

# Navigating joint ventures

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# Introduction

Joint ventures (JVs) of many different varieties have become increasingly popular in recent years as a solution to a number of corporate development challenges. The participants contribute assets, capital, unique expertise or labor to access diverse advantages, such as scale, risk sharing, market entry, optionality, tax benefits and access to others' unique capabilities. A recent EY survey shows that over 40% of companies indicate an increasing use of JVs as an avenue to drive disruption.<sup>1</sup>

Accessing these advantages, however, is not easy. The diversity of reasons for and assets contributed to JVs dictate that each one requires customized legal, governance and operational designs. Yet, few corporate development departments have developed expertise with JVs: they are used less commonly than acquisitions, and, in many cases, the executives who lead a JV transaction transfer to the new entity and therefore are not available to the parent to lend experience for the next one.

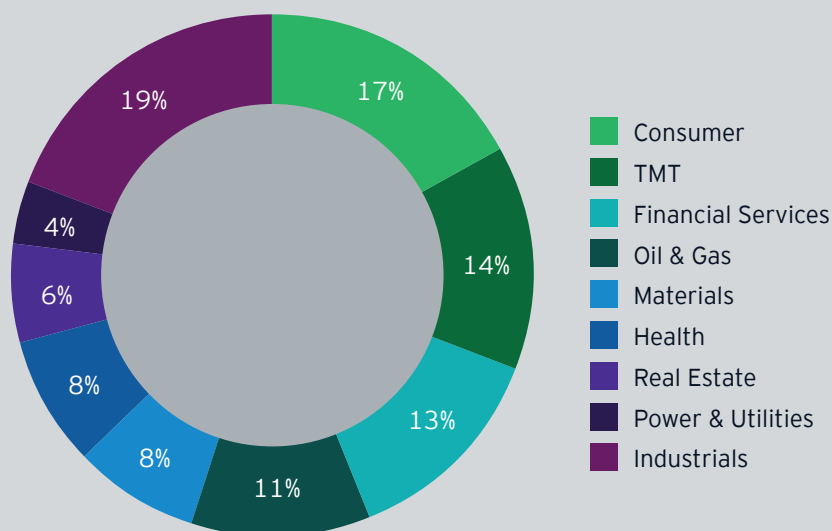
JVs are used in almost all major industries; although, often, the primary objectives vary depending on the business sector. Mitigating risk, therefore, requires not only generic JV experience but also an understanding of the particular drivers, practices and challenges in each industry.

## Historical trends

In an EY analysis of JVs between 2001 and 2019, we found that companies in the industrials, consumer, financial services and TMT industries made up over 60% of the JVs by volume. Also, 40% of JVs had parent companies from different industries, where common examples include manufacturers partnering with technology companies or consumer products companies partnering with local distributors to increase their sales channels. This trend was particularly evident with JVs between US-based companies and companies in the Asia-Pacific region, particularly China and India

### Share of announced JVs by industry

between 2001 and 2019



EY professionals stand ready to assist companies undertaking JVs. We have extensive JV experience and understand what it takes to achieve desired results. We have advised on dozens of large-scale, cross-border JVs within the last several years and maintain a dominant position in JV advisory services. Executing JVs can be a risky undertaking. In this paper, we highlight what JV participants need to do to improve their chances of success.

<sup>1</sup> EY global survey of 1000 c-suite executives, April-July 2020.

# Why consider a JV?

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A JV can provide the benefits of collaboration without the economic and political risk associated with a merger or other business combinations.

There are a number of drivers behind why a JV might be a preferred structure, which are discussed below.

## Capital and asset intensity

Projects can be too big for a single company to finance on its own. Recent studies show a greater return on assets for JVs when compared with investments in wholly owned affiliates.<sup>2</sup>

## Risk mitigation

Single companies may not wish to assume full exposure to a speculative investment. Also, an increasing trend is for buyers of a risky business to insist that the seller retain a significant ownership position in the business through a JV structure to share risk and encourage constructive behavior from the seller over a number of years.

## Access to technology

Owners of proprietary technology may restrict access to participants willing to contribute skills and assets to help the technology build a market position.

## Access to resources

The legal owner of resources may need the help of a JV participant with the capital or skills to develop those resources to their maximum potential.

## Supply chain optimization

Supply chains can be optimized across disparate geographies by pooling participants' assets. For example, distribution costs can be reduced dramatically if players with similar products contract to manufacture for each other in geographically dispersed locations.

Pooling assets of participants may allow a JV to develop a market-leading position in a particular geography or product, thereby providing the cost benefits that no participant could attain working alone.

Similarly, regional solutions available to limited customer groups can be pooled, providing scale and customer benefits. In declining industries, JVs are sometimes used to reduce capacity in a shared and orderly manner. Some countries require foreign companies to work with local entities to participate in their markets.

## Political sensitivity

JVs, as opposed to acquisitions or takeovers, are sometimes more palatable to governments, labor groups and communities. Cross-border JVs can be used to address the challenges and obtain product or market access.

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<sup>2</sup> Gerard Baynham, "How Joint Ventures Staged a Quiet Comeback" *Chief Executive Magazine*, 6 October 2017.

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The COVID-19 pandemic is expected to impact the availability of capital to pursue growth and innovation, making JVs an attractive vehicle to achieve growth ambitions.

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# Success and failure – where to focus

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Companies frequently use JVs to limit risk when buying new assets or entering new markets. Rather than going it alone, companies are requiring sellers of assets to retain partial ownership or are teaming with an experienced participant when entering a new market. For example, a US-based original equipment manufacturer established its first JV in China in 1997; by 2009, it had invested in nine JVs across the country; and, by the first quarter of 2019, it had delivered over 800,000 vehicles through the JVs.

However, pursuing JVs is in itself both risky and time consuming. Significant research has been carried out on the subject of JVs and their performance, and various studies have reported that over half of the JVs underperformed when compared with expectations set by their parent companies or the market.<sup>3</sup>

In the EY analysis mentioned above, we then reduced our data set to approximately 160 JVs announced between 2006 and 2015 where at least one parent was a Fortune 50 company. The study also showed that only approximately 50% of the JVs lasted more than seven years. Many of these deals did not materialize after the memorandum of understanding (MOU) was signed. Our conclusion is that JVs with persistence tended to be with companies in traditionally closed markets, such as the APAC example above, are designed such that the JV leverages diverse capabilities from each parent company, and are established with clear goals for parent company governance, dispute resolution and exit strategy.

## **The risk of failure can be reduced by focusing on these critical success factors for JVs:**

- ▶ Clear definition of the JV boundaries from both an asset and operational perspective
- ▶ Financial and tax planning
- ▶ Operational planning and execution, initiated early
- ▶ Clarity of contribution from the parties and related agreed-upon metrics to monitor the health of the JV
- ▶ Consideration of potential exit scenarios
- ▶ A robust agreement that provides for all of the above
- ▶ Transparency, openness and honesty among the participants
- ▶ A dedicated team to oversee the implementation of the JV

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**When JVs are managed well, they can deliver real value to all stakeholders.**

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<sup>3</sup> James Bamford, David Ernst, David G. Fubini, "Launching a World-Class Joint Venture," *Harvard Business Review*, 29 March 2012.

# Types of JVs

There are three general varieties of JVs:

## Capability-sharing JVs

45%

The JV conducts business by leveraging a combination of capabilities from the parents. For example, one parent may bring product line and manufacturing capabilities, while the other brings distribution skills in certain countries. The JV itself may have limited operational assets; it coordinates a mix of capabilities held by the various participants.

## Operational JVs

35%

Two or more companies create a new entity that holds the full complement of operating assets and capabilities necessary to conduct the business.

## Risk-sharing JVs

20%

Two or more companies create a JV primarily for the purpose of sharing risk or financing. One of the participants typically runs the entire operation, with the others contributing only funding and, potentially, input on policy-level decisions.



# JV phases and issues

When JVs go wrong, participants can lose money, credibility, proprietary technology, assets and management focus. The following sections look at some of the key areas to focus on at each stage of the JV life cycle to avoid the major pitfalls.

EY professionals recommend structuring the JV life cycle in four main phases tied to critical milestones. The four key phases in the JV life cycle can be summarized as follows:



# Planning for a JV

Once a decision has been made that a JV is the appropriate vehicle for a particular project or asset, there are a number of processes to be undertaken.

## Identify and select participant(s)

JVs are often complex, long-term arrangements. Trust, therefore, is critical to the success of the relationship. The early signs of whether your company and its participants are compatible will often be evident during the negotiation process. Experienced venturers are quick to walk away from a situation that does not feel right.

Participant selection is a critical step and one that will determine the success of the JV. When JVs fail, it is often because of a breakdown in the relationship between the JV participants. This can be caused by a lack of trust, differing strategic objectives, and unrealistic or nonaligned expectations of what participants can expect from each other. Clarity and thoroughness of planning at this stage and the JV formation stage can mitigate the risk of disagreement in the JV operation stage. Each needs to be aware of the others' aims and limitations. Shareholders and governments may have very different strategic aims and views on an investment.

The number of participants in a JV can be a critical determinant of its success. Smaller numbers of participants make it easier to manage the decision-making process and to align objectives and the strategic direction of the JV.

It is important for JV participants to carry out due diligence on each other across a range of areas, including key financials, credit status, technical capabilities, management strength, existing commitments, outstanding litigation and prior JV performance. When a number of participants are being considered, it may help to have a scoring process covering all of these criteria.

## Define the scope of the JV

The next step is to clearly define the scope of the business or assets that will be transferred to the JV. If the assets are a collection of existing businesses that form part of a broader business or supply chain, defining the scope may be complex. It is, however, critical that the boundaries of the JV arrangement are clearly articulated and understood by all of the JV participants and addressed in the JV agreement. This process should include not only the definition of the physical assets but also the definition of the markets and potential customers that the JV is aiming to serve. This is especially important where a JV could be in competition with the venturing participants' other business interests.

## Perform commercial analysis of the JV

Commercial analysis and modeling of the JV are key steps and should address a number of scenarios with sensitivity analyses around crucial variables. These variables might be, for example:

- ▶ Financial factors (e.g., interest rates, inflation)
- ▶ Production and sales levels
- ▶ Geopolitical factors (e.g., implications of a change in government, tax regimes)

By thoroughly modeling the financial implications of a range of scenarios, JV participants will understand the possible implications for the JV in terms of net present value and internal rate of return. This will sensitize all participants to a range of potential scenarios for the JV so that they are realistic in their expectations.

By considering and discussing upside and downside scenarios in an open and honest manner, participants can anticipate potential difficulties and discuss how they would respond if that scenario should occur. These scenarios and anticipated outcomes can even be built into the legal agreement and can provide protection against future litigation, which can be costly for all sides and damaging to the business.



## Define the legal, tax and financial structure

The JV must assume an appropriate legal, tax and financial structure. Prospective JV locations, jurisdictions, and legal and tax-efficient operating structures should be evaluated to discover, at an early stage, operational restrictions imposed by applicable laws and regulations. If multiple options are being considered, the pros and cons of each of the proposed locations should be evaluated and compared through risk rating scores and weighting. Part of this process should involve consideration of the tax implications for both the JV and the venturing participants of where the JV will be domiciled and where its main centers of operation and management will be located. This analysis should also include an assessment of the tax implications of the potential legal structures under consideration.

## Define the business strategy and plan

A business strategy and development plan should be prepared for early discussion among potential JV participants. The plan may change over time as a result of discussion and negotiation, but it is important that there is a clear, early understanding of the proposed assets, geographies, markets, outstanding commitments, investment case and timing, and growth targets for the JV. This plan should also cover proposed management and decision-making processes. It is critical to get the balance right between allowing management enough autonomy to effectively manage the business and make rapid decisions as they expect and allowing the JV participants to control its longer-term strategy and commitments.

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## Don't overlook the cultural aspects of a JV. Culture isn't restricted to countries.

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## Identify and mitigate risks

While companies often enter into JV arrangements as a means to reduce risk concentration, participating with another company introduces other risks that must be considered during the planning stage. The exact nature of these risks will vary depending on a company's role in the venture and the attributes, capabilities, skills and other factors that a potential participant brings to the negotiating table. The following sources of third-party risk introduced by another participant or other parties should be considered during the JV planning stage:

- ▶ Preexisting obligations of the participant, which may include pending litigation, environmental cleanup or decommissioning obligations, or other contractual obligations
- ▶ Indemnities in place that may protect JV co-participant but would not extend to the company or the joint venture entity
- ▶ Financial strength of the participant
- ▶ Technical capabilities, particularly when serving as the operator of an arrangement

The contractual arrangement governing the JV should be structured in such a way as to mitigate or manage these risks at an acceptable level. The due diligence process when planning the JV should include identifying and understanding any preexisting obligations and exposures of a potential participant. JV parties should include indemnity clauses or other protective mechanisms in their agreements to minimize exposure to, or appropriately manage, another participant's obligations. Each party should also consider the financial strength of its co-participants and whether they are likely to be able to meet cash call requirements and their shares of external obligations. As part of a JV, companies will be exposed to both preexisting and ongoing risk from co-ventures. It is therefore crucial that a robust participant risk assessment be completed during the JV planning phase and the contractual arrangement be structured to minimize exposure or appropriately manage these risks.

# Forming a JV

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The JV formation process will see the development, negotiation and finalization of the issues identified during the planning phase.

## Detailed location planning

- ▶ Planning and implementation reports on the chosen or short-listed tax and legal jurisdictions that will host the JV will need to be completed. Reports should cover such aspects as:
  - ▶ Required licenses
  - ▶ Necessary regulatory approvals
  - ▶ Environmental impact assessment requirements
  - ▶ Governing law
  - ▶ Corporate law and compliance requirements of any JV company and any equity owners or stakeholders of a JV
  - ▶ Local employment law analysis
  - ▶ Tax considerations
  - ▶ Local asset, property and land ownership rights and requirements
  - ▶ Applicable company law requirements (such as nationality of the general manager, board voting and shareholder voting, and retaining of profits in country)

## Financing of the JV

Details of the JV financing will need to be discussed, agreed upon and finalized. They will include:

- ▶ Exact definition of contributions from each participant
- ▶ Value of contributions
- ▶ Capital structuring of the JV (e.g., use of debt)

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At the outset, JV participants need to be clear about what exit strategies and options should be.

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The implications of the proposed financing will need to be assessed:

- ▶ Does the proposed jurisdiction allow the contemplated form of financing?
- ▶ What is the tax treatment of debt financing?
- ▶ Does a limited resource project financing model work under the legal system?
- ▶ Is leveraged financing possible?
- ▶ Does the applicable law allow the free and easy taking of security in certain properties?
- ▶ Can security be enforced in theory? In practice?
- ▶ Is there, in fact, a working, transparent, local banking system in which a foreign investor can deposit working capital without risk of loss?
- ▶ What are expropriation laws, protections and remedies?

All of these questions will need to be considered and addressed.

## Getting an early start – prenatal entities

One of the difficulties of starting operations of a JV is that until day one, there is no entity to interact and contract with customers and vendors. Yet, many things must be contracted well before day one: office space, telecommunications capabilities and banking services are a few simple ones. Progress during this time period also frequently slows because, without an executive team in place at the JV, there is an unclear or multi-level decision-making process, as even fairly simple issues get escalated to various combinations of executives at the parents.

One possible solution is to establish, many months before day one of the full JV, a small, initial JV (called a prenatal entity, or PNE) with a few executives and limited funding. The PNE can establish bank accounts, sign contracts, establish business processes with customers and make rapid decisions during the pre-close period while the final steps of getting to day one for the main JV are completed. On day one, the PNE and the main JV can be merged.

## Financial reporting for the JV

The integration of the JV's financial reporting with the participants' statutory reporting requirements must be considered.

A JV may need to provide local accounts for statutory reporting purposes, International Financial Reporting Standards (IFRS), and US or other generally accepted accounting principles (GAAP) accounts to meet the reporting requirements of the JV participants. This can lead to complex accounting operations within the JV if the parents report in formats different from one another. Also, the proportion of the JV investment and operator responsibilities of each of the venturing participants will determine whether the JV will need to be treated as an equity investment or consolidated within the participants' accounts.

Clearly, the need for consistency with the JV participants' accounting requirements will be greatest where the accounts need to be consolidated. Critical reporting issues, such as reserves recognition by the various participants, will need to be discussed and clarified and the principles, if not the quantities, agreed to.

There may be critical areas of the JV of particular interest to the JV participants that may require additional due diligence. One example is the production management processes and output of a production-sharing agreement. Where such issues exist, it may be necessary for JV participants to adopt additional assurance processes and mechanisms, such as Statement on Auditing Standards No. 70 (SAS 70), to give all JV participants a high level of comfort about the process and output.

## Management of legacy risk issues

Where the JV is formed using existing assets, there will need to be a clear mechanism for ring-fencing liability, risk issues and tax contingencies that predate the JV formation. These items may include ongoing litigation, environmental cleanup liabilities and outstanding human resources (HR) liabilities (e.g., pension funding, redundancy costs). Responsibility for legacy items will need to be allocated to the appropriate JV participant who "owns" the potential liability and detailed within the JV agreement.

## Use of proprietary technology

Where the JV will use proprietary technology owned by one of the JV participants or the JV itself, the agreement between the JV participants should cover the usage of this technology. In addition to any patents or trademarks, the agreement should identify the licensed users and the geographies where this technology can be deployed. Suspicions over perceived or real intellectual property theft are a common cause of friction between JV participants, but by dealing with these issues in a preemptive, thorough manner, the risks in this area can be largely mitigated.

## Mechanism for settling disputes

It is important that a clear dispute escalation and resolution process is understood and agreed to by all of the participants. This may include defining escalation mechanisms in the JV itself and referencing local and other laws. Stipulating mediation as the required first resolution venue can preclude expensive court battles.

## Exit strategy options

The JV participants need to be clear about what the exit strategies and options should be. A range of mechanisms exist to enable JV participants to buy each other out of the JV, should the need arise (e.g., "Russian roulette" or "Texas shootout"). However, other scenarios should be considered and included in the JV agreement as appropriate. These scenarios should respond to situations where, for example:

- ▶ One or more of the JV participants are unable to meet a cash call or unanticipated liability.
- ▶ A number, but not all, of the JV participants want to sell the JV in its entirety.
- ▶ The JV is put into liquidation, should the need arise.

## Implementation of a participant review process

As part of the ongoing JV review process, participants should consider the implementation of a regular review process, where their own performance is discussed and appraised in the context of the management of the JV. This will enable issues to be discussed, raised and resolved on a timely basis – as opposed to going unsaid and potentially escalating into larger issues that lead to a breakdown in the working relationship.

# Operating a JV



**Structuring a JV correctly is critical to its success. However, it is equally important that the JV perform in line with the participants' plans and expectations. Many of the problems that occur with JVs stem from performance issues that undermine the initial rationale for creating the JV.**

## Organizational design

Creating the new JV management structure, policies, procedures and culture will be critical to the JV's success. Where the JV involves the combination of existing assets and organizations, this will involve decisions about whether to adopt the participants' existing policies, procedures and cultures or instead create a completely new set. The organizational design must be sympathetic to the employees so that they all feel like part of the new organization. Change should be managed and communicated proactively. This will be more difficult where overlapping or duplicated roles require simplification of the structure or reduction of the number of employees. Positioning senior and middle management from all participants within the new organization is critical. If one organization is seen to dominate the new management structure with little representation from the other participants, this may de-motivate and destabilize staff. It is important to recognize and understand corporate cultural differences between the participants' organizations. This will help the new leadership team to effectively manage and communicate with the new organization.

It is important to bring the new leadership team together; create a shared identity, vision and purpose; and then focus on communicating and sharing this with all levels of the new organization.

When the JV is a new organization, starting with a blank piece of paper can potentially avoid legacy issues and inefficiencies. However, designing and populating a new organization will be more time consuming, and there may well be protracted participant discussions as to the appropriate operating structure and candidates for key leadership roles. Where part or all of the JV's management is provided by the venturing participants, due consideration must be given to the duration and type of secondment or the transfer of employment obligations. Once management secondments to the JV are in place, succession planning for key roles should be an integral part of HR management processes.

## Design and harmonize business processes, technology and infrastructure

When the JV combines existing assets, decisions will need to be made as to which office locations, information technology (IT) applications and infrastructure, and business processes will be retained. When the JV businesses will operate relatively discretely from each other, this may be less of an issue. For example, the combination of a sales and a production organization into a new JV may simply require that interface processes be put in place, but the core processes, systems and office locations may remain unchanged.

When the intent is to combine two vertically integrated businesses to realize synergies, the early activities in the JV operation phase will be similar to those during the integration of two businesses after an acquisition. The combination of two vertically integrated organizations will result in a potential overlap in a number of areas: functional support (e.g., HR, finance, IT, legal, real estate management, procurement), IT applications and infrastructure, office space, supply chain, suppliers and contractors. Such overlaps must be identified and plans put in place to rationalize and consolidate the new organization.

When the JV is a new organization, however, functions and processes will need to be either designed from scratch or provided by the JV participants. Where the JV participants will be providing services to the new JV, contracts for the provision of these services and remuneration and consideration will need to be agreed upon, put in place and monitored.

## Meeting participants' financial and tax reporting requirements

The JV participants are likely to have different reporting requirements and time frames for fiscal and tax reporting. They may also have Sarbanes-Oxley, IFRS or other regulatory reporting requirements that, even though they may not be specifically relevant or necessary for the JV itself, need to be taken into consideration. All of these requirements must be communicated to both the other JV participants and the JV itself.

As previously mentioned, there may be key areas of the JV's operations that should be subjected to additional review. This may take the form of a SAS 70, JV participant right of audit or annual rolling audits, with each of the JV participants taking turns to ensure a specific process or output.

A clear program of audit and reporting requirements, formats and timings will need to be agreed upon and established. The determination and timing of cash calls and distributions also must be carefully considered and agreed upon in relation to the participants and the JV's reporting timetable.

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Creating a JV management structure, policies, procedures and culture will be critical to the JV's success.

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## Appropriate involvement of participants in the decision-making process

The JV participants will need to establish clear rules for maintaining control over the strategic direction of the JV and over key policy decisions that will affect the JV. However, they must allow JV management enough freedom to manage the organization on a day-to-day basis without being weighed down by an overly bureaucratic and cumbersome decision-making process. This can be a difficult balance, and there will need to be a clear and well-understood delegation of authority between the JV parents and JV management.

Designing the governance model early will be key. Also, the JV participants will need to establish a regular series of oversight meetings with both the JV management team and with each other to monitor progress, track performance against strategic goals, and review and update the agreed-upon strategy.

## Capital management

Where the JV receives capital funding from the JV parents in the form of either cash or assets, there needs to be a clear plan for the timing and valuation of the capital investment and proposed timing for repayments.

The capital repayment obligations need to be carefully evaluated against the cash flow projections for the JV so that they are realistic and achievable.

# Exiting a JV



Exiting a JV may be a planned milestone event when a certain goal has been achieved, or it may be a response to circumstances. Either way, it should be an event that has been foreseen, the options considered and provision for it contained within the JV agreement. Exit clauses in JV agreements should cover common termination scenarios, valuation considerations and the rights of each party during the exit process. There are a number of scenarios or options that the JV participants may have to consider.

## Sale to a third party

This is perhaps the most straightforward option: the JV participants agree to sell the JV in its entirety to a third party. Where the JV is a stand-alone entity, the impact on the JV participants will be minimal. Where the JV has significant linkages into one or more of the JV participants' businesses, it will be more complex. These linkages could involve the provision of certain services (e.g., technical support, research and development, IT) to the JV, the JV could be integrated into the supply chains of one or more of the JV participants, or there could be entwined intellectual property.

The nature of the business relationships between the JV and the JV participants will need to be carefully assessed and planned for in the sale process to make sure that the sale does not damage either the JV participants' businesses or the JV itself. A recent trend has been for buyers to ask for the participants to retain ownership in the JV to share risk and align interests, which increases the complexity of the transition.

Legal assistance will be needed in the sales process, as there will be a suite of documents to provide for the share sale and purchase; the transfer of obligations; possible renegotiation of the joint operating agreement; possible amendments to the finance agreements; and an assignment of guarantees, transition service agreements, direct agreements, and rights and obligations.

## Sale to one of the participants

Sale to one of the participants is a common outcome with many JVs. Often, the sale process is governed by a Russian roulette or Texas shootout clause. A Russian roulette clause allows one JV participant to make an offer for another participant's share of the business, but the participant that has received the offer may then purchase the other participant's share under the same terms as those that were offered for the purchase of its share.

This option, unfortunately, can lead to a situation in which one or more participants want out, but no participant is willing to make the first offer.

A Texas shootout clause initiates a process in which JV participants submit written sealed bids for the purchase of the JV. The highest bidder wins.

Once again, consideration will need to be given to how integrated the JV is with the parents' businesses and how ongoing relationships between them should be governed.

## Separation of the organization with sharing of assets to participants

Separation of the JV with a return of assets and business to the parents is potentially the most complex JV exit mechanism. The longer the JV has been operating, the more likely it is that there will have been a blurring of the JV participants' original inputs.

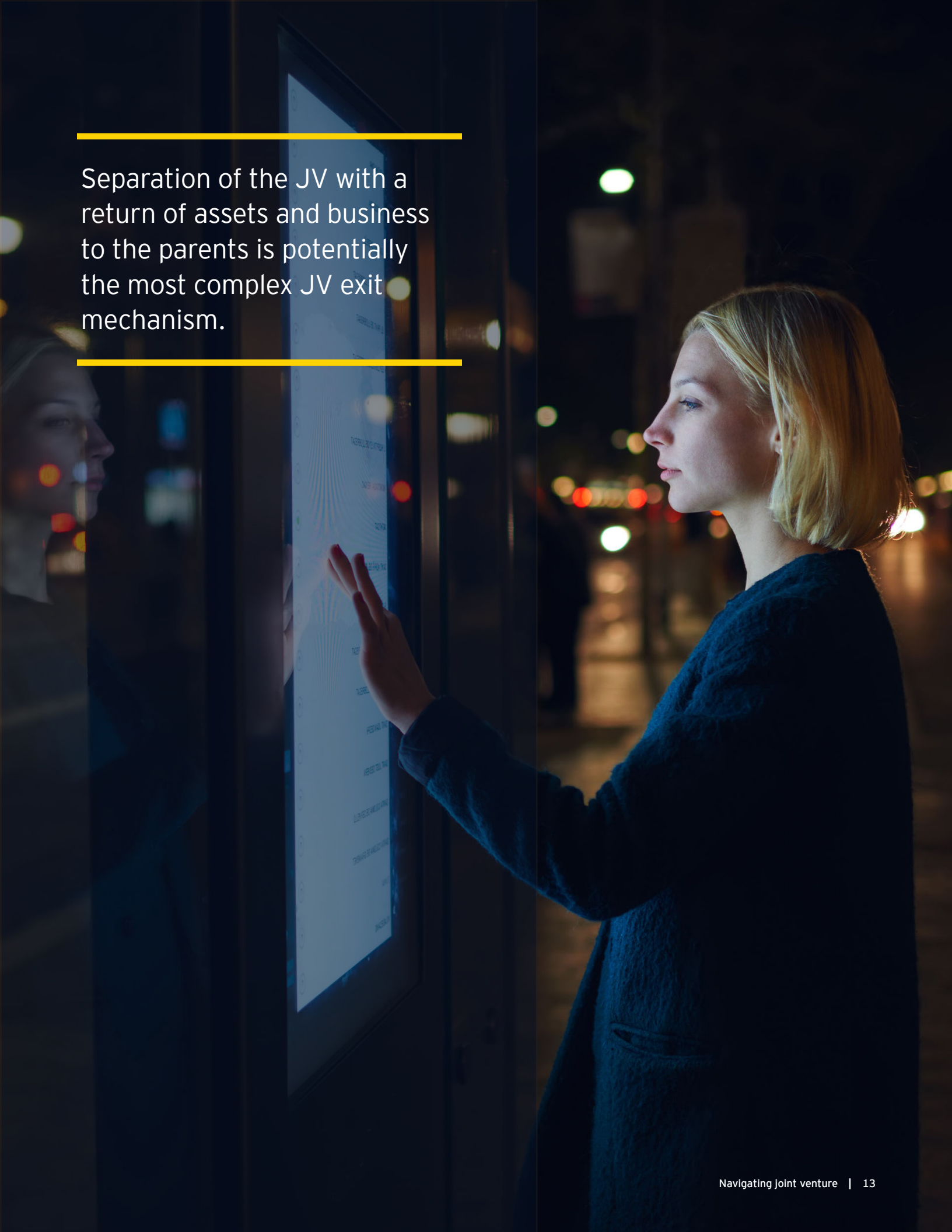
There will need to be discussions and subsequent agreement about which assets (people, technology, licenses and property) go to which participants, valuation of those assets and the appropriate settlement mechanism. These are likely to be complex and time-consuming negotiations. Again, where the businesses are integrated within the participants' businesses, the process will be more complex, and participants will need to consider the potential impact on their core businesses of reintegrating the JV's assets within their organizations.

Consideration of this option should be part of the participants' initial discussions, and provisions for how it would be managed should be contained within the JV agreement if there is more than a remote likelihood that this is a potential scenario.

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Separation of the JV with a return of assets and business to the parents is potentially the most complex JV exit mechanism.

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# EY JV services

EY teams have significant experience supporting JVs throughout all phases of the life cycle. Below is an overview of the services provided in each area.

Area	Pressure points and challenges	EY value proposition
Strategic planning and participant selection	Companies interested in JVs need to fully evaluate strategic options and identify the right participants.	We can provide financial and business modeling services, as well as advisory services with regard to business plans and market attractiveness. We can also assist companies in determining specific criteria to identify an appropriate JV participant.
Financial and operational due diligence	JV participants are often in different countries and have different business models, making it hard for the participants to have an in-depth understanding of each other before making a commitment.  Additionally, due diligence may be required on an ongoing basis, if participants choose to review each other's operations as they relate to performance or cross-charges.	With presence across the globe and broad industry footprint, we can help with financial and operational due diligence needs worldwide.
Valuation	Disputes and reporting requirements may arise about the worth of contributed assets.	We can conduct sophisticated valuations of complex assets.
Financing	JVs require access to capital and financing resources.	We can advise, from an unbiased position, on options for raising financing and capital.
Tax	Some JVs need to be set up for easy wind-down at an appropriate time. Others may require significant tax structuring in a variety of jurisdictions. All require careful planning for efficiency.	We can provide startup, operational and wind-down tax advice at appropriate times.
Financial reporting	The JV and its parents need coordinated financial reporting.	We can assist with financial reporting, statutory audits and reporting, and SOX and internal controls advice.
Decision-making	Slow progress due to a lack of clarity in management rights can lead to the loss of customers and staff prior to launch.	As a neutral third party, we can help to both facilitate faster and more effective decision-making and recommend approaches for managing and rapidly starting up the JV.
Legal entity setup	The lead time for the setup of legal entities and related accounts and licenses can be long in some countries, leading to delays in the JV becoming operational.	With experience in JV stand-ups, we can educate clients about lead times and sequencing involved in the setup of a JV entity and options for expediting this process through prenatal entities or other means.



Area	Pressure points and challenges	EY value proposition
Size and scale management	<p>JVs are often much smaller in size and complexity than the contributing parents. However, management at parent companies often does not have small-company experience in terms of speed, resourcefulness, and low-cost systems and process options.</p> <p>At the same time, JV parents often want to maintain the risk profile of the parent company, resulting in the use of extraneous systems and processes that do not add value.</p>	We can help management balance the needs of JV participants with the needs of the JV itself, providing appropriate advice on systems and processes that fit all parties' needs.
Resource constraints	During early discussions, because of confidentiality constraints, JV participants often do not include many employees. Additionally, it can take time to staff key positions in a JV, leaving the entity without the needed resources to achieve operational milestones.	We can provide subject-matter resources during early discussions. Additionally, we can support efforts with experienced resources who can provide needed guidance in finance, IT, HR and other functions as the new entity starts up.
Intellectual property	A large proportion of JVs involve an emerging market participant. However, intellectual property protection in emerging markets is often subpar.	Our local resources and deep knowledge of emerging markets position us to assist clients in developing risk mitigation strategies anywhere in the world.
Employee alignment	It is not always clear in which entity employees should reside or what their career paths should be.	We can provide balanced advice based on retention concerns, operational needs, compensation and benefits assessment, financial assessment, cultural reviews and tax implications.
Cultural alignment	Cultural issues are especially significant in international transactions and operations.	With a deep footprint in many countries and a robust change management team, we can help participants assess and bridge cultural challenges.
Exit	JV participants may elect to leave or dissolve the JV at some point.	We can assist with a broad array of services necessary upon a sale or dissolution, including carve-out management, integration execution, valuation and tax planning.

# Summary

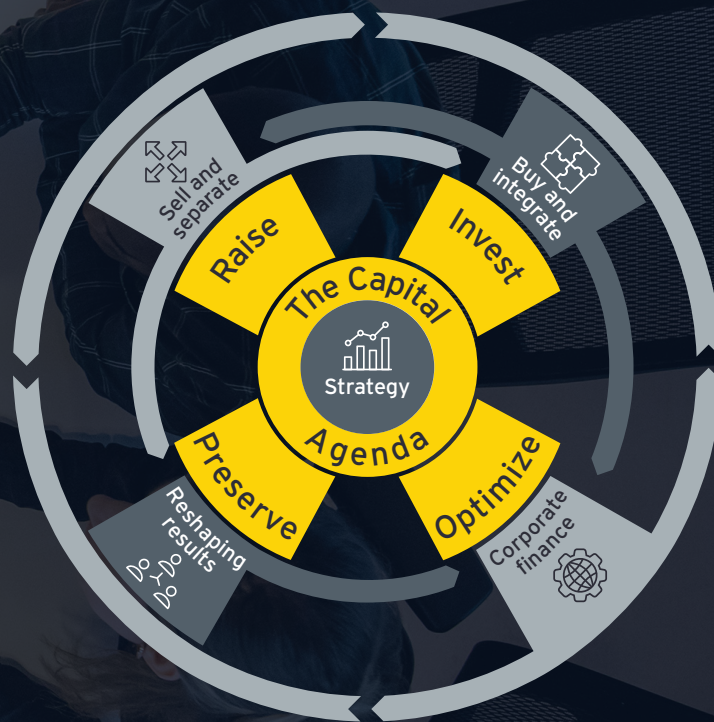


When JVs are managed well, they can deliver outsized value to all stakeholders. However, when things go wrong, they have the potential to be extremely disruptive. Aside from the disruption of the core business, arbitration and legal proceedings relating to any failure can be costly, time-consuming distractions for the management of both the JV and the parents.

# The Capital Agenda

Capital Agenda – helping you find answers to today’s toughest strategic, financial, operational and commercial questions.

How you manage your Capital Agenda today will define your competitive position tomorrow. We work with clients to create social and economic value by helping them make better, more-informed decisions about strategically managing capital and transactions in fast-changing markets. Whether you’re preserving, optimizing, raising or investing, our Connected Capital Solutions, supported by an integrated suite of purpose-built technologies and delivered by our global teams, can help you drive competitive advantage and increased returns through improved decisions across all aspects of your Capital Agenda.



Strategy realized	Corporate finance	Buy and integrate	Sell and separate	Reshaping results
Enabling fast-track growth and portfolio strategies that help you realize your full potential for a better future.	Enabling better value-creating decisions through deep finance and strategic modeling to optimize capital agenda execution, financial performance and shareholder return.	Enabling strategic growth through better integrated and operationalized acquisitions, JVs and alliances.	Enabling strategic portfolio management and better divestments that help you improve value from a sale of an entire company, carveout, spin-off or JV.	Providing trusted leadership in urgent, critical and complex situations to rapidly solve business challenges, sustainably improve results and help you reshape for a better future.

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