



2011 WINNING CASE STUDY
Strategy
Xantus with United Utilities



IT strategy at the heart of commerce

Executive Summary

United Utilities wanted to sell its diverse non-regulated businesses, Utility Solutions, as a key enabler for future growth. Inevitable complexities in the IT environment, combined with limited intelligence on the IT estate within the organisation, were presenting major risks to the sale.

Without a strategy for separating the IT, the sale value would be seriously threatened and future operations could be at risk. United Utilities needed specialist technology experience, skills and direction to bridge the gap and devise a way to unravel a mix of integrated and centrally supported IT systems.

In a confidential and commercially sensitive environment, Xantus gave United Utilities all the expertise and resource it needed to deal with complex technology issues with a number of potential buyers. In particular Xantus provided enough flexibility and contingency for United Utilities to remain agile throughout the negotiations. In effect Xantus de-risked the IT, giving the buyers and United Utilities the confidence they needed to make the sale happen.

As a result, the sale of Utilities Solutions was successfully completed with no financial or operational implications from IT. The potentially huge negative impacts of a complex IT estate on a successful sell-off were avoided.

Background

United Utilities is the UK's largest listed water company with a turnover of £2 billion. In 2009 its strategy was to focus on its core regulated operations and divest itself of its non-regulated business. This was vital for meeting new market challenges in a tough economic climate.

The divestment involved a huge sale of its global business, Utility Solutions, comprising around 40 separate businesses worth approximately £0.5 billion.

IT operations within Utility Solutions presented risks to the smooth completion of the project. Having previously used a highly centralised technology function in United Utilities, Utility Solutions lacked an IT department of its own. As a result:

- there was no overall ownership of IT within Utility Solutions, and little understanding of what systems, applications and data were owned and needed by each business unit

- critical IT applications and data were integrated onto one SAP platform, making them extremely difficult to separate.

The situation had to be rectified quickly before any detailed discussions with potential buyers. If a strategy for separating off the IT environment ready for the sale was not implemented, Utility Solutions:

- would be a less attractive proposition, presenting serious difficulties for any buyer organisation to operate independently
- faced the likelihood of being trapped in a long-running Transitional Services Agreement while the buyer extracted the IT from United Utilities, for which the costs could be huge.

Based on market experience, United Utilities calculated the risk at around £30 million worth of discounts (chipping costs). This represented a potential loss of sale value that was unacceptable.

Objectives

Utility Solutions believed that Xantus Consulting presented a Merger and Divestment strategy that was credible, comprehensive and would meet its objectives in the timescales needed.

In September 2009 Utility Solutions asked Xantus to devise a separation strategy.

Xantus' objective was simple: to eliminate the estimated £30 million chipping costs. Specifically the Xantus team was commissioned to:

- bridge the gap in knowledge about Utility Solutions' IT
- develop a comprehensive separation strategy for the whole of Utility Solutions' IT infrastructure, systems, applications and data across its global business units with the aim of minimising risks and financial implications for the whole of United Utilities
- be present at the buyer negotiations, providing input and direction to discussions about IT
- provide assurance that IT would not present any impediment to the sale.

Challenges

Even in the context of such a major M&A, Xantus faced extraordinarily complex and diverse commercial, technical and contractual challenges, including:

- **a complex mix of around 150 business units** and legal entities in United Utilities, spread across different countries with extremely diverse electricity, gas and water businesses – both utilities companies and companies delivering solutions to utilities companies. Some companies owned legal entities; some were owned by legal entities
- **a complex and shifting IT environment** with a mix of legacy systems and around 400 different applications. IT users had worked across a large number of business functions,

both within United Utilities and Utility Solutions. Separating out the relevant data presented a serious challenge

- **a fast-changing commercial and legal environment** under the spotlight of the regulator and the public, with any leakage affecting United Utilities share price and the approach of potential buyers
- **risk losing key IT staff** within Utility Solutions. The potential divestment was highly confidential, and any leaks could impact staff morale and potentially alienate key staff
- **ambiguous and potentially sensitive** arrangements with United Utilities' existing outsourced IT provider. With no contractual provision made for a sale, this had serious implications for the sell-off.

In addition, the timeframes were extremely tight. From scratch, Xantus had to produce the separation strategy in eight weeks ready for buyer negotiations, and create a strategy for a standalone IT function which could be fully outsourced to a provider within 12 months, assuming a private equity buyer materialised.

What Xantus did

Utility Solutions appointed a separation board comprising key Utility Solutions directors, functional heads and United Utilities' own Programme Director.

Xantus Consulting fielded four consultants, all with significant merger and acquisition expertise. The consultants worked seamlessly with Utility Solutions in a joint team of nine. The team reported to Mark Graham, Xantus' Programme Director, who sat on Utility Solutions' separation board throughout the sale. As Utility Solutions IT Programme Director and Interim Head of IT, Mark directed the IT engagement across the businesses, providing the experience, leadership, governance and control mechanisms needed to ensure delivery both internally and with potential buyers.

Dealing with the detail

In early November 2009 Xantus quickly set about building a picture of this extremely complex and geographically dispersed IT environment. The team listed every system, application and function, down to individual user level. They mapped all systems infrastructure, network connectivity and telephony systems down to individual users and mobile telephone numbers. With only disjointed information available on around 3,000 employees, 2,500 desktop and 400 laptop computers, the task was huge. The team produced many thousands of lines of data that could be searched and analysed.

The team collated the current contracts with IT providers for services both directly with Utility Solutions and indirectly via United Utilities. In particular they identified any risk relating to termination of services and contracts that could result in costs from exiting or changing contractual arrangements.

Devising separation

In parallel, the team developed options for separating systems and data. They designed the potential new operating model, organisational structures and recommended IT architecture, service and systems for the separated IT environment.

Absolute confidentiality externally and within both Utility Solutions and United Utilities was critical. Xantus operated within a key insiders list and could only deal with others on the list. Without the freedom to make enquiries more widely, the team's task was more intensive because they had to rely on their own collection and analysis of data in order to gather and assess all the options for separating the IT.

Challenging the status quo

Within the first two weeks Xantus identified two key risks to the IT separation programme.

- The eventual sale might not be to a single private equity buyer. In response Xantus recommended gathering and formatting data around single business units within Utility Solutions to create the flexibility to respond to a sale that may be structured differently.
- No Transitional Services Agreement was in place. This would be critical for ensuring continuity in the delivery of IT services to any new buyer and give them time to make separation within a reasonable timeframe. In response Xantus led the early development of an agreement.

Throughout the project Xantus constantly challenged Utility Solutions to create much more cost-efficient and leaner IT operations as part of the separation process. Xantus ensured an ongoing focus on streamlining and consolidating operations and applications, so increasing the value of the business to a potential buyer. For example SAP would not be cost-efficient for a separated business units with a few hundred users. Xantus carried out detailed negotiations with business functions to assess where more efficient solutions could be identified and documented these as potential benefits to a new buyer.

A new direction

Having presented a detailed analysis and separation strategy to the separation board, Xantus started to prepare for formal procurement and selection of an outsource partner for the newly separated business. But in mid-February, it became clear that instead of selling to a single buyer, United Solutions would be making a trade sale, with the break-up of multiple groups of business units to multiple trade buyers. Now the sell-off was even more complex, with the separation of IT having to accommodate more fragmented arrangements.

- Instead of planning for a build of the IT environment onto a greenfield site, the task now was to split up the IT estate for separate bidders and create plans for the transition of data, applications and infrastructure to trade buyers who would each have their own IT capability.
- Instead of a 12-month implementation separation strategy, the focus was on delivering the necessary transition planning to potential purchasers within three months.

Xantus' forethought at the start had paid off. Having built the detailed profile of the IT estate by business unit, Xantus could rework data for any multiple combination of business units. Consequently the programme could progress with minimum disruption.

With potential buyer profiles changing, Xantus constantly updated different buyers with the detailed data and analysis that was relevant to them, and provided the necessary transition planning and integration plans.

The sale to six trade buyers was successfully completed in November 2010.

Value delivered by the consultants

The successful sale of Utility Solutions would not have been possible without Xantus Consulting's:

- detailed knowledge and experience of M&A and the associated technical and strategy issues
- very clear and detailed grasp of the IT estate
- absolute discretion and sensitivity in dealing with all parties
- strong understanding of the requirements for integration and the support needed from United Utilities through any transition
- ability to operate with complex contractual and sourcing arrangements
- agility and readiness to operate in a fluid and fast-changing commercial environment
- ability to predict a range of outcomes and be prepared for swift and radical changes in direction.

So much value was placed on Xantus' work that its approach to IT separation planning and governance was replicated and reapplied to other functional areas in preparation for the sale.

Outcomes

The ability to deal effectively with the IT issues was at the heart of a successful sell-off.

- Utility Solutions and all potential buyers had absolutely clarity and confidence in the IT function and operations, both during the sale and the future.
- Financial objectives were achieved from sale and no issues were raised about IT that would affect price.
- There was a plan in place to reduce the IT costs of Utility Solutions by over 40% per annum.
- The impact on the remainder of United Utilities' IT operations was minimised.
- The work Xantus did was vital for the future running of the businesses that had been sold. Each buyer had clear requirements for the IT landscape they needed to adopt and integrate or transfer.

Client Testimonial

"The Xantus team were a pleasure to work with. They quickly gained an understanding of our needs and worked collaboratively with us to develop our plans. Always mindful and respectful of the commercial and confidential position, they did an exceptional job of making sense of multiple sources of information. Their analysis provided a coherent view of the IT interdependencies between our non-regulated and regulated business which facilitated any combination of companies being sold. Xantus gave us excellent collateral to share with buyers to mitigate any concerns they had and help us understand the relative complexity we faced."

Neil Gillespie, Business Change Director, United Utilities