

Legal Entity Rationalization Guide

For M&A, Divestment and
Operations Professionals



How Legal Entity Rationalization Helps Your Business

Corporate legal entity structure often grows unnecessarily complex as a result of M&A transactions, joint ventures, and organic evolution of the company.

Having unnecessary legal entities or a legal structure that is not aligned with the business causes unnecessary administrative costs, makes the governance of the business more complex and can have tax disadvantages.

Legal entity rationalization is a process to simplify the legal entity structure and optimize it for the needs of the business. This results in direct cost savings, makes operation of the business easier and makes you more competitive.

Common events triggering the need for legal entity rationalization:

- M&A Transactions
- Alliances and Joint-ventures
- Divestments
- Entering or exiting markets
- Business restructuring
- Tax planning initiatives

Common benefits

- Reduced admin costs
- Simpler governance
- Tax planning

Common Events Triggering the Need for Legal Entity Rationalization

M&A Transactions

M&A transactions will often bring with them a number of redundant legal entities. Consolidating business activities into a simplified legal structure is usually necessary.

Alliances and Joint-ventures

Legal entities might be left behind long after the cessation of a joint venture.

Divestments

Before going to market and to increase the attractiveness of the divestment opportunity to potential acquirers, a company might need to establish new legal entities for the divested business.

Entering or Exiting Markets

Whether considering international market entry or looking to exit markets, it is likely that legal entities will need to be incorporated or closed down (to reduce the legal footprint).

Business Restructuring

Simplification of a legal structure can often be at the heart of restructuring activities – whether to drive cost savings and reduce admin inefficiencies or to de-risk.

Tax Planning Initiatives

Optimization of a legal entity group structure can present the opportunity for significant tax savings through judicious planning.

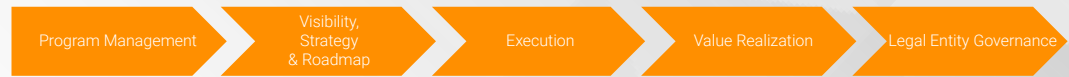
The Benefits of Legal Entity Rationalization

An overly complex and overburdened legal entity structure is likely to incur unnecessary costs and inefficiencies. Through a structured program of rationalization, a company can expect to realize a number of cost-related benefits.



Working with industry leading experts, and based on methodology used by Fortune 100 companies, Midaxo has developed a playbook for Legal Entity Rationalization that can guide any company in the midst of acquisitions, divestitures or other business transformation efforts through the process of rationalization.

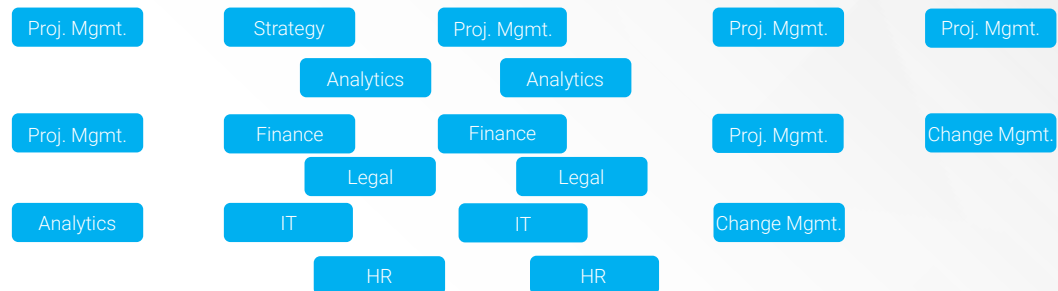
Midaxo Process Framework



Midaxo Playbook Methodology



Required Capabilities



Inputs

- ✓ Identified and agreed need
- ✓ Approval and Support
- ✓ Visibility, Strategy and Roadmap
- ✓ Completed project for each in-scope legal entity

Outputs

- ✓ Map of all Legal Entities
- ✓ Strategy for optimizing
- ✓ Roadmap for execution
- ✓ Completed project for each in-scope legal entity
- ✓ Realization of contemplated business value

Legal Entity Rationalization Workflow & Execution

Legal Entity Rationalization Workflow

1. Establish Legal Entity Visibility, Project Roadmap and Governance

The visibility phase of a Legal Entity Rationalization program encompasses creating a comprehensive list of all legal entities within an organization along with all relevant details (legal, financial, operational) about that entity. This "as-is" picture of legal entities serves as the launch pad for the process of rationalizing legal entities.

2. Develop a Strategy & Roadmap to Rationalize Legal Entities

Developing Strategic Scenarios based on the business drivers and modeling how these impact legal entities under different assumptions for the variables is a best practice approach in the early phase of creating a LE strategy and roadmap. The key considerations for Legal Entity Rationalization programs, and thus the key drivers of the strategic scenarios, include: Optimization of Tax Strategy, Optimization of Administrative Costs, Reduction of Legal Liability via Legal Entity Separation, Minimization of Compliance Costs and Strategic Importance to Business Operations.

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Legal Entity Rationalization Workflow & Execution

Execute the Legal Entity Rationalization

3. Establish LER Program Management Capability

A Program is an overarching structure to support numerous projects. Typically, in a Legal Entity Rationalization effort, a Program Management Office (PMO) is constructed at the corporate level to coordinate, track and assure benefit delivery from a collection of projects, which are executed within various areas of the organization.

4. Establish LER PMO Governance

To govern legal entity creation on an ongoing basis, the following requirements should be considered: 1) Need – given the tendency for LE proliferation, thorough analysis should be completed and a strong business case built before any new Legal Entity is created. 2) Simplicity – effort should be made to ensure any new legal entity is as simple to create and manage as possible. This will help reduce costs while improving value delivery. 3) Flexibility – to the degree possible, new legal entities should be designed and constructed to be flexible in both form and function so as to allow lower constraints in any future deployment of value in the future.

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Legal Entity Rationalization Workflow & Execution

5. Track LER Program tasks, resources, costs and benefits

Tracking elements across a legal entity project include: (i) Project plans (ii) Tasks/worksteps (iii) Resources (iv) Budgets (v) Costs (vi) Benefits and (vii) Issues. Establish a project tracking cadence across the following: (i) Project updates (ii) Issue management (including what issues need to be addressed and when) (iii) PMO updates and (iv) Exec and Local SteerCo Meetings. When it comes to distribution lists, determine which executives, stakeholders and managers each type of communication should be distributed to. Additionally, determine the contents and structure for each form of project communications.

6. Execute each LER project at the appropriate level

Projects within the overall LER Program will be executed at as low a level as is practical. Usually, this is in the specific jurisdiction in which the LE is based. Each project will have many similarities in structure (such as the format of regular status reports) while other elements — such as the governance and management structure — will vary based on the complexity of the project. The biggest differentiating factor for any given project will be the objective of that specific project with regard to the ultimate action for the in-scope legal entity.

7. Implement LER Quality Assurance and Risk Management (QARM) Protocols

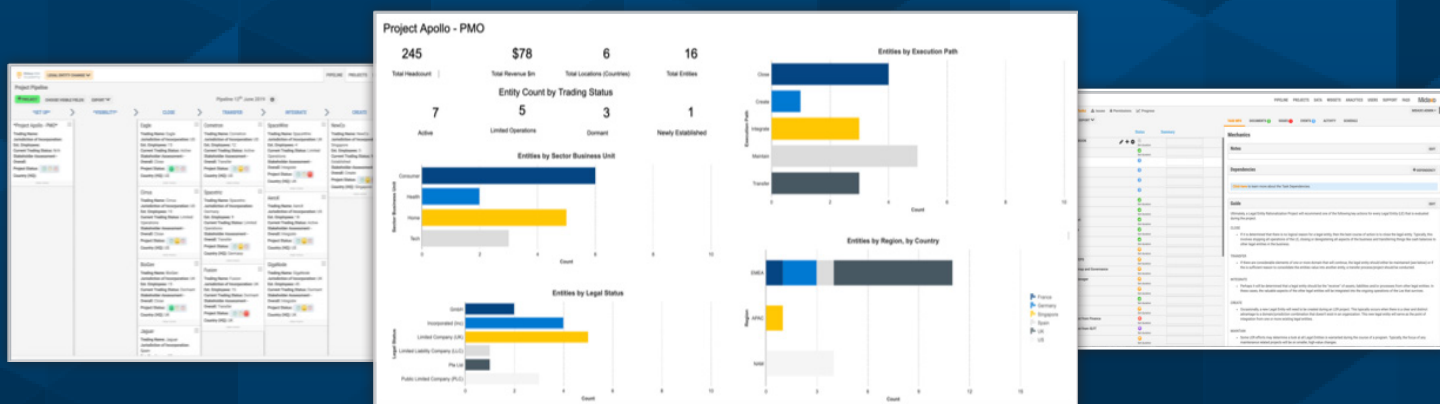
Quality Assurance and Risk Management (QARM) is an important element of any program with the breadth, complexity and possible risk of something such as a Legal Entity Rationalization project. As such, implementing an independent Quality and Risk oversight process will help ensure a successful implementation and the delivery of contemplated value. This oversight may sit within an organization's internal audit department or may be outsourced to a third party specializing in providing project / program audit support.

Midaxo Legal Entity Rationalization Solution

Midaxo's legal entity rationalization solution is a combination of comprehensive Legal Entity Rationalization playbooks, document templates and award-winning software that makes execution much easier.

Software + Playbooks + Expertise = Better Execution

www.midaxo.com/solutions/legal-entity-rationalization



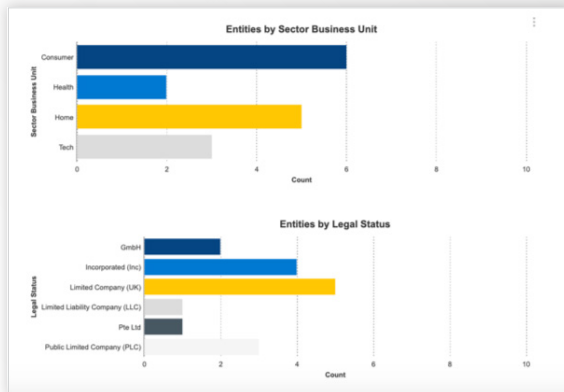
**See all entities
in one view**

**Increase visibility with
real-time analytics**

**Execute in confidence with
best practice playbooks**

Midaxo's legal entity rationalization solution enables leadership to efficiently manage legal entity changes while saving costs, mitigating risk and making entity governance much easier.

Increase Visibility with Real-time Analytics



Report in real-time across one-click reports and dynamic dashboards with drill-down functionality.

Entities by Region, by Country

EMEA

Project Name	Legal Entity Name	Trading Name	Sector Business Unit	Website URL	Current Trading Status	HQ (Country)
BioGen	BioGen Limited	BioGen	Home	www.biogen.com	Dormant	UK
Mayen	Mayen Limited	Mayen	Home	www.mayen.com	Limited Operations	UK
Helix	Helix GmbH	Helix	Consumer	www.helix.com	Limited Operations	Germany
SpaceX	SpaceX GmbH	SpaceX	Tech	www.spacex.com	Limited Operations	Germany
Fusion	Fusion Limited	Fusion	Health	www.fusion.com	Dormant	UK
Jaguar	Jaguar S.A.	Jaguar	Consumer	www.jaguar.com	Active	Spain
Solar	Solar Labs Limited	Solar	Health	www.solar.com	Active	UK



Keep track of KPIs such as legal entities by trading status, total headcount and revenue, and operational cost structure.



Track key milestones across projects - such as the strategy and roadmap to rationalize legal entities.



Analyze legal entities across business units, legal status, region and execution path.

Project Apollo - PMO

245	\$78	6	16
Total Headcount	Total Revenue \$m	Total Locations (Countries)	Total Entities
Entity Count by Trading Status			
7	5	3	1
Active	Limited Operations	Dormant	Newly Established