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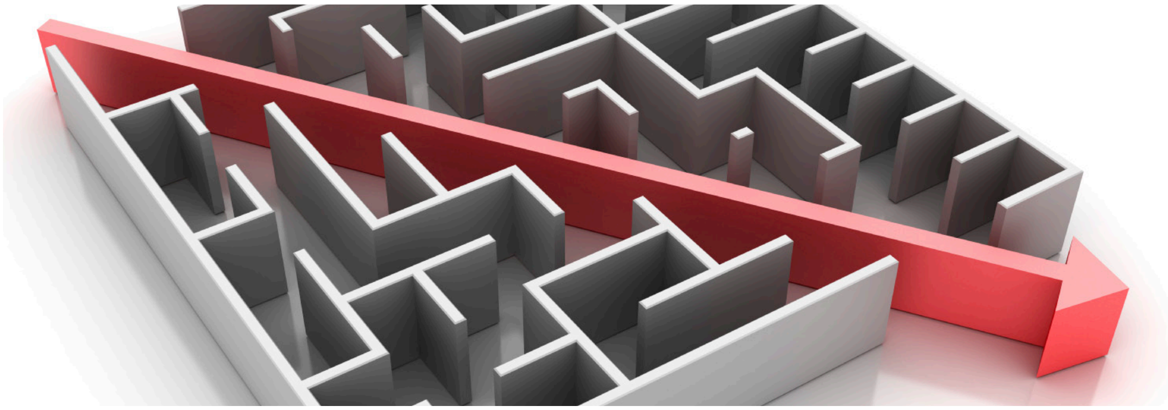
Divestiture of a captive and arranging an outsourcing agreement



Executive summary

CoreLogic is a U.S.-based provider of consumer, financial and property information, analytics and services to business and government. CoreLogic provides services in real estate, mortgage application, fraud, loan valuation, flood determinations and geospatial analytics and services. Prior to the divestiture described in this case study, CoreLogic had annual revenues of about $2 billion and around 10,000 global employees (largely in the U.S. and India).

CoreLogic was seeking to achieve the objectives of greater flexibility, global scalability, higher effectiveness and efficiency of existing operations, development of new tools, technologies and processes to support and grow CoreLogic businesses through the sale of its India captive operations and a long term outsourcing agreement with a strategic buyer. Deloitte was engaged to help the client divest its captive, arrange an outsourcing agreement with a strategic buyer and establish a vendor management organization.

Deloitte won the work due to its track record of successfully delivering on key CoreLogic engagements, including strategy consulting, finance, its credibility as a trusted advisor for highly complex projects and its knowledge of the outsourcing advisory market.

Over an eight month period and multiple phases of the project, Deloitte deployed a team of skilled practitioners from various service lines including Strategy & Operations Consulting, Human Capital Consulting, Accounting, Tax Advisory and Corporate Finance. The Deloitte team with global experience consisted of members from both the U.S. and India member firms. The "One-Deloitte" advantage translated to a short ramp-up to get the project launched, streamlined communications and leverage of multiple service lines to help the client reach advantageous terms on both the sale and long-term master professional services agreement quickly. CoreLogic was delighted with the results of the sale and the new strategic vendor relationship, identification of significant cost savings opportunities through the recommended strategies and the release of capital through monetization of its former captive.

Client issue

In order to refocus on its core business, the CEO of CoreLogic sought to achieve the following strategic objectives for the company:

- Establish a global delivery model to help CoreLogic expand geographically through access to a talented available global resource base
- Enhance the efficiency and effectiveness of the businesses' current IT platforms
- Increase the flexibility of the cost base in order to enhance operational efficiency and improve its bottom line

One of the major initiatives to achieve these objectives was the divestiture of its India captive operations, which included

- Business and financial modeling
- Capturing current key operating metrics
- Developing the financial construct for the sale
- Enabling a seamless transition plan from captive to third party relationship

Deloitte provided the information and resources to help the client in the following aspects of the project:

- Develop a Master Professional Services Agreement (MPSA) — This enabled CoreLogic to develop specific service definition and a flexible cost base through the outsourcing agreement terms
- Negotiate Share Purchase Agreement (SPA) — This allowed CoreLogic to release capital to be used elsewhere in its operations
- Manage the Communications and Change Management throughout the deal and related transition
- Establish a Vendor Management Program Organization ('VMPO') to manage the relationship on an on-going basis

Deloitte's approach

Given the complexity and uniqueness of the deal, Deloitte brought in a mix of specializations, experience and established processes in strategy, outsourcing, change management, tax and corporate finance.

The project team

- Phase I: During this phase the team developed and executed a strategy to down-select two potential buyers/ partners
  - *Operations team:* The Operations team was involved in creating the Confidential Information Memorandum (CIM) to solicit partner proposals, evaluating proposals and down selecting two potential partners
- Phase II: The outcome of this phase was an executed MPSA and Sale and Purchase Agreement. The project work streams were organized as below:
  - *Commercial team:* The Commercial team was involved in developing the Share Purchase Agreement, commercial schedules of the outsourcing services agreement including pricing, volume variation, inflation treatment and foreign exchange provisions. The team consisted of consultants with specialization in M&A, outsourcing advisory and corporate finance
  - *Operations team:* The Operations team was involved in developing detailed supplemental schedules (Statements of Work, Service Level Agreements and Transition Plans,.) for the outsourcing services agreement, performing due diligence to evaluate partner capabilities based on site visits and references, identify plan for SLA measurement, base lining SLAs and identifying and defining metrics in order to establish SLAs and responsibility matrices
  - *Communications and change team:* The communications and change team developed and managed a change management and communications plan across U.S. employee and client constituencies and facilitated internal and external communications for leading up to and including announcement day
  - *Vendor Management Program Organization (VMPO) team:* VMPO team was responsible for designing and deploying the new vendor management program organization. The team was involved in recruiting roles to this organization and also in training the team as the client was getting ready to start the transition process

Methodology

The specific phases of the project were as follows:

- Phase I: During Phase I, Deloitte helped the client to develop and execute a strategy to down-select to two strategic buyers and execute a Memorandum of Understanding with these down selected partners. The specific activities of this phase included:
  - *CIM release and partner down select* – CIM was released to potential strategic buyers to solicit proposals. Partner responses were evaluated and partners down selected accordingly
  - *Develop fact base* – establish baseline and conduct due diligence on the client to develop a set of partner selection criteria. Deloitte also deployed and managed a data room to enable data sharing with potential partners
- Phase II: During Phase II, Deloitte assisted the client in final partner selection, negotiations and transition services. The specific activities of this phase included:
  - *Detailed Due Diligence* – facilitated partner visits to CoreLogic's Indian captive and also performed reverse due diligence to evaluate partner capabilities to further down select one strategic buyer
  - *Negotiations* – helped the client to develop the negotiations strategy for the terms of the Master Professional Services Agreement ('MPSA') and the Sale and Purchase Agreement ('SPA'), support the client through the negotiations and create supplemental schedules (SOW's, SLA's, etc) for the agreement
  - *Deal signing and closing* – created and managed the announcement communications and helped the client to develop the vendor management organization plan to assist the client as it prepares for transition

Success factors and challenges

Deloitte's work enabled the client to:

- Effectively down select a strategic partner and negotiate the deal to secure up-front cash and service credits to reinvest in its business
- Decrease recurring fixed costs and set up 7 year outsourcing agreement with partner
- Establish a Vendor Management Program Office to manage the contract after signature and closing
- Generate interest from new clients post-deal announcement

Deloitte assisted the client to overcome the rather different set of challenges that stemmed from a combined divestiture and outsourcing agreement:

- *Balancing Negotiation Goals between the Share Purchase Agreement (SPA) and the Master Professional Services Agreement (MPSA).* Both agreements needed to balance risk and reward among the parties while developing a collaborative, long-term relationship. The SPA team was incentivized to increase the sale price of the business while the MPSA team was looking at obtaining effective outsourcing terms and hence negotiations needed to be collaborative
- *Put forth well defined/specific SOWs and SLAs for outsourcing requirements by overcoming the captive employees acting as 3rd parties.* Since information leaks were difficult to prevent, employees in the captive began acting as third-parties, thus compromising the integrity of the data. Limiting the number of people "in-the-know," while at the same time gathering the requisite information for SOWs/SLAs was a challenge
- *Data reconciliation between the buyer and the client was long and challenging.* The captive was treated as more of an off-shore staff supplement versus an outsourcing operation with high degree of U.S. direct management which made data reconciliation process complex and long

Lessons learned

Critical lessons learned during this project included:

- Create multi-agreement business case early: Negotiate sale purchase and outsourcing services agreements in tandem to secure a desirable overall deal for client; set-up model designed to link agreements
- Maintain a collaborative and good faith attitude in negotiations: Emphasize to the client and project team the importance of maintaining a collaborative and good faith attitude in negotiations due to length of deal term
- Begin the communications process early and create a communications firewall with the acquirer: Allows team to have processes in place and understand the larger environment around deal. Where possible, limit communications between buyer and captive to reduce employees acting as third-parties. Stress collaborative aspects of communications to preserve integrity of data
- Establish the VMPO early: When the client has not previously managed vendors, it takes time to train and explain how things are different. This also allows for larger recruiting cycle times for recruiting candidates to the VMPO team
- Stress the value-add of a structured VMPO organization: When the organization has not had a VMPO before, it is imperative to debunk the myth of a VMPO being an overhead function. It is important to explain the value of a VMPO in conducting proper governance early on in the process

Our working relationship

This was a complex project that required a high degree of interaction between Deloitte, CoreLogic management, subject matter specialists, attorneys and the strategic buyer. A good working relationship was critical to achieving the objectives.

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