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NetSuite and ContinuServe Deliver
a **New Carve-Out Solution**

Time is Money for Private Equity Firms that are Acquiring Carve-outs

Here's how NetSuite's cloud ERP delivered via a business process outsourcing arrangement with ContinuServe helps PE firms deploy technology at deal speed to get their acquisitions operational, off TSAs, and accelerating in the marketplace.



Over the last few years, private equity (PE) firms have taken a greater interest in corporate carve-outs due to the economic value that can be unleashed. Once freed from the constraints of its parent company, the “non-core” carve-out will typically gain access to capital, deliver a new go-to-market approach, and look for further bolt-on or platform acquisitions.

Carve-outs can also be risky, costly, and complicated for PE firms. Key challenges include lost synergies with the parent company, displaced personnel, business disruptions, and the separation from an existing enterprise resource planning (ERP) platform.

Often, the most complex aspect of the carve-out process is the technology separation that requires execution excellence and a strong services partner to help drive outcomes.



This white paper highlights the growth of carve-outs in the PE investment space, discusses the main technology challenges that must be addressed during these transactions, and explains how a business process outsourcing (BPO) relationship can get carve-outs up and running quickly with their own ERP system.

Minimizing Risks During Disentanglement

Every year, roughly 400 to 500 carve-out deals take place in the Americas and Europe, according to available statistics. In separating a business unit from a larger company, PE firms help establish standalone corporations. In turn, the parent company can shed non-core assets and business activities and focus instead on its primary business offering. Complex undertakings that can be rewarding for all involved parties, the carve-out also requires an effective technology transition to run smoothly.

Carve-out deal volume in the U.S. is expected to reach record highs in 2021, with some buyouts expected to be priced more than 20 times EBITDA, a measure of a company's potential cash flow generation.

“A lot of companies are assessing their businesses right now, especially in the post COVID era, and divesting their non-core assets,” said Paul Lennick, Senior Vice President of M&A Services at ContinuServe, a NetSuite partner, and finance and accounting BPO provider.

Most of these deals are being driven by management teams that no longer want to hold onto tangential business operations, unprofitable divisions, or lines of business that no longer fit with the parent company's vision. “To solve the problem, companies just cleave off a specific operation and carve it out,” Lennick explained. Flush with dry powder capital and operating in a low-interest rate environment, PE firms are looking for new

acquisition targets. Some are diverting from standalone acquisitions that typically attract multiple buyers and high multiples in favor of carve-outs where value can be uncovered with successful execution and a solid deal thesis.

However, most PE firms lack the internal capabilities needed to successfully manage a complete carve-out.



The complexities usually start with the transition services agreement (TSA), or the contract between the parent and the new entity. The TSA spells out all the rules, timing, and requirements for the separation process. On the technology front, for example, the TSA includes specific service level agreements (SLA), what systems and data is going to be provided, the format of that data, and how knowledge transfer will be handled.

Used across the entire carve-out process, which can take anywhere from 6 to 18 months to complete, the TSA is essentially the “extraction tool” that all involved parties must adhere to. The longer the TSA is in effect, the more challenges arise. “If you can minimize the duration of the TSA, you can minimize carve-out deal risk and the expense associated with it,” said Lennick.

Working with ContinuServe as a NetSuite BPO partner, PE firms can substantially cut the time it takes to complete a carve-out – sometimes by an order of magnitude or more depending on the specifics of the deal and client requirements. This beats having to hire expensive IT consultants to come in and manage the transition to a new ERP platform. “Those consultants can quickly drain the coffers,” said Lennick, “whereas we bring in a solution that minimizes risk and addresses the durational challenge that most PE firms grapple with during carve-outs.”



Managing Carve-out Complexities

When it comes to technology systems, companies being carved out have some important choices to make. They can either clone a version of their parent company's existing ERP or implement a new mid-market or enterprise system. With the first option, the new entity winds up paying "rent" or cloning a system that it has limited control over and which may not be optimal for the new carve out. **These cloned "legacy" systems are often overly complex, inflexible, and costly.**

The model that is emerging to address the multiple challenges of a system that can be put in place quickly and be customized to the carve-out's needs, once they have their operational personnel in place, is a unique combination of technology and services that has not been available in the past.

This emerging model has the added benefit of mitigating the risk associated with a technology solution not meeting the requirements of the client.

This model involves the outsourcing provider acquiring the license on behalf of the carve-out. Since the outsourcing provider is handling back office responsibilities of the carve-out in the near-mid-term, the system is initially configured to a general set of basic requirements and can be deployed in a matter of days to weeks, depending on the specific circumstances.



As the outsourcing firm is running the back office, they will simultaneously be working with the new entity that has been carved out to define their specific requirements and customizing the system in the background. As the customizations are completed and the client has hired an operational staff, the license can be taken over by the new entity without any need to re-implement or migrate data and often on terms that are pre-negotiated with the PE.

This model allows the carve-out entity and PE to confirm that the system meets their needs prior to committing to a purchase of the technology, which substantially reduces risk of the system not meeting requirements.

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“This emerging model for handling carve-outs using a combination of outsourced services and ‘true-cloud’ software really has not been possible in the past and we do not believe there are any other providers that are able to match this model for various reasons,” said Michael Kulisch, Senior Director of BPO at NetSuite. **“We think that as the benefits of this model are understood in the marketplace, it will become the model of choice for PEs, outsourcing firms, and carve-out entities.”**

With the back-office support delivered by ContinuServe along with an outsourced ERP platform, ContinuServe helps PE firms work through these obstacles and spin up their newly-acquired companies quickly. “We get the carve-outs on an enterprise-class system within a very short period of time and also provide the services and people to run the back-office operation, which has a ton of value in this scenario since the carve-out typically has only a handful of executives running the show,” Lennick added.

“By packaging the ERP technology with our back-office services, we give PE firms the best of all worlds,” said Lennick. “A deal-speed time to value, a world class cloud solution with a low TCO, and a massively reduced risk profile while also helping them effectively work through some of the most complex issues associated with investing in carve-outs.”



Cutting Costs by 35%

ContinuServe recently evaluated a \$600 million global manufacturing business that was sold to a PE investment group by a global manufacturing conglomerate. As a division of the large conglomerate, the organization's HR, IT, and accounting functions were all provided by the parent company's global shared services organization. The new standalone entity needed an entirely new back-office infrastructure.



“The new ownership group wanted to establish new back-office operations within a rapid time frame that would be better tailored to meet the specific needs of the business in the future and do so with a competitive cost structure,” said Lennick. ContinuServe evaluated the costs, risks, and benefits of various delivery models, ultimately designing a back-office HR infrastructure for the company plus the supporting technology and onsite project management resources.

“ContinuServe’s accounting expertise and program management capabilities helped the manufacturing firm release itself from the seller’s TSA within a rapid time frame,” said Lennick, and without disrupting the business’ core activities. Soon after, service levels attained by the ContinuServe shared services operation surpassed those of the seller. **“Through our expert best practices, we helped the client attain these services at cost levels 35% below what could have been achieved by building an internally-staffed operation.”**

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One-Stop-Shop for Private Equity Firms

As the ERP platform of choice for most PE companies, NetSuite plays a prominent role in both traditional and carve-out deals. Knowing this, the ContinuServe team has assembled a one-stop-shop for firms that want to get their carve-outs through the TSA process and operational as quickly and efficiently as possible.

Lennick said employee turnover for ContinuServe's workforce is roughly 4%, or one-fourth of the industry average for companies that provide similar services. "That has to do with the way we train and compensate people, and the culture that we've developed; those are some of our key differentiators," he added. "Maintaining the continuity of our customer service and support teams is critical and gives our clients peace of mind, knowing that this aspect of their business is being taken care of."

ContinuServe also helps PE firms jump through the many different hoops placed in front of them during and after the deal-making process. "We can give PE executives the best ERP on the market for the best price and at 'deal speed,'" Lennick said. "Before long, the new entity is off of its parent's system

and operating profitably without the need to invest in a full ERP implementation or a lot of new human capital to staff the back office."

Think of it as a playbook, Lennick added, with the cloud-based ERP as a central focus. Offered on a subscription basis and encompassing additional critical business systems like customer relationship management (CRM), NetSuite can be delivered via BPO arrangement or served up on its own, depending on the specific carve-out's needs. **As a BPO provider in the IT, finance, accounting and HR areas, ContinuServe fulfills the role of implementer, supporter, and customizer.** As an implementation partner, it checks all of the boxes that a PE needs to get its acquisition separated from its parent and independently operational.





This beats having to put out a request for proposal (RFP) for a new ERP, going through the selection process, lengthy scripted demos, picking an implementation partner, enduring a 6 to 12 month implementation process, and having to hire new back-office personnel to run the system.

“These activities can consume a lot of time and man hours that PE companies and carve-outs can’t spare,” said Lennick. “Time is money in the PE sector, where ‘financial buyers’ are mostly interested in generating profits. We help them do that.”

The bottom line is, NetSuite and ContinuServe have partnered to bring a new solution to carve-outs by minimizing risk, lowering financial expenditures, and supporting the management of the business to get on to more important endeavors like running and growing the business.

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