



cutting through complexity

ADVISORY

Transaction Services Sell-side Services

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Contents

Foreword	1
The impact of changes in market dynamics	2
Your concerns	3
Vendor assistance process	4
Successful divestment process	6
KPMG Transaction Services	9

Foreword



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In today's turbulent environment, greater consideration is given to divestment options. Deal complexities and constraints require a better managed divestiture process from sellers in order to protect value.

The consequences of the crisis are still clearly recognizable. Credit remains tight. Business performances are under intense scrutiny. In today's context, companies are required to enhance their business models and to consider the necessity to reposition in a new commercial environment.

While divestitures historically remained an integral part of corporate strategy, this option is now obviously given a new priority. A divestment decision can be motivated for various reasons, either protective - raise cash to pay down debt or restore balance sheets, dispose of nonperforming assets - or proactive - consolidation of core business, fund new strategic acquisitions, etc.

However, sellers are navigating in a tougher investment market. Today's uncertainty and volatility have curbed the investment dynamic. While their number has narrowed and their nature has changed, lenders and investors express limited risk appetite and have increased requirements. Buyers demonstrate extreme vigilance and sophistication which results in a longer and more demanding deal process together with lower multiples.

We know by experience that deal preparation and smooth transaction management are central to secure the value of a sale. This is even more true given current market conditions. Sellers really need to understand a buyer's motivation and to foresee their expectations. Higher expertise is also required when considering the structure of the transaction.

Our vendor assistance services help businesses to adapt to these new realities.

The impact of changes in market dynamics



There is no doubt the hurdles are tougher. Borrowers need to do more up-front work to justify their expected cash flows. We need more evidence that their assumptions are realistic. Even if a deal goes through, we are using tougher terms to manage our risk."

Lender

Current M&A environment

- After the financial crisis M&A activity gathered pace again, but nevertheless stayed at a relatively low level until today
- Companies retained less business confidence and reduced financing capacity due to both decreasing revenues and more cautious behaviours from external financing providers
- Thus companies follow a conservative approach to growth, focussing mainly on improving balance sheets and minimizing risks, instead of using their cash for acquisitions
- Given these current market conditions, there is no room for deals to fail and therefore disposal or separation processes must remain efficient at all times.

New sell-side options

- Vendors need to be very flexible on how they run their disposal process, even to the extent of considering options such as splitting and selling businesses previously operated under a single management team
- According to our recent industry research, smart sell-side separation planning could enhance your realised value by as much as 30 percent.

Increased interactions with bidders

- Vendors need to be more vigilant about assessing and dealing with potential bidders and consider how best to make information available to bidders
- Given the smaller number of credible bidders, it becomes feasible to provide them with much more management access than it has been the case in the past and therefore enable a higher quality of first round bids. As a consequence, it is essential that management is persuaded by the merits by the arguments, upside opportunities or downside mitigation strategies, that will be communicated to bidders.

Your concerns

KPMG International has published research looking at the disposals process called Increasing Value From Disposals. The survey's findings provided a clear signal to both corporate and private equity (PE) firms that they should focus on their disposal process to respond to the increasingly sophisticated approach of purchasers.



It will happen (value leakage) around things that you didn't know about ...it will happen around misunderstandings, it will happen around warranties and it will sometimes happen around management's attitude... and management's agenda."

PE firm

Sellers are not maximizing value in their disposals

It is a seller's market, however almost half of the corporates interviewed, and a quarter of the PE firms, felt they had not maximized the value on their latest disposal.

Value leakage remains a big issue, in particular once the deal completes

Over two thirds of sellers are experiencing post completion issues, especially warranty and indemnity claims and completion account disputes.

Achieving financial and strategic advantage - the importance of planning

Sellers now believe that the greatest advantage is to be gained from advance planning and preparation. Both corporate and PE firms agree that planning and successful disposals go hand in hand.

Disposals take time

Over three quarters of sellers report that it normally takes more than six months to sell a business, and almost one in five say it normally takes more than one year. Although the timeframe for disposals is generally perceived to have been stable in the past few years a significant minority believe that the timeframes have lengthened.



We get surprised, but we want the surprises to be in-house."

Corporate, Director of M&A

Vendor assistance process (1/2)

Key benefits:

- Complete and accurate information package prepared to support strategic messages to purchasers;
- Value creation drivers, deal structure and separation plan determined.

Considering a disposal

Your objectives:

Adjusting expectations to current market trends

Delivering a credible deal structure and increasing deal value drivers

Increasing the speed of execution in preparing accurate and meaningful information

Early notice of upsides, synergies and issues which may impact the perception of value

Facilitating better informed bids thereby reducing the risk of subsequent price reduction

Disposal planning and preparation

What we can do:

Analysis of disposal options

- We assess the options available to you in reviewing the business' strengths and weaknesses against industry benchmarks;
- We identify key issues for further investigation and potential deal breakers.

Transaction structuring

- We assist you to finalise the boundaries of the sale and to prepare carve-outs;
- We develop robust forecasting models with you focussed on key business drivers, helping bidders to gain a clear understanding of the business.

Information memorandum and management presentations

- We assist you with the preparation and drafting of the Information Memorandum;
- We provide assistance with the preparation, drafting and presentation of "management presentations" to potential purchasers and their advisors.

Vendor due diligence

- We prepare a Vendor Due Diligence (VDD), which is an independent report initiated by a seller that is directed to prospective purchasers;
- Our report presents an analysis of the business, carried out to a scope which is sufficiently broad to cover matters likely to be of interest to prospective purchasers.

Dataroom preparation

- We identify with you the key information required by prospective buyers;
- We review the information to be included in the dataroom in terms of accuracy, consistency and confidentiality prior to release.

“KPMG’s project management from day one ...

Vendor assistance process (2/2)

Key benefits:

- Impact of the prospective purchasers mark-ups on SPA controlled;
- Preserving time to run the business and ensuring quick and smooth transition.

Executing a disposal

Post disposal actions

Your objectives:

Maintaining control on the competitive tension and addressing buyers' concerns efficiently

Efficiently preparing final steps of the divestment process

Managing debt financing issues

Enhancing the value identified pre-deal and minimising the extent of warranties

Securing the transitional period and resolving any arising disputes

What we can do:

Dataroom management

- We monitor data room file usage and other bidder team activity;
- We organise and manage the Q&A process as well as review answers you prepare in order to avoid inaccuracy and confidentiality issues.

Closing process assistance

- We prepare a detailed schedule of all necessary steps and will identify resources needed (providing specialists if required);
- We comment on your forecasted level of debt to be drawn at closing date.

Debt execution

- We help you to provide structured and meaningful information relevant to the debt syndication process;
- We help you in your negotiations to secure debt financing.

Sale and Purchase Agreement (SPA) and negotiation support

- We comment on price adjustments under the SPA during the negotiation process as well as on warranty and indemnity clauses;
- We review with you the completion accounts with the objective of providing evidence to defend against proposed adjustments from the buyer.

Post divestment assistance

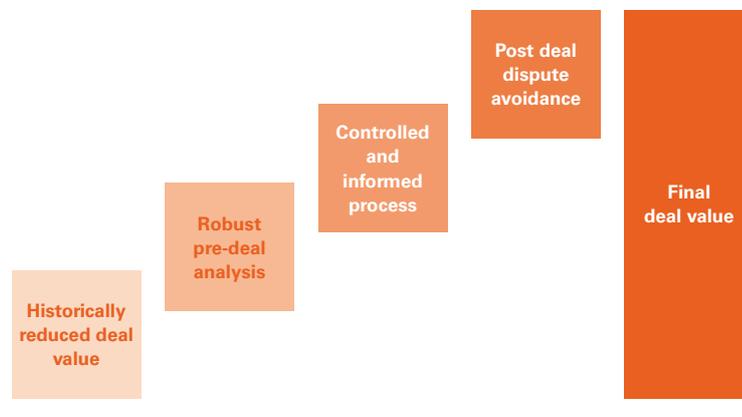
- We assist you with the implementation of transitional service arrangements, and help protect your position under the related contracts;
- We advise you on the form of any dispute resolution process.

... until the completion of the disposal process"

Successful divestment process

Significant value is usually lost when divestments are reactive and hurried. Moreover, the current volatile investment market requires a closer focus on key issues that make deals succeed. KPMG can assist you from day one in managing a smooth divestment process and tangibly increasing value.

How can efficient divestments drive higher value?



Major success factors

- Maximising value in exploring multiple divestment issues
- Managing tax consequences
- Avoiding surprises to purchasers
- Avoiding purchase price and completion accounts related disputes
- Accurately identifying the prospective purchasers
- Minimising disturbance to business being sold
- Reducing value leakage between initial bids and completion
- Minimising post-deal completion issues
- Efficiently planning and preparing the disposal
- Maintaining control over the divestment process over time

Key benefits of our vendor assistance

- Identification of the issues and up-sides upfront, including:
 - A convincing analysis of the key drivers and 'normalised' levels of working capital and underlying earnings;
 - A robust base case for the business plan that is not unnecessarily prudent;
 - Clearly evidenced synergies.
- Proper preparation of the entire divestment process: we are able to maintain the drive for quick completion by ensuring clarity and consistency in all data.
- Our end to end assistance capitalises on KPMG's significant disposal experience and will give access to additional resources if required.

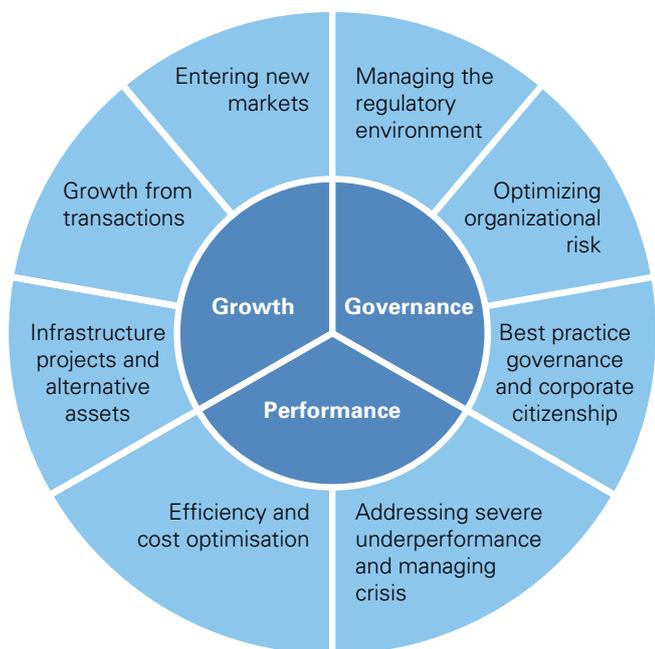
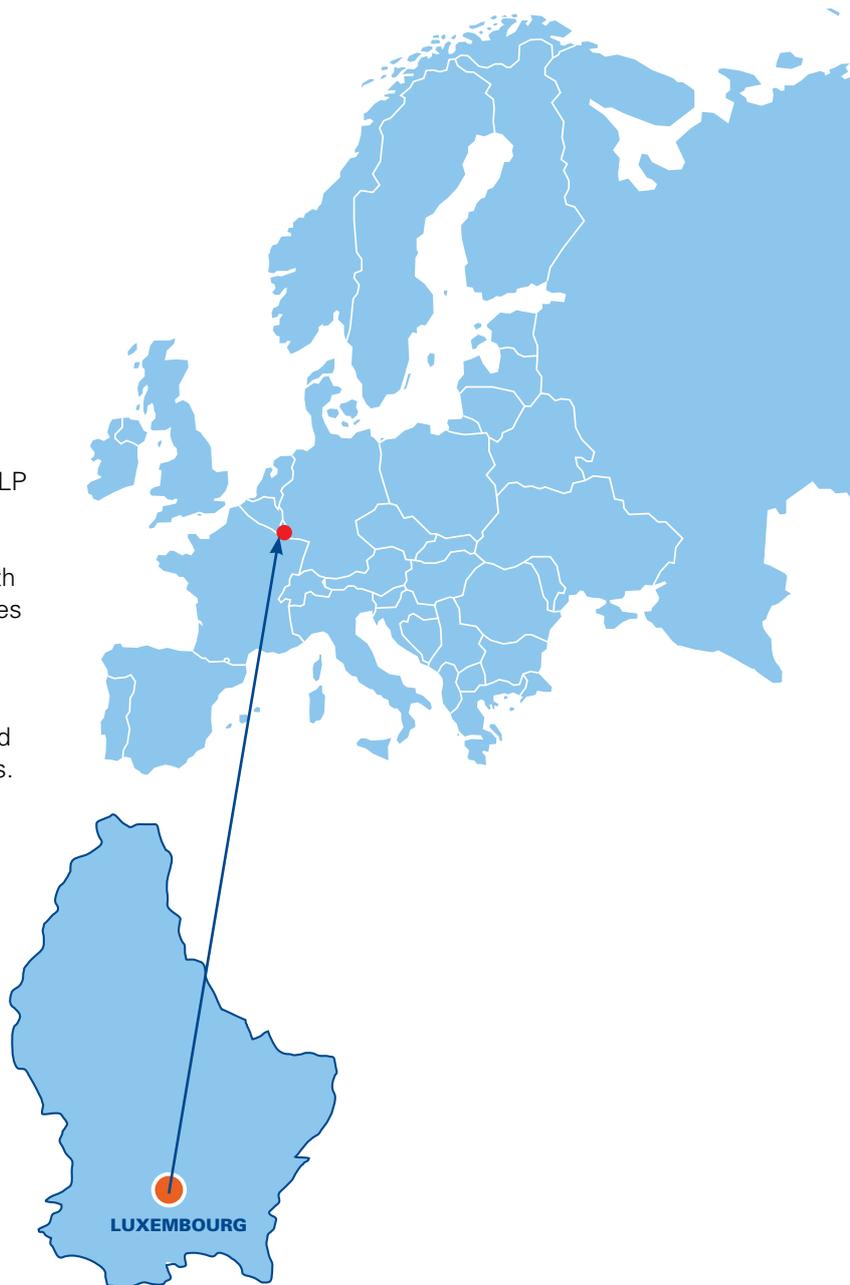




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KPMG in Luxembourg

KPMG has been active in Luxembourg since 1970 and currently employs approximately 1,150 people.

We offer you our deep experience on local and international transactions in various industries through high value-added services.

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