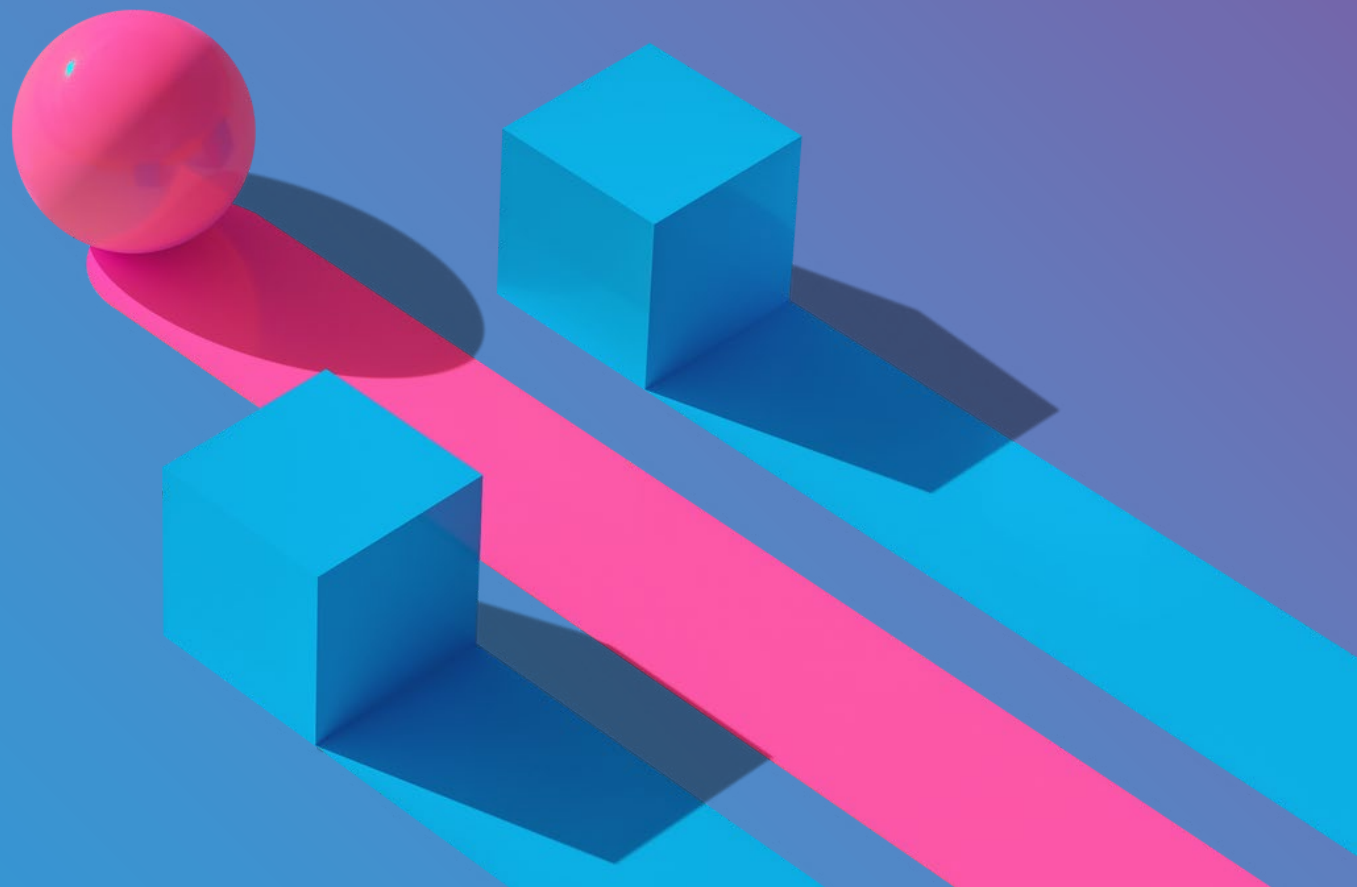


# MARSH McLENNAN CARVE-OUT PLAYBOOK

Private Equity and M&A  
June 2024



# INTRODUCTION

Carve-outs are substantially different than other M&A buyout deals and come with a range of unique risks that, unless carefully identified and addressed, can derail a transaction. They can also create extensive unforeseen liabilities or costs for new owners, potentially leading to dislocations in valuation.

Marsh McLennan's holistic approach to post-merger integration helps our clients capture the full value of their transactions.

A successful carve-out integration requires effective alignment and culture change, attention to operations management and performance improvements, a focus on customer retention and vendor integration, and intelligent rationalization — backed by detailed, step-by-step implementation support. These elements are the foundation of our approach, enhanced by our global reach and the combined resources of Oliver Wyman, Mercer and Marsh.

# KEY CONSIDERATIONS

Carve-out transactions typically bear some ownership trade-offs resulting from conflicting interests:

## Key carve-out stakeholders and interests



**Parent company:**  
("RemainCo")

- Maintain **control** over business portfolio, including the carve-out unit's scope.
- Maintain **equal treatment** of units and employees within the group.
- Maintain financial and other **transparency** across the group.
- Minimize **direct** remnant **costs** and dis-synergies in sales, operations, etc.
- Minimize **indirect dis-synergies** via admin processes, IT systems, etc.



**Carve-out unit:**  
("NewCo")

- Gain **entrepreneurial freedom** and control over scope and strategy.
- Maximize **tailored** treatment of unit and employees.
- Maximize financial and other **transparency**, excluding group distortions.
- Minimize **standalone** costs in sales, operations, overhead, etc.
- Maximize **efficiency** and agility in sales, operations, overhead, etc.



**Perspective:**  
Potential investors

### Very similar to carve-out unit:

- Gain entrepreneurial freedom and control over scope and strategy.
- Maximize financial and other transparency, excluding group distortions.
- Minimize standalone costs — and add flexibility for the setup and costs.
- Maximize efficiency and agility.

## Key carve-out stakeholders and interests

### In principle:

- **Maximize** carve-out unit's degree of ownership concerning **entrepreneurial freedom** and control, standalone setup, efficiency and agility, etc.
- **Limit** carve-out unit's degree of ownership to the extent that its:
  - **Parent company's performance** is not largely negatively affected
  - Parent company can **comply** with overarching external requirements
- Choices are often determined by **time horizon** and **final strategic disposition**; that is, more ownership and freedom early on if:
  - Transaction is targeted short to medium term
  - Target is PE investor or IPO, less strategic buyers
  - Business is not competing with RemainCo in relevant market segments/key account access

# UNDERSTANDING “CARVE-OUT COMPLEXITY”

Carve-outs: The messiest of all the M&A transactions



## Uncertainty of the business performance as a standalone

Ensuring business continuity — which is dependent on parent structure, brand, customers, suppliers and economies of scale — is key.



## Rebuilding the standalone business

The standalone business must be “*fit for purpose*” and “*fit to scale*” from a structure, systems, people and cost (of operations) standpoint in alignment with the business strategy.



## Leadership, key talent and skill gaps

Ensuring the right skills, capabilities and competencies are identified and acquired to support the go-forward business strategy — thereby managing gaps in skills and talent retention risks — is essential.



## Operational strategy and timeline

Accelerated timeframes allow the business to become standalone as quickly as possible. At the same time, a determination must be made regarding whether to use a “clone and go” or “right sized” approach. Legal entity setup timelines need to be established in case of asset sale.



## High level of entanglements between the parent company and NewCo

Ensuring clarity of entanglements across the enterprise (people, systems and structure), well-articulated disentanglement strategy and transition plan with support from the parent company through TSAs is vital.



## Global nuances

Local context will require additional legal, regulatory and cultural assimilation challenges.

**A carve-out can be extremely complex. It involves disentangling a specific business unit, assets and, more important, relationships from the parent organization while ensuring operational continuity, establishing operational independence, and addressing potential legal and regulatory challenges.**

 **Strategy**

 **People**

 **Risk**

# CARVE-OUT CONSIDERATIONS AND SOLUTIONS

Carve-out deals possess unique risks and considerations that need to be carefully addressed.

## Carve-out considerations



### Strategy

- Commercial and financial assessment:
  - Increasing financial returns/maximizing target value
  - Market assessment and positioning
  - Synergies and budget considerations
- Reducing operational complexity and increasing operational agility
- Risk-mitigating financial data integrity



### People

- In-scope employees — geographic footprint and headcount
- Degree of entanglement of HR systems, processes, programs, people, vendors
- Stand-up strategy for the HR function (“clone and go” versus “right sized”)
- Full operational independence required by “legal spin date” versus use of TSA
- Works councils, union representation and transition considerations



### Risk

- Lack of standalone insurance policies for the carved-out business and dependency on the parent company (insured under master programs)
- Cost dislocations and go-forward cost of risk
- Legacy liabilities and program access
- Involving risk management team in negotiations

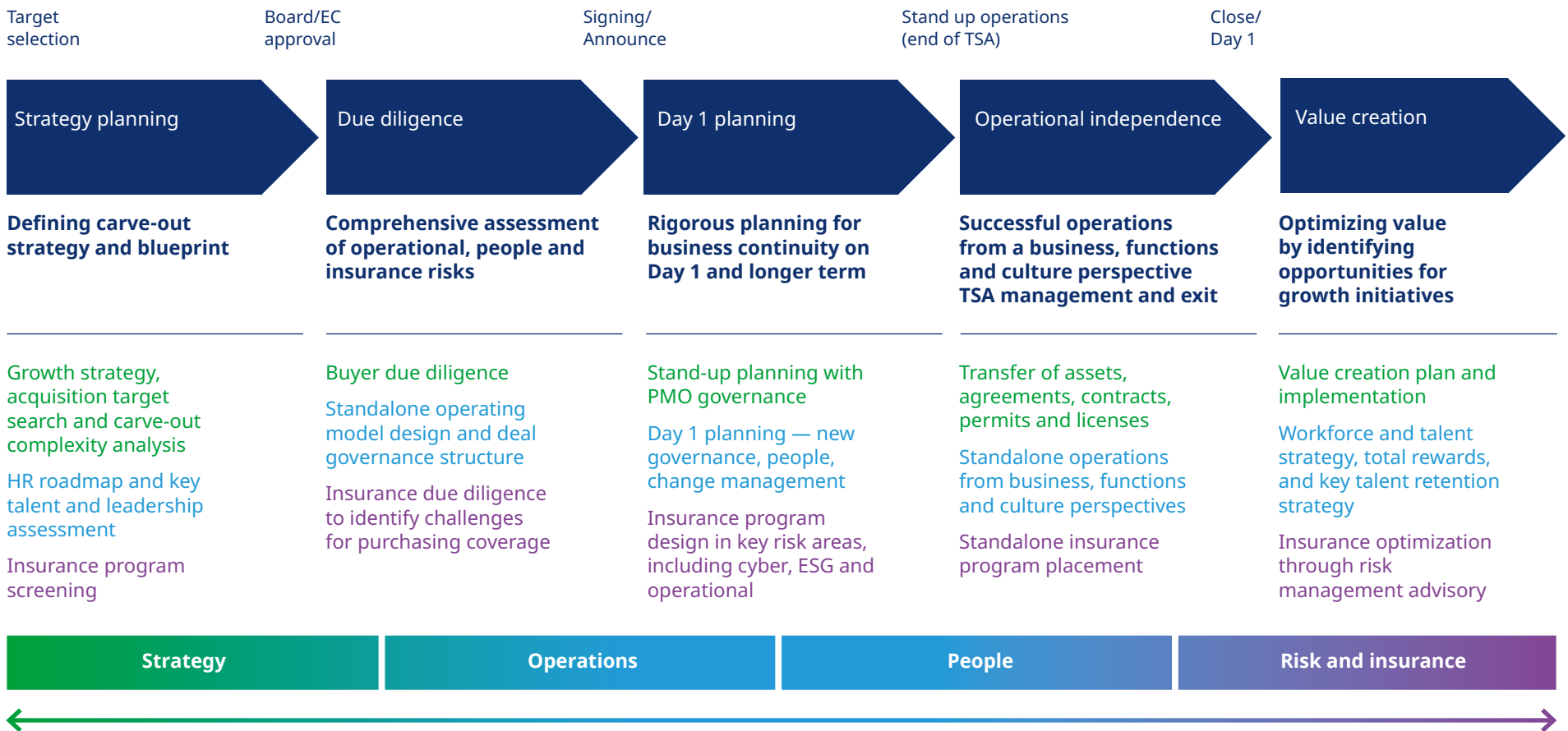


## Marsh McLennan solutions

- **Carve-out growth strategy:**
  - Products/technologies, customers and markets
  - Acquisition target search
- **Buy-side due diligence:**
  - Commercial, operational, technical, other
  - Validation and review of EBITDA growth play
- PMI, value creation planning and execution
- HR PMO and advisory support
- Day 1 readiness and planning
- TSA review (HR programs and support)
- Day 1 and post-Day 1 execution support
- Assessment of total cost of risk, including risk transfer premiums, retained losses, and brokerage and vendor fees of the target
- Insurance due diligence to minimize risk and assist in obtaining appropriate coverage, including lines of coverage (for example, cyber)
- Transactional risk insurance to project or mitigate unknown loss and tax/other contingent risks

# MARSH McLENNAN CARVE-OUT LIFE CYCLE

Successful value creation throughout a carve-out deal requires a comprehensive set of services in strategy, operations, people and risk.



Marsh McLennan can be your service provider of choice to execute a successful carve-out transaction, from strategy planning to operational independence, through market-leading expertise in strategy, operations, people and risk.

# HYPOTHETICAL CASE STUDY

Marsh McLennan has a proven record in supporting carve-out deals throughout the lifecycle.

## Client situation

Client is a PE buyer looking to acquire a carved-out business from a multinational; client needs comprehensive advisory support for the transaction. Due to time constraints and lack of resources, the client is looking for a one-stop shop to ensure a successful transaction.

Client chooses Marsh McLennan for its deep and relevant carve-out deal experience across strategy, people, and risk and for our ability to quickly deploy an experienced and coordinated team to support the transaction.

Marsh McLennan is well positioned to help clients navigate the challenges that can be endemic in such deals. Marsh McLennan also has a proven record and experience in providing strategic and tactical guidance, with 25+ years of experience supporting 6,000+ global transactions annually.

## Our approach and impact

**OliverWyman** **Mercer**

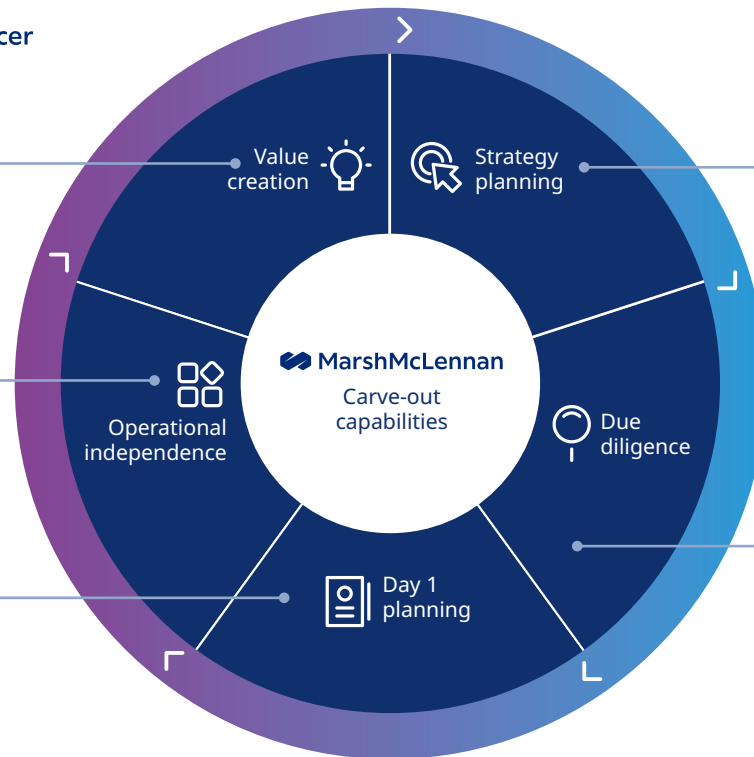
Value creation through optimizing operations, processes and systems for maximum efficiency

**Marsh** **Mercer**

Successful exit of the TSA period and independence of the new company through standalone functions and insurance policies

**OliverWyman**  
**Marsh** **Mercer**

Detailed Day 1 planning to reduce time to close while allowing for the maximum realization of the deal, with TSA support; address complications for operations and coverage lines



**OliverWyman**

Setting up a clear objective of carve-out to identify and quantify stand-up complexity, resource requirements, timelines and costs

**OliverWyman**  
**Marsh** **Mercer**

Comprehensive due diligence, allowing the buyer and seller to identify carve-out issues and address them during negotiations or be prepared to tackle them after the transaction is finalized

Illustrative

# OUR SCALE AND SCOPE

We are one company with four global businesses—Marsh, Oliver Wyman, Mercer and Guy Carpenter. We build the confidence to thrive through the power of perspective.



- Annual revenue of US\$23 billion
- Clients in more than 130 countries
- Listed on the New York Stock Exchange (NYSE: MMC)
- 85,000+ colleagues globally

## Marsh

World's largest **insurance broker and risk advisor**, with 45,000+ risk specialists across 130 countries

## OliverWyman

**Strategy, management, economic and brand consulting**, with 5,000+ experts across 60 offices globally

## Mercer

**Health, wealth and career advisory firm**, with 25,000+ consultants based in 43 countries

## GuyCarpenter

**Reinsurance broker and capital strategy advisor**, with 3,400+ specialists in over 60 locations worldwide

With roots dating back to 1871, Marsh McLennan is the world's leading professional services firm in the areas of risk, strategy and people.



# OUR CAPABILITIES—PRIVATE EQUITY

Marsh McLennan is one of the largest advisors in the private equity space; we work with more than 2,000 private equity funds, including global top-30 funds.

## 25+

years of industry-leading transaction experience

## 6,000+

M&A transactions annually completed globally

## 5,000+

participating portfolio companies

## 2,000+

private equity funds, including global top-30 funds

## 800+

global private equity M&A colleagues

 OliverWyman

 Mercer

 Marsh

 GuyCarpenter

### What we do for private equity clients

**Commercial, operational, technical and pricing** due diligence; building post-close **operational value creation, revenue uplift strategies** and **M&A plans**

**HR due diligence** and **Day 1 readiness across leadership, talent, remuneration, culture and HR systems**; optimizing **talent attraction, retention** and the **employee experience** at portfolio companies

Advising private equity funds on **managing transactional risks** as well as **risk and insurance diligence**; optimizing approaches to **risk management and insurance** for portfolio companies

**Specialist capital and financial/M&A advisory team** on transactions in the insurance and reinsurance sector

### How we do it

**Private Capital team**, with 300+ partners and aligned consultants across hubs in the Americas, Europe and Asia-Pacific

**Global Private Equity Advisory practice**, with 180+ HR M&A specialists

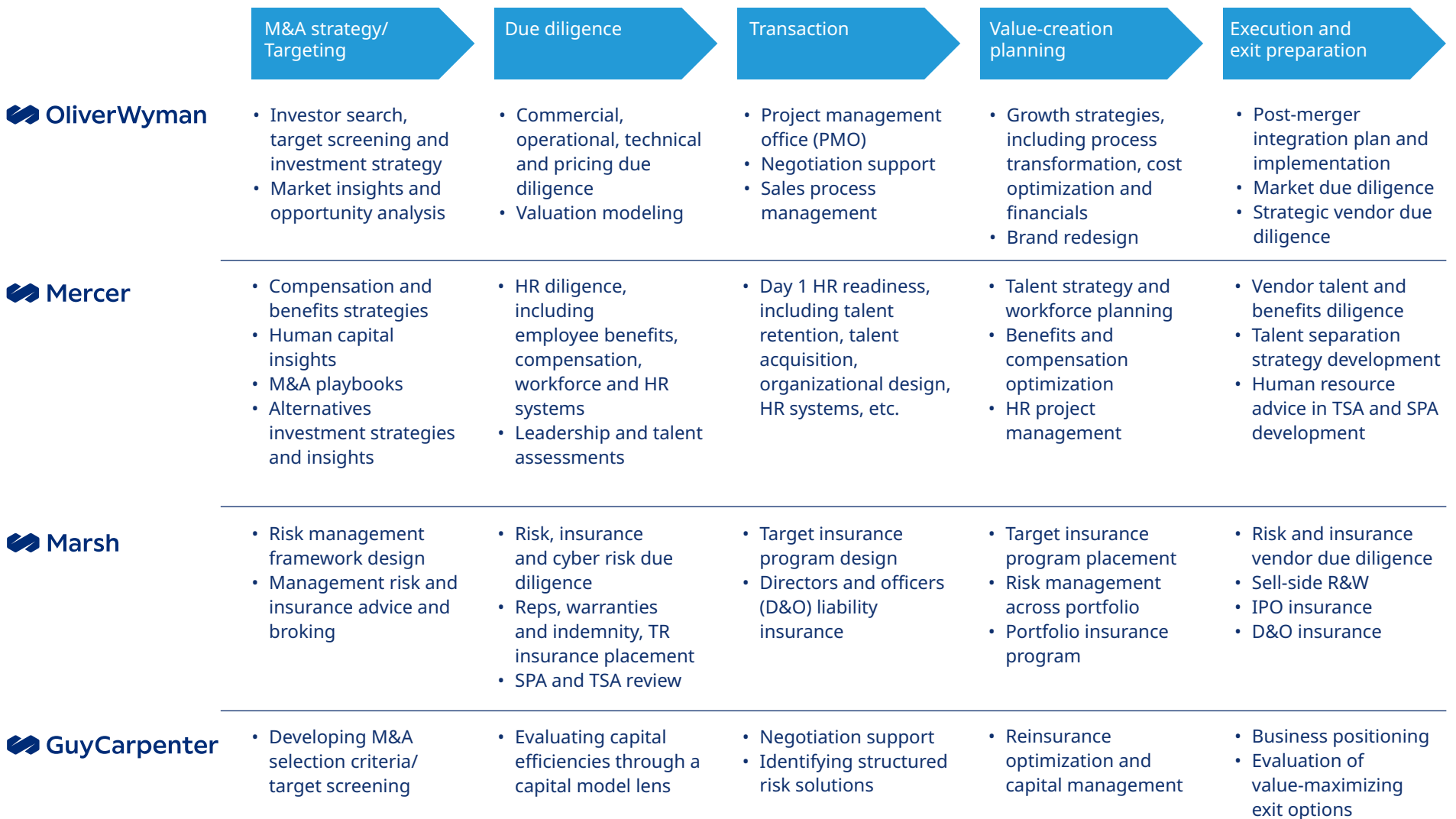
**Mercer Alternatives** also manages US\$24 billion in private markets, with 220+ professionals

**Dedicated Private Equity and M&A (PEMA) practice**, with 400+ deal risk experts across 30 countries inclusive of 100+ transactional risk brokers

**GC Capital & Advisory and GC Securities**, with approximately 25 investment professionals across North America and Europe

# VALUE PROPOSITION—PRIVATE EQUITY

Marsh McLennan provides comprehensive services in strategy, risk and people throughout the M&A cycle, from enabling deals to unlocking value across portfolios.



# OUR CAPABILITIES—CORPORATE M&A

Marsh McLennan is one of the largest advisors in the M&A space; we specialize in building and executing the strategy, defining and managing risks, and implementing a plan to optimize for the best value.

**25+**

years of industry-leading transaction experience

**6,000+**

M&A transactions annually completed globally

**900+**

corporate M&A deals

**800+**

global M&A colleagues

 OliverWyman

 Mercer

 Marsh

 GuyCarpenter

## What we do for corporate M&A clients

**Commercial, operational, technical and pricing** due diligence; building post-close **operational value creation, revenue uplift strategies** and **M&A plans**

**HR due diligence** and **Day 1 readiness across leadership, talent, remuneration, culture and HR systems**; optimizing **talent attraction, retention** and the **employee experience** at portfolio companies

Advising M&A clients on **managing transactional risks** as well as **risk and insurance diligence**; optimizing approaches to **risk management and insurance** for portfolio companies

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**GC Capital & Advisory and GC Securities**, with approximately 25 investment professionals across North America and Europe

# VALUE PROPOSITION—CORPORATE M&A

Marsh McLennan provides comprehensive services in strategy, risk and people throughout the M&A cycle, from enabling deals to unlocking value across portfolios.

	M&A strategy/ Targeting	Due diligence	Transaction	Integration	Exit prep/Asset sale
 <b>OliverWyman</b>	<ul style="list-style-type: none"> <li>• Investor search, target screening and investment strategy</li> <li>• Market insights and opportunity analysis</li> </ul>	<ul style="list-style-type: none"> <li>• Commercial, operational, technical and pricing due diligence</li> <li>• Valuation modeling</li> </ul>	<ul style="list-style-type: none"> <li>• Project management office (PMO)</li> <li>• Negotiation support</li> <li>• Sales process management</li> </ul>	<ul style="list-style-type: none"> <li>• Post-merger integration plan and implementation</li> <li>• Growth strategies</li> <li>• Cost optimization</li> <li>• Brand redesign</li> </ul>	<ul style="list-style-type: none"> <li>• Exit analysis and planning</li> <li>• Market due diligence</li> <li>• Strategic vendor due diligence</li> </ul>
 <b>Mercer</b>	<ul style="list-style-type: none"> <li>• Compensation and benefits strategies</li> <li>• Human capital insights</li> <li>• M&amp;A playbooks</li> </ul>	<ul style="list-style-type: none"> <li>• HR diligence, including employee benefits, workforce and HR systems</li> <li>• Leadership and talent assessments</li> </ul>	<ul style="list-style-type: none"> <li>• Day 1 HR readiness, including talent retention, talent acquisition, organizational design, HR systems, etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Talent strategy and workforce planning</li> <li>• Benefits and compensation optimization</li> <li>• HR project management</li> </ul>	<ul style="list-style-type: none"> <li>• Vendor talent and benefits diligence</li> <li>• Talent separation strategy development</li> <li>• Human resource advice in TSA and SPA development</li> </ul>
 <b>Marsh</b>	<ul style="list-style-type: none"> <li>• Risk management framework design</li> <li>• Management risk and insurance advice and broking</li> </ul>	<ul style="list-style-type: none"> <li>• Risk, insurance and cyber risk due diligence</li> <li>• Reps, warranties and indemnity, TR insurance placement</li> <li>• SPA and TSA review</li> </ul>	<ul style="list-style-type: none"> <li>• Target insurance program design</li> <li>• Directors and officers (D&amp;O) liability insurance</li> </ul>	<ul style="list-style-type: none"> <li>• Target insurance program placement</li> <li>• Risk management across portfolio</li> <li>• Portfolio insurance program</li> </ul>	<ul style="list-style-type: none"> <li>• Risk and insurance vendor due diligence</li> <li>• Sell-side R&amp;W</li> <li>• IPO insurance</li> <li>• D&amp;O insurance</li> </ul>
 <b>GuyCarpenter</b>	<ul style="list-style-type: none"> <li>• Developing M&amp;A selection criteria/target screening</li> </ul>	<ul style="list-style-type: none"> <li>• Evaluating capital efficiencies through a capital model lens</li> </ul>	<ul style="list-style-type: none"> <li>• Negotiation support</li> <li>• Identifying structured risk solutions</li> </ul>	<ul style="list-style-type: none"> <li>• Reinsurance optimization and capital management</li> </ul>	<ul style="list-style-type: none"> <li>• Business positioning</li> <li>• Evaluation of value-maximizing exit options</li> </ul>

