

A carve-out with no safety net

International carve-outs have become a minefield for integration PMOs, PE investors and global transaction advisors.

Uncompromising sellers can offer little or no transitional support. Timeframes get tighter and tighter. Enterprise system evaluations, process redesigns and the corporate infrastructure needed for local operational readiness are poorly thought through or overlooked entirely, storing up future crises.

TMF Group's Consultancy Solutions team specialises in bespoke solutions to operational and process readiness. Working at the granular level, we make sense of the complex bureaucracy of multi-jurisdictional entity activation and regulatory compliance. We create smooth, cost-effective, drama-free transitions to international operating models that are fit for purpose in every market.

When an industrial giant agreed to sell a global service division to new, private owners, the buyer had seven months to turn a carve-out into a going concern.

The seller set a strict timetable. Both sides agreed there would be no transitional service agreement (TSA). The buyer's resources were the leanest of the lean, with only senior stakeholders left to run the show.

The client's global advisor called us in as local issues started to bite. They could see that the integration PMO needed boots on the ground in 40 countries to create the corporate structures and systems needed to set the new company firmly on its own two feet – ready to trade on day one of operations. This is what we do best.

As the deal progressed, **five unforeseen crises each** took a bite:

- Company registrations (in 40 jurisdictions) had – as all do – key jurisdictional differences that needed expert attention
- Myriad other registrations required for business readiness needed to be completed – the incorporation process is always just the start
- New locally-compliant accounting structures were needed for what was really a new business
- Despite promises from the provider, a new ERP system lacked the local customisations for every jurisdiction

Then, with the finish line in sight, the big one. An obscure employment rule in a distant jurisdiction very nearly wrecked everything.

The devil is in every detail

This client had already made some key system, structure and process decisions which still needed attention. If they weren't better adapted to the specific requirements of all its jurisdictions, they would sow the seeds of potentially terminal delays further down the line.

1. Company registrations

An extensive new network of entity registrations in 40 jurisdictions had focused on incorporation but now needed country-by-country fine tuning.

2. Tax and regulatory registrations

There's much more to local operational readiness than a simple company registration but this had been overlooked or misunderstood.

3. Accounting structures

The client wanted to save time and money by using 'a standard general ledger', but there's no such thing

4. Enterprise systems

A 'do-it-all' ERP couldn't really 'do-it-everywhere' without our help.

5. Employee transfer

In certain jurisdictions the promises made to employees were legally incompatible with the transfer mechanism demanded by the seller.

Five emerging crises

1. Local subtleties

Without local jurisdictional knowledge, it's easy to fall foul of nuances and subtleties in local entity registration processes. This is precisely what had happened to this client.

Problem: In some jurisdictions entities had been set up to make monthly – instead of annual – tax filings, adding to the administration burden of a team already stretched thin. In others, where new entities had to start tax filings in the month after incorporation, the registrations had been made too early and then the tax filings forgotten.

"Often registrations must be performed in sequence. If, for example, an incorporation isn't done, then payroll registration is delayed. If we can't do the payroll registration, employees can't be transferred on-time. In this client's case that would have put the whole sale at risk," explains Daniel Stevens, TMF Group Global Head of Consultancy Solutions Implementation Services.

What we did: Understanding and managing regulatory dependencies and critical bureaucratic sequences is always a critical part of our role. Here our local offices soon spotted the client's tax filing oversight and made 'nil filings' on their behalf, heading off the threat of tax authority audits and possibly even fines.

By integrating the other providers into our weekly steering committee meetings with the client, we put the onus on each of them to hit their own deadlines while helping them understand and respect the downstream impact of errors and delays.

2. Registration versus activation

Company registrations are really the tip of the iceberg we call 'entity activation'. Lurking below the surface are all the wider post-incorporation registrations – with chambers of commerce, regulatory agencies and the authorities governing business licensing, social security, pensions and payroll tax. Then there's the setting up of local operating and capital bank accounts, which even global banks can't do in a coordinated way across multiple territories.

Problem: Without a full entity activation process being conducted systematically in each of 40 or so jurisdictions the new business would be unable to function as an employer, supplier, customer and local corporate citizen.

What we did: Each process, along with its individual bureaucratic dependencies and interconnections, is unique to every country. Our local offices used their detailed jurisdictional knowledge to audit the client's full requirement, jurisdiction by jurisdiction, and make sure the client and all its advisors had a complete picture of what was needed and when.

3. The not-so-general ledger

General ledgers (GL) are a common obstacle to change management. Multiple GLs emerge out of local differences in regulation and GAAP. There's often a tangle of competing preferences across jurisdictions and functions. A single, standard model struggles to work everywhere. And this is also where payroll and accounting must meet efficiently. New companies will try to reuse old company structures – department, cost centre and wage codes, employee IDs and so on. But they really need new ones, designed from scratch, for a different kind of business. It often falls to TMF Group to collate the competing demands of functions and locations, distil the essentials, then build a consensus to get the systems themselves live in time.

Problem: By the time we became involved, the client's attempts to minimise expensive customisation and speed up implementation were creating more problems than they solved. Normally numerical cost centre codes, for example, took an alphanumeric form which could not work with any general ledger system known to us. And with no training available new staff were soon struggling to get up to speed with unfamiliar systems.

What we did: Our technical implementation consultants painstakingly walked the client, step by step, through what they would need from their new GL and how best to achieve it. We ran accounting and tax training sessions every four to six weeks to keep existing staff engaged and get new ones up to speed quickly. Using MS Teams, we recorded the sessions so they could be distributed widely.

4. Localising ERPs – because one size fits no one

ERP systems are an international company's critical interface with the local business cultures and regulatory frameworks in which it operates. Getting local customisation wrong during commissioning is one of the biggest mistakes any company can make in the setup phase.

Management teams often see ERPs as a panacea for all cross-jurisdictional woes but then fail to invest properly in customising the local data. TMF Group has the local expertise and resources to take a granular, jurisdiction-by-jurisdiction approach to any system's information needs.

Clients often tend to underestimate the value of a comprehensive approach to gathering business needs as well, says Jason Gerlis, TMF Group's Global Head of Consultancy Solutions: "We speak both languages so we can have the frank conversations with end-users and the frank conversation with the developers. Then we sort the must-haves from the simple preferences and create a cross-border ERP requirements solution that works for all parties in all jurisdictions."

Problem: Even though the new business would have operations in 40 countries, the system integrator had promised that the new ERP system would work straight out of the box, with minimal local customisation. In fact, its multiple shortcomings included possessing all the functionality for automated tax calculations but none of the local tax rates. The client expected the ERP supplier to provide user training as part of the package – but no.

What we did: Our local offices provided the correct tax rate data for each country, then our [Consultancy Solutions](#) team made sure the system was loaded with correct information jurisdiction-by-jurisdiction.

We also stepped in to fill the training gap. Working with the ERP provider we filmed detailed step-by-step guides to setup procedures and key tasks. Refreshers and new joiners who needed to do something specific, like invoice processing, could then watch the video guide while performing the actual task in real time.

5. The crunch

Just when we thought we were home and dry – the big one landed.

Given the tight time frame, limited client resources, lack of a TSA and TMF Group's relatively limited oversight in the early stages of the project, many of the problems encountered were exactly what we would expect for a project of this nature. By orchestrating TMF Group's global network of experts and bringing key technical specialist to bear quickly at critical moments, we had kept another troubled deal on track. With the transfer deadline in sight, no single problem had threatened to derail the deal completely. Were we now home and dry? Then the big one landed.

Problem: From the start, employees had been promised their seniority would transfer to the new company. The vendor insisted on a fire-and-rehire transfer, quick and simple. It needed us to point out that in a jurisdiction like Brazil it isn't possible to fire-and-rehire and protect employee seniority rights.

In two weeks all 700 employees in 40 jurisdictions had to transfer or the sale might fall through. The seller was adamant: 'Not our problem. We have an agreement and we're willing to walk away'. The private equity buyer was getting very nervous.

Had we'd been asked to perform early due diligence on the target operating model and associated processes, we'd have seen the employee data, been aware of the transfer method, and immediately spotted the conflict in some jurisdictions. Only when our local offices received the payroll data were we able to say 'Hold on. This won't work'."

What we did: These kinds of crises can be very hard on clients but they are our natural habitat. TMF Group Consultancy Solutions is set up to respond flexibly and fast to client crises. As a true global firm (not a partnership or loose affiliation) we can bring all the necessary extra TMF Group employees, resources and capabilities to bear at very short notice.

Our legal, compliance and GDPR teams were quickly in play. Within 24 hours our local experts in Brazil were explaining to the client what was needed, how to do it and what the consequences might be. The main parties and their legal teams were brought together repeatedly.

Thanks to the Brazil team's detailed understanding of the quirks in the local business law, and their creative approach to addressing them, we soon had our solution; an ingenious mix of statutory structures and bespoke corporate policies.

With the way forward agreed by all parties, all that remained was for us to fit two months' work into the two weeks remaining ...

"What surprises carve-out clients time and again is that they can't simply copy what the seller has been doing in each country and leave it there. Every new company, especially one carved out of its old parental life-support systems, needs systems, structures and processes that mirror the specificities of its own business and its own global footprint."

Patrick Begley
TMF Group's M&A practice

Insight

In an international carve-out, time is always tight, management resources are often thin and the seller is unlikely to be the buyer's best friend. Something almost always has to give.

Too frequently that 'something' is the expert care and attention given to local operational processes and structures. These transform an assemblage of people and products into a new, efficient international business in good standing everywhere.

It's a big mistake to neglect them, says Stevens. "Wherever a new international business wants to trade, it will find unique and often complicated legal and regulatory frameworks governing company registration, business licencing, employment, taxation. Negotiating all that complexity is a tough, tough job. Doing it without local know-how and boots on the ground is all but impossible.

"We have our own operations in 80-plus jurisdictions but clients quite naturally have little feel for how much they don't know about unfamiliar markets in far-flung places. Jurisdictional quirks commonly drop out of the sky and block a client's path. Sometimes it's their providers who let them down because even they don't fully understand how to make their own systems or processes work in every country. That's where we come in.

"Once we were on board with this client they got what we'd been saying. They'd frequently say, 'We don't know what it is we need to do to be compliant in this or that country. Help us understand.' But in the beginning, they were like almost all our M&A clients – mistakenly thinking they have all their critical bases covered in every jurisdiction."

A stitch in time ...

Which is why TMF Group urges M&A and carve-out clients to get to grips with planning their target operating model at least six months out to avoid creating hostages to fortune. This is what we call 'operational due diligence' and starts right here. Gerlis, again: "This is how you stop problems becoming obstacles or worse. It's by far the lowest cost and least risky way to stand up efficient, compliant, new businesses in multiple jurisdictions."

Old face, new business

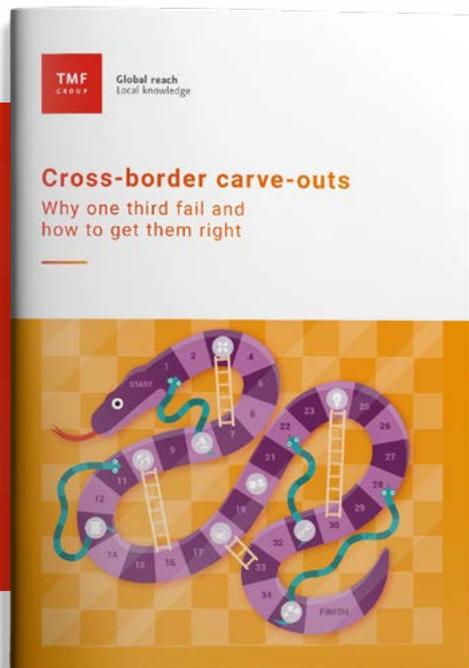
Continuity of products (or services), workforce, markets, customers, and so on, can create a misleading sense of business as usual for a transaction team, says Patrick Begley of TMF Group's M & A practice: "What surprises carve-out clients time and again is that they can't simply copy what the seller has been doing in each country and leave it there. Every new company, especially one carved out of its old parental life-support systems, needs systems, structures and processes that mirror the specificities of its own business and its own global footprint."

TMF Group Consultancy Solutions

Are you a CFO, HR director, company secretary or general counsel? Is your complex cross-border project or transaction struggling to get operational traction or already in crisis?

- Our consultancy teams are staffed by seasoned, multilingual programme and project management professionals who can be at your side in no time.
- Covering 80-plus jurisdictions, working across every time zone, TMF Group's Consultancy Solutions is integral to all the business-critical administrative and compliance services TMF Group provides worldwide.
- We bring together the front-line experience of our technical experts, the flexibility of our service delivery model and the reach of our global network.
- Rooted in partnership and carefully calibrated to business reality, our bespoke solutions can deliver stable, controlled, compliant change in even the remotest corner of your global operations.

To learn more about how **TMF Group Consultancy Solutions** can help you take the pain out of corporate infrastructure change, [contact us here](#) or read more about our M&A deal completion services [here](#).



Cross-border carve-outs:

Why does an average **16%** of deal value drain away when overruns last more than four months?

To find out more, [download our report](#)

About TMF Group

One world of local service

TMF Group is a €2 billion independent global multinational with some 7,800 in-house experts across 120 offices covering 80+ jurisdictions. Together we deliver a broad portfolio of consistent, integrated but localised services which also include **HR administration, global payroll and employee benefits, and global entity management, corporate secretarial and regulatory compliance**. Rapid response **consultancy solutions** support cross-border projects large and small, at every stage, across all our disciplines, and in every market. Specialised teams support fund and capital markets administration and private wealth and family offices.

Because we know how to unlock access to some of the world's most attractive markets – no matter how complex – swiftly, safely and efficiently, over 60% of the Fortune Global 500 and FTSE 100, and almost half the top 300 private equity firms, use us.

So, whether you are operating across one border or many, with a handful of staff or several thousand, we have all the flexible, coordinated, business-critical support you need to open up in new markets, build strong businesses and stay nimble, efficient and in good standing everywhere.

Find out more about TMF Group

tmf-group.com

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