



Introduction to divestiture operating models

How do we structure the operations so that we can own and drive the business right after close while the regulatory issues are still being ironed out?

It's a common scene: A buy-side Corporate Development officer pauses in frustration during yet another call with the seller. They're trying to sort out details about a key market that is holding up the business unit divestiture.

"We're on the same page. As sellers, you want to transfer ownership as soon as possible so you can refocus on your core business. As buyers, we want to implement our strategic plan right after close, but we can't obtain the marketing authorizations for 12-18 months."

This is a sample dilemma that buyers and sellers often experience while executing a complex global divestiture, and it's a situation that can be avoided. By starting with a tested and proven base Divestiture Operating Model, buyers and sellers can reduce unnecessary churn on the upfront design phase and accelerate the sign-to-close process by focusing on the most pertinent issues.

The Deloitte approach

For those of you not familiar, Divestiture Operating Models are interim operating constructs that govern the period between transaction close and when the buyer fully takes over the business. During this interim period, the seller provides certain services to the buyer to keep the business running, and the economics are passed to the buyer.

These interim divestiture setups come with challenges that most buyers and sellers are not fully equipped to address, such as disentangling a commingled business, establishing an international legal entity structure, assessing tax impacts, reconciling a fragmented set of financial records, and managing system implications on operations and reporting.

Deloitte has helped our clients address these challenges and accelerate transaction close by developing and leveraging the Divestiture Operating Model Toolkit. For instance, Deloitte has found that nearly all variations of Divestiture Operating Models ultimately fall into one of the following five categories:

Degree of Ownership of Underlying Activities

← More Buyer "Control" More Seller "Control" →

Base Day 1 Operating Model	Full Transition	Full Carve-Out with Platform TSA	Agency Model	Wholesaler/ Distribution Agreement	Net Economic Benefit
Illustrative Use Cases	Long-term, strategic spin-off	Accelerated sale due to regulatory constraints	EU markets	APAC markets	"Long-tail" markets
Description	Full transition of the business activities, including customer transactions, is handled by the Buyer on its systems on Day 1	Nearly all day-to-day operations remain on the Seller's systems via a full platform TSA	Primary operational activities, including customer transactions and collections, are handled by Seller in its legacy system on behalf of Buyer	Seller acts as local market distributor as the Buyer cannot perform the sale for legal, regulatory, system, tax, or other reasons	Seller continues to operate the business in the ordinary course, and pays the Buyer the net profit (or loss) of the local operations at month-end

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Using the Toolkit's base Divestiture Operating Model designs, buyers and sellers can arrive at the appropriate model much sooner and reduce the upfront churn on models that do not address the gating issues or are generally infeasible.

The parties can instead focus on tweaking the base model to reflect the unique nuances in the business and local markets, as well as investigating the specific tax and finance implications arising from the Divestiture Operating Model option to help ensure a smooth transition.

Other key considerations when evaluating and choosing the Divestiture Operating Model typically include:

Topic	Key Considerations
Deal Complexity	<ul style="list-style-type: none">• Buyer's business footprint and past transaction experience in local market• Whether the customer invoices are commingled or independent• Local market talent retention to support processes to operationalize the Divestiture Operating Model• Regulatory complexity of the business and the Buyer's expertise in dealing with global M&A regulatory implications, including import/export
Finance/IT	<ul style="list-style-type: none">• Consolidating and reconciling fragmented sets of financial records across multiple systems• Degree of process automation within the Seller's finance/operations organization that can or cannot be leveraged post-close• Level of congruency between the Buyer's and Seller's financial systems• Ease of IT system change and manual processes/controls• Degree of insourced vs. outsourced IT support and financial processes
Tax	<ul style="list-style-type: none">• The current and desired legal entity structure, and the impacts that may have on tax compliance post-transaction (i.e., how taxes will be reported and paid)• How historical and future transfer pricing arrangements may be impacted• Assessment of losses, credits, or other attributes that may impact post-transaction taxable income• Policies and procedures surrounding operating tax compliance (e.g., VAT, sales and use, real estate and payroll) and the ability to replicate policies post-close

In conclusion

Selection of Divestiture Operating Models is an iterative decision and negotiation process between the Buyer and Seller during the sign-to-close period. By starting these discussions early, both parties can eliminate unnecessary churn and refocus on the key issues that will help enable a smooth and efficient transition.

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For more context on Divestiture Operating Models in practice, feel free to reach out to our authors.

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