MERCER WEBCAST
PART TWO – DIVESTITURES

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Today’s Speakers

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Overview

Market Activity
- 2014: High volume of worldwide deals and cross border transactions
- Companies are increasingly selling subsidiaries or carving-out non-core businesses to unlock value

Complex Transactions
- Infrequent transactions for most organizations
- Separating businesses in multiple countries
- Asset sales require a dual focus. Delivering value of the entity for sale and maintaining business continuity for RemainCo

Successful Organizations
- Articulate and implement a comprehensive divestiture strategy
- Conduct pre-sale diligence to prepare to go to market and to negotiate the deal
- Maintain business continuity and employee engagement to deliver value to a Buyer
MERCER’S M&A DIVESTITURE DEAL FLOW PROCESS™
# Mercer’s Divestiture Deal Flow Process™

<table>
<thead>
<tr>
<th>DECISION TO DIVEST</th>
<th>ANNOUNCE BUYER</th>
<th>CLOSE DATE</th>
<th>TSA END DATE</th>
<th>DIVESTITURE COMPLETE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-Divestiture Strategy and Planning</td>
<td>Pre Buyer Planning, Diligence and Maintain Business Continuity</td>
<td>Divestiture/Separation Planning</td>
<td>Sale Complete/ TSA Period</td>
<td>TSA Complete</td>
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## Stage 0
**DECIDE TO DIVEST**

- Develop divestiture business case and ensure organization readiness to support separation

**OUTPUTS:**
- Divestiture Playbook/Roadmap
- Seller’s Diligence
- Initial Divestiture Strategy
- Business Case

## Stage 1
**DILIGENCE AND NEGOTIATION**

- Support Buyer Due Diligence Q&A, negotiate deal terms and conditions and stabilize RemainCo

**OUTPUTS:**
- Divestiture Strategy
- Populated Data Room
- Sale and Purchase Agreement
- Transition Services Draft

## Stage 2
**PREPARE TO DIVEST**

- Establish rigorous governance protocols and planning to ensure readiness for sale/separation. Identify and prepare for TSAs as needed

**OUTPUTS:**
- Divestiture/Separation Budget
- PMO Governance and Structure
- Staffing and Resource Needs
- Detailed Divestiture/Separation Plan
- Transition Services Agreement
- TSA Service Level Agreement
- TSA Implementation Plan
- Sale Close Readiness Checklist

## Stage 3
**DIVEST**

- Divest business and manage any TSAs

## Stage 4
**POST-DIVEST**

- Post divestiture and TSA completion

## Stages 2, 3 and 4
**COMMUNICATION AND CHANGE MANAGEMENT**

- Ensure effective, timely and aligned internal/external communication to manage the change for transitioning and RemainCo employees

**OUTPUTS:**
- Board Updates
- Detailed Stakeholder Analysis
- Change and Communication Plan
- Announcement (Internal and External)
- Separation Communications and FAQs
- Library
- Employee Survey Analysis
DIVESTITURE CONSIDERATIONS IN ASSET DEALS
## Deal Structure - Stock vs. Asset Sale

<table>
<thead>
<tr>
<th>STOCK SALE</th>
<th>vs.</th>
<th>ASSET SALE</th>
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<tbody>
<tr>
<td>Entire company or subsidiary</td>
<td></td>
<td>Seller Continues Post Close</td>
</tr>
<tr>
<td>• Quantify all assets, liabilities, issues, and risks</td>
<td>Seller’s Due Diligence</td>
<td>• Define entity and structure for sale</td>
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<tr>
<td>• Identify factors that impact price and negotiation in advance</td>
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<td>• Assess the potential impact on RemainCo to extract employees, programs or systems</td>
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<td></td>
<td></td>
<td>• Identify the non-negotiables and preferred transition timing</td>
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<td></td>
<td></td>
<td>• Continuing entity and competitor post Close</td>
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<tr>
<td></td>
<td>Develop Selling Strategy</td>
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<tr>
<td>• Focus approach and negotiations to deliver full value for Shareholders</td>
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<td></td>
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<tr>
<td>• Entire company or subsidiary will transition</td>
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<td></td>
<td>Understand Employee/Employer Relationship</td>
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<tr>
<td>• Entity transitions “as is,” Buyer assumes all employees and agreements at Close</td>
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<tr>
<td></td>
<td>Define Treatment and Transition of HR Programs</td>
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<tr>
<td>• Transition all HR programs at Close</td>
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<tr>
<td>• HR infrastructure, systems and contracts are assumed by the Buyer</td>
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<td></td>
<td>Manage Consultation / Communication</td>
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<tr>
<td>• “Step into” existing union agreements</td>
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<td></td>
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<tr>
<td>• Maintain business value during negotiation</td>
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<td></td>
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<tr>
<td>• Acquired Rights - Consultation</td>
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<tr>
<td></td>
<td></td>
<td>• Employees will exit current programs</td>
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<td></td>
<td>• Determine if a Transition Services Agreement (TSA) will be provided</td>
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<tr>
<td></td>
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<td>• Union contracts - “Successor employer”</td>
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<td></td>
<td>• Retention strategy to support transition</td>
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<tr>
<td></td>
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<td>• Acquired Rights - Consultation</td>
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Divestiture Considerations in Asset Deals
Why conduct Seller’s Due Diligence?

**Price/Value**
- Position the business for sale at the highest price
- Enable “looking at the business through the buyer’s eyes”
- Increase buyer comfort

**Business Case**
- Document the business case/rationale for the divestiture
- Assess impact to RemainCo
- Evaluate retention awards to maintain business value

**Negotiation**
- Highlight issues on which a tactical choice is available
- Develop negotiating strategies in advance

**Data and Process**
- Streamline process of providing useful, accurate information to bidders
- Ensure consistent presentation of data across countries / entities
Divestiture Considerations in Asset Deals
Seller’s Due Diligence

**Entity and Structure for Sale**
- Organization: legal entity structure
- Employing entity: dedicated vs. shared employees
- Contracting entity: for plans, programs and systems

**Factors that Impact Price and Negotiation**
- Stand-alone vs. enterprise-wide plans
- Legal obligations and collective bargaining
- Value of assets and liabilities
- Impact of potential issues and whether to address pre-negotiation or via pricing
- Risk of exposure through indemnities and warranties

**RemainCo Implications**
- Impact to RemainCo when employees transition and costs to address
- Ability, willingness and costs to provide TSA
Divestiture Considerations in Asset Deals
Develop Selling Strategy

Deal Structure, Negotiation and Timing
- Deal structure: stock, asset or combination
- Global implications: structure may vary by country
- “Non-negotiables”
- Preferred transition timing

Data Management
- Approach to information disclosure and process of providing useful, accurate information to bidders
- Data preparation, in particular when the legal entity participates in enterprise-wide programs
- Privacy restrictions (vary by country)
- Data room structure and management

RemainCo Implications
- Develop plan to address any HR infrastructure, program and/or service gaps post transaction
Divestiture Considerations in Asset Deals
Understand Employee / Employer Relationship

**Staffing**
- Identification and selection of shared employees
- Transferring employees: degree of participation in the sales process
- Will the transaction trigger termination notices, severance payments or new employment contracts?

**DivestCo Implications**
- Termination from seller and rehire from buyer
- Manage operational disruption to the outbound business during the divestiture process
- Transition strategy - will employees move to a new entity prior to close and what actions are required?

**RemainCo Implications**
- Approach to employee secondment / leasing
- Position vacancies or capability gaps post-close
Divestiture Considerations in Asset Deals
Define Treatment and Transition of HR Programs

HR Programs
- Position on treatment of future benefits, comparability levels and timing, etc.
- Long-term incentive awards (including equity)
- Defined benefits programs: assets, liabilities and risk transfer
- Multiemployer welfare and/or pension

Transition Services Agreement
- Cost and duration of services
- Service level agreements
- Potential third-party contract consent and revisions
- Legal restrictions by country

RemainCo Implications
- Assess and manage impact of reduced employee numbers to ongoing contracts and services
Divestiture Considerations in Asset Deals
Manage Consultation / Communication

Consultation and Notification
- Scope of obligation varies by country
- Period, timing and form of consultation
- Labor-related notifications and negotiations

Communication and Engagement
- Identify all stakeholders and assess specific group level impact
- Create clear, effective communication channels
- Alignment with Buyer communications
- Expand employee engagement efforts to maintain strategic and operational priorities
- Messaging for the customer facing workforce

RemainCo Implications
- Key / critical employee identification
- Retention award structure for transition and ongoing concern needs
Structure to Support Divestiture Planning and Management

**STRATEGIC GROUP**
- Final decision-making authority
- Establishes joint project priorities
- Provides guidance to HR PMO

**PROJECT MANAGEMENT OFFICE**
- Directs day-to-day tasks and workflow
- Manages dependencies, issues and risks
- Provides updates to HR strategic group and the Enterprise PMO

**TECHNICAL WORK TEAMS**
- Identify activities and decisions required to finalize the divestiture
- Complete tasks and prepare recommendations
- Interact with PMO to identify and resolve issues

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**DIVESTITURE PROJECT LEADS**

**HR PMO**

**Organization Design & Workforce Alignment**

**Retention / Severance**

**Labor & Employee Relations**

**Culture**

**HR Operations & Technology**

**Executive & Broad Based Compensation**

**Benefits & HR Policies**

**Communication & Change Management**
Successful Organizations

Articulate and implement a **comprehensive divestiture strategy**

Conduct **pre-sale diligence** to prepare to go to market and to negotiate the deal

Maintain business continuity and employee engagement to deliver value to a Buyer
A global consulting leader in talent, health, retirement, and investments, Mercer helps clients around the world advance the health, wealth, and performance of their most vital asset — their people. Mercer's more than 20,000 employees are based in 42 countries, and the firm operates in over 130 countries.
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QUESTIONS

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