

## Separation planning and execution

Smooth separations do not just happen ... these are well orchestrated and controlled processes

*Successful surgery relies on a combination of meticulous examinations, effective medical practices, and surgeon experiences and intuition. The same is true when a company decides to separate a part of the business – such a transaction can go horribly wrong without extensive planning, appropriate preparation and precise execution.*

### The situation

The client, a large blue chip technology company in the Netherlands, asked Deloitte for support to separate the company. The idea being that two focused companies would both be able to capture higher growth and profitability in their distinct markets.

Although the company had extensive experience with separations this project was on an entirely different level in terms of scale and complexity. The market expectations were demanding and the timeline set was ambitious. Due to the pivotal role of the Finance workstream for the success of the project, the support of a cross functional Deloitte team was selected by the company.

### Our approach

Deloitte was responsible for supporting in all Finance separation activities, this included but was not limited to:

- Creating Lighting historical financials for 2013-2015 and a Day 1 costing analysis (as if Lighting had been stand-alone). Create a new bullet: Development of a Tax Forecasting model
- Financial **impact analysis** of absorbing the **Group support functions** into the business
- The design and implementation of two standalone finance organizations
- Drafting the **Day 1 Blueprint** for both companies and execution hereof, which was done through a central project management office (planning and reporting) and finance projects (e.g. Finance IT split)
- Preparation of the **proposition document** for the new entity, and Capital Markets Access activities, including the preparation of the **Finance Vendor Due Diligence** report
- Include Day 1 costing and tax forecasting model

The project involved a Central Separation team, several Expert Separation Teams, one of these being Finance and local teams in multiple countries worldwide. Due to mother company having considered various options for alternative ownership structures with direct access to capital markets, a dual track was taken, one preparing for a public offering (IPO) and another for a private sale to a 3rd party.

### How the client and Deloitte worked together

A separation project like this impacts the full range of business activities. Even within the Finance domain alone the array of activities is broad. To name a few, Accounting Operations, Fiscal, Treasury, Internal Control, Investor Relations and Insurance, were all affected by the decision to separate the business. The work involved international activities, which implies catering for multiple cultures and

time zones. Decisions taken throughout the separation process were irreversible and often have far-reaching consequences for employees, thus maximum sensitivity had to be given to the situation.

The Finance Project Management Office acted as the central point of contact, providing extensive project management support and full clarity of the process to the company.

#### Phase 1

The key deliverables for the first phase of the project were the Day 1 Blueprints for the Finance Function, for both stand-alone organizations, including an integrated planning for the execution thereof, highlighting the dependencies between the different functional areas (e.g. Treasury vs. Accounting Operations) within the Finance workstream as well as with the other expert separation teams (eg. HR and Supply Chain).

#### Phase 2

The second phase revolved around the execution towards Day 1. The integrated planning, with underlying project charters for each of the projects within the Finance workstream was a key component of the successful project management and delivery. This was strengthened by effective communication and knowledge sharing via: project status reporting, risk and issue management, a functional mailbox, detailed subject specific webcasts, walk-the-wall workshop sessions and recurring regional support calls, to guide local teams and track their progress. Important milestone was the business readiness check, one-and-a-half month before the actual Day 1. Another important element was all the Financial Advisory Services (FAS) support from Deloitte preparing for the Cut-over phase. Activities include executing the separation through over 100 local asset deals, being the basis for drafting the provisional Local Business Transfer Agreements (LBTAs).

After the successful Day 1, each project under the Finance separation umbrella created a formal close-down pack: reflecting on the benefits delivered, documenting lessons learned and clarifying any remaining tasks. These packs have been handed over to the standing organization and stored on SharePoint. During the project, at multiple occasions the Deloitte approach and deliverables were audited by the company's Internal Audit team and were stated as leading practices.

#### Results and Value delivered

After 14 months of diligent preparation and hard work, the original company started to operate as two stand-alone companies at Day 1. The work for the Finance workstream continued after Day 1 as cut-over accounting entries were initiated after the month end close which was the final financial closing in the old set-up. All Day 1 separation projects were delivered as planned and remaining post cut-over activities were concluded as required.

#### *What were the crucial ingredients to success?*

The overall Finance separation journey was a "Separation on industrial scale...executed with precision" as the Senior Vice President, Head of Finance Separation stated, underpinned with the following crucial ingredients:

- High emphasis on people engagement, via global workshops, focused web-casts, and regional dedication

- A real team effort, with central (dedicated) experts in a healthy mix between the company and Deloitte, not afraid of getting their hands dirty, creating trust in the organization
- PMO running like clock-work, working with an integrated planning whilst in the past project were often run with a lot of enthusiasm but without structure
- A central control database independent of company's Consolidation system
- Detailed central preparation, via in-depth reviews, dry-runs, user access preparation, end-to-end testing and control
- Precise execution via a Mission Control Center during Cut-over supported by purpose built real time data analytics reports
- Excellent and active co-operation with CST and ESTs, e.g. initiating function transcending items historic data, master data and authorizations

On top of the elements mentioned above the project delivered additional specific assets and benefits to the business, making the organization more mature and robust for future separations. Items not in place when the separation project started; such as a simplified management reporting structure for the new organization, a Finance application master list and a cookbook describing all elements to address per organization reporting unit for a future separation or divestment.

### Why the company chose Deloitte

The company was seeking an experienced party that was willing to be a full partner in terms of advice, execution and commercial arrangement on this project. Multiple service providers were invited to pitch and were rated on a range of different aspects, such as knowledge of the organization, company fit, audit robustness and large scale separation experience. In the end Deloitte was deemed the best match because of close relationships, business intimacy and mutual trust that was built on years supporting the company's divestments in the past. With Deloitte the company found a partner they can rely on, trust with sensitive strategic information and jointly execute projects to the tee.

### Summarizing our lessons learned

- Smooth separations do not just happen ... these are well orchestrated and controlled processes
- Publicly announcing Day 1 separation date gives clear direction and creates momentum
- A detailed Blueprint defining the end-state, prevents organizational paralysis and expedites progress
- Have an integrated planning in place; setting targets assigning responsibilities and tracking results is vital
- Avoid implementing large projects in parallel
- Work with 1 central single version of the (financial) truth
- People, people, people; invest in communication to the entire organization

### Learn more

Separation or divestiture planning and execution is one of the many distinct areas within M&A. To learn more about how Deloitte can help, please contact Justin Hamers or Klaasjan Doeswijk.

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