



Why IT Should Be at the Top of Your **Carve-Out List**



Experts from Platinum Equity charged with vetting and improving the operations of portfolio companies discuss the unique complexities of helping a carved-out business establish an IT function

Privcap: What is the importance of getting IT right when trying to stand up a former corporate division as an independent business?

Stephanie Barter, Platinum Equity: The IT component of a carve-out can actually be the most important task. It needs to be in place in order for us to ultimately realize our value-creation plan. So when we've got a vision of how we will transform an organization, in many cases we can't start until that company is actually carved out from its parent. And in many cases, IT is the long pole in the tent. Until that can get done, there are many, many other next-step things that cannot be completed until that's taken care of. So when we think about this in terms of the project plan, this is always at the very beginning of the list.

Eric, what do you look for during due diligence in a carve-out situation?

Eric Yap, Platinum Equity: When we start our IT diligence, we try to understand how the business operates. We try to understand what complexities could be within the business that actually would drive complexities from an IT carve-out perspective. So a quick understanding of the lay of the land on the business side helps drive the same activity within IT diligence. And then we dive down into the specifics of activities that need to be taken care of to actually separate the entity from the parent.

What are the key IT risks when separating a unit from its parent?

Yap: There's a risk that you don't have access to the knowledge that you need. And then there's also some contractual items—for example, a limited TSA [transitional service agreement] period that could put risk on carve-out activity.

Barter: Every traditional systems-implementation or technology-conversion risk also applies to a carve-out. In a carve-out, you're getting something that you didn't build, getting something that you don't have full control over. So it accelerates risks to a unique place.

What are the human-capital challenges in transitioning the IT function from parent to carve-out?

Yap: It's deal-dependent. Your team is completely dependent on what is coming over and what is not coming over. And so in some deals, there are capabilities within IT organizations to take on the majority of the transition work themselves. But sometimes we're building IT organizations from the ground up, because you inherit no resources in the deal.

Barter: The Platinum team is a resource for the portfolio companies. We can bring very experienced resources. Tasks like separating email, separating back-office infrastructure, doing the systems conversions—these are things that our group has done hundreds of times, and there is a predictability. This makes a difference in your ability to predict the outcomes. ■