Accelerated TSA exits

Expedite your target's integration with aggressive planning

Seller-provided services can be critical to buyers after a deal closes, but with proper planning, buyers can minimize the duration these services are required

In M&A transactions, a Transition Service Agreement (TSA) allows the seller to perform specific services on behalf of the buyer to maintain business continuity while the buyer prepares to integrate and operate the acquired business. But TSAs create a burden to sellers and are expensive to buyers—typical agreements last anywhere from 6–24 months, meaning that both buyers and sellers (not to mention targets) spend an inordinate amount of time and money on post-close transition before they can get back to business-as-usual. However, in some cases, TSA exits can be significantly accelerated to as little as 2–3 months after closing, allowing companies to renew their focus on their core business.

To achieve this type of reduction requires substantial preparation on both the buy- and sell-side prior to close, and a surge of personnel for long lead and critical path items such as IT system cutovers. The buyer will also need the ability to continue troubleshooting in the weeks immediately following TSA exit. At KPMG, our experience helping clients execute rapid TSA exits provides us with distinct perspective to understand the key requirements and timelines that must be achieved.

Buyer considerations

Typically, accelerated TSA exits are appropriate for strategic buyers who either plan to fully integrate a target or plan to pursue a shared service model that utilizes their existing operating model, including processes, technologies, and personnel. The enablement of rapid TSA exits requires compromise—in many cases, manual workarounds and deployment of minimal viable product (MVP) solutions that immediately follow the exit from the TSA.

Frequently it isn't possible to transition the acquired company or assets to the buyer's IT applications, or to stand up new systems before TSA exit. However, cloning the seller's system or deploying a short-term manual solution can be done in a much shorter time frame.

Typical buyer challenges

- Increased scope of diligence process
- Major IT decisions
- Dedicated resource availability
- Short-term MVP and manual solutions
- Seller agreement and cooperation

While this approach may require sub-optimal solutions in the short term, it will enable buyers to fully understand the acquired business and to develop a fit-for-purpose, long term solution without the pressure of TSA timelines and costs.

Buyers who plan to accelerate TSA exits should understand that while there are substantial long-term cost savings, a large amount of effort will need to be pulled forward into the diligence phase of the deal lifecycle, including:

- Understanding target operating models (TOMs) for existing businesses
- Identification of entanglements (carve outs) for the business(es) being acquired and their implications when separated from the seller
- Development of the Day 1 or interim TOM for an accelerated TSA exit
- Coordination between buyer and seller to identify required projects and create executable workplans for each function
- Quantification, identification, and selection of resources needed to execute both TSA exit projects and implement manual solutions on an interim basis while maintaining the appropriate internal controls environment

After a TSA exit, the interim solutions in particular must be efficiently addressed. There will inevitably be significant efforts to fill in gaps that remain because the focus up until this point has been on core business processes. For example, a buyer may opt to keep the target on its existing supervisory control and data acquisition (SCADA) system in the short term to facilitate a TSA exit. In this case, it is imperative that communication between the seller's SCADA and the buyer's production accounting system occurs regularly. Hardware or infrastructure upgrades ahead of TSA exit may be required to ensure regular and reliable communication between the two systems.

Once communication is achieved, individual issues may need to be addressed at the well or meter level within a matter of hours due to data limitations. It is critical that buyers are committed to immediately troubleshooting these issues following cutover in order to accurately track production after TSA support has concluded. However, sending personnel to a large number of wells in remote locations can result in additional logistical challenges.

Depending on the context of the deal, there is a seemingly endless list of areas to focus on when considering a TSA—the recurring areas we have seen are below

IT systems

Decisions regarding the post-TSA IT system landscape should be made quickly and informed with input from key stakeholders. If an RFP process is needed, activity should begin early in the planning process and expedited in order to avoid delaying a TSA exit. When possible, seek opportunities to jointly plan and work with the seller prior to close to accelerate post-close implementation activities. While some activities may not be permitted prior to close—data migration, for example—the TSA period can still be significantly compressed by front-loading as much plan and build activity as possible. Examples include cloning and cleansing of seller systems, new application builds, detailed implementation planning, interface design, data mapping, and purchasing network and infrastructure hardware.

Organization design and planning

A complete and detailed census of all transferring employees that identifies any resource gaps needed to operate the business on Day 1 is critical to a rapid TSA exit for the buyer. Accurate estimates of new resources and the identification of specific roles to be hired are essential to ensure processes can be implemented within the required timeframe. These resource requirements should be discussed during diligence and reevaluated from pre-close through the TSA period. Diligent analysis and preparation performed prior to close will help streamline the recruiting process for critical roles immediately after signing.

Buyers must ensure continuity of payroll and benefits for all transferred employees. While the calendar year is typically the easiest timing to transfer payroll and benefits, this option might not be available if the buyer is looking for a quick TSA exit. Another option includes integrating transferred employees into the buyer's established systems, processes, and benefit plans. Further, a buyer might consider rapid deployment of a third-party professional employer organization solution that allows the buyer quick access to a wide range of benefits vendors and programs without the lengthy contracts or analysis periods that are typical when a company evaluates new benefit plans and vendors.

Financial and regulatory reporting

Ideally, all data sources and deadlines for financial and regulatory reporting requirements will be identified and understood during diligence, although there are extenuating circumstances that can extend this process into the immediate days post-close. Resource and system requirements must be aligned, and the plan must be developed to ensure all reporting deadlines can be met before exiting the TSA. This can be achieved either through new system and process builds, utilization of existing systems and processes transferred in the transaction, or via bridge solutions.

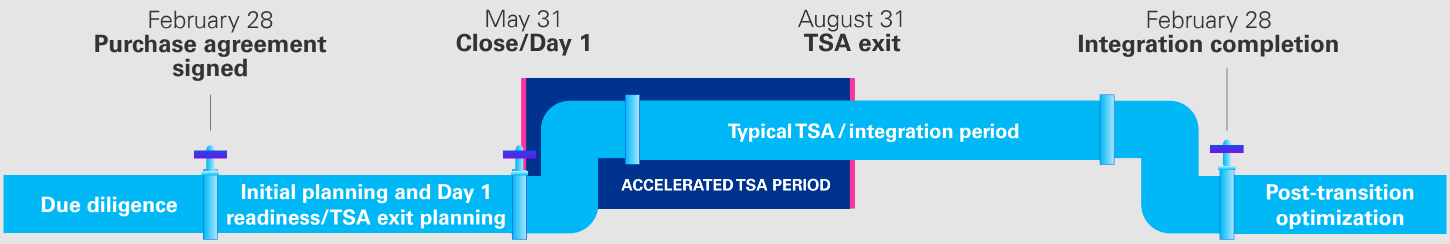
Contracts

Where novation is not possible, the negotiation of new contracts is typically a time- and resource-consuming process driven by sheer volume. In many cases, synergy estimates are based on the assumption that existing contract terms will be maintained—this means the process of negotiating new contracts should begin quickly after signing so that the bulk of critical negotiations are completed pre-close. This will allow for final adjustments and execution of new contracts to take place during the TSA period.

Seller considerations

In addition to buyer preparedness, sellers must agree and be properly incentivized for early TSA exits. In some cases, the seller wants to exit as quickly as possible to get back to business-as-usual, but the pre-close information requirements and labor investments present risks that many sellers may not be willing to accept. While most sellers would consider a shorter than typical TSA duration, agreeing to an aggressive timeline that places undue burden on them remains a significant hurdle.

In a competitive bidding scenario, the seller may prefer simplicity and a standard approach to the TSA. However, with only a single buyer, the seller may have to negotiate portions of the TSA and conduct bilateral planning workshops ahead of signing. Every organization and situation is unique and requires customization related to how the counterparties overcome their specific challenges and develop fit-for-purpose strategies to accelerate deal timelines.



- Target operating models
- Seller entanglements
- Identify interim processes
- IT/ERP decisions

- Data cleansing/ structuring
- Regulatory reporting requirements
- Organizational structure/roles and responsibilities
- Review and negotiate contracts

- Implement interim processes
- Offer letters/open enrollment
- Temporary application licenses

- Target state business processes
- Troubleshoot systems
- Transition applications to buyer existing systems

Note: Dates are for illustrative purposes

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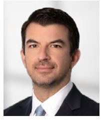

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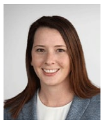

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