



# Legal entity rationalization

Creating sustainable structures  
aligned with business strategy



**EY**

Building a better  
working world

# Typical business case for legal entity rationalization (LER)

Legal entities cost money and resources to hold and manage. Companies may improve long-term business performance by aggressively reducing the number of legal entities and integrating human capital and operations efficiently within the streamlined “go-forward” population.

Through our deep knowledge and global experience, Ernst & Young LLP (EY US) can assist clients in working towards capturing cost reductions and achieving structural alignment with their business objectives.

Administrative savings		How we can help
Cost reductions	<p>Clients report annual carrying costs of \$25k-\$50k per legal entity, indicating a potential opportunity for every 100 entities eliminated:</p> <ul style="list-style-type: none"> <li>▶ More productive human capital</li> <li>▶ Removal of inefficient tax and legal structure</li> <li>▶ Reductions in inter-affiliate transactions</li> </ul>	<ul style="list-style-type: none"> <li>▶ Identify entities to be rationalized</li> <li>▶ Expedite the elimination and consolidation process</li> <li>▶ Typically reduce implementation costs</li> <li>▶ Bring seasoned professionals to address resource constraints</li> <li>▶ Use established process and methodology to reenergize stalled or failed LER projects</li> </ul>

Clients indicate administrative cost savings following LER in these key areas					
Finance and accounting	Hard	Soft	Tax	Hard	Soft
<ul style="list-style-type: none"> <li>▶ Statutory audits</li> <li>▶ Internal accounting and account reconciliations</li> <li>▶ Audit of each entity</li> <li>▶ Management and external reporting</li> </ul>	✓	✓	<ul style="list-style-type: none"> <li>▶ Federal, state, local country income tax reporting and filings, disclosures</li> <li>▶ Value-added and other indirect tax filings</li> <li>▶ Net worth and capital stock tax filings</li> <li>▶ Tax basis and tax attribute monitoring, transfer pricing</li> </ul>	✓	✓
Information technology			Legal, regulatory and contractual		
<ul style="list-style-type: none"> <li>▶ Initial integration of legal entities into business systems, controls, reporting</li> <li>▶ Data warehousing of accounting and legal</li> <li>▶ Software licensing for each entity</li> <li>▶ Duplicative IT functions, platforms, systems</li> </ul>	✓	✓	<ul style="list-style-type: none"> <li>▶ Licensing, permits, fees, insurance</li> <li>▶ Maintenance of general corporate legal documents</li> <li>▶ Agreements with same or similar counterparty</li> <li>▶ Intercompany agreements and transfer pricing</li> <li>▶ Liability risks</li> </ul>	✓	✓
Human capital			Intellectual property (IP)		
<ul style="list-style-type: none"> <li>▶ Duplicative management</li> <li>▶ Duplicative HR systems sharing plans</li> </ul>	✓	✓	<ul style="list-style-type: none"> <li>▶ Similar IP in various legal entities</li> <li>▶ Infringement risks from current structure</li> </ul>	✓	✓

Other benefits		How we can help
Operational synergies	<ul style="list-style-type: none"> <li>▶ Rationalization can result in efficiencies through entity-specific operational integration and thoughtful placement of each target entity’s human capital, assets and operations</li> </ul>	<ul style="list-style-type: none"> <li>▶ People – rationalized responsibilities</li> <li>▶ Process – streamlined efficiency, revenue and cost savings</li> <li>▶ Technology – reduced pressure on systems and controls</li> <li>▶ Third parties – streamlined contracting, volume discounts, etc.</li> </ul>
Cost avoidance	<ul style="list-style-type: none"> <li>▶ Avoid integrating redundant entities into performance improvement initiatives</li> </ul>	<ul style="list-style-type: none"> <li>▶ Identify entities to be eliminated early in the process so performance initiatives are linked to the streamlined go-forward entity structure</li> </ul>
Structural alignment	<p>Opportunity to concurrently:</p> <ul style="list-style-type: none"> <li>▶ Take advantage of changing market conditions and customer needs</li> <li>▶ Understand new, emerging markets and product portfolios</li> </ul>	<ul style="list-style-type: none"> <li>▶ Assess business strategy, analyze core and new markets, review competition, and help align legal entities with changing industry conditions</li> <li>▶ Provide fresh thinking around how to structure the realigned organization to take advantage of market opportunities and operate effectively</li> </ul>
Governance, control and sustainability	<ul style="list-style-type: none"> <li>▶ Increased transparency</li> <li>▶ Management of legal entity populations</li> <li>▶ Risk architecture that distinguishes high-risk entities from low-risk entities</li> </ul>	<ul style="list-style-type: none"> <li>▶ Establish population controls, legal entity manual, procedures for legal entity life cycle and committee oversight</li> <li>▶ Tier legal entity risks and tailor control framework to address identified risk levels</li> </ul>



# Streamlining legal entities can help companies manage their capital agenda

Do we have the right capital structure to meet our strategic priorities?

What is the best way for our company to grow – and is it aligned to our core business?



How can we manage the performance of our assets?

What steps can we take to maximize our portfolio's performance?

## Why Ernst & Young LLP?

- ▶ Seasoned cross-functional teams address internal resource constraints across finance, tax, legal<sup>1</sup>, regulatory and operations, among other areas.
- ▶ Industry experience helps clients resolve issues unique to their operating environments and leverage leading practices from organizations.
- ▶ Early delivery of validated cross-functional and operational legal entity profiles allows teams to understand and leverage key knowledge across the organization.
- ▶ Global transactional architecture gains speed, reduces risk and streamlines implementation.
- ▶ We provide leading practices around structural governance models and population management.

<sup>1</sup> Ernst & Young LLP (US) does not practice law or offer legal advice in the United States

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US SCORE No. 06526-191US

2009-3582286

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