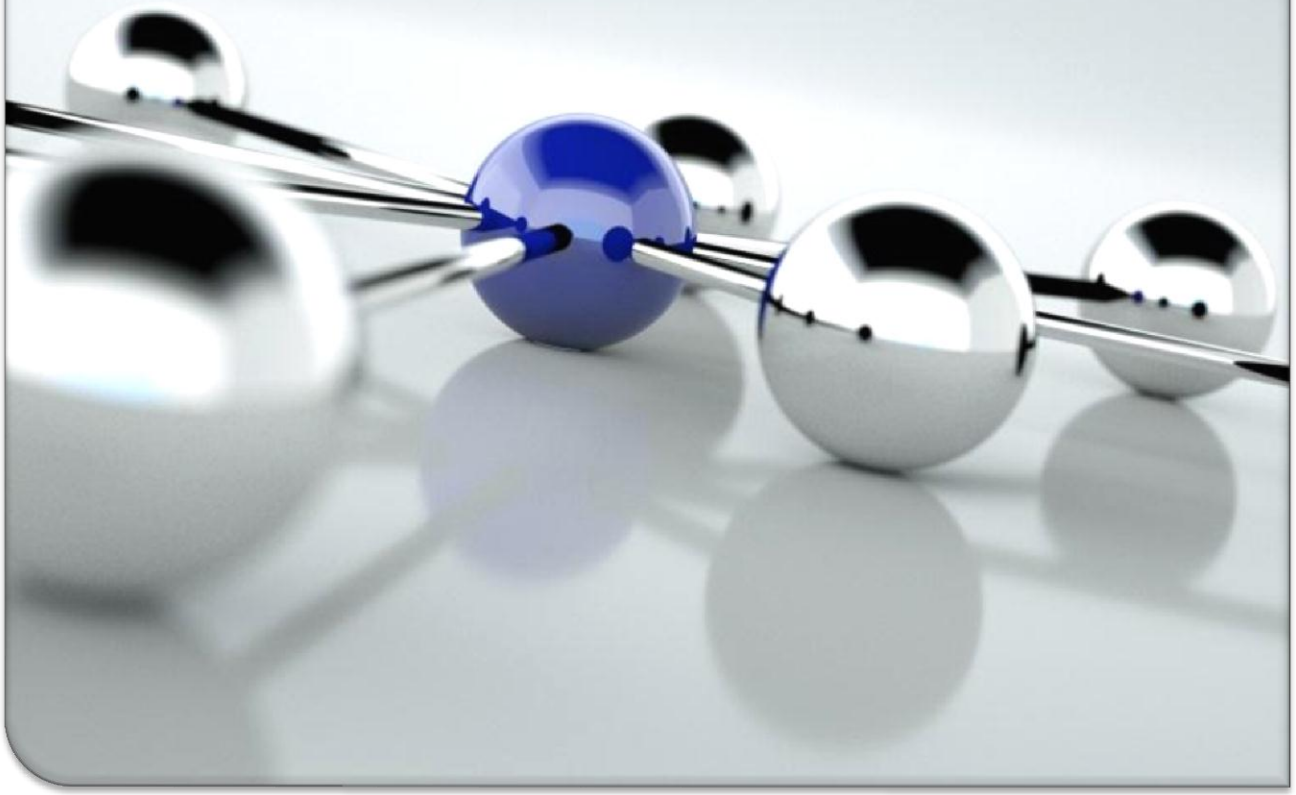
CLARIANT

Customer Enablement Program

MERGERS, ACQUISITIONS AND DIVESTITURES IN A GLOBAL SAP LANDSCAPE



14.02.2013

what is precious to you?

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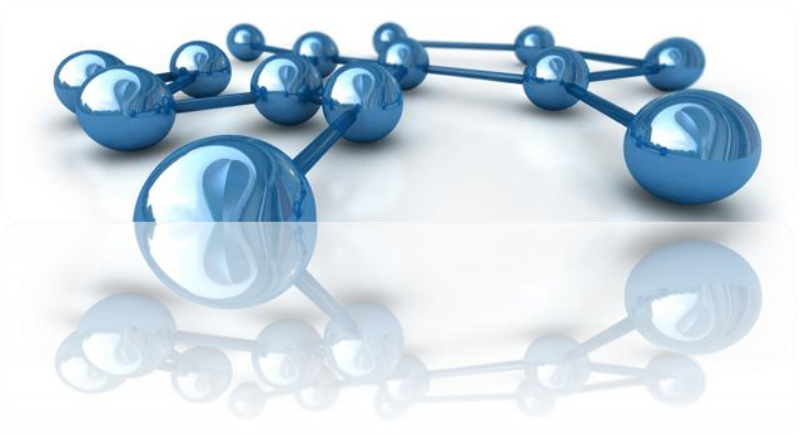
Agenda

- Introduction
- Clariant Background
- SAP Roadmap
- M&A Approach
- Lessons Learnt
- Questions



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Introduction

Paul Mauer

- Head of Global CCC* Business Applications
- 27 years IT experience, 16 Years with Clariant
- Located in Frankfurt, Germany

My Team

- 180 Application Consultants
- Delivering Projects and Application Maintenance
- Global Organization with 4 Regional Hubs in Brazil, US, Germany & Singapore
- 85% SAP, 15% Microsoft and other Technologies

*Core Competence Center

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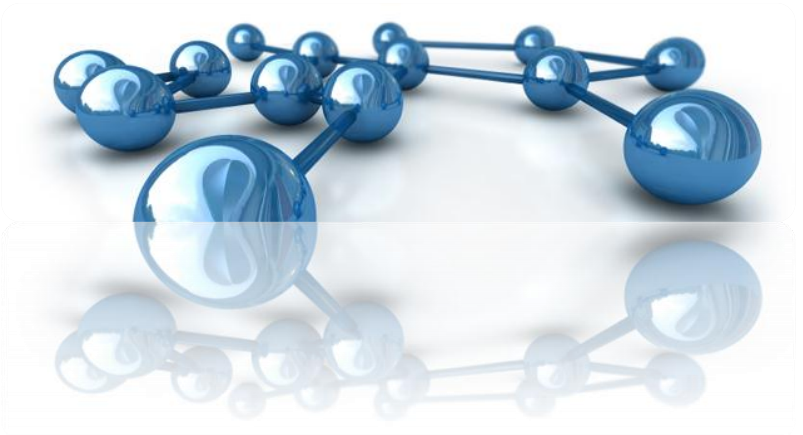

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A world leader in specialty chemicals

Clariant focuses on creating value by investing in future profitable and sustainable growth.

KEY FACTS

Sales 2011 (CHF m)
7370

End 2011
22149
employees

EBITDA 2011 (CHF m) before exceptionals
975

Production Sites in
44
countries

More than
100
Group companies world-wide

11
Business Units

Headquarter **Muttenz, Switzerland**

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Clariant operates 11 business units offering specialty chemicals

ADDITIVES[1]

CATALYSIS & ENERGY

EMULSIONS, DETERGENTS & INTERMEDIATES[1]

FUNCTIONAL MATERIALS

INDUSTRIAL & CONSUMER SPECIALTIES

LEATHER SERVICES

MASTERBATCHES

OIL & MINING SERVICES

PAPER SPECIALTIES[1]

PIGMENTS

TEXTILE CHEMICALS

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A history full of acquisitions, mergers and divestitures

SANDOZ

1886 Foundation **Kern & Sandoz** (dyes)

1995 New operating structure along Pharma, Nutrition, Agribusiness/Chemicals sectors

1996 Sandoz and Ciba-Geigy form **Novartis**

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1995 **Clariant spin-off and IPO**

1997 Acquisition of **Hoechst** Specialty Chemicals

2000 Acquisition of **BTP**

2002 Divestment of parts of **Emulsion Business** and **Hydrosulfite NA**

2003 Divestment of **Cellulose Ethers** and **Electronic Materials**

2005 Divestment of **Acetyl Building Blocks**

2006 Acquisition of **CIBA Masterbatches**

2006 Divestment of **Pharmaceutical Fine Chemicals**

2007 Divestment of **Custom Manufacturing**

2011 Acquisition of **Süd-Chemie**

2013 Divestment of BU's **Paper**, **Textile** and **Emulsions**

Joint Venture with **Wilmar**

Future: <u>One</u> Clariant / High Performance Culture:

1. Leadership & Change
2. Continuous Improvement & Performance Management
3. Growth & Innovation

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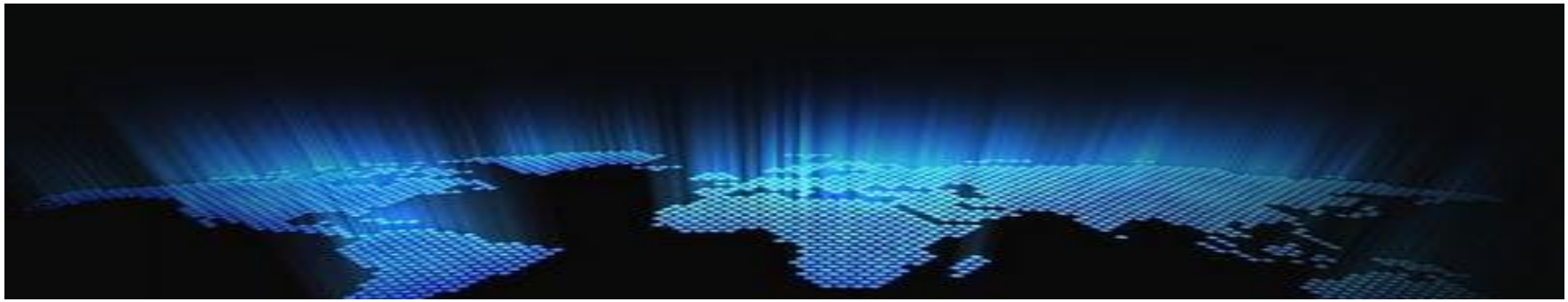
IT @ Clariant



KEY FACTS

IT Spend 2011 (CHF m)
170

Internal Headcount
400

Global Delivery Units
2

Global Data Center
1

SAP Users
12.000

Turnover covered by SAP
More than **90%**

Desktops and Notebooks
~ 18.000

Mobile devices
~ 1.500

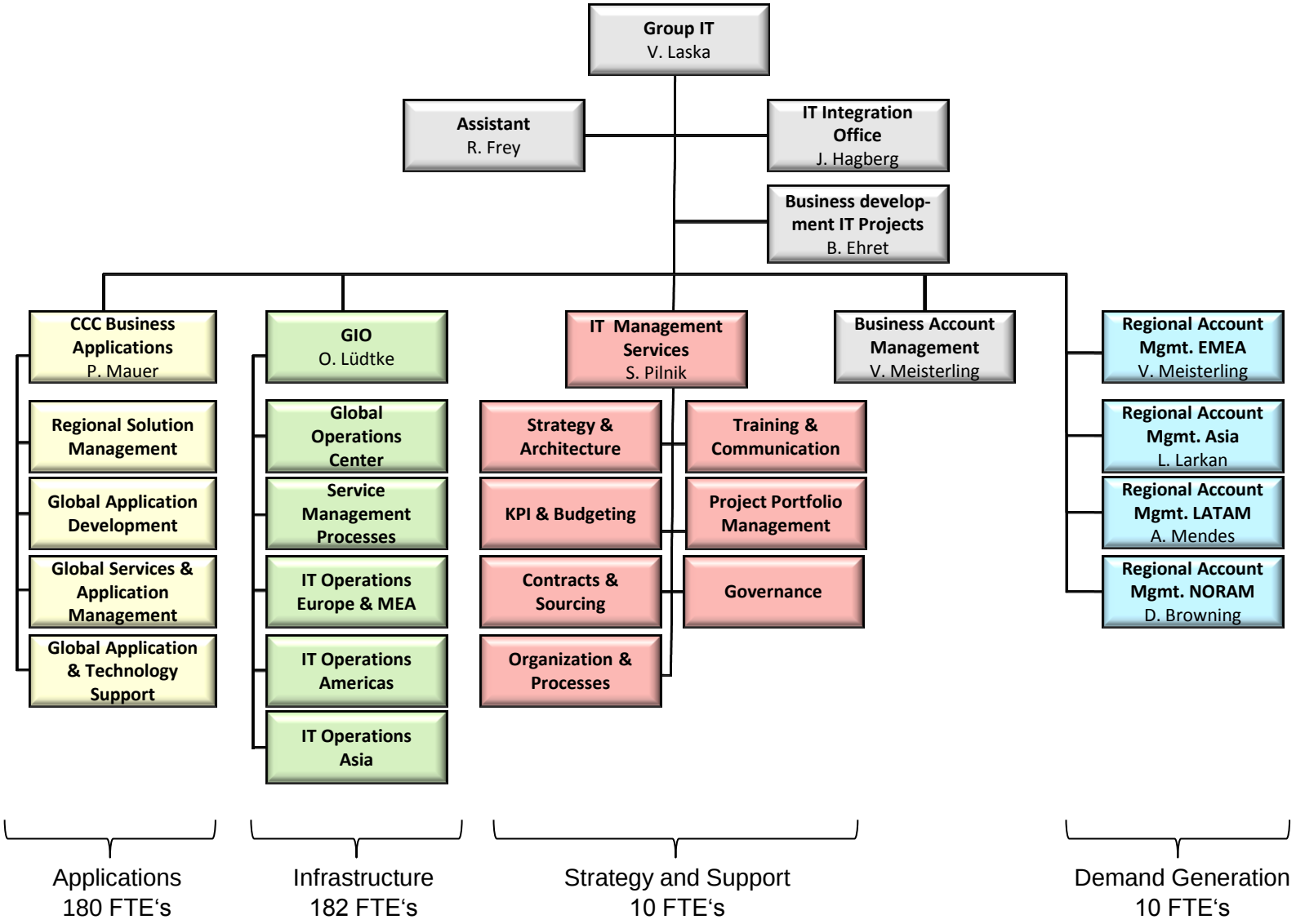
Strategic partners
6

- SAP
- Microsoft
- Accenture
- T-Systems
- British Telecom
- Dell

Balanced approach of **outsourcing** and **in-house** core competencies

Strong **service & process orientation** with globally harmonized service delivery processes

Group IT Overview



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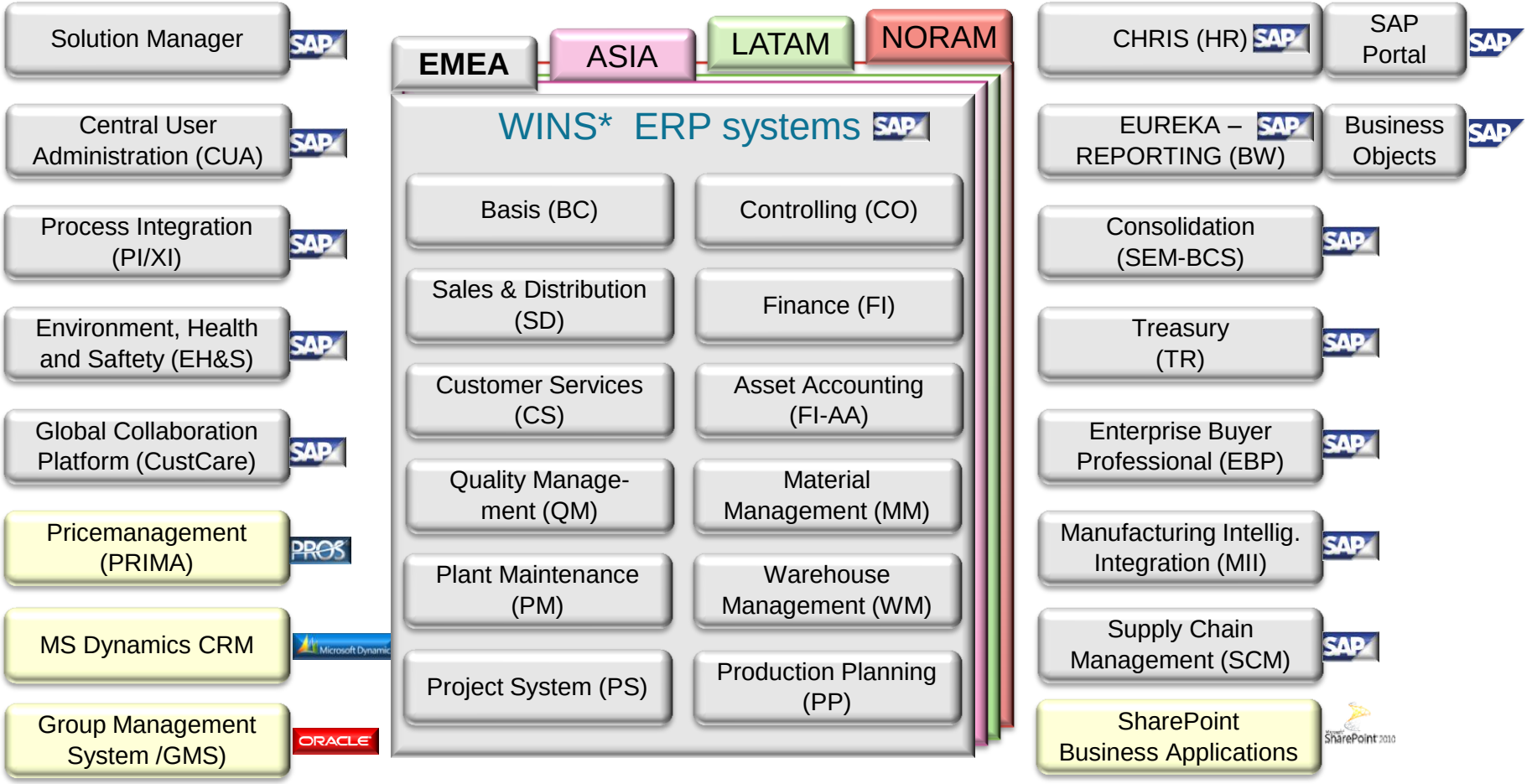
Clariant Business Application Landscape



- 4 productive regional instances
- Harmonized processes and master data
- Continuously upgraded (today ECC 6.0)

*WINS: Worldwide Information System

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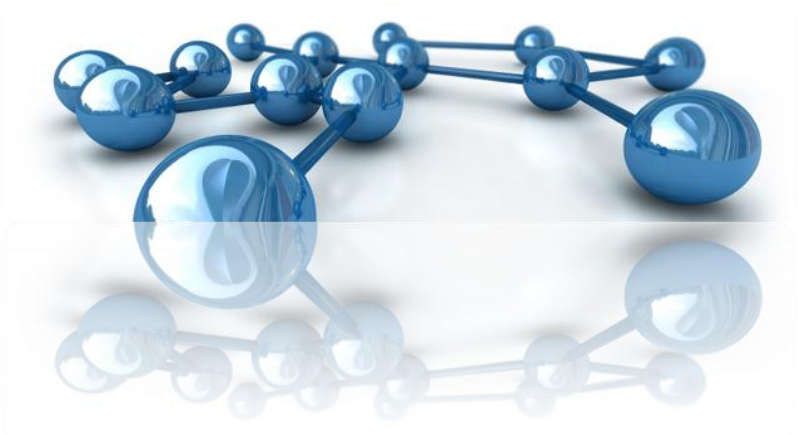

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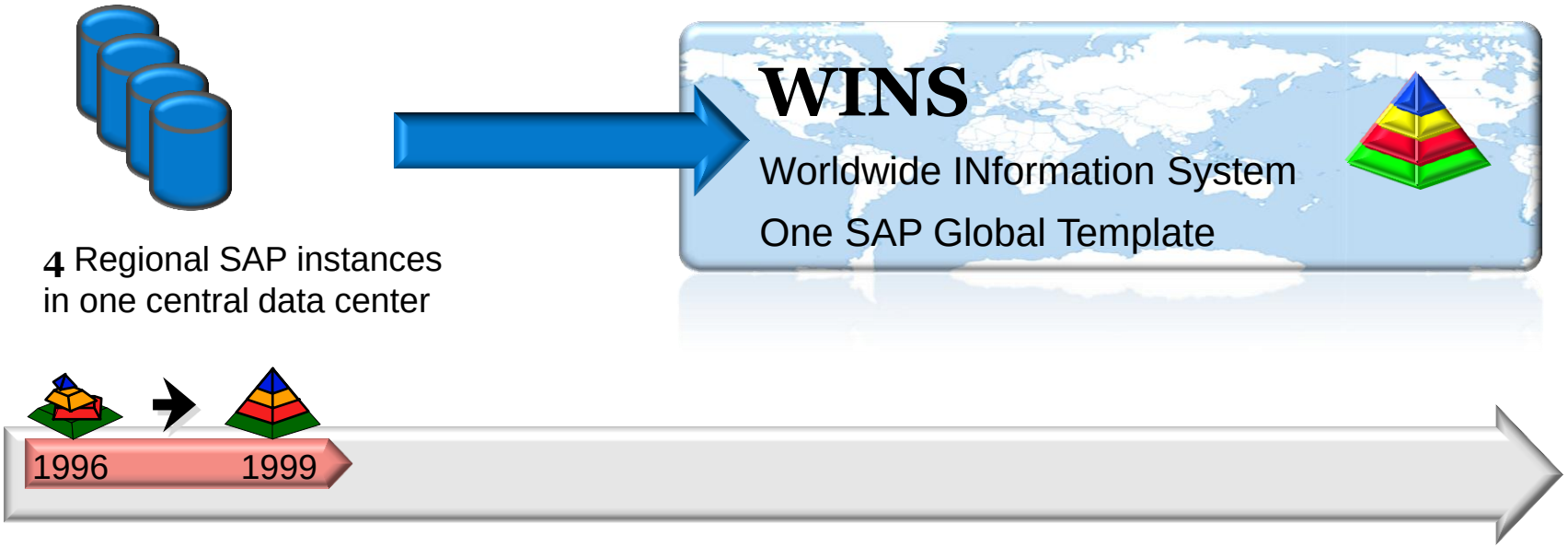
The early days… implementing a global template



- **Implementation of a global SAP template**, after the acquisition of Hoechst
- Harmonized processes and master date from day one
- Regional instances due to technical limitations of SAP
- Continuous support from Top Management was the key success factor
- 13.000 users went live within 4 years. Not a single milestone was missed

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WINS Objectives

Clariant **WINS** **W**orldwide **IN**formation **S**ystem shall support

- One global company
- One business concept
- One business application managed on a global basis

WINS Objectives were:

- Optimize, standardize and harmonize business processes
- Standardized management information from a group point of view
- Transparency and comparability within Clariant business.
- Provide better and faster information
- Common system structure within the group
- Cost-effective maintenance of systems
- Solve the year 2000 problem
- Simplified participation in technological upgrades
- Coordinated world-wide rollout of the new business concept

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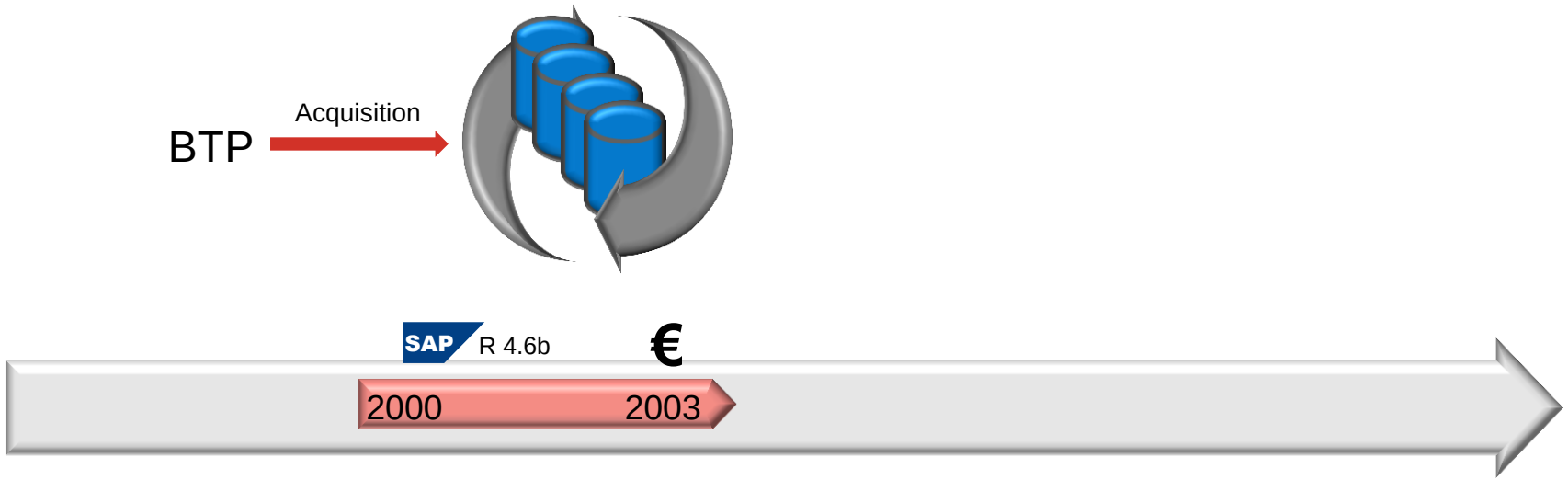
Enhancing the system in the new millennium



- Technical and **functional Upgrade** from 3.0f to 4.6b
- Significant reduction of custom development and modifications
- **Implementation** of the **€**
- **Integration** of the **acquired BTP Business** into Clariant's SAP Landscape

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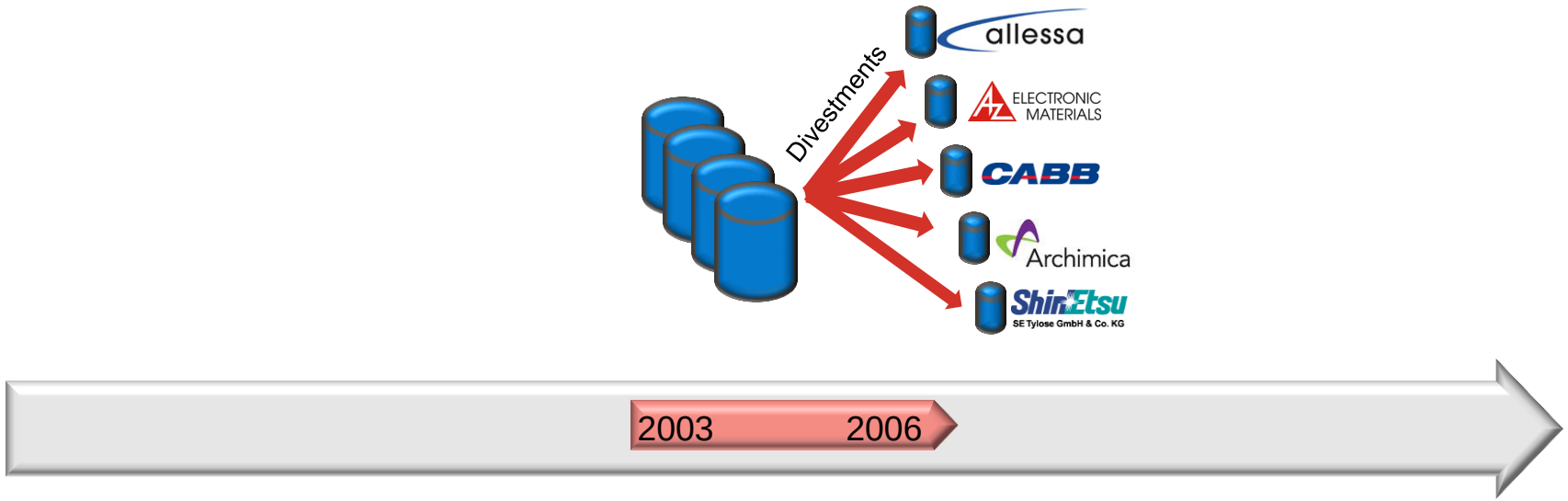
Difficult Times… Clariant sold 25% of its business



- The acquisition of BTP, led to major business problems and had to be written off
- In order to secure cash flow, Clariant had to sell several businesses to private equity investors
- All **sold business established** did setup, **new SAP Systems**, leveraging the SAP Best Practices for Chemicals and Clariant's established harmonized processes

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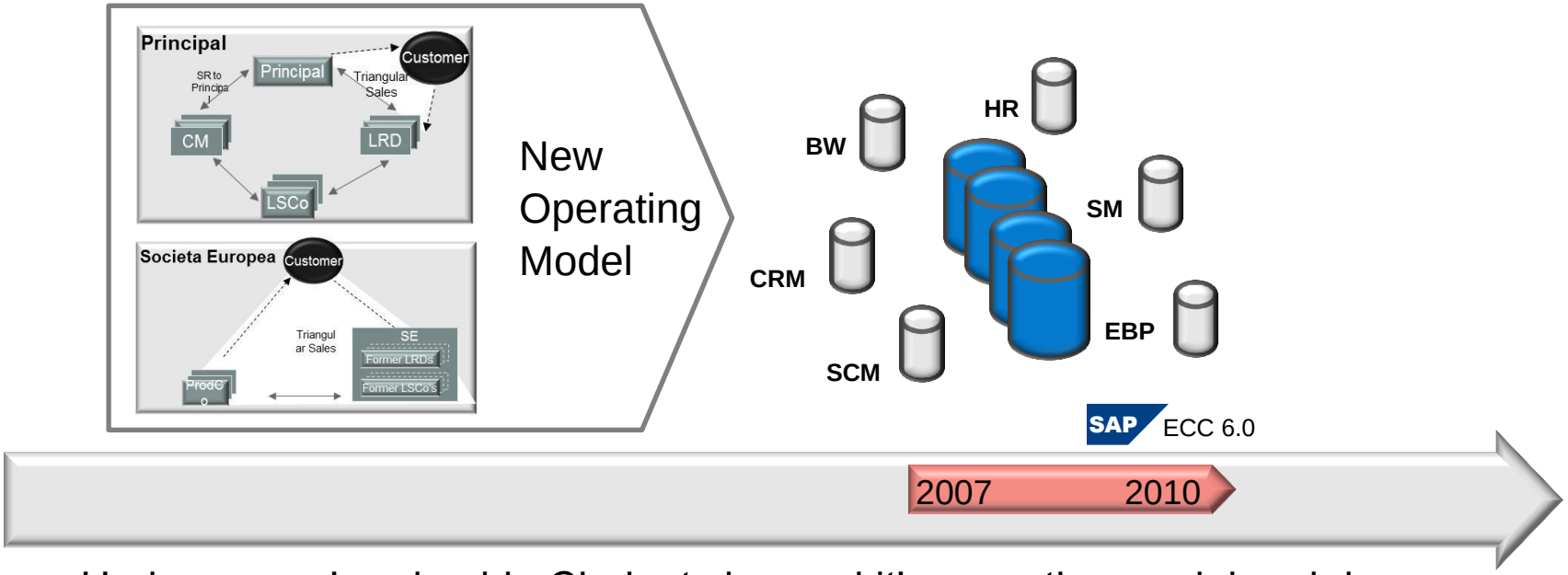
Process improvements and Reorganizations



- Under a new Leadership Clariant changed it's operating model and drove significant process improvements
- The two new European Operating models, **"Principal Agent"** and **"Societa Europea"** were implemented, that required massive rework in SAP
- New functionalities in Satellite systems (e.g. APO, SRM, BW) helped to improve business processes
- A **release upgrade to ECC 6.0** brought the system back to "state of the art"

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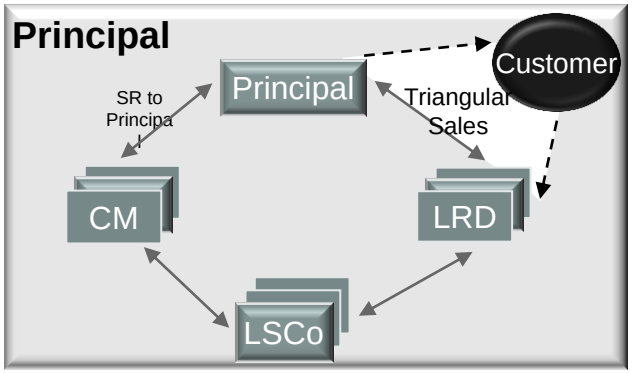
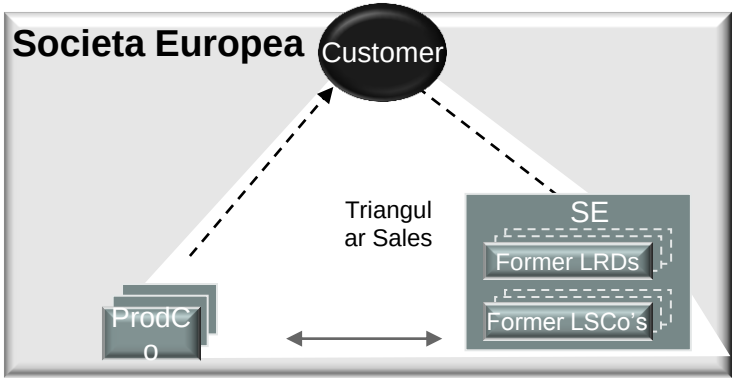
Societa Europea and Principal Agent Business





	Principal			S.E.	
	CM	Principal	LRD	ProdCo	SE
Sales Order Entry					
Demand for "finished good"					
Procurement (of secondary materials)					
Production (of finished good)					
Inventory posting & Intra-company invoicing					
Sales order fulfillment					
Picking & packing (in local WH)					
Shipping / Transport					
Customer Invoicing					
Intra-company Invoicing					

New Strength and active Portfolio Management

- With new financial strength Clariant **acquired Süd-Chemie** in 2011, representing additional 25% of revenues
- In an ongoing project **~2.500 SAP users** will be **moved** from the Süd-Chemie SAP System to Clariant's global SAP Landscape
- In parallel **3 smaller business units** will be sold and **leave the Clariant SAP** System

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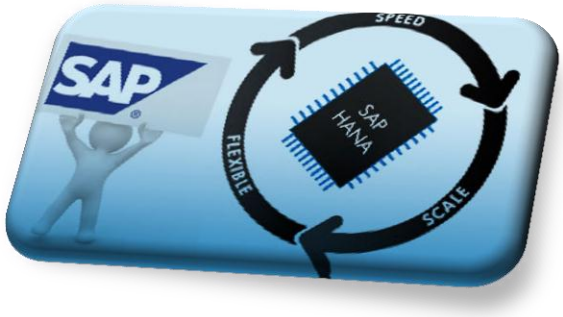
Outlook 2013+

- Continuous acquisitions, joint-ventures and divestitures
- Implementation of HANA and Mobility
- Reduction of SAP operating costs
- Industrialized project delivery with heavy off-shore utilization



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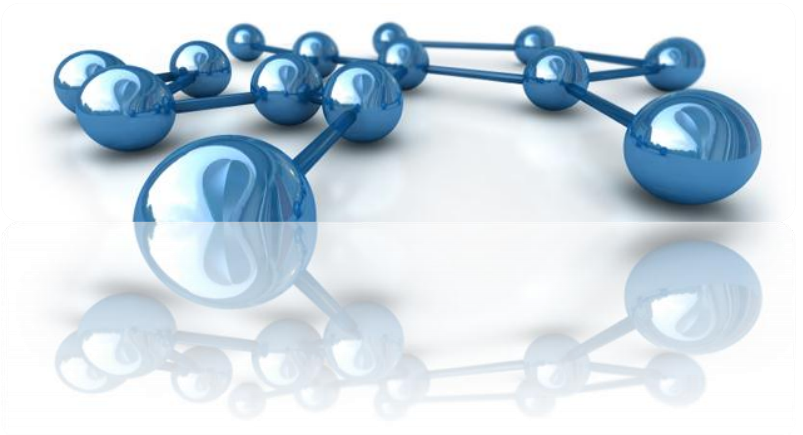

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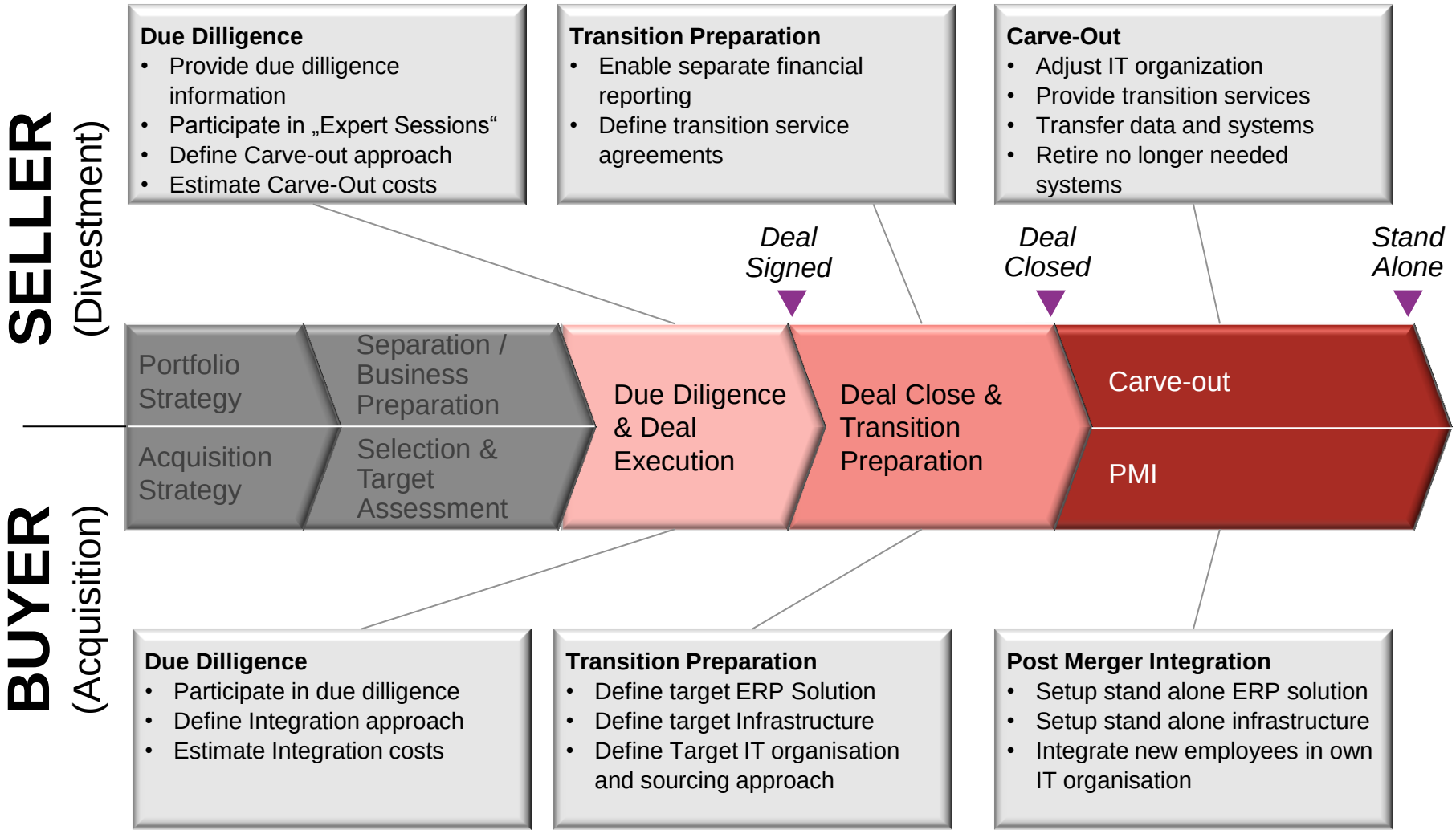
The Role of IT in M&A… Better get involved early



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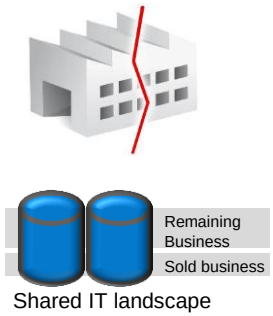
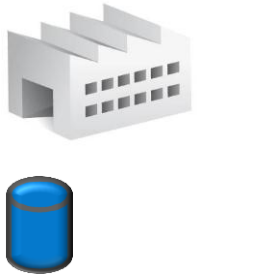
Acquistion Deal Types

Acquiring parts of a Business



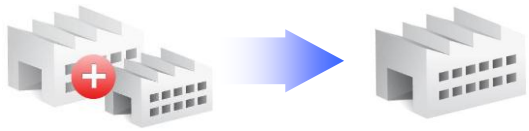
- Either „Share Deals“, „Asset Deals“ or a mix of both
- Seller needs to carve-out sold business on their ERP solution and IT infrastructure
- Typically requires an IT Transition Service Agreement between buyer and seller
- IT Integration driven by the need to reach a buyer independent stand alone IT solution

Acquiring a complete Business

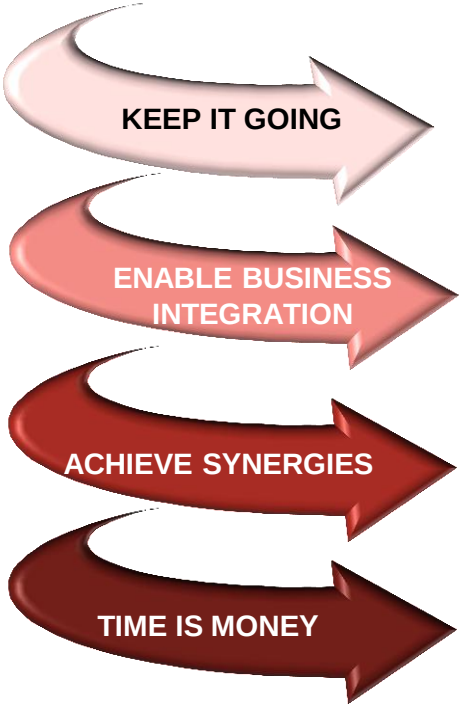


- Typically „Share Deal“
- Whole IT is acquired
- Less time pressure to integrate IT solution
- IT Integration mainly driven by business benifits and synergies
- Most common acquisition scenario in Clariant

Clariant Approach for Acquisitions



Clariant‘s organization, processes and IT solution is THE BLUEPRINT for the aquired company. Deviations only allowed for legal reasons.



Organization and processes

- Employees of acquired company absorbed in Clariant organization
- Established shared and business services applied to acquired company
- Existing Clariant WINS processes used as blueprint for the acquired company
- Customers, strategic vendors and product data of acquired business harmonized with Clariant Data

Timeline

- Clustered go-lives. 5-8 countries with 500-1000 users within one cluster
- Prioritization of countries by business benefits through integration (Synergies)

Delivery Team

- Regional hubs for design, configuration build and test
- ABAP Build and Data Migration off-shore
- Central program management in Frankfurt

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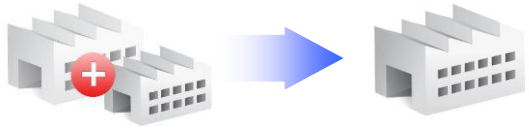
Acquistions – Challenges and lessons learnt



Challenges

- Have to absorb different culture, processes and technology
- Old leaders in the acquired company that continue to fight for independency
- Biggest resistance typically in middle management of acquired company
- Requires a complete change of organization and processes in acquired company
- Heavy workload for the whole organization. Multiple workstreams happen in parallel (IT, HR, Supply chain, procurement, etcl)

Lessons Learnt

- Speed is key. Create quick successes and prove that the Clariant solution also works in the acquired business
- Plan for heavy change management, communication and training
- Middle management has to take over ownership and drive the change
- Quickly identify the new leaders within the acquired organization and position them within Clariant
- Get top management involved frequently to push Clariant standards. Strong process owners need to fight “killer arguments” from acquired business (e.g. “this solution will have a negative sales impact”)
- Start early with master data. Harmonization takes very long and requires heavy business input

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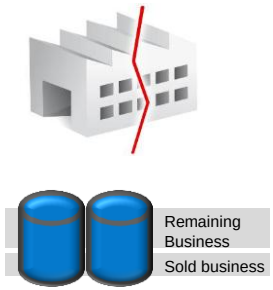
Divestment Deal Types

Typical Clariant Scenario

Selling parts of the business

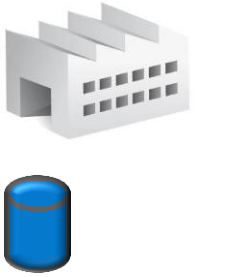


Shared IT landscape

- Selected Business Units are sold
- Business units have own profit centers but no separate legal entities
- Multipurpose sites are used by multiple business units and have to be split
- Buyers are often private equity investors with no own IT Capabilities

Did not happen in Clairant

Selling the whole company



Independent IT landscape

We hope that we stay independent ☺

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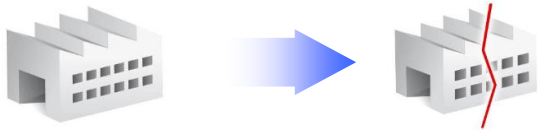
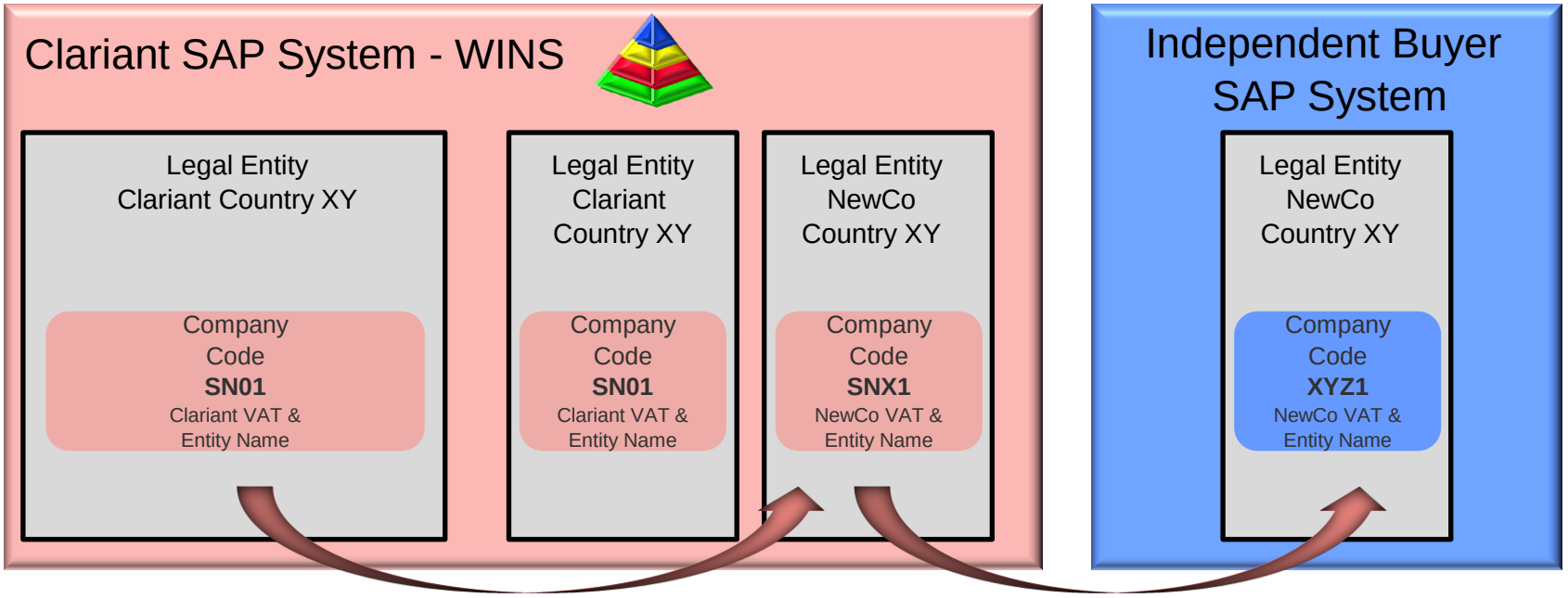
Clariant Approach for Divestments





Step 1: Company Code Split
- Happens within Clariants SAP Systems
- Creation of separate legal entities and related company codes
- Transition services provided to the buyer for 1-2 years
- Paid by Clariant

Step 2: Migration to new SAP Platform
- Driven and paid by buyer
- Three target scenarios
  - Clone of Clariant‘s SAP WINS System
  - Greenfiled SAP based on a best practice solution
  - Integration into an existing buyer SAP solution

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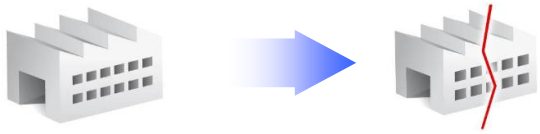
Divestments – Challenges and lessons learnt



Challenges

- High time pressure
- Unclear start date
- Buyers without IT capabilities (e.g. Private equity investors)
- Buyer requires continues IT services for 1-2 years (Transition Service Agreements)
- How to deal with required Head Count reductions in own IT Group
- Availability of Business and ability to make quick decisions

Lessons Learnt

- Share deals are easy to do, as companies are already separated
- Asset deals can be become very complex, especially within a highly integrated supply chain across business units
- Establish an IT Separation board with top leadership that quickly resolves upcoming issues and takes decisions
- High off-shore potential

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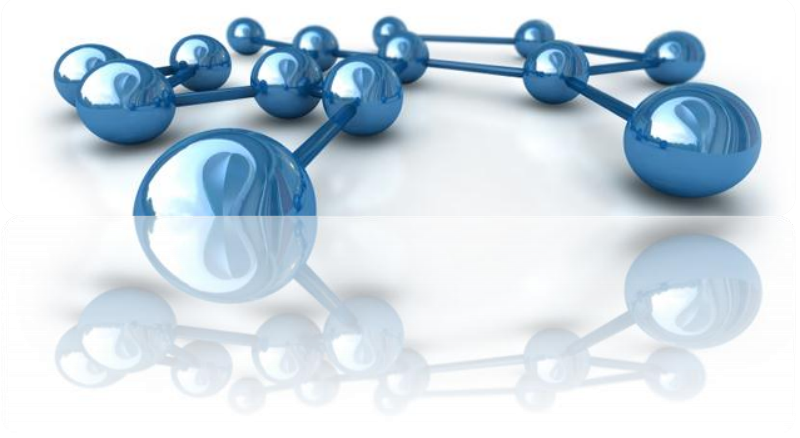

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Nine key learnings

	Learning	Description
1	**Speed is key**	• Time is money. The business requires quick execution in order to achieve planned savings or synergies. Plan a short project with quick successes at the beginning
2	**Closely bond with overall Carve-Out project**	• IT is one of the most complex part within the overall Carve-Out/ Integration: Tightest bonds to the overall program management and decision makers and an understanding of the full picture and translation into clear guidelines for IT are inevitable for IT's success.
3	**Get involved early**	• IT should get involved latest during due diligence. Ensure that cost estimates are correct, timelines are achievable and assumptions are correct
4	**Establish clear program structure & governance**	• A Carve-Out/Integration constitutes a highly complex IT program: Clear program structure and governance, undistracted management attention
5	**Plan for heavy change management**	• Setup a separate budget and team for people change management. This team needs to address communication, training and stakeholder management
6	**Establish a dedicated IT Integration/ Separation team**	• Speed requires a dedicated team. The team needs to have carve-out/ integration experience
7	**Prioritize and make decisions effectively**	• Strict prioritization and effective decision making that is mutually agreed and sustainable are key for maintaining the needed Carve-Out momentum and speed.
8	**Proactively address master data**	• Master Data and transactional Data Migration are always underestimated in complexity. Have a separate mixed IT/Business team to focus on these topcis
9	**Foster team spirit**	• At last, but not least: The attitude and spirit of your team is, what the Carve-Out makes succeed or fail! Consider incentives for successful completion of the project

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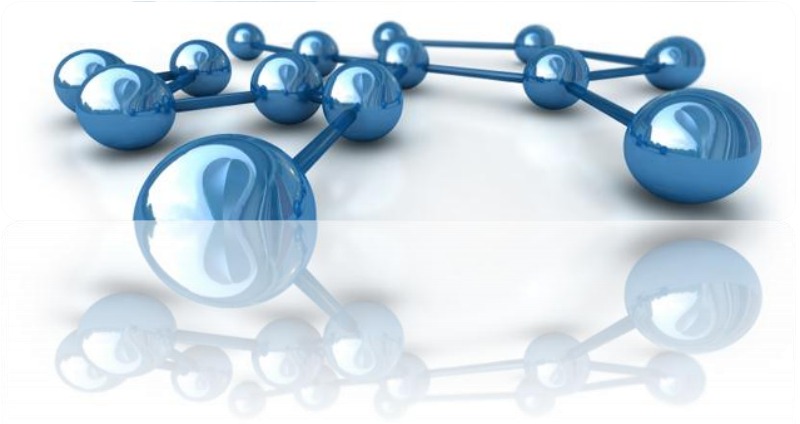

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what is precious to you?