EXECUTIVE INSIGHTS

Transition Service Agreements: The Art of Building a Bridge to Business Independence

Introduction: The bridge that too often breaks

In virtually every carve-out transaction, there is a gap between what is conveying and operating independently as of day one and what will be required to operate independently at full capability in the months following the transaction. That gap — spanning information technology (IT) systems, back-office infrastructure, human resource (HR) and payroll platforms, regulatory filings, supply chain relationships, and more — is bridged by a transition service agreement (TSA).

A TSA is a contract between a seller (RemainCo) and a buyer (NewCo) under which RemainCo agrees to provide defined services to NewCo for a specified period following the close of the transaction. In its simplest form, it is a temporary outsourcing arrangement. In practice, it is one of the most operationally complex documents in the deal — and one of the most directly connected to whether the transaction creates or destroys value in the months immediately following close.

The challenge is structural. With deal teams focused on the primary transaction agreement, the TSA routinely receives insufficient attention until the final days before signing. Operational leaders and their lieutenants — who best understand what services are actually needed and how they are actually delivered — are frequently excluded from the negotiation until it is too late. The result is TSAs that are incomplete in scope, vague in service definition, unrealistic in timeline and poorly governed. These documents become the basis for disputes, escalations and legal proceedings that consume management bandwidth, damage relationships and delay the transition to independence.

At L.E.K. Consulting, we have supported clients in developing, negotiating and executing TSAs across a wide range of industries, deal types and complexity levels. In this *Executive Insights,* we set out our framework for what good TSA practice looks like — organized around a five-stage development process and 12 actionable best practices — and highlight where the most common failure modes occur.

The strategic importance of TSAs: Both sides of the table

TSAs serve different but complementary purposes for buyers and sellers.

For the buyer, the TSA provides operational continuity: access to critical systems, processes and expertise that NewCo cannot replicate on day one. Without adequate TSA coverage, NewCo may not be able to bill customers, pay employees, file regulatory submissions or manage its supply chain. For financial buyers in particular — that lack the preexisting infrastructure that a strategic acquirer might leverage — TSAs are often the primary mechanism for ensuring the business does not lose momentum immediately postclose.

Importantly, TSAs also influence the buyer's competitive positioning in a sale process. Sellers may evaluate bidders not just on price but also on the quality and credibility of their proposed TSA terms. A buyer that demonstrates low TSA dependency, a clear exit strategy and genuine execution experience signals sophistication and reduces transition risk from the seller's perspective, which can tip a competitive bid in that buyer's favor.

For the seller, the TSA serves as a mechanism for enabling a cleaner, faster close (as the buyer does not need to establish full stand-alone capability on day one) while simultaneously generating a defined and time-limited revenue stream and limiting ongoing operational exposure to the divested business. However, TSA obligations are not free. They consume human capital, management attention and system resources in an organization that is simultaneously seeking to perform for its own stakeholders. The seller's goal is therefore to design TSAs that are sufficient to enable a smooth transition while being as limited, specific, and time-bound as possible.

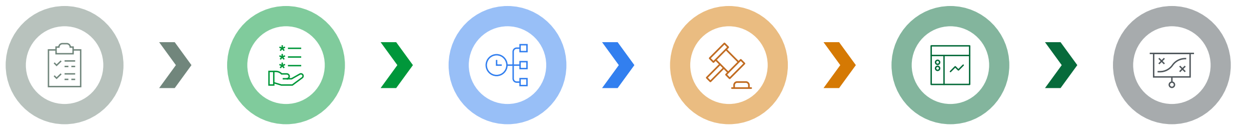
The inherent tension between buyer dependency and seller burden is the central negotiating dynamic of every TSA, and navigating it well requires both parties to understand that a good TSA is one that is genuinely fair to both sides.

A five-stage process for effective TSA development

Once the deal perimeter is defined (i.e., what resources, intellectual property, systems, and data will convey with the divestiture), TSA development can begin in earnest. A rigorous TSA development process moves through five stages, each of which must receive appropriate investment from both functional and legal teams (see Figure 1).

Figure 1

Five-stage process to effectively develop and manage TSAs



Stage 0	Stage 1	Stage 2	Stage 3	Stage 4	Stage 5
Define deal perimeter	**Define scope and services**	**Assess timelines and costs**	**Establish governance**	**Execute, monitor and track**	**Extend or exit TSAs**
• Assets, personnel, IP, systems, data to convey • Legal entity scope • Functional boundaries	• Day one service requirements • Functional input (IT, operations, etc.) • Volume + duration assumptions • Continuation vs. transition services	• Integrated transition roadmap • Dependency mapping (e.g., IT, HR, finance, regulatory) • True cost-to-serve (including overhead) • Alignment with deal model	• Service owners (buyer and seller) • Joint steering committee • Escalation pathways • Review cadence and KPIs	• Day one TSA activation • Milestone tracking (integrated plan) • Cost vs. budget monitoring • Issue resolution	• Exit readiness assessment • Structured extension criteria • Root cause of delays • Formal approval and fee mechanisms
Clear boundary between NewCo and RemainCo	**Detailed service catalog**	**Time-phased costed TSA plan**	**Governance and decision framework**	**Active TSA management and performance tracking**	**TSA exit or controlled extension**

Note: TSA=transition service agreement; IP=intellectual property; IT=information technology; HR=human resources; KPIs=key performance indicators
Source: L.E.K. research and analysis

Stage 1: Define scope and services

Scope definition begins from first principles: On day one of the new operating structure, what services does NewCo require that it cannot yet provide for itself? The answer to this question drives every subsequent element of the TSA. Functional leads across finance, HR, IT, supply chain, regulatory, manufacturing and sales must be systematically engaged to identify their specific requirements, volume assumptions and anticipated transition timelines. Scope ambiguity at this stage is the most common source of downstream disputes — the more specific the service description, the less room for interpretation.

A critical and frequently overlooked consideration at this stage is the distinction between "continuation services" (services the seller was already providing to the carved-out unit in the ordinary course of business) and "transition assistance" (one-time activities required to migrate data, transfer knowledge or extract the business from shared systems that were not previously explicit service relationships). Both categories must be captured; a failure to identify transition assistance requirements has derailed many otherwise well-structured TSAs.

Stage 2: Assess timelines and costs

Service timelines must be set realistically — accounting for the sequencing and interdependencies between workstreams, not just the timeline for each in isolation. IT transitions, for example, frequently set the critical path for a wide range of downstream activities. HR and payroll transitions depend on legal entity establishment. Regulatory filings depend on data transfer from the seller's systems. An integrated timeline that maps these dependencies and sequences TSA exits accordingly is an essential planning tool.

Cost estimation must reflect the actual cost to RemainCo of providing the services — including allocated overhead and any third-party pass-through costs — rather than market-rate benchmarks or rough estimates. Both the buyer and the seller benefit from cost transparency: It enables the buyer to accurately model the true cost of independence, and it prevents the seller from inadvertently subsidizing the buyer's operations or, conversely, generating disputes over what constitutes a "reasonable" charge.

Stage 3: Establish governance

TSA governance is the operational architecture that enables the agreement to be executed, monitored, and adapted. At a minimum, this requires named service owners on both sides for each service category, a joint steering committee with executive-level representation from NewCo and RemainCo, a defined escalation path for service-level disputes and a regular cadence of progress reviews against milestones.

Governance structures that are underinvested at the outset tend to produce two failure modes: disputes that escalate to legal proceedings because no agreed-upon resolution mechanism exists and TSA extensions that occur by default because neither party has tracked progress against exit milestones with sufficient rigor.

Stage 4: Execute, monitor and track

Execution begins at close and continues through the life of the TSA. Tracking should be embedded within the broader separation workplan; TSA exit milestones should appear on the same dashboard as stand-alone operating model (or integration) milestones, not managed in isolation. Cost tracking against the original deal model is essential; TSA costs that materially exceed budget are a direct drag on deal returns and should trigger active management intervention.

Stage 5: Extend or exit TSAs

Not all TSAs will exit on schedule. The right response to an impending extension is neither automatic renewal nor forced exit; it is a structured assessment of whether the delay is due to a failure of planning (which should be corrected) or a legitimate change in circumstances (which may warrant a time-limited, priced extension). The process for requesting and approving extensions should be defined in the original agreement, with clear cost implications and formal sign-off requirements.

12 best practices for effective TSA design and execution

Our experience across carve-out transactions on both sides of the table has surfaced 12 best practices that collectively define the difference between TSAs that bridge the transaction successfully and those that become value-destroying liabilities (see Figure 2).

Figure 2

12 TSA best practices from successful buyers and sellers

Overall principles for design	Stage 1: Define scope and services	Stage 2: Assess timelines and costs	Stage 3: Establish governance	Stages 4 and 5: Track and exit
1 Prioritize balance	3 Ring-fence critical assets	6 Set aggressive timelines	10 Establish clear joint governance	11 Monitor costs
2 Orient to end state	4 Clearly define resource costs and fees	7 Plan for renewals/ extensions		12 Track TSA exit progress
	5 Define expected levels of performance	8 Provide for an extended-term “knowledge transfer” TSA		
		9 Assess TSA interdependencies		

Note: TSA=transition service agreement
Source: L.E.K. research and analysis

Overall principles for design

1. **Prioritize balance.** A good TSA is fair to both parties. Buyers need sufficient coverage to operate NewCo effectively, and sellers need defined, time-limited obligations that do not unduly burden RemainCo. A basic structural test: The agreement should include transition timelines for the buyer (by when the buyer must be ready to assume independence) as well as service delivery timelines for the seller (how long and at what level it will provide services). Imbalanced agreements — favoring one party to the disadvantage of the other — are a primary source of disputes.

2. **Orient to the end state.** The most important strategic principle in TSA management is to maintain clarity about what "independence" looks like — the systems, processes and capabilities NewCo must have in place to no longer require seller support — and to orient every transition decision toward that end state. TSAs that become a substitute for making difficult organizational and operational decisions, rather than a bridge to independence, tend to extend and destroy value for both parties.

Stage 1: Define scope and services

3. **Ring-fence critical assets.** For core or resource-constrained functions — engineering, product development, proprietary technology, regulatory affairs — the TSA should include specificity on the exact personnel, systems and processes involved. Vague service descriptions in high-dependency areas create the greatest risk of operational disruption and legal conflict. Specificity here is not bureaucratic overhead; it is risk management.

4. **Clearly define resource costs and fees.** TSA pricing should be explicit: the cost of each service, the basis for any markup or overhead allocation, and the mechanism for adjusting fees in the event of a partial exit or extension. Agreements that use terms such as "reasonable" or "at cost" without further definition are an invitation to disagreement. Pricing transparency serves both parties: The seller can recover its true cost of delivery, and the buyer can model TSA costs accurately in its stand-alone financial projections.

5. **Define expected levels of performance.** Service-level agreements (SLAs) should specify concrete, measurable performance standards — uptime percentages, response times, processing volumes, resolution timelines — rather than qualitative terms. For critical processes, the SLA should reference the current performance standard (i.e., how the process performed before the transaction) as the baseline expectation. Vague performance language is a common source of TSA disputes.

Stage 2: Assess timelines and costs

6. **Set aggressive timelines.** The goal of a TSA is not to extend the prior operating arrangement; it is to facilitate a journey to independence as rapidly as possible. Both parties benefit from fast exits: The seller recovers management bandwidth and reduces operational exposure, and the buyer achieves the cost structure and operational autonomy needed to execute on the deal thesis (and longer-term strategy). Aggressive timelines create the organizational urgency required to prioritize transition work. Timelines that are set "conservatively" to reduce pressure tend to become self-fulfilling — the work expands to fill the time available.

7. **Plan for renewals and extensions.** Despite the imperative for speed, reality will intervene. Unexpected technical complexities, regulatory delays and resourcing constraints will require some TSAs to be extended. Having clear extension terms — agreed upon in advance, with defined pricing for extensions (including escalators) and formal approval requirements — prevents extensions from becoming contentious negotiations and ensures that cost overruns are captured and managed.

8. **Provide for an extended-term "knowledge transfer" TSA.** Even after all formal TSA services have been documented, there will typically be residual knowledge — undocumented processes, institutional context, technical expertise — that resides with individuals at RemainCo. Including this knowledge transfer in the TSA as a catchall (for a defined period of time) ensures that this tail of informal support is provided and there is continuity for the conveying business under NewCo.

9. **Assess TSA interdependencies.** TSA exits rarely occur in isolation; cross-functional coordination is required. For example, it may not be feasible to fully transition financial reporting until the enterprise resource planning system has been migrated to an independent instance or connected to NewCo's platform. Mapping these dependencies explicitly — and sequencing exit timelines accordingly — is one of the most important aspects of TSA planning.

Stage 3: Establish governance

10. **Establish clear joint governance.** A joint steering committee, regular progress reviews (typically monthly to coincide with TSA fees and invoice reviews) and a predefined escalation pathway are key. Executive-level representation from both parties ensures that disputes can be resolved quickly and that TSA obligations are protected against competing organizational priorities.

Stages 4 and 5: Track and exit

11. **Monitor costs against the original deal model.** Tracking actual TSA expenditure against the deal model — and actively managing any variances — helps ensure holistic delivery of the deal value. Tracking can oftentimes fall by the wayside due to the operational urgency surrounding the transition period, which can lead to exit timelines slipping further and material cost overruns that could have been avoided.

12. **Track TSA exit progress against milestones.** Regular reporting against exit milestones — with "traffic light" status and clear accountability for any slippage — ensures that TSA exit remains an active management priority rather than a background activity. The SMO should own this tracking function and escalate to the joint steering committee when milestones are at risk.

Where L.E.K.'s approach differs from the market

Systems and administration-led TSA development is a failure mode: template-driven, managed primarily by legal counsel, with limited connectivity to operational planning and/or financial modeling. The result is a TSA that is structurally complete but operationally inadequate — defining the legal relationship without ensuring that the underlying services are properly scoped and costed, aligned with the delivery of critical business operations and, importantly, designed with the key drivers of the deal thesis and value in mind.

L.E.K.'s approach treats TSA development as a core part of value delivery in the carve-out planning process. It is connected to the operating model design, the SMO governance structure, the stand-alone financial model and the value creation thesis. Our support of TSA negotiations, management and exit is holistic and coupled with a credible, executable transition plan that enables NewCo to reach independence on schedule and in a way that is value maximizing for both the buyer and seller.

Conclusion

TSAs are not glamorous. They do not appear in deal announcement press releases or investor presentations. But they are, in many ways, the most operationally consequential documents in a carve-out transaction. They determine whether NewCo can operate on day one, whether the transition to independence occurs on schedule or slips by months, whether TSA costs track to the deal model and whether the relationship between the buyer and the seller remains productive through the transition period.

The 12 best practices outlined in this *Executive Insights* — spanning overall principles for design, scope and service definition through to tracking and exit — provide a comprehensive framework for both buyers and sellers to approach TSAs with the appropriate amount of rigor. Organizations that pursue transition planning thoughtfully reach independence faster, at lower cost and with less operational disruption than those that treat the TSA as a legal necessity rather than a value management tool.

For more information, please **contact us**.

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