

# M&A Tax - The Role of Tax in Transactions, from Strategy to Implementation

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## Disclaimer

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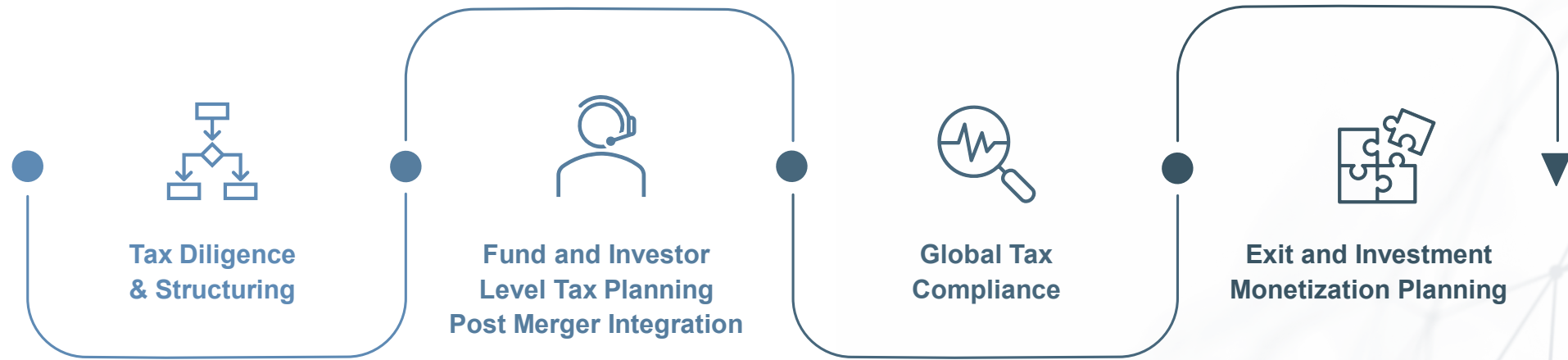


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# The Role of Tax in the Investment Life Cycle



# The Role of Tax in the Investment Life Cycle

## PRE-ACQUISITION

- Early-stage tax optimization planning
- Transaction modeling & rationalization
- Capital structure planning
- Identify tax attributes and planning opportunities Global transaction structuring
- Management retention

## POST CLOSE/HOLDING PERIOD

- Identified issued mitigation
- Interim tax management
- Tax valuation & purchase price allocation assistance
- Tax & financial statement audit support
- Tax compliance & provision assistance
- Post-acquisition integration
- Legal entity & tax structure rationalization

## PRE-EXIT

- IPO readiness assessment and assistance
- Sale planning & transaction structuring (e.g., management rollover)
- Pre-sales reorganization planning
- Tax attribute quantification and monetization planning
- Transaction tax deduction monetization & optimization

# The Role of Tax in the Investment Life Cycle

## PRE-ACQUISITION



# The Role of Tax in the Investment Life Cycle

## POST CLOSE/HOLDING PERIOD

Interim tax management

Tax valuation & purchase price allocation assistance

Tax & financial statement audit support

Identified issue mitigation

Internal controls assessments

Ad-hoc technical tax support

Post-implementation tax process improvements

Tax compliance & provision assistance

Tuck-in tax diligence & structuring

Post-acquisition integration

Legal entity & tax structure rationalization

Merger, carve-out, spin-off, divestiture services

# The Role of Tax in the Investment Life Cycle

## PRE-EXIT

Reduce overhead expenses

Sell non-core assets

Capital raise

Debt modification

M&A transaction

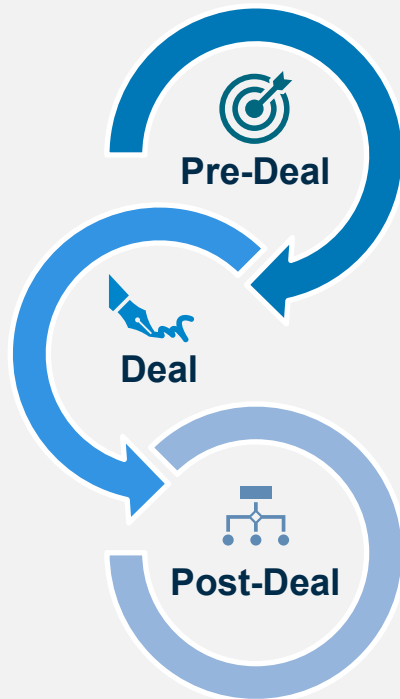
Financial restructuring/  
bankruptcy



# The Role of Tax in the Investment Life Cycle – Transfer Pricing

Much more than “benchmarking” and “compliance”

## THE LIFECYCLE OF THE DEAL



## WHAT TP CAN DO TO HELP

- Spotting early opportunities to enhance ROI
- TP policy review Risks and opportunities modelling – financial and commercial
- Tax valuations
- DD – TP
- @RISK analysis
- Structuring (business models)
- Tax and cost/benefit modelling
- Financing/debt pricing
- Business model optimization
- Modelling cost and cash efficiencies
- Moving people, functions and risks
- TP docs

## RECENT PROJECT EXAMPLES

### PE investing in staffing business

- PMI – Full integration of newly acquired portfolio group
- @RISK modeling and business model design
- Advising both portco and PE executives on risk, integration guidelines, TP models and support with auditors

### Large international carveout

- TP DD
- Business model design to enable Day 1 operations
- IP Planning opportunities
- Advising legal counsel on business models and risk mitigation
- Debt pricing

### Large music rights deal

- TP DD
- Enabling tax base ramp-up treatment for client
- Boosting tax shield through tax amortization

## KEY TAKEAWAYS



# The Role of Tax in the Investment Life Cycle – Comp & Benefits

## Realising Value

Exit/partial exit:

- Due diligence and impact of transaction on current equity arrangements
- Tax structuring (e.g., earnouts)
- Vesting and exercise process
- Employee communication
- Valuation

Listing (IPO):

- Due diligence & IPO readiness
- Post-listing share plans, benchmarking and executive compensation
- Investor guidelines
- Reporting correctly and on time
- Golden parachute rules

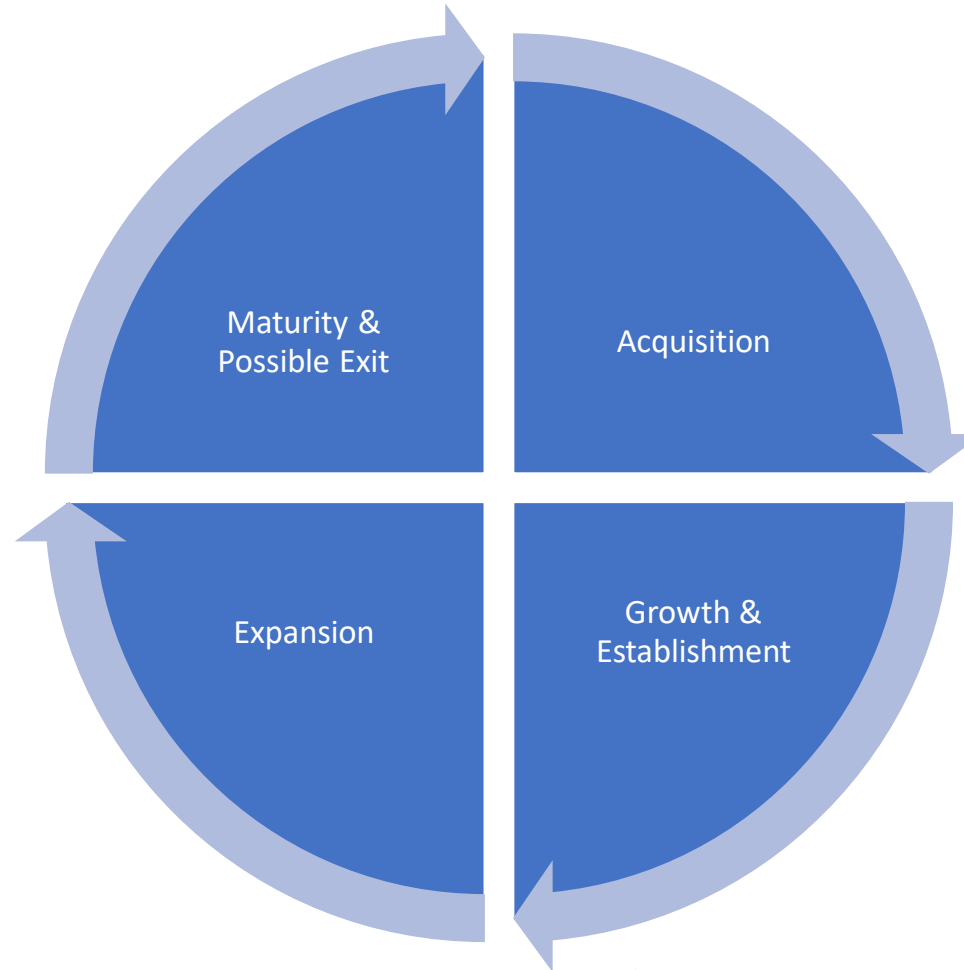
## Broadening Equity Ownership

International considerations:

- Trailing equity
- Cross border plan design
- Local tax advice
- Structure – options, RSUs, phantom plans

Mergers/acquisitions

- Due diligence
- Expanding participation in shares
- Managing the equity pool efficiently
- Reporting correctly and on time



## Acquisition

Sharing the potential with employees:

- Issuing equity to employees
- Navigating employee taxes
- Reporting correctly and on time
- Valuation of equity
- Attracting new talent
- How much equity to offer?
- What about joiners/leavers?
- Broader compensation & benefits structure

## Growing Complexity

Attracting talent & retaining and incentivising existing talent:

- Performance conditions
- Exit plans
- Structuring for optimal tax efficiency
- Reporting correctly and on time

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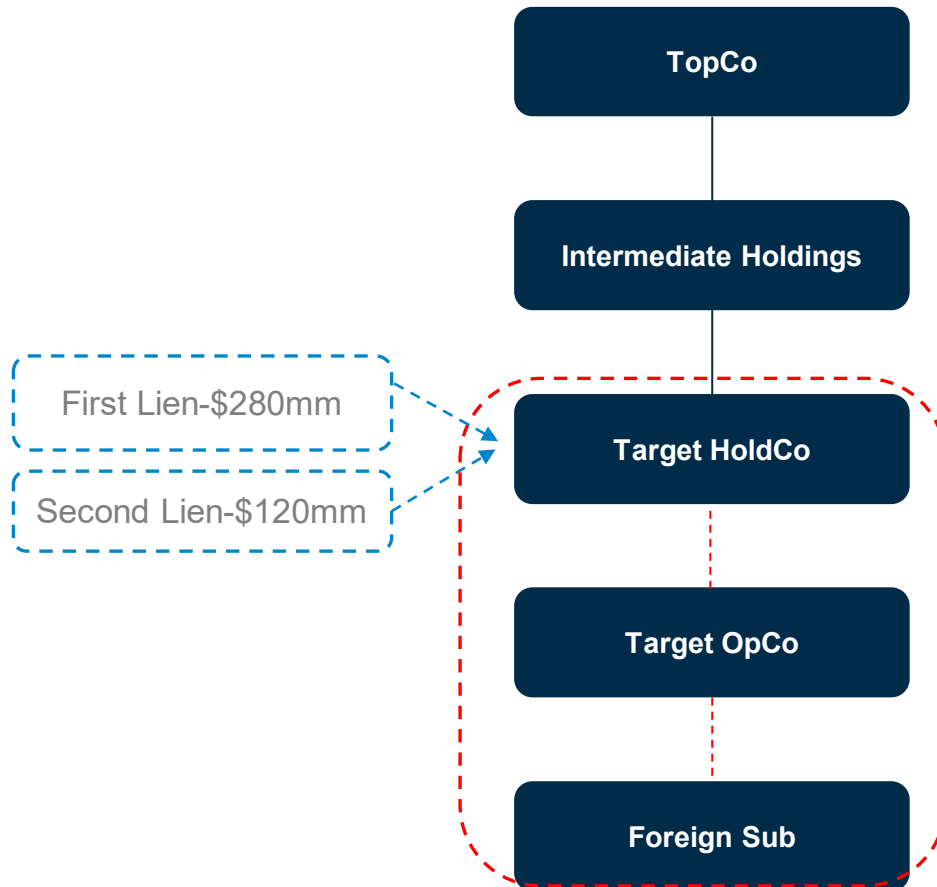
# The Role of Tax in the Investment Life Cycle – Case Study

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## Case Study

- Acquisition of 6,000 employee organization
  - 40+ countries
- Our client
  - US PE fund
- Our role
  - Design and implementation of a global management equity program
- Retention Program
  - RSUs
  - US participants
  - Nil cost options in other jurisdictions
- Management Equity Incentive Plan
  - 2 classes of shares
  - Structured as PIs for US participants
- Needed to think about the rest of the world
  - The agreed term sheet was very US centric
- Overcoming practical challenges

# Tax Restructuring Considerations – Trouble Company



## Target Profile

- Equity value-zero
- Enterprise value excluding long-term debt of \$310mm
- Long-term debt of \$410mm
- First lien debt trading at par, second lien debt trading at 30% of Par.
- Tax basis in assets of \$210mm
- Net operating loss carryforward of \$15mm

## Restructuring Considerations

- Capital raise of \$100mm from issuance of voting preferred and common stock to new investors
- Second Lien debt exchanged for \$30mm of preferred stock and \$6mm of common stock
- First Lien debt satisfied with \$50mm in proceeds from capital raise and \$230mm from new long-term debt
- Target's post restructuring liabilities are \$260mm

# Tax Restructuring Considerations – Trouble Company



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Discussion

Questions

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# QR Code Feedback

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