct thorough and regular portfolio reviews
- Plan ahead of the deal – preparation preserves value
- Empower a cross-functional carve-out management office
- Evaluate tax-planning opportunities early in the process
- Allocate sufficient time and resources to carve-out financial statements

**Execution**
- Develop a well-supported value story in line with the priorities of potential buyers
- Manage expectations of all stakeholders and establish communication protocols
- Develop defendable stand-alone cost models, run-rates and projections
- Focus on operational separation matters early
- Consider the potential impacts on “RemainCo”

Why EY?

- Deep experience across industries, divestiture types and deal sizes – Our DAS teams have served on 1,000+ full and carve-out divestitures for all types of domestic and global clients, including Fortune 500, private equity portfolio companies and privately held businesses. Deal values range from US$10 million to US$50 billion
- Buy and sell-side experience – Dedicated divestitures team understands the needs of potential buyers (private equity, strategic – public and private) and their lenders
- Strategic advice and tactical execution across the divestiture life cycle – We work closely with your team on all aspects of a divestiture work plan (financial, tax and operations) through an integrated delivery model
- Established carve-out financial statement process and methodology – We assist with the development of financial statements using proprietary carve-out management tools
- Complementary to other advisors – We work collaboratively with your investment bankers, legal advisors, auditors and other advisors in their preparation of regulatory filings, offering memoranda and purchase/sale agreements

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About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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About EY’s Transaction Advisory Services

How you manage your capital agenda today will define your competitive position tomorrow. We work with clients to create social and economic value by helping them make better, more informed decisions about strategically managing capital and transactions in fast changing-markets. Whether you’re preserving, optimizing, raising or investing capital, EY’s Transaction Advisory Services combine a unique set of skills, insight and experience to deliver focused advice. We help you drive competitive advantage and increased returns through improved decisions across all aspects of your capital agenda.

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