Operational Transaction Services

Working with you to make your transaction a success

ERNST & YOUNG
Quality In Everything We Do
Operational Transaction Services

Canada offers substantial growth opportunities for both corporations and private equity firms looking to engage in a merger, acquisition or divestiture. However, in the current environment of heightened stakeholder scrutiny, companies need to articulate how they can successfully extract value from an integration or separation transaction, and how they will make the transaction work on a day-to-day basis.

We can help

The professionals of our Operational Transaction Services practice help corporations and private equity firms investing in Canada and around the world develop well-defined transaction strategies.

A successful buy-side transaction starts with conducting adequate due diligence to identify critical levers that will maintain and enhance the value of the transaction. At the same time, the transaction must be aligned with the buyer’s strategic vision, transaction risks should be identified and mitigated, and a comprehensive integration plan should be developed to transition from the existing operating model to the desired future state.
Focused on your objectives

Whether you are acquiring or divesting, restructuring or embarking on a joint venture, our global network of transaction professionals can help you achieve your strategic objectives. We work on some of the most complex transactions in the market and offer responsive, objective advice to some of the world’s leading organizations, fastest-growing companies and biggest private equity firms.

We focus on your need to improve growth, profitability and competitiveness. We can help you plan effective integration or separation strategies, identify synergies and sources of value, and mitigate risk. Our global reach means that wherever you are in the world, we can help you get the information you need to achieve the value you and your investors expect.
Our services to acquirers and sellers

Our professionals offer their deep knowledge and experience when you are looking for assistance with the following:

- Effective integration of target companies as part of a focused acquisition growth strategy
- Integration of target companies spanning multiple regions, cultures and/or varying lines of business
- Creation of an “excellence playbook” for future transactions
- Carve-out of a portion of your business
- Rigorous project management and/or deep functional integration experience
- Integration of multiple acquisitions in a finite time frame, or historical acquisitions that have yet to be integrated
- Integration of acquisitions with a private equity firm’s current portfolio company
- Review of the overall effectiveness and lessons learned in past transactions

Operational Transaction Services

Buy-side integration
Core integration services (Pre and post closing)
- Integration management office
- Leading practices and tools
Integration due diligence
- Identify integration challenges
Accelerated integration planning
- Day 1, Day 100, long term

Synergy assessment
- Revenue-enhancement opportunities
- Cost-reduction opportunities
- One-time synergy capture costs
- Synergy realization time frame

Transaction value assessment
- Measure components of transaction returns
- Identify early opportunities for course correction or synergy gaps
- Compare transaction due diligence, valuation, integration planning and execution processes against leading practices

Sell-side carve-outs
- Advise parent company and/or new organization to prepare for carve-out situations
- Stand-alone, one-time and residual cost analysis
- Transition service agreements and transition analysis
- Day 1 readiness preparation

Centre of excellence/playbook
- Institutionalize best practices, retain knowledge and reduce risks
- Focus on core integration processes that will “move the needle” from a value, speed and risk mitigation standpoint
- Outline a process to identify, value, prioritize and realize synergies
Our primary focus is helping you realize the business benefits of the synergies created by your transaction.

### Definition

<table>
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<th>Definition</th>
<th>Examples</th>
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<tbody>
<tr>
<td>Revenue synergies</td>
<td>• Revenue enhancement due to new capabilities, markets and/or products of combined companies</td>
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<tr>
<td>Cost synergies</td>
<td>• Recurring cost savings impacting expense line items</td>
</tr>
<tr>
<td>Reduction in investment capital</td>
<td>• Opportunities to reduce invested capital due to combined assets, capabilities and external customer/vendor relationships</td>
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<tr>
<td>Negative synergies</td>
<td>• Ongoing recurring costs required for business transition or implementation of integration activities</td>
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<tr>
<td>One-time costs</td>
<td>• One-time costs required for business transition, separation or integration</td>
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<tr>
<td>Increased CAPEX</td>
<td>• Capital expenditure required for business transition, separation or integration</td>
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### Examples

- Cross-selling of products
- Market expansion
- Consolidation of production/operational facilities
- Headcount reduction
- Reduction in overlapping R&D programs
- CAPEX re-engineering
- Working capital improvements
- Hiring of additional personnel
- Additional software licenses
- Rebranding costs
- Employee severance
- Capitalized IT integration costs
- Employee severance
Transaction integration is a concept that goes beyond “post-deal integration” - the process of blending businesses, functions, technology or cultures - after the conclusion of a merger, acquisition, joint venture or investment. Transaction integration is the process of identifying, quantifying and tracking synergies, assessing the costs, resources, management inputs and structural changes in achieving strategic goals. Based on our experience, to manage all these moving parts a holistic plan and structure needs to be created and ready to go as soon as the deal has closed.

If a transaction is not properly managed, it can fail to create – and may even destroy – value. Failure to manage integration is a chief culprit in many deal failures. Crafting the right integration plan, and implementing it properly, is essential to achieving synergies, building value and yielding superior transaction returns.

Our experience shows that proper attention to integration issues early in the transaction lifecycle can lead to a realistic and workable integration plan:

- The success or failure of an integration depends largely on the level of preparation – and on the inclusion and buy-in – of all key functions and stakeholders.
- An early focusing on value drivers – combined with a disciplined, iterative, agile and repeatable approach to transaction execution – can lead to greater success through enhanced value, and may prevent costly problems.
- These efforts must work in tandem with a mindset to review and challenge progress as the transaction moves forward, whether up front to ensure readiness or at various milestones post completion to ensure the process is on track.
- Reviewing and challenging performance will provide clarity of results to date, identify otherwise lost value and highlight mid-course corrections to remain on track or enhance value.
- Major companies we’ve advised have become skilled acquirers in a changing environment where failed acquisitions are no longer acceptable, providing them with a powerful competitive advantage.
### M&A transaction lifecycle – supporting your major activities

<table>
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<tr>
<th>Strategy</th>
<th>Pre-deal evaluation</th>
<th>Pre-close planning</th>
<th>Stabilization and short-term integration</th>
<th>Optimization and long-term integration</th>
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<tbody>
<tr>
<td><strong>Announcement</strong></td>
<td>Focus on Day 1 critical tasks</td>
<td>Combine business models</td>
<td>Create value opportunities</td>
<td></td>
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</tbody>
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#### Your objectives

- Document challenges and assumptions
- Clarify benefits and costs
- Understand the differences between organizations
- Understand the impact of integrating organizations
- Establish integration direction
- Prepare for Day 1 and stabilization
- Meet regulatory requirements
- Stabilize and gain control of the organization
- Prepare for long-term integration
- Integrate the organizations
- Capture synergies from integration
- Realize overall synergies

#### Your major activities

- Identify and assess synergies
- Validate synergy assumptions
- Conduct high level assessment of risks, issues and next steps integration
- Conduct assessment of target organization:
  - Organization
  - Policies
  - Processes
  - Systems
  - Controls
- Identify integration workstream leads
- Evaluate transition service agreement (TSA) needs
- Assess functional interdependencies
- Evaluate support needs during and after transaction through a transaction management office (TMO)
- Create integration road map
- Develop TSAs
- Develop detailed plan for Day 1, and for stabilization and short-term integration
- Address functional interdependencies
- Manage risk
- Develop high-level plan for long-term integration and optimization
- Execute detailed integration plan
- Capture synergies
- Monitor, measure and report progress
- Consolidate financial reporting, establish interim management reporting/financial controls
- Retain key talent, and begin cultural integration
- Transition TSAs

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**Financing and deal structure optimization**

**Manage compliance**

**Program management and organizational change management for business integration**

**Value tracking**
Helping you increase deal value when divesting or carving out

- We can help structure a well-planned carve-out process that can help you boost deal value.
- Knowing when and deciding which assets, liabilities and intellectual property to sell through divestment or carve-out is a powerful means of managing the negotiation capital through a transaction.
- For buyers, acumen in carve-out acquisitions can dramatically improve the ability to exploit the pipeline of growth opportunities.
- We can bring experience, knowledge, familiarity and objectivity to identify an accelerated road map to migrate off the TSAs for both buyers and sellers, thereby saving both parties time and money.
- Leading practices of serial acquirers and sellers have repeatable processes for buying and selling carve-outs. We can work with you to develop a process for your business to give you a competitive advantage.

Divestiture lifecycle

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<th>Seller pre signing</th>
<th>Seller pre closing</th>
<th>Seller post closing</th>
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<td>Maximize deal value</td>
<td>Maintain deal value</td>
<td>Capture deal value</td>
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Maximize deal value
- Prepare business for sale
- Prepare carve-out financial statements
- Populate data room
- Conduct management presentations
- Solicit binding bids
- Mobilize transactions
- TMO and workstream teams
  - Identify operational dependencies
  - Define scope of transaction
  - Prepare communications plan

Maintain deal value
- Execute communications plan
- Obtain regulatory approval
- Identify, negotiate and prioritize TSAs
- Ensure Day 1 readiness
  - Define Day 1 organizational model
  - Define Day 1 operating model
  - Prepare and execute plan to achieve Day 1 objectives
  - Identify and achieve Day 1 critical items

Capture deal value
- Ensure stability of parent business (and remaining businesses dependent on it)
- Manage delivery of TSAs
- Assist with migration of TSAs
- Redeploy/dispose TSA-related assets
- Rationalize legal entities
Scalable services – from dedicated transaction support to focused assistance with individual functions or processes

Whatever type of transaction you are considering, our Operational Transaction Services professionals can help make your business more competitive and profitable. We can tailor our services to meet the requirements of almost any deal or company size, large or small.

We can help you with the following:

- Accelerating the integration process and the realization of expected transaction value
- Identifying key risks and challenges
- Focusing alignment on your transaction objectives, activities and milestones to the strategic intent of the deal and the key risks
- Providing objectivity and allow you to make fact-based decisions

We offer common global methodology, including tools and templates.

We can provide experience and direction for key functional transaction teams (e.g., finance, IT, HR), and we can help you identify and define your integration priorities, organizational strategies and goals to shape the entire transaction – beginning with the opportunity assessment.

We can also assist you with other key areas of the integration process, including the following:

- Facilitating early planning for integration, based on detailed assessment of synergies, value drivers, priorities and risks during the initial due diligence phase
- Developing a process for monitoring and measuring success in achieving goals that supports and contributes to a strong overall return on investment
- Implementing an integration process and structure that provides continuity and facilitates knowledge transfer throughout the transaction lifecycle
Our clients recognize Ernst & Young as a leader in transaction services

Successful track record
- Strong record of delivering results
- Trust-based relationship and working style
- Assistance with over 500 transactions per year globally

Wide range of services
- Deep integration experience, methodologies and qualifications
- Full range of services, from business strategy to IT to hands-on implementation
- Integration with Ernst & Young's audit, tax, real estate and diligence services to help in making a quick start
- Audit relationship engenders reliable, objective advice throughout

Global and local service
- Ability to access subject-matter and industry professionals across Ernst & Young's global network
- Ability to provide a local team to deal with integration/separation issues anywhere in the world

Committed to exceeding client expectations
- We bring together the right people to work on your engagement.
- We align our objectives and interests with yours.
Conclusion

Managing transaction complexity

Whether preparing for a merger, acquisition, joint venture, investment, divestiture or carve-out, Canadian businesses are competing on a global stage and must perform at the accelerated pace of the M&A marketplace. Our perspective is that leading companies have been laser focused on achieving their transaction objectives.

Shareholders have increasingly high expectations of their returns on transactions. As a result, management teams realize that the key to success is coupling great business strategies with flawless execution. There is little room for error in the market place today.

Not all transactions are alike, and companies look to surround themselves with strong, experienced and deep transaction capabilities. We bring together the right people to work on your engagement. We have access to global and local subject-matter and industry professionals to work with you to make your transaction a success.
Contact us

To learn more about how our Operational Transaction Services professionals can make a difference for your transactions, contact one of our team members today.

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Assurance | Tax | Transactions | Advisory

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About Ernst & Young’s Transaction Support Services
Our global network of experienced transaction support professionals can help you achieve your strategic goals, whether you are acquiring or divesting, restructuring, embarking on a joint venture or executing an initial public offering. We work with many of the world’s largest organizations, fastest growing companies and private equity firms on some of the most complex deals in the global market and can tailor our comprehensive financial, commercial, accounting and people knowledge to your specific needs. We offer objective, responsive advice about potential value and risk and can provide confidence around key questions and the numbers. Our focus is on helping you to improve your growth, profitability and competitiveness and our global reach means that, wherever you are in the world, we can help you get the facts you need to achieve the value your investors expect. It’s how Ernst & Young makes a difference.

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