

# Deals

M&A is key to corporate recovery strategy



9 March 2021

# Practical

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- View this webcast or presentation at a later stage
- Slides will be become available afterwards
- Evaluation from afterwards



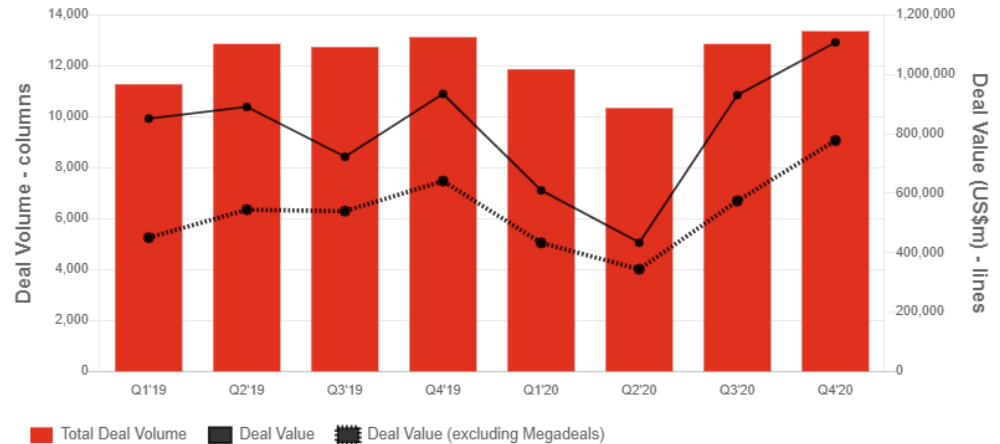
# Agenda

1. Setting the scene
2. Case study introduction
3. Business model
4. Tax and legal structuring
5. Operating model (Go-to-market)
6. Tax valuations and modelling



# Fundamentals are critical to create value

- M&A activity is accelerating
- Strategic portfolio reviews will drive a divestiture uptick
- Divestitures are complex and tax plays a pivotal role to support **value** and **business continuity**

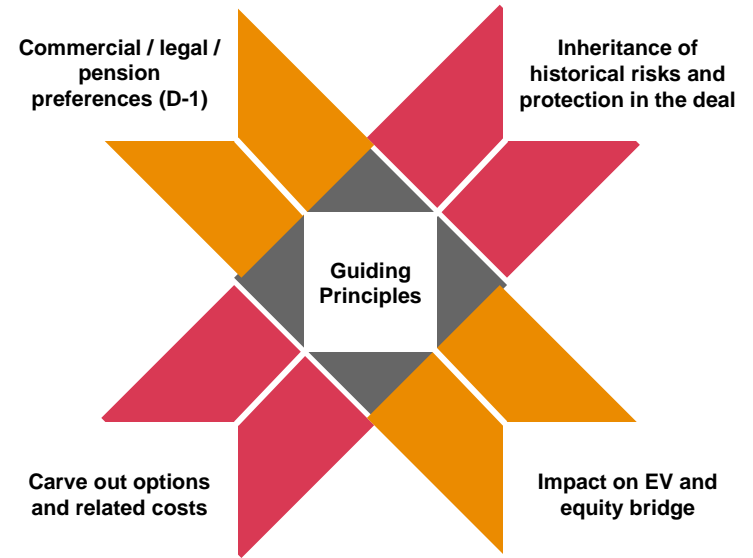
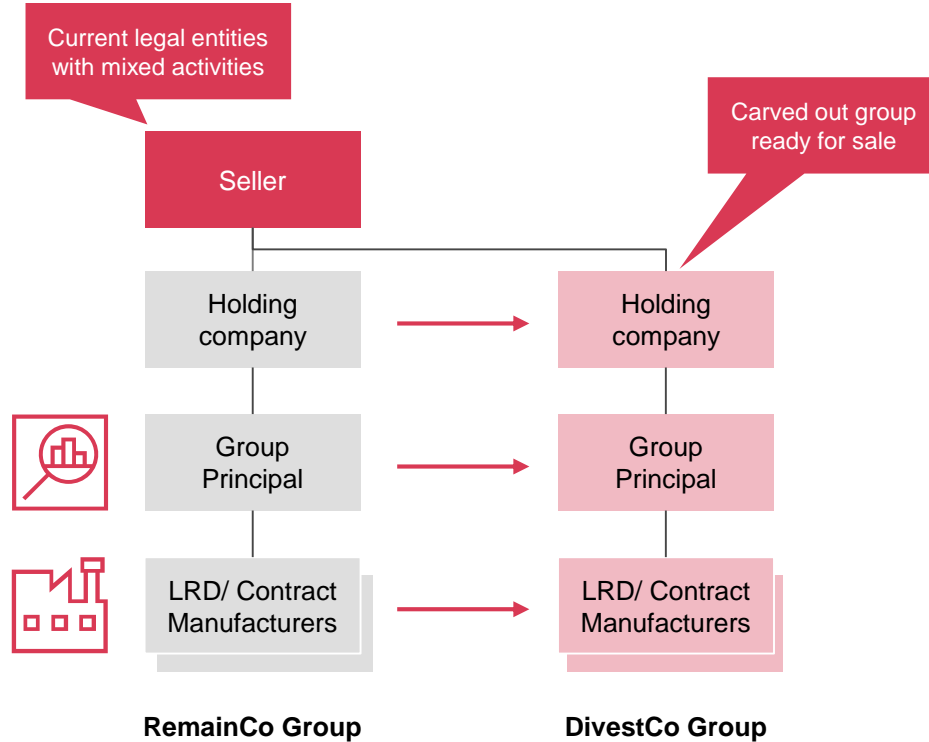


# Agenda

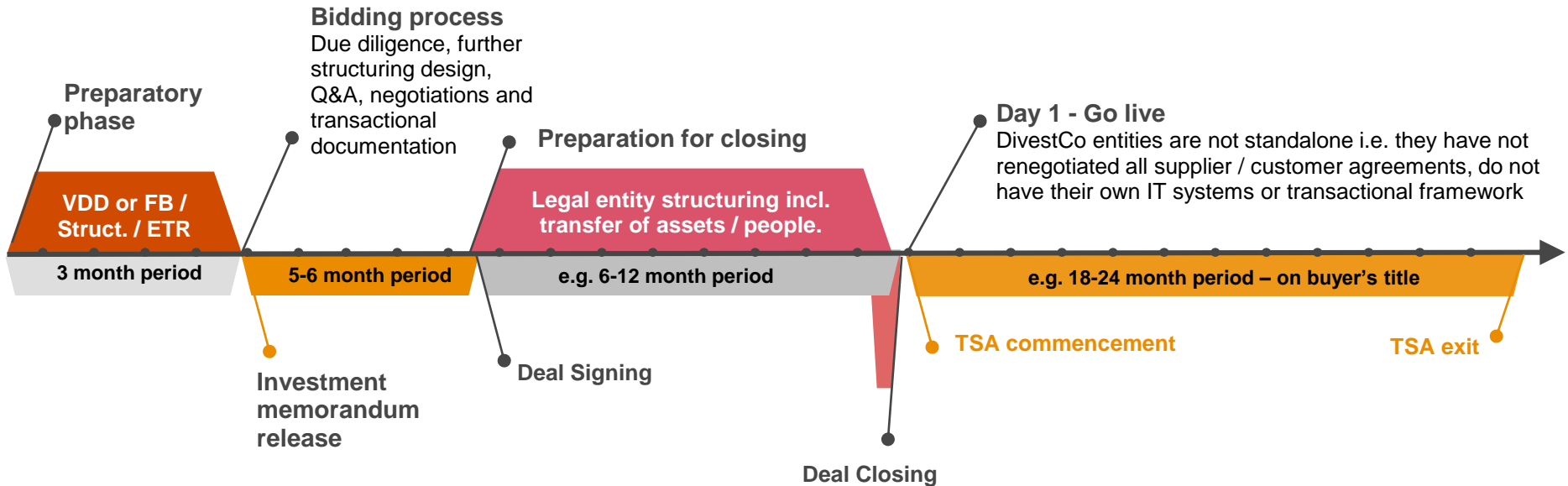
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# Case study introduction



# Case study - timeline



# Agenda

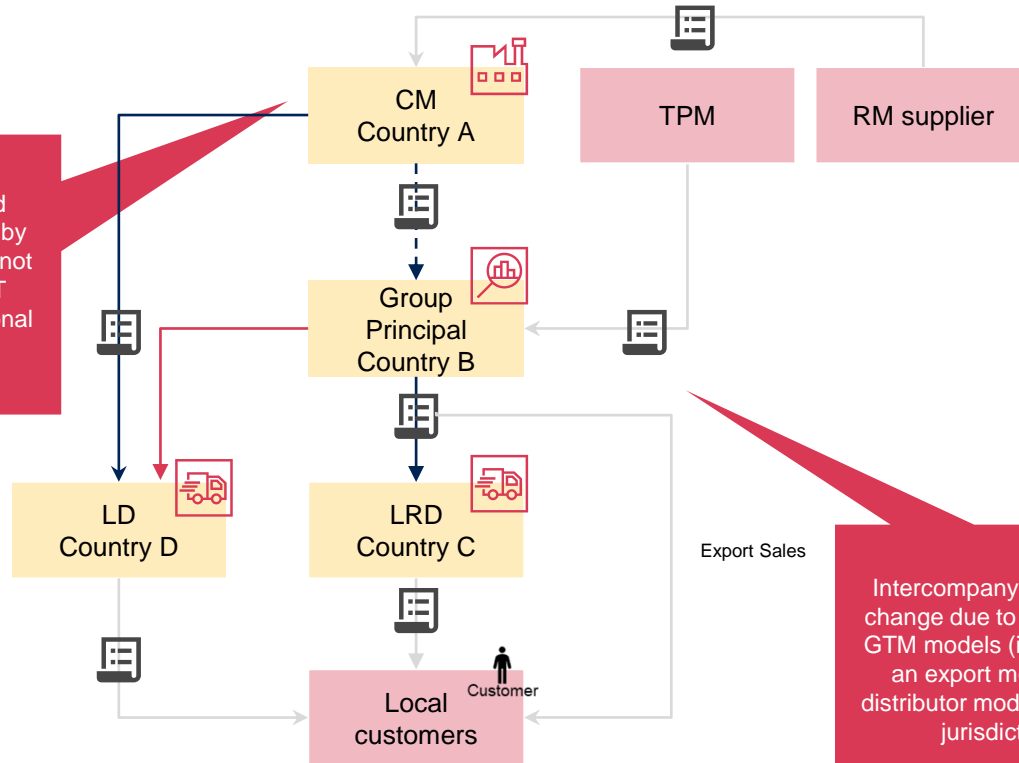
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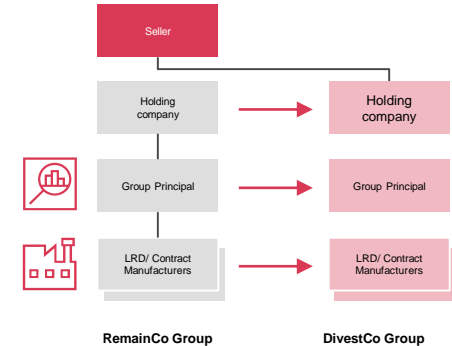


# Simplified business model and intercompany flows - Divestco

Whilst personnel and assets are transferred by closing, DivestCo may not be standalone (i.e. IT systems and transactional framework)



Intercompany flows may change due to changes in GTM models (i.e. move to an export model / 3P distributor model in certain jurisdiction)



- Third party
- DivestCo
- - - - - Contract Manufacturing
- 3P Transactions
- I/C Sale of Goods
- License of IP

# Transfer Pricing Model

- Carved-out business and transfer pricing model may result in a value shifts:
  - Standalone DivestCo organization can no longer rely on cross divisional substance
  - Changes to the functional / risk profile of entities may necessitate changes in remuneration
  - Consideration of whether something of 'value' has been transferred and whether exit tax applies
  - Strategies to mitigate the potential exit tax exposure

Functional Profile	TP policy	As-is	To-be	Change
CMs	Mark-up on Total Costs ("MoTC")	7.5%	5.0%	<b>Y</b>
LRDs	Return on Sales ("RoS")	3.0%	3.0%	<b>N</b>
LDs	Residual profit (license fee based on third party sales)	8.0%	4.0%	<b>Y</b>

# Operationalizing TP



IC transaction  
flow mapping (incl.  
TSA period)



Price setting



SAP integration



Alignment with  
finance processes

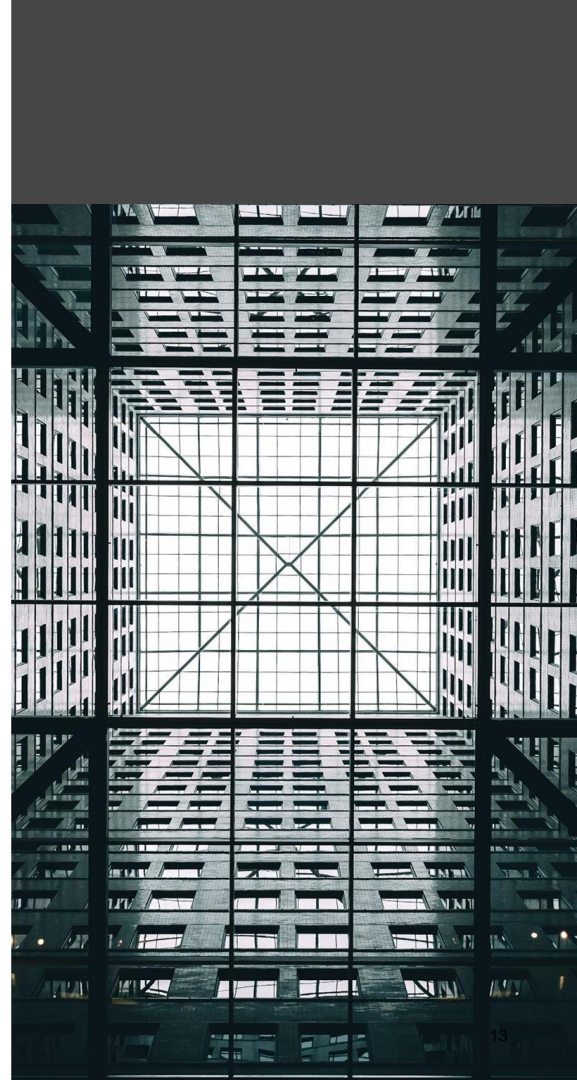
# What is important

- **Historical perspective**
  - Entities dedicated to the transaction perimeter
  - If legacy risks are identified, how to mitigate or take into account as part of deal
- **Forward looking perspective**
  - If there are value shifts, consideration of exit risk, step-up in basis
  - Transfer pricing implications associated with deal structuring (i.e. asset deal v share deal)
  - Re-design of TP methodologies/policies may be required
  - Local operating models per country need to be flexible given interdependencies
- **Documenting the restructure**
  - Audit ready defense files documenting the arm's length nature of the business restructure.
  - Documenting and substantiating the arm's length nature of DivestCo's new TP model.

# Business model

## Key messages

- Carve out transfer pricing model should reflect the business and facilitate value creation
- Interplay between current and new transfer pricing model
  - Value shift
  - Risk exposure
- Interdependencies
- Close alignment with business, flexibility and adaptation required

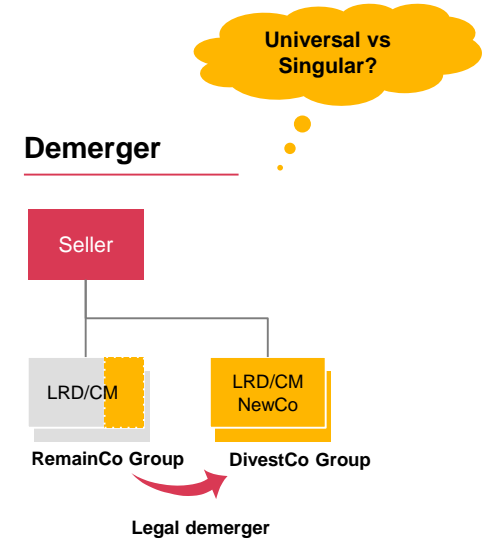
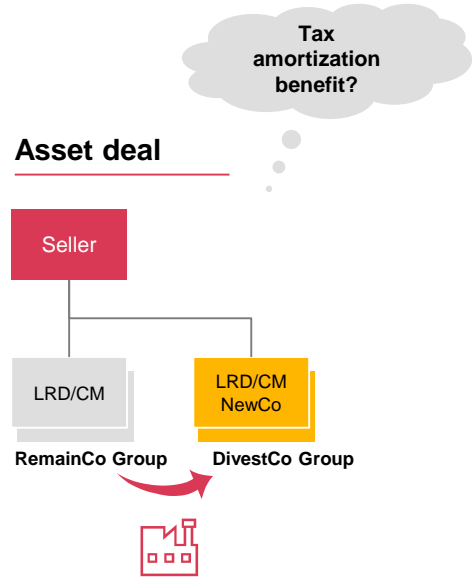
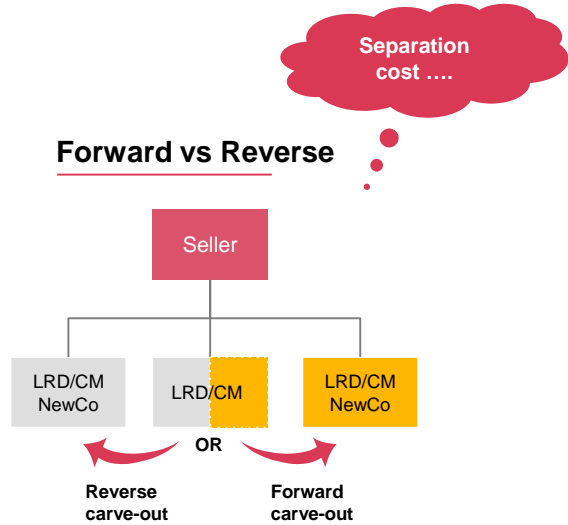


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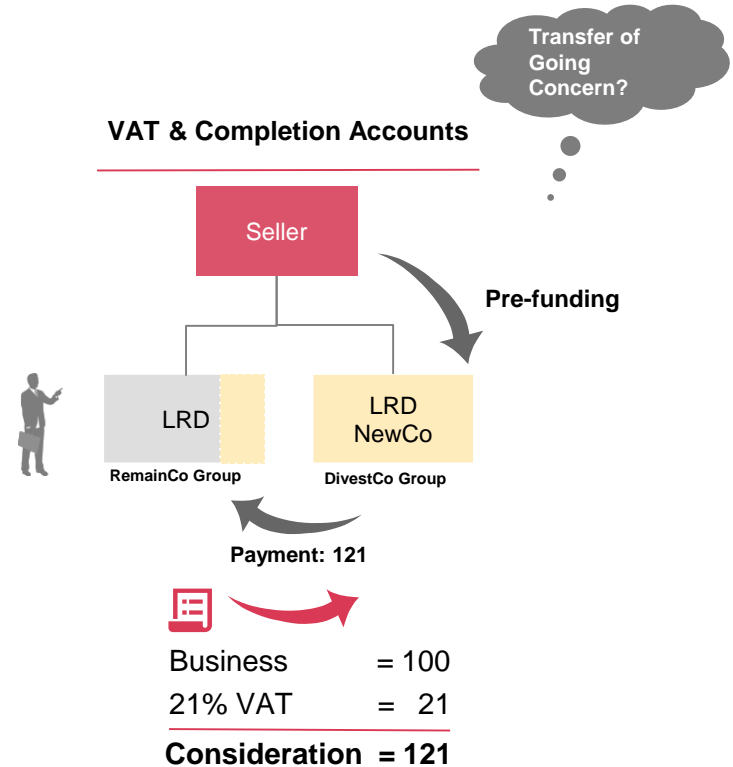
# Structuring options



# Poll 1

Who has a VAT receivable on the tax authorities?

- A) LRD
- B) LRD NewCo
- C) Seller

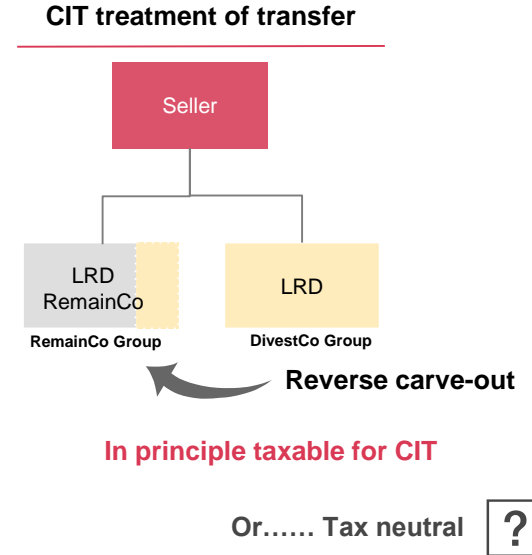




# Poll 2

What is the result of Purchaser taking the position of a tax neutral transfer in the CIT return?

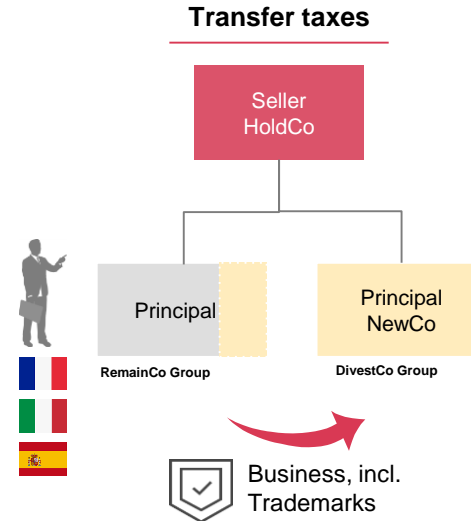
- A) Upside for Purchaser
- B) Upside for Seller / LRD RemainCo
- C) Upside for both parties



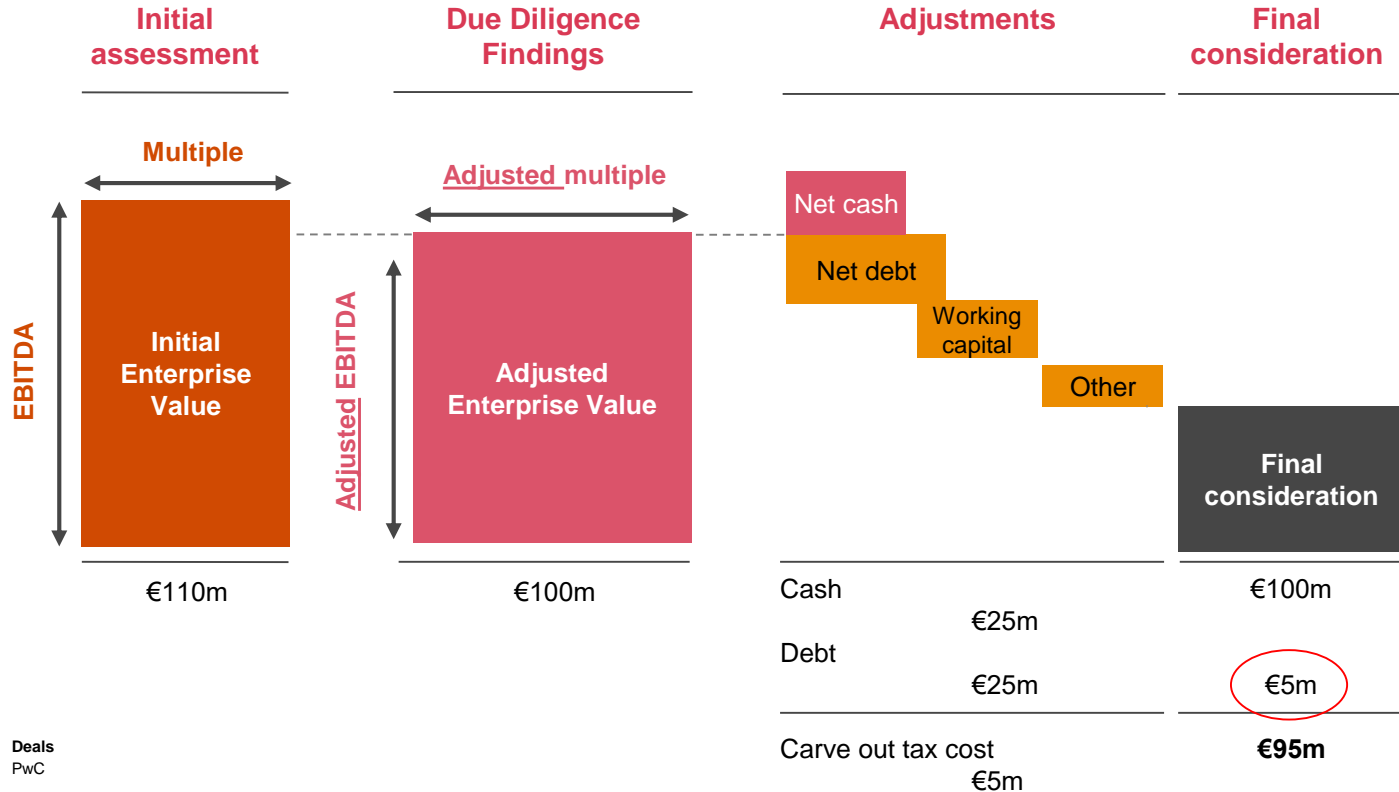
# Poll 3

Does a transfer of Principal Business trigger **foreign** taxes?

- A) Yes
- B) No
- C) Depends...



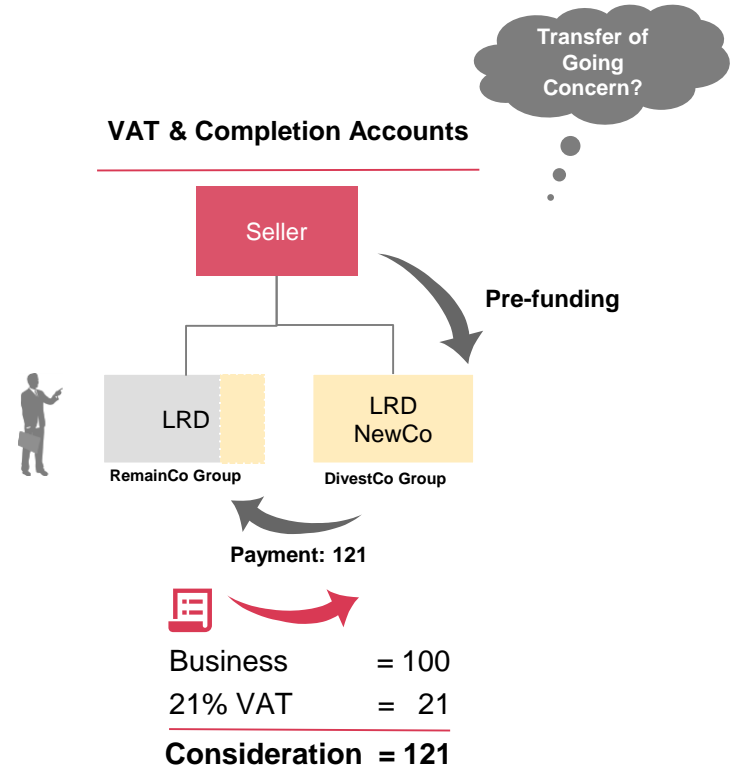
# Practical impact on the deal



# Poll 1

Who has a VAT receivable on the tax authorities?

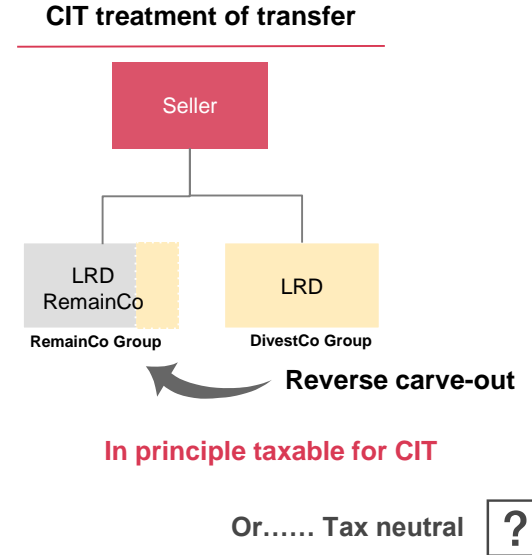
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# Poll 2

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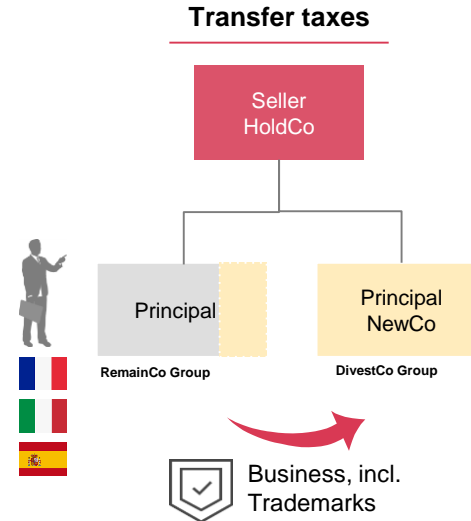
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# Poll 3

Does a transfer of Principal Business trigger **foreign** taxes?

- A) Yes
- B) No
- C) Depends...



# Key takeaways



Timely start



Multi-disciplinary  
approach



Relevant Separation  
Agreement & SPA  
overlay



Determine tax costs  
in early stage



Trapped cash  
mitigation

**Integrated approach and limit  
deal uncertainties**

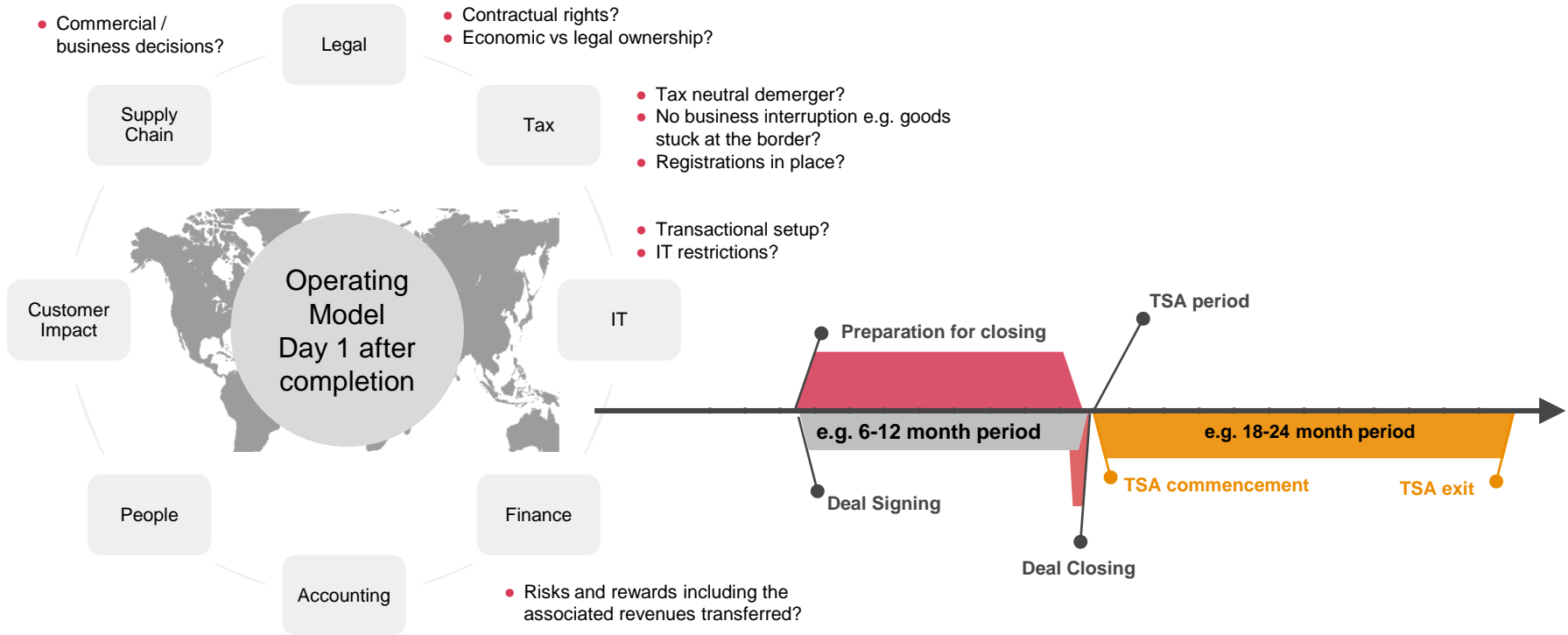
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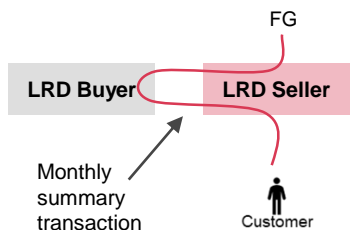
# Operating model



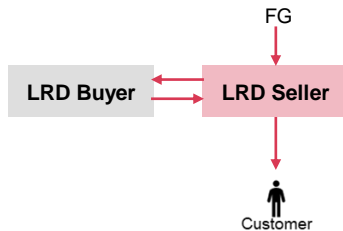
- Some examples of possible questions to be considered

# Operating models “toolbox” (examples)

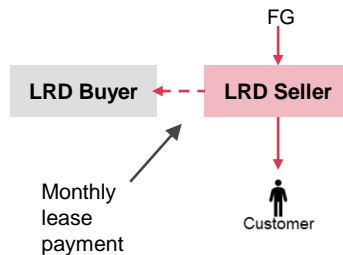
## Undisclosed Agency (UDA)



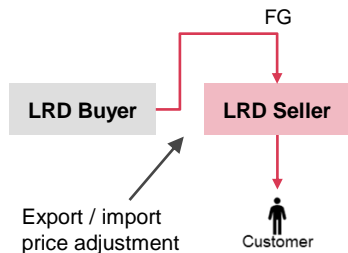
## Sale-buy-back



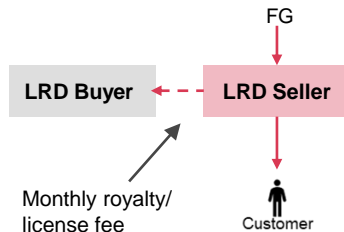
## Sale and lease back



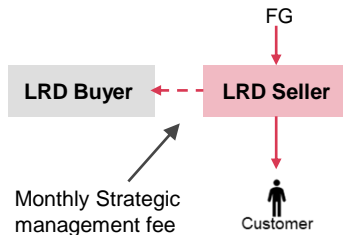
## Distributor model



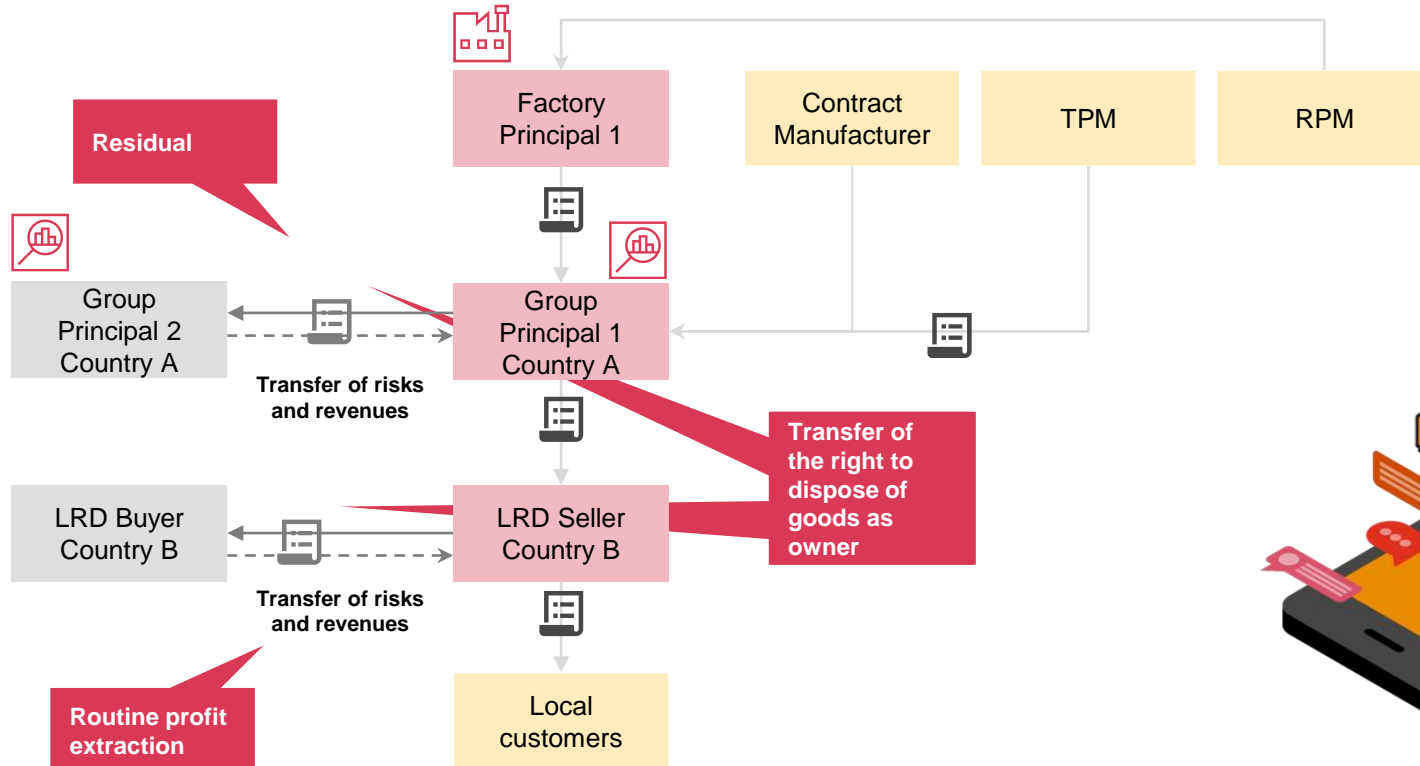
## Royalty/Licensing/Service model



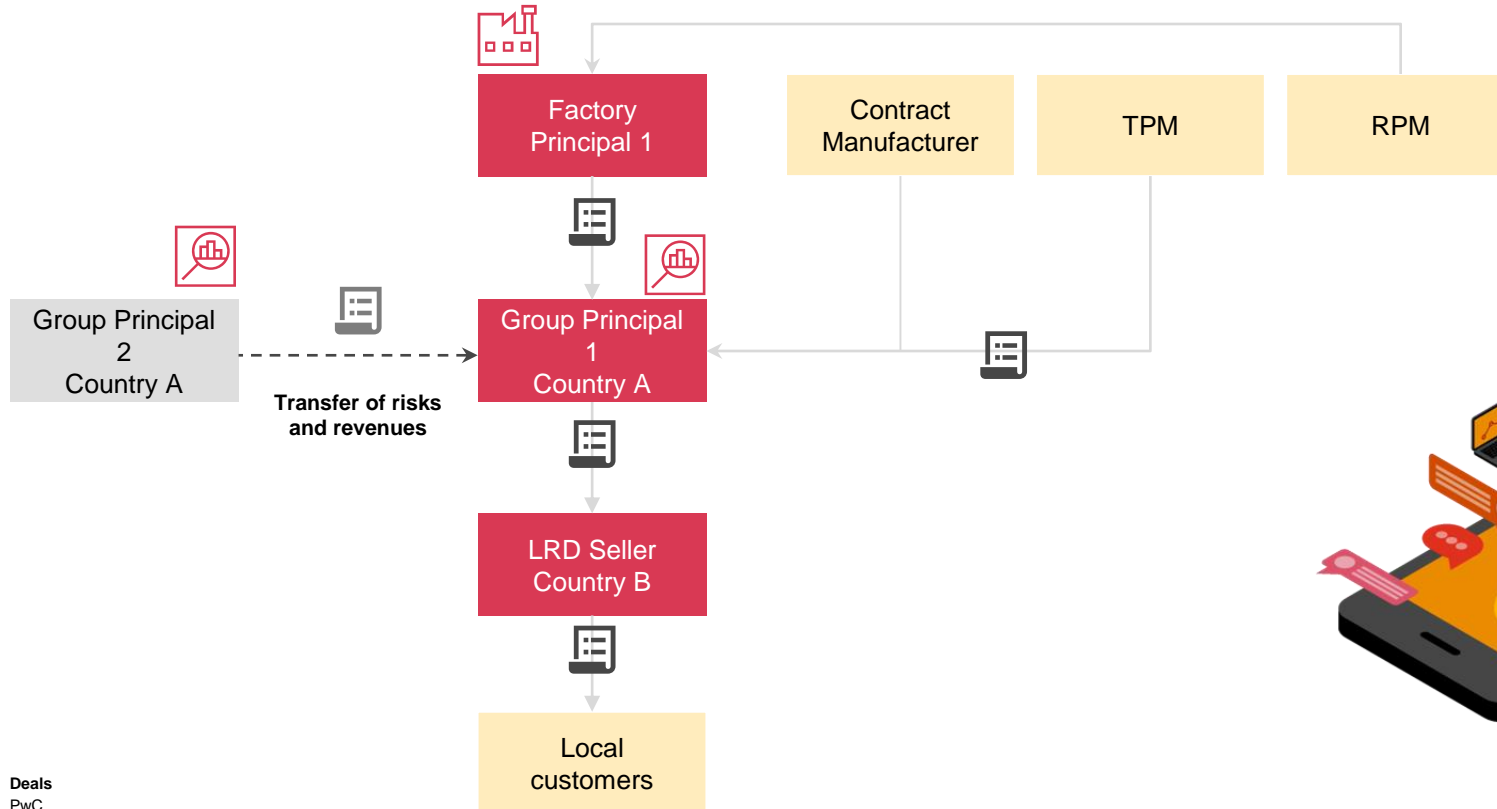
## Strategic Management model



# Undisclosed agency model



# Strategic management fee



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# Setting the scene

- High market liquidity
- Strong competition for assets
- Increased ETR / Cash tax enquiries
- Many inter-linked value drivers
- A transparent analysis can unlock value

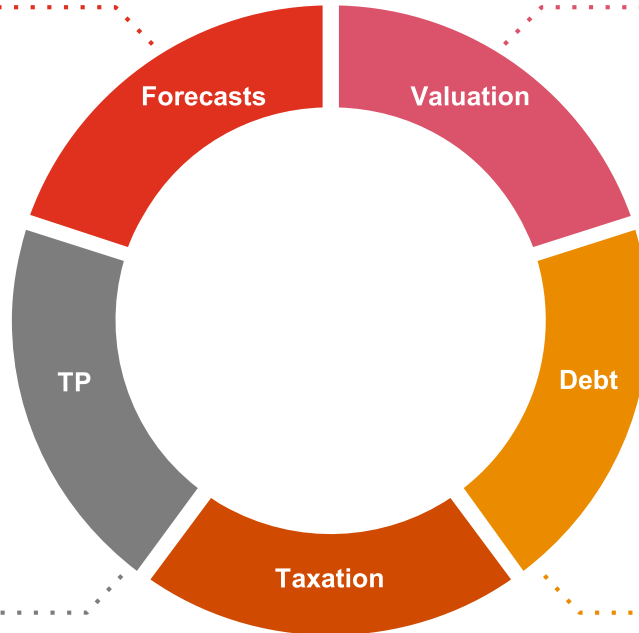
# Value / Tax factors

## Commercial (forecasts)

- Scenario / sensitivity analysis
- Synergies
- DivestCo vs. RemainCo
- Stranded / stand-alone costs

## Operating model / TP

- AS-IS vs. TO-BE
- Scenario / sensitivity analysis
- Restructuring (centralised vs. decentralised)
- FTE vs. Economic substance



## Valuation

- Value of intangibles
- Asset vs. Share deal
- Tax Amortisation Benefit
- Operating losses (utilisation)
- IP on/offshoring
- Pre-carveout structuring (RPT)
- Buyer / Seller view
- Price expectation vs. Bid / Price

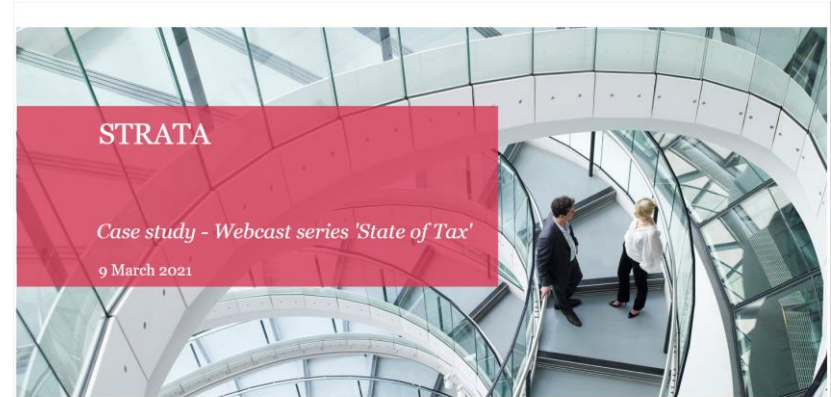
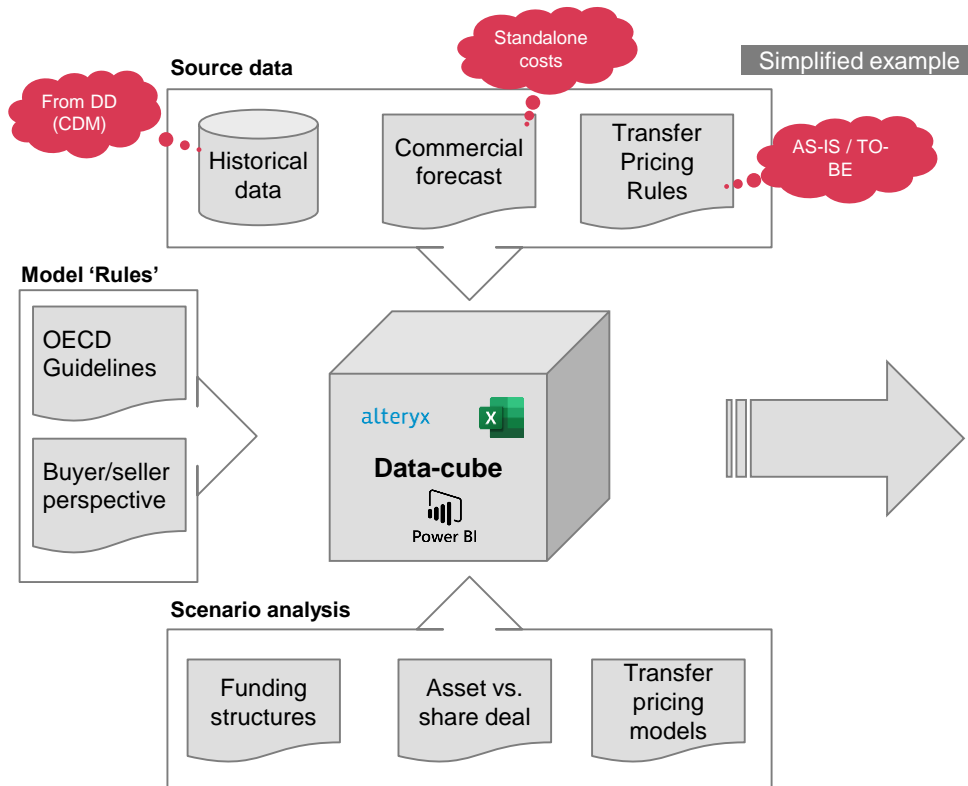
## Funding

- Debt push down
- Interest deductibility regulation
- Debt optimisation

## Taxation

- Effective tax rate forecasting
- Cash tax forecasting
- Tax legislation changes
- Interdependence of factors

# STRATA



If you have any questions, please get in touch. Follow this [link](#) for direct access to the STRATA demo (this requires a Workbench account for which you receive(d) an invite by email)



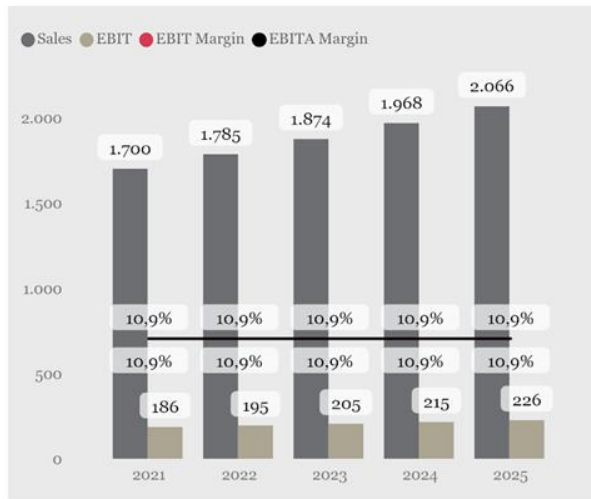


Figure 1: Summary of Sales, EBT, and EBIT(A) margin



Figure 2: Estimated statutory Tax rate by year

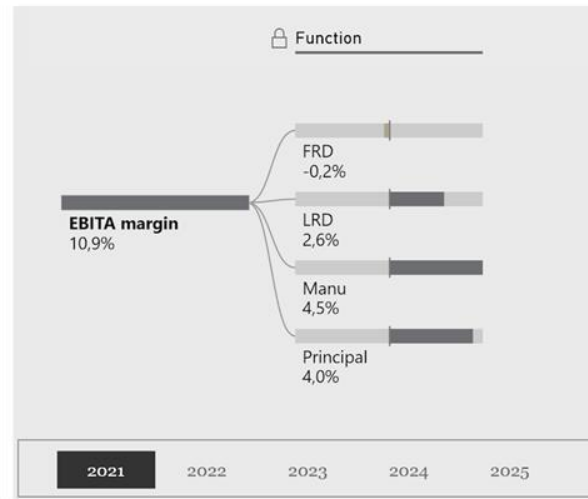


Figure 3: EBITA margin per Function

## Objective

Strata adds statutory details (legal entities and functions) to your commercial projections by forecasting intercompany accounts and intercompany prices.

## Results

The results are scenario based robust statutory projections that are:

- Consistent with your commercial forecast;
- Consistent with your transfer pricing policies;
- Detailed and transparent; and
- Reconcilable with historical results

## Select Scenario / Filter

### Commercial

- A. Base
- B. Carved Out
- C. Revenue Syn...
- D. Margin Syn...

### TP

- 1. Base
- 2. Principal mo...
- 3. Manufacturi...
- 4. IP Royalty

### Country

- Belgium
- France
- Germany
- Netherlands
- Poland
- Switzerland
- Turkey
- UK
- Ukraine

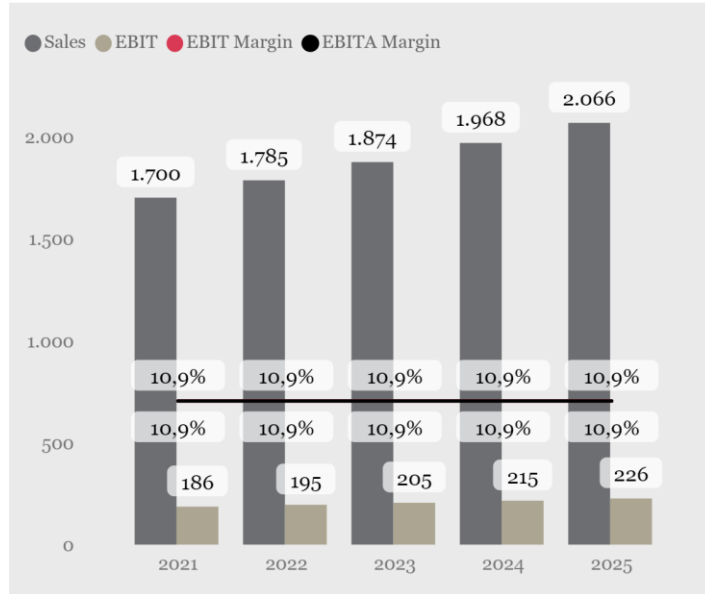
### Function

- FRD
- LRD
- Manu
- Principal

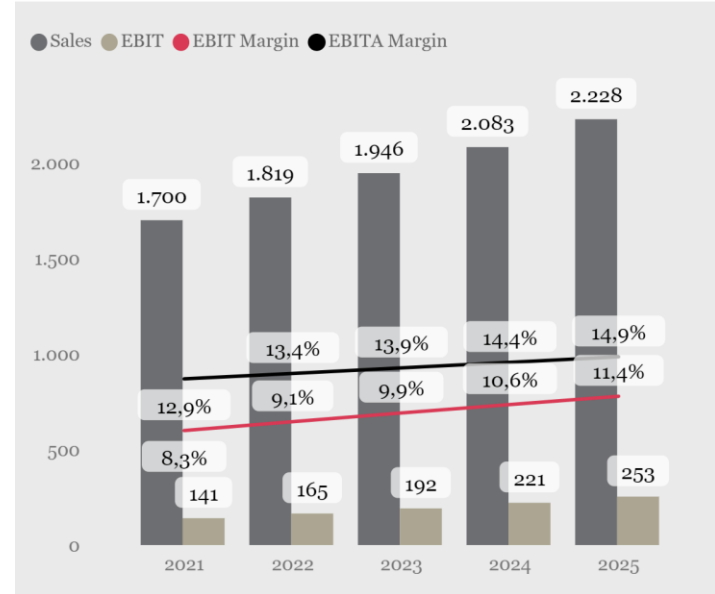
Average statutory tax rate

24,9%

# Compare profitability in various scenarios...



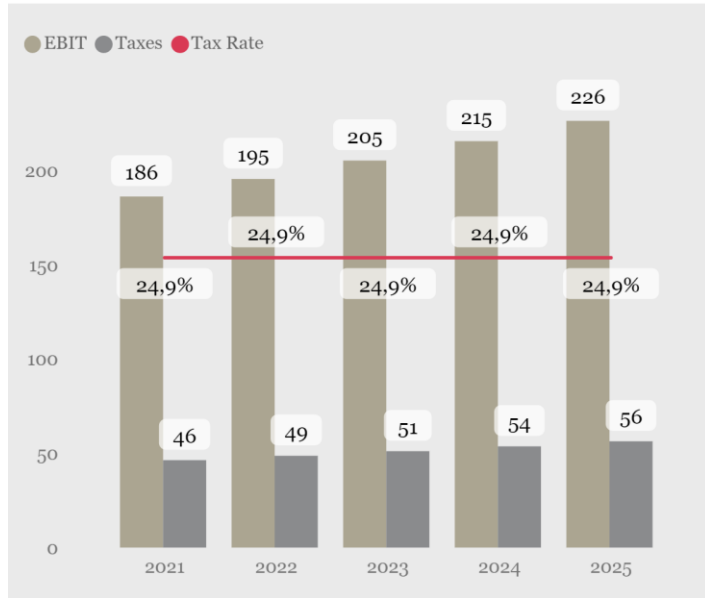
Base scenario (A.1)



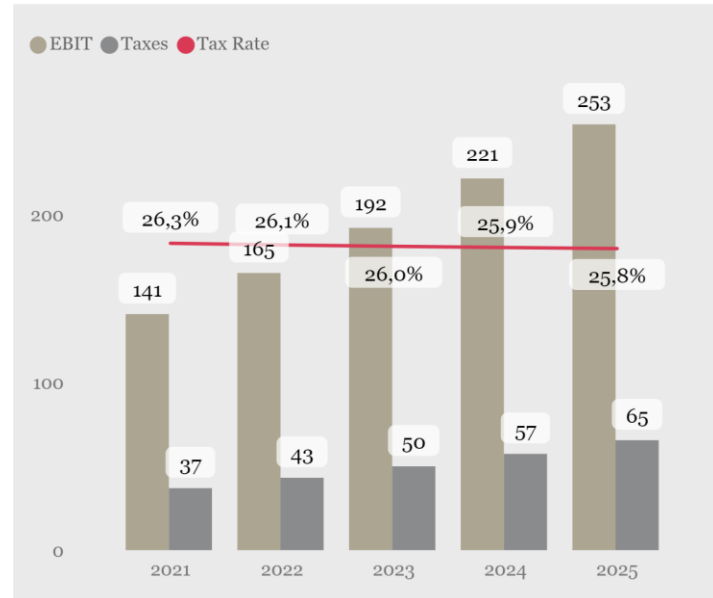
Alternative scenario (D.4)

If you have any questions, please get in touch. Follow this [link](#) for direct access to the STRATA demo

# ... and assess Tax implications over time



Base scenario (A.1)



Alternative scenario (D.4)

If you have any questions, please get in touch. Follow this [link](#) for direct access to the STRATA demo

# Perform geographical comparisons

## STRATA Demo

Alles selecteren 2021 2022 2023 2024 2025

STRATA allows you to see your forecast under different scenarios across both  
- Commercial dimensions (e.g. countries of sale)  
- Statutory dimensions (e.g. functions)

Select Scenario / Filter

Commercial  
 A. Base  
 B. Carved Out  
 C. Revenue Syn...  
 D. Margin Syn...

TP  
 1. Base  
 2. Principal mo...  
 3. Manufacturi...  
 4. IP Royalty

Country  
 Belgium  
 France  
 Germany  
 Netherlands  
 Poland  
 Switzerland  
 Turkey  
 UK

Function  
 FRD  
 LRD  
 Manu  
 Principal

Third party sales EBITA




Figure 1: Commercial View by Country




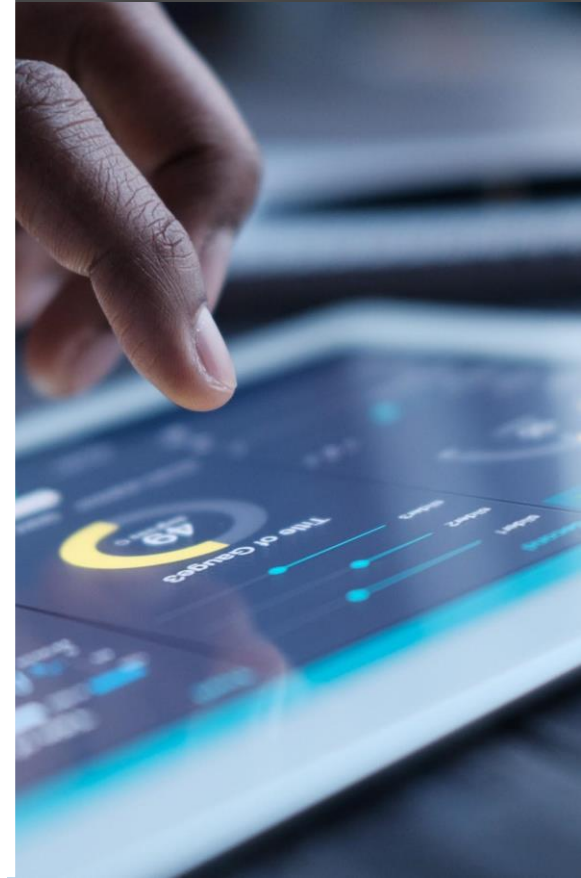
Figure 2: Statutory View by Country of Entity

PwC | Strictly private and confidential

Illustrative example for demo purposes

9 March 2021

If you have any questions, please get in touch. Follow this [link](#) for direct access to the STRATA demo



# Assess cumulative scenario impact

## STRATA Demo

STRATA helps you understand the operational and tax impact of business transformations and provides a robust forecasting framework to prepare valuations for tax purposes.

For example, value countries or entities and allocate value to Functions under different scenarios.

### Select Filter

Country	Function
<input type="checkbox"/> Alles selecteren	<input type="checkbox"/> Alles selecteren
<input type="checkbox"/> Belgium	<input type="checkbox"/> FRD
<input type="checkbox"/> France	<input type="checkbox"/> LRD
<input type="checkbox"/> Germany	<input type="checkbox"/> Manu
<input type="checkbox"/> Netherlands	<input type="checkbox"/> Principal
<input type="checkbox"/> Poland	
<input type="checkbox"/> Switzerland	
<input type="checkbox"/> Turkey	
<input type="checkbox"/> UK	
<input type="checkbox"/> Ukraine	

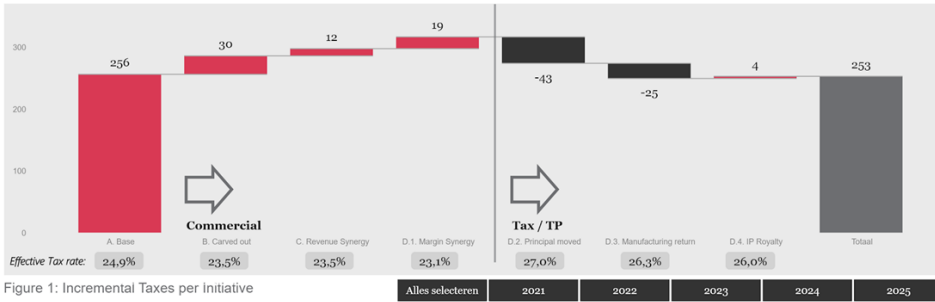


Figure 1: Incremental Taxes per Initiative

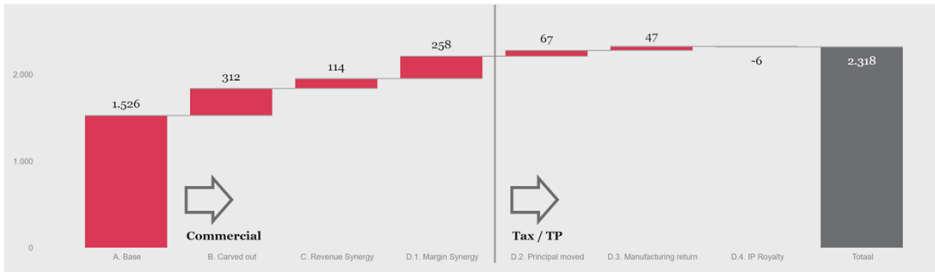
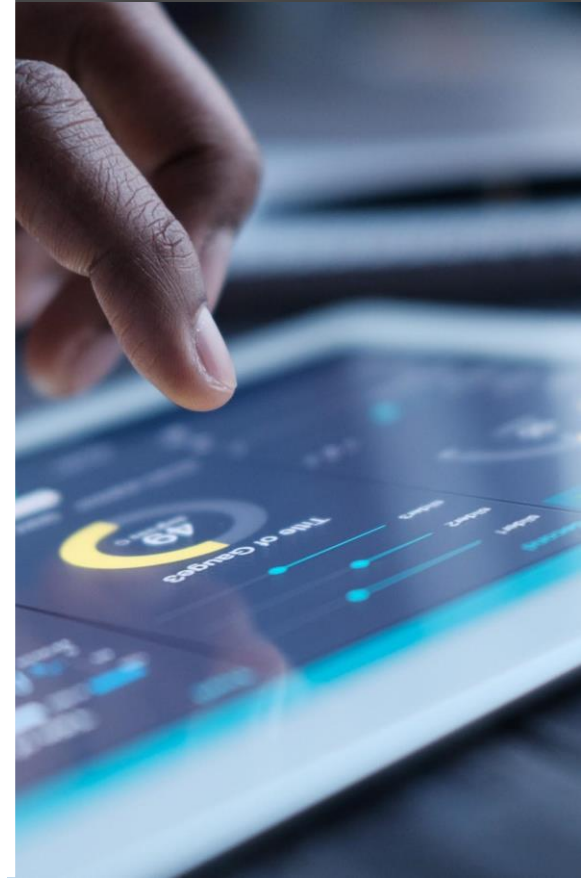


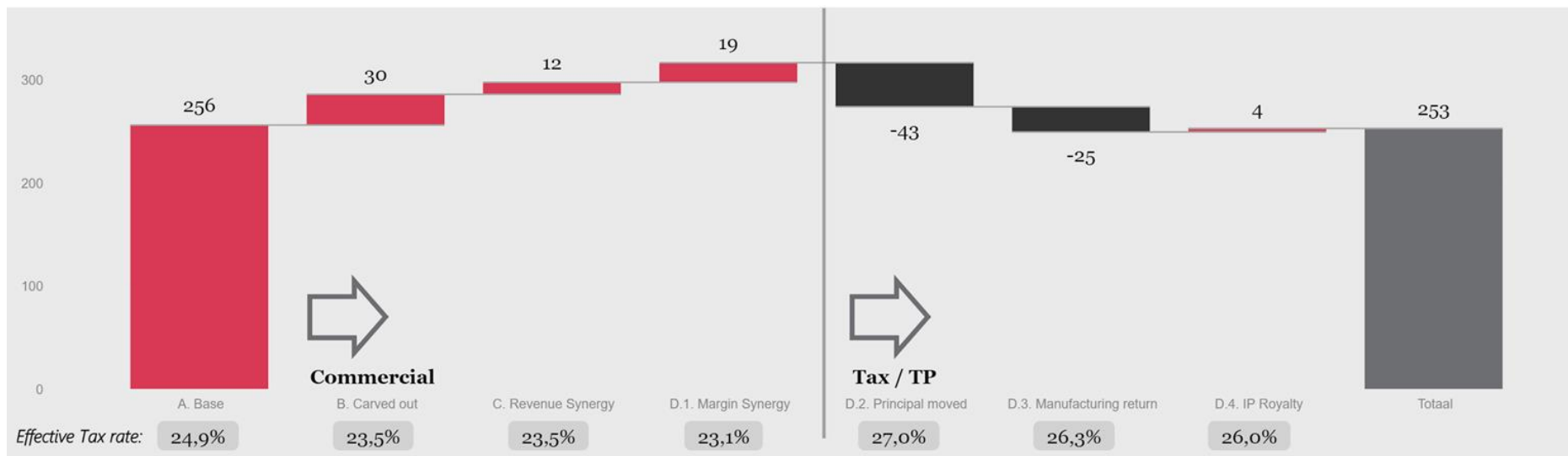
Figure 2: Incremental Present Value per Initiative

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▼ Filter

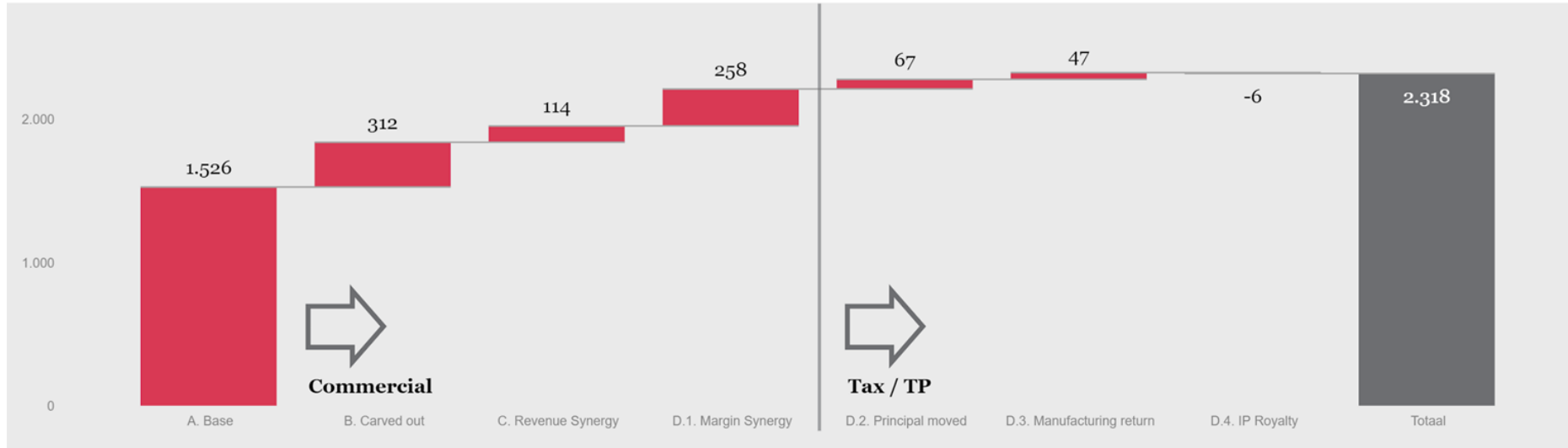


# Assess cumulative cash Taxes and ETR per scenario



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# Assess Enterprise Value impact per scenario



If you have any questions, please get in touch. Follow this [link](#) for direct access to the STRATA demo

# Assess Enterprise value per scenario

## STRATA Demo

STRATA provides a robust forecasting framework to prepare valuations for tax purposes. For example, value countries/legal entities and allocate value to Functions under different scenarios.

### Select Scenario / Filter

<b>Commercial</b> <input checked="" type="radio"/> A. Base <input type="radio"/> B. Carved Out <input type="radio"/> C. Revenue Syn... <input type="radio"/> D. Margin Syn...	<b>TP</b> <input checked="" type="radio"/> 1. Base <input type="radio"/> 2. Principal mo... <input type="radio"/> 3. Manufacturi... <input type="radio"/> 4. IP Royalty
<b>Country</b> <input type="checkbox"/> Alles selecteren <input type="checkbox"/> Belgium <input type="checkbox"/> France <input type="checkbox"/> Germany <input type="checkbox"/> Netherlands <input type="checkbox"/> Poland <input type="checkbox"/> Switzerland <input type="checkbox"/> Turkey <input type="checkbox"/> UK <input type="checkbox"/> Ukraine	<b>Function</b> <input type="checkbox"/> Alles selecteren <input type="checkbox"/> FRD <input type="checkbox"/> LRD <input type="checkbox"/> Manu <input type="checkbox"/> Principal

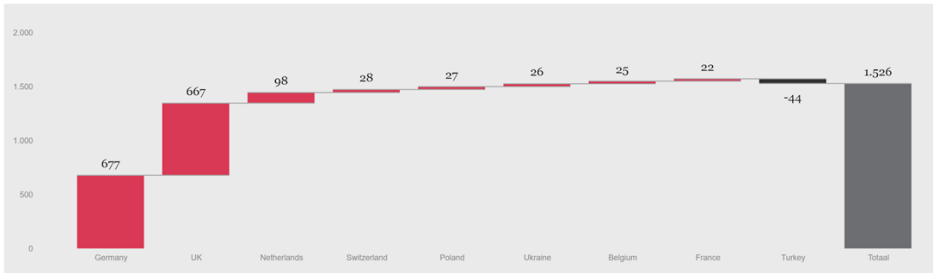


Figure 1: Value per Entity per Function

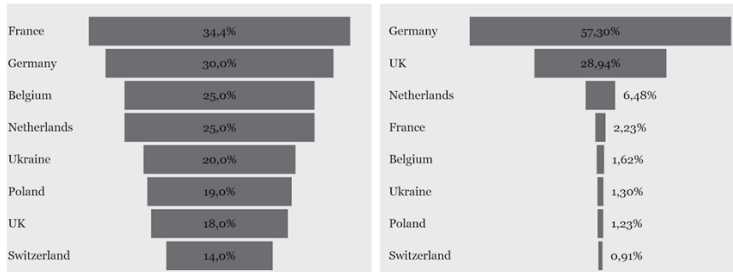


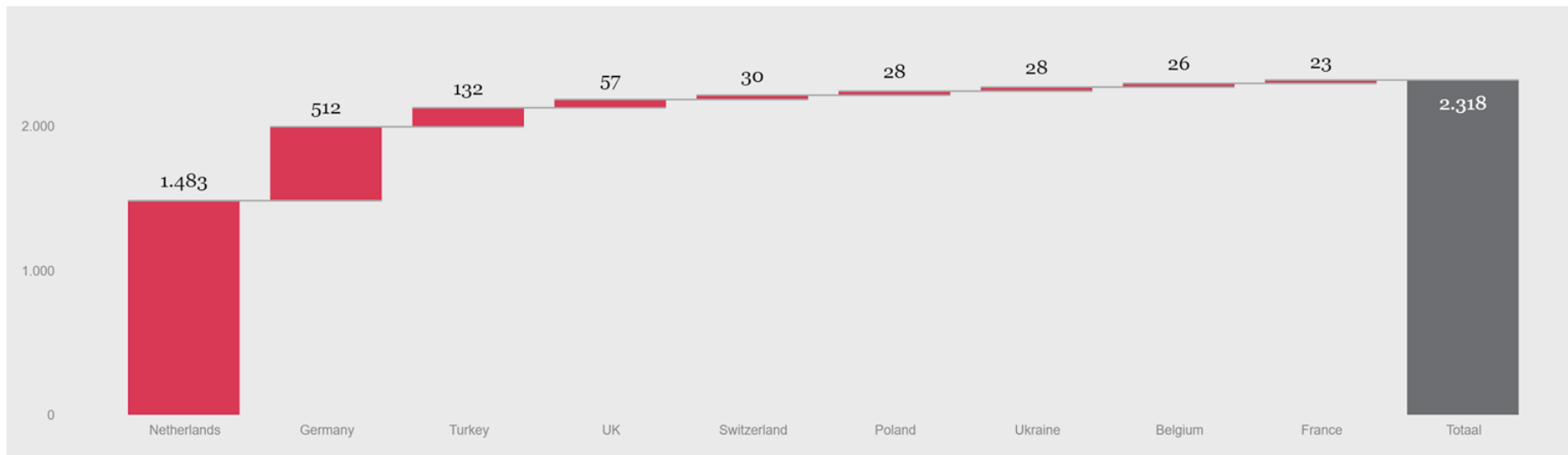
Figure 2: Statutory Tax rate per Country

Figure 3: Percentage of taxes per Country

Average statutory tax rate  
**24,9%**



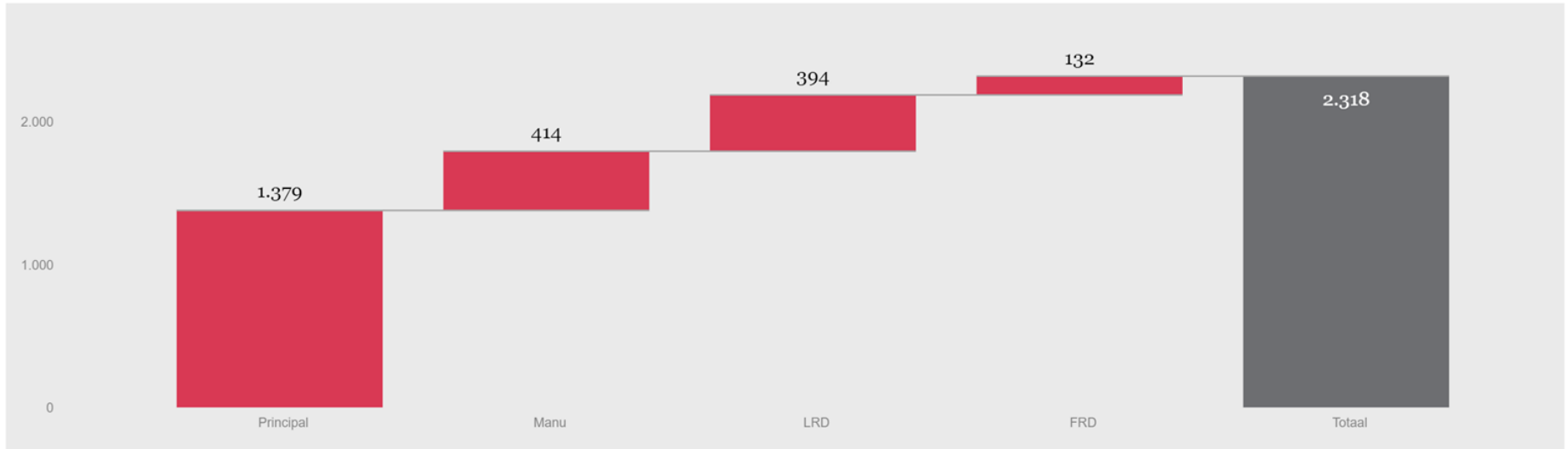
# Value breakdown by Country



Alternative scenario (D.4)

If you have any questions, please get in touch. Follow this [link](#) for direct access to the STRATA demo

# Value breakdown by Function



Alternative scenario (D.4)

If you have any questions, please get in touch. Follow this [link](#) for direct access to the STRATA demo

# Key takeaways

## Process



Identify



Quantify



Reduce uncertainty



Robust pricing



# Questions & Answers



# Closing

- **Questions?** Please contact your PwC advisor or let us know in the evaluation of this webcast.
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- Please fill in the evaluation form

# Evaluation

- How would you rate this webinar on a scale from 1 to 10?
- The content was relevant. (Totally agree/Agree/Neutral/Disagree/Totally disagree)
- Do you have any suggestions and/or comments?
- Do you have specific questions and would you like us to contact you?



# Thank you

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