Joint Ventures: When to Announce the Marriage and How to Survive a Long Engagement

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Joint ventures and partnerships have exploded in the last two years, up almost 200% from historic norms. There are many reasons why corporate collaboration is having a moment. The biggest relate to pressures to innovate and reinvent business models to become more sustainable or digital.

In industries as diverse as automotive, chemicals, consumer, energy, and financial services, such transformations are often best enabled through partnerships between firms with complementary technologies and capabilities. The Siemens-AES joint venture in energy storage is one prominent example. So too is the Sony-Honda joint venture to create a new brand of electric vehicles and mobility services. The raft of offshore wind, green hydrogen, and carbon capture joint ventures offer other examples. Full acquisitions or organic growth are more expensive or slower.

Against this backdrop, companies often wonder when to announce a new JV or partnership, and how long it will take to actually get the deal done. We looked at 394 material JVs announced globally between 2018-2020, analyzing their closing timelines to offer some fact-based guidance on this topic.

When to Announce

We found 77% of JV transactions were announced only once partners had a signed binding agreement, while 23% heralded more preliminary JV discussions or interim agreements **(Exhibit 1)**.

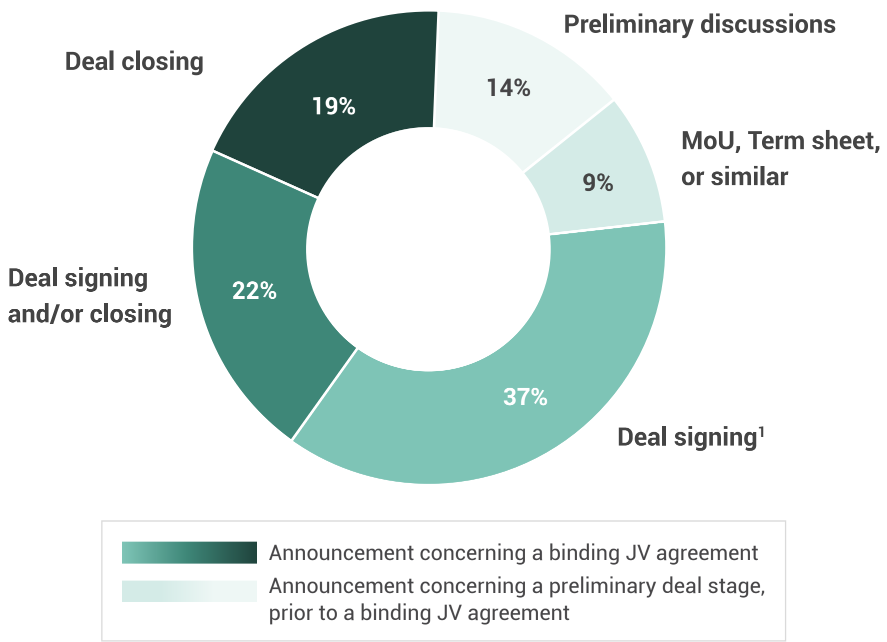
While not surprising that most companies announce a JV once they have a binding agreement in hand, there are often good reasons why firms may wish to announce earlier. These include providing deal momentum, cementing partner commitment, or signaling progress to investors or other external stakeholders. Recently, we have also seen a flurry of early-stage deal announcements as companies rush to demonstrate commitment to environmental, social, and governance (ESG) issues through sustainability-related JVs.

Interestingly, when we look at how stock markets react to JV announcements of public companies, we find no significant difference in abnormal share price returns between binding and preliminary agreements. This suggests that markets don't assign sufficient probability to preliminary deals not reaching the finish line. Or it might mean that when companies announce preliminary partnership discussions or non-binding agreements, they are more likely to do so when these potential partnerships are in hot new market segments or herald business model transformation – and thus the stock market's disproportionate enthusiasm counterbalances the risk of non-closing.

Nonetheless, companies should tread carefully when announcing at this earlier stage. The percentage of JVs failing to close following announcement of a preliminary-stage deal increases to 33% compared to 20% for JVs announced later at the signing of binding agreements. JVs announced earlier fail to close due to a range of factors. These include late discoveries of partner incompatibility, competing views of how to access the opportunity, and shifts in the regulatory or political environment. JVs announced later typically derail due to fundamental shifts in the market environment. For instance, in October 2019, Ford signed agreements to set up a JV with Mahindra that would develop low-cost SUVs in India. Unexpectedly, significant changes to the global business environment caused by the COVID-19 pandemic forced the companies to call off the deal in early 2021.

Exhibit 1: Subject and Timing of New JV Announcements

N = 394 Material JV Announcements, 2018–2020



[1] Percentage calculation excludes 14 announcements where the stage of discussions was ambiguous

[2] Percentage may not total 100 due to rounding

How Long to Close

JV closing timelines are materially longer than those of traditional M&A, which take an average of 38 days to finalize post-announcement, according to research firm Gartner. The median number of days from announcement of a signed binding JV agreement to closing was 232 days and 363 days from the announcement of a Memorandum of Understanding (MoU) or equivalent to closing. Many factors may drive this "slow motion close." One is a tendency to conduct integration planning after concluding due diligence and deal structuring – rather than in parallel, as is typical in M&A. Another is a lack of an investment bank to drive a transaction process infused with competitive tension and pre-agreed milestones. JV transactions also suffer from episodic attention from corporate boards and leadership teams in ways not found in M&A once deals are signed.

Also, unlike dedicated M&A teams that develop negotiating skills over multiple deals, JV teams tend to change from deal to deal, creating little institutional memory around key processes.

Companies wanting to accelerate the JV and partnership transaction timeline should establish clear negotiating "red lines." They should also ensure the deal team is well-resourced, has a clear mandate and business sponsorship on both sides, and is working against clear approval gates and milestones. Companies should also "go slow to go fast" – spending time upfront to agree upon overarching principles and evaluating alternative deal concepts, rather than diving straight to the drafting of detailed legal agreements, which paradoxically slows down the process, as such a rush often lacks needed alignment among the counterparties.

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While companies are often eager to announce and close JV transactions, our data shows it's not that simple or quick. Knowing this can help companies set more realistic timelines. But more importantly, knowing the risks of a slow meandering close can help companies bring more sustained executive focus, resources, and discipline to JV transactions to make the process go faster.
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How Ankura Helps on Joint Ventures and Partnerships

At Ankura, we bring unrivalled experience and tools **specific to joint ventures and partnerships** and combine these with deep **functional expertise** on strategy and planning, governance, finance, organization and human capital, data and technology, operations, and project management, as well as industry and regional knowledge and contacts. We serve clients across the individual venture lifecycle and at the corporate portfolio level.

CONCEIVE & CREATE

From strategy development, deal origination, due diligence, valuation, synergy assessment, and financial modeling, to deal structuring, negotiation, and operationalizing the agreements through governance and organizational design, Ankura helps companies form new JVs and partnerships.

GOVERN & GROW

Ankura helps venture owners, Boards, and management teams align complex stakeholder interests and perform better by providing assessments, plans and solutions, change management and execution support on strategy, governance, operating model, organization, culture, and operational redesigns and improvements.

REPAIR & RESTRUCTURE

When JVs and partnerships are facing performance challenges or disagreements, Ankura brings a unique toolkit and benchmarks to diagnose underlying issues, drive alignment on change, develop influencing plans, assist in partnership restructuring and relaunch, and, when necessary, manage disputes and exits.

BUILD CORPORATE CAPABILITIES

Many of our clients have portfolios of JVs and partnerships or are developing strategies that entail an ecosystem of partners. Ankura helps these companies develop partnering and ecosystem strategies. Ankura also helps build corporate capabilities, processes, and policies to more effectively enter into new ventures and govern and manage risks in existing JVs and partnerships.

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