

Exit playbooks rather than just exit clauses

With the average life of a joint venture being only seven years, it is important to have exit arrangements in place and an exit playbook for when things don't go to plan.

It is common to have exit clauses in partnership agreements, such as in joint ventures, distribution agreements, alliances and consortiums. As the name suggests, these clauses come into effect when one partner decides to exit the partnership, or all the partners decide to mutually dissolve the arrangement. An exit can be linked to events such as, the achievement of the joint objective, failure to perform, or changes in the business environment, such as a takeover or changes to the market conditions. They commonly overlap or are closely related to termination clauses.

What is less common, however, is the existence of an exit playbook – a document that is typically held by each partner separately and privately, and which identifies the tasks, responsibilities and information needed at/near exit to protect value and minimise disruption.

What an exit playbook can do for you

The existence of 'playbooks' in business is not something new, but their lack of existence in partnering situations is surprising, especially given the high failure rate associated with these forms of arrangement. An exit playbook drives shareholder value, as it:

- improves corporate governance as it provides the information and resources to deal with an issue, should it arise.
- assists to decrease group risk, as it provides robust analysis of key risks and mitigating actions
- assists portfolio management, as exit complexity and options are thorough and comparable to other similar assets in a portfolio

What an exit playbook is and what it contains

Exit playbooks are firstly, and most importantly, bespoke to a particular partnership or group. They focus on areas that are deemed important to maximise the intrinsic value in the partnership before, during, and after an exit.

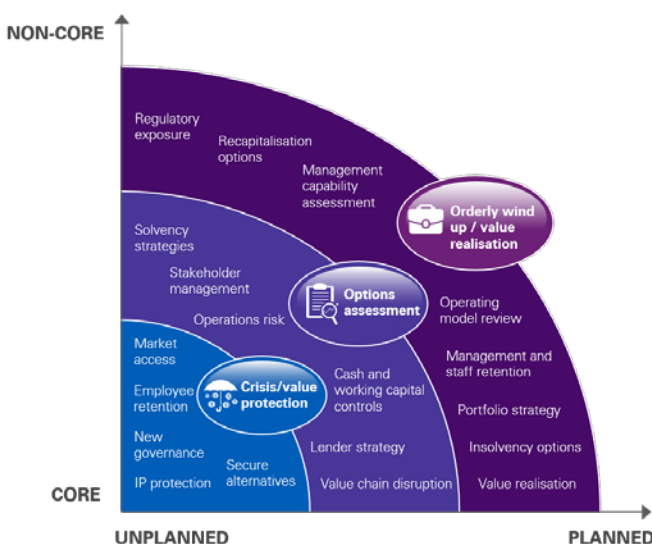
Value can come in many forms, but typically it is categorised as intrinsic and external value.

Intrinsic value items can be share value (if an equity JV), asset retention and ownership, wind-down planning, talent leakage, IP protection etc.

External value covers items that are outside the partnerships, but related to it. Often they are the reason the partnership exists. External value items may consist of supply continuity, licence transfers, accounting impacts, restructuring of parent business, etc.

So an exit playbook identifies the tasks, responsibilities and information needed at or near exit, to protect value and minimise disruption. The kind of topics an exit playbook might contain are shown in the illustration below.

Focus areas under different exit scenarios





Core vs non-core

A key consideration when developing an exit playbook is whether the partnership is core to the business, or not. In making this categorisation, careful consideration is made on the holistic impact of an exit. For example, exiting a distribution JV in another country may affect sales, but if they only represent one percent of the group's sales and are geographically isolated, then it's probably not considered core. However, exiting a JV which provides you offtake that can be used in operations elsewhere may be considered core - as exiting means disrupting the supply chain to other assets.

The determination of core and non-core also changes over time. The same distribution JV mentioned above may, over time, turn into one that manufactures and then also exports to other neighbouring countries. In this situation, the JV may tend closer to a core asset.

Planned or unplanned

The actions needed in a planned exit differ in complexity and intensity to those in an unplanned scenario. They also require different levels of governance to enforce. An exit playbook identifies the risks associated with an unplanned event, and aims to achieve the objectives of maximising value whilst minimising disruption through special arrangements, such as interim governance structures or special powers of authority bestowed on the project leader, not otherwise available under normal business operations. In some playbooks, teams with different skill sets are mobilised, possibly to protect IP or secure R&D, protect IT systems, or deal with crisis turnaround issues, such as cash management or bank asset freezes.

Partnership exit playbooks make sense

Having exit clauses is good practice as partnerships do not last forever. The downside to having exit clauses is that they are often legalistic and tend to focus on risk mitigation rather than value extraction.

The existence of an exit playbook that is tailored to your interests in the partnership, provides practical solutions to management during a situation where you need to exit. It improves corporate governance, decreases group risk, and aids in portfolio management.

The KPMG Joint Venture Advisory Practice creates exit playbooks for its clients, designed to identify joint venture risks, optimize the business and increase shareholder visibility and engagement.

Contact us

KPMG Indonesia

35th Floor, Wisma GKBI
28, Jl. Jend. Sudirman
Jakarta 10210, Indonesia
T: +62 (0) 21 574 0877
F: +62 (0) 21 574 0313

David East

Head of Transaction Services, Deal Advisory
David.East@kpmg.co.id

Brad Johnson

Director, Deal Advisory, Joint Ventures
+65 6213 3800
bradjohnson@kpmg.com.sg

Find out more about our services at kpmg.com/id

kpmg.com/socialmedia



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2016 KPMG Siddharta Advisory, an Indonesian limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. Printed in Indonesia.

The KPMG name and logo are registered trademarks or trademarks of KPMG International