KPMG

Joint Venture Advisory Practice

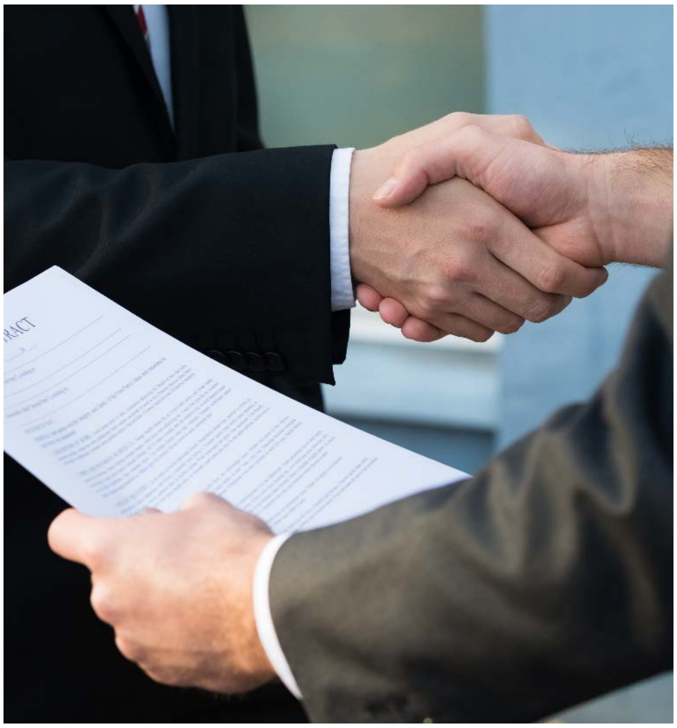
ISSUE 9 | July 2017

# Knowing when to call it a day – Planning Termination

Joint ventures (JV) and alliances are arrangements in which companies work together to achieve a strategic goal. So, the act of termination is much like everything else in a partnership – not under the full control of one party. With the average life of joint ventures estimated to be only 10 years[1], planning termination is important if companies wish to maximise the value they receive from their partnering strategies.

Termination comes in many forms, and for many reasons. The three most common reasons companies look to terminate a JV or alliance are:

- it has achieved its objective;
- a change in the external business environment that makes the partnership unpromising for one or all parties; or
- a change in strategy of one of the parents.



To add complexity to a simple list, termination can happen at different speeds and with different effects. Termination may be smooth and proceed as agreed between the parties from the onset, or it may come suddenly. Therefore, termination planning is a responsible action of the active partnership manager, and should not take a back seat to day-to-day performance management and internal reporting. As many failed joint venture shareholders will tell you, it has the potential to unravel and destroy all the value that it had achieved.

Regular termination planning as part of the partnership management process is often done at the shareholder level and without consulting the JV partner. This is acceptable in some cases but without partner consultation, the probability of something unexpected happening during implementation increases significantly.

You may not need to share everything about your termination plan with your partner as there will always be some confidential matters on strategy and post termination plans. However, it is good practice to keep the dialogue open in order to reduce the chances of a dispute. It is also good practice to seek input from the management of the joint venture, as there may be practical issues that are overlooked at the shareholder level.

[1] Law Journal

Sound termination planning includes four key steps:

- **Assess performance**
Objectively, performance can be summarised as the achievement of strategic goals, recovery of invested capital, or return on invested capital as compared to alternative investment options, and the success of the JV or alliance to create (or exhaust) value. When assessing performance, partner objectives are nearly always asymmetrical, so avoid measuring on the basis of "perception". It is important to appreciate your partners' perspective of the performance assessment.

- **Rationalise the termination**
Often, companies jump to termination without exhausting other options. For example, a lease might be extended and the partnership can continue. Resetting the partnerships or changing the contributions could achieve a different objective more efficiently than starting from scratch. Considering the best option for you and your partners will help to reduce the risk of value destruction.

- **Develop a suitable plan**
A suitable plan should consider the nuances of a partnership. An un-incorporated JV, for example, would have a different plan compared to an equity JV, just as one with state-backed partners would be different when compared to a fully-listed partner. Each plan needs to consider not only the suitability of the option but also complexity, such as contractual commitments between parties or unstructured arrangements. Agreeing on how the termination will unfold will help to avoid issues during the execution phase.

- **Focus on shareholder value**
Over time JVs, especially incorporated or equity JVs, assume their own unique identity. Systems and processes develop over time, sometimes new IP is created as a result of partnering contributions, management and staff, even if originally from a parent, go native and form their own identity. In many instances, this is what makes JVs successful. But a termination plan should take into account the fact that the main reason a JV was created was to create shareholder value for its parents. While management of the joint venture or alliance can advise on practical implications, it has to be the responsibility of the shareholders to agree on an amicable solution.

With these principles in mind, the responsible partnership manager can reduce the risk of value destruction at termination, and maximise the value to the shareholders – even leaving the partners with a favourable view of this form of business structure and looking forward to forming the next one.

### Who we are

We are a team of joint venture practitioners specializing in joint ventures at all stages – with their specific set of potential difficulties – in their life cycle. Delivering international best practices with extensive industry and geographical experience, KPMG is positioned as the only major advisory firm with a dedicated Joint Venture Advisory Practice.

*The KPMG Joint Venture Advisory Practice can help you assess your current and future needs, and restructure your business to minimise risk and maximise commercial performance, irrespective as to whether you have many partnerships already, or are considering embarking on more in the future.*

# Contact us


**Brad Johnson**
**Director**
**Deal Advisory, Joint Ventures**
**T:** +65 6213 3800
**E:** bradjohnson@kpmg.com.sg

**KPMG**
**16 Raffles Quay**
**#22-00 Hong Leong Building**
**Singapore 048581**
**T:** +65 6213 3388
**F:** +65 6227 1297


Find out more about our services at **kpmg.com.sg**

**kpmg.com.sg/socialmedia**