



TELECOMMUNICATIONS & DIGITAL INFRASTRUCTURE

NetCo/ServCo Carve-Outs: Why Operating Model Decisions Determine Value

The Context: Why NetCo carve outs succeed or fail

Network and service carve-outs are becoming an increasingly common feature of the US broadband landscape. In a typical structural separation of a service provider, the network function, or NetCo, is established as a standalone entity that owns and operates the physical infrastructure — legacy wireline, fiber, wireless, network equipment, and related assets — while the service organization, or ServCo, retains responsibility for the customer relationship, including marketing, sales, pricing, billing, and customer care.

In theory, the appeal of this model is clear. Separating capital-intensive network assets from customer-facing commercial activities promises sharper strategic focus and improved capital efficiency. The primary driver is the ability to attract outside capital to subsidize capex-heavy network buildouts that would otherwise strain a single operator's balance sheet. Recent transactions reflect this logic: KKR and T-Mobile's joint venture to scale Metronet fiber deployment, ¹[BlackRock](#) and AT&T's joint venture to form fiber network provider [Gigapower](#),² and EQT and T-Mobile's joint venture to acquire and build out fiber-to-the-home provider [Lumos](#).³

What is less examined is how carved-out NetCos operate once the transaction closes and how much of the value case depends on the operating model put in place. In practice, outcomes are determined by where responsibilities sit, how incentives are structured, and how dependencies are managed across entities. Many of the execution challenges observed post-close—slower penetration ramps, higher cost-to-serve, and prolonged stabilization—are not incidental, but the result of decisions made during diligence and design.

The Challenge: The gap between underwriting assumptions and operating reality

Most NetCo carve-outs are still underwritten as structural or capital transactions, rather than as operating models. Investment theses often assume that once legal separation is complete, operating outcomes will follow naturally. Theoretically clean entity boundaries, contractual interfaces, and transitional arrangements are expected to deliver scalable business-as-usual performance but create a false sense of confidence.

¹ <https://www.t-mobile.com/news/network/t-mobile-kkr-joint-venture-to-acquire-metronet>

² <https://about.att.com/story/2023/gigapower.html>

³ <https://www.t-mobile.com/news/business/t-mobile-eqt-close-lumos-fiber-iv>

In practice, underwriting proceeds with four consistent blind spots:

1. Operating realities of the in-scope NetCo assets are not fully examined.

Diligence often assesses asset quality and footprint but does not fully interrogate what it takes to run them day to day, where capabilities are thin, or where performance is structurally constrained.

2. Operational responsibility and incentives are assumed rather than designed.

Ownership, incentives, and handoffs across field operations and network performance are not sufficiently defined. Where accountability is diffuse, cost and customer experience feel the impact.

3. Capacity, workforce readiness, and systems alignment are assessed in aggregate but not pressure tested.

Processes may appear sufficient at a high level, but constraints emerge at the operating area-level where field execution, activations, and escalation occur.

4. Cost and timing models reflect steady-state economics rather than near- and medium-term realities that govern performance.

Early-stage realities—subscale operations, entrenched third-party dependencies for critical capabilities (e.g., network, real estate, systems), and interim or dual-stack OSS/BSS environments—are often underweighted, despite driving performance in the first 12–24 months.

The result is a consistent underestimation of execution risk. Where responsibility and accountability are not clearly defined, cost-to-serve increases, stabilization slows, and performance underdelivers. In practice, outcomes are driven not by legal structure, but by where operational responsibility and economic exposure sit.

The Approach: Designing the NetCo operating model

Understanding that operating model design has implications for value outcomes, the critical question becomes where that design constrains performance. The gap between underwriting expectations and operating outcomes is driven by the complexity created by the relationships among NetCos and ServCos, third-parties, legacy platforms, and commercial partners.

Importantly, the nature and intensity of those dependencies are determined by critical decisions made regarding **asset selection** and **boundary choices**.

Asset selection is a trade-off decision, not a valuation exercise

Asset selection determines which trade-offs the organization must manage and where operational dependencies will sit.

Six dimensions determine operating complexity and dependency profiles:

- **Technology mix** (e.g., hardware infrastructure vs. software/services, wireless vs. wireline, copper vs. fiber)
- **Ownership model** (e.g., owned vs. leased infrastructure, control over upgrades and remediation vs. entrenched third-party dependencies)
- **Asset scope and functional split** (e.g., passive vs. active, core/aggregation vs. access, degree of vertical integration)
- **Market density and geography** (e.g., field efficiency, stabilization pace, local relationship requirements)
- **Regulatory environment** (e.g., permitting, Right of Way, build sequencing risk)
- **IT stack and systems environment** (e.g., OSS/BSS complexity, dual-stack duration)

These asset boundaries are economic boundaries. Selecting assets is ultimately a decision about which operational problems the NetCo is prepared to own and solve and which it will push across the boundary.

Operating boundary depth determines interface intensity and risk

The depth of the operating boundary determines how much of the value case sits outside direct NetCo control. In practice, NetCo models exist on a spectrum: from high internal control to high external dependency. Where a model sits on that spectrum determines where operating risk resides and how performance is managed. At one end, the NetCo owns outcomes end-to-end. At the other, it owns assets but depends on third parties to deliver the performance that drives returns.

In high-control models, performance depends on execution capability within the NetCo, including its ability to design and manage workforce, systems, vendor relationships, and customer activation. In high-dependency models, performance depends on the effectiveness and strengths of commercial agreements, governance, and partner coordination. Operating boundary design determines whether the NetCo controls the drivers of value and risk or relies on others to deliver them.

	High internal control model	High external dependency model
NetCo controls	Full network stack, field operations, and customer activation end-to-end	Physical network infrastructure
Key dependencies	Primarily internal responsibility (workforce, systems, vendor management) Marketing, sales, customer support experience dependent on ServCo	Field execution, activation, install, and repair dependent on ServCos, contractors, or wholesale partners Marketing, sales, customer support experience dependent on ServCo
Economic exposure	Churn, install quality, and activation are directly manageable within NetCo control	High return sensitivity to active network performance and customer experience outside NetCo control
Commercial incentive mechanisms	Internal operating model design and governance	Wholesale pricing protections, downside provisions, strong contract governance, SLA design and enforcement

The Evidence: Where models break down in practice

These design choices produce challenges in live NetCo environments, across both commercial and regulatory separations, when operating assumptions are not fully tested.



Case study one: Commercial NetCo/FiberCo separation

NetCo outcomes remain highly dependent on execution, migration dynamics, and tenant behavior. Execution risk concentrates at the operating boundary—incentives, SLAs, and migration ownership must be explicitly defined upfront, not assumed to align.

Structural and operational demarcation

A European telecom operator separated its fixed network into a standalone NetCo backed by external investors. The NetCo owns and operates the infrastructure, while the former parent remains a major wholesale customer and provides certain services under a long-term agreement.

Challenges

- Contracted-back operations created misaligned incentives on cost, quality, and volume commitments
- Commercial terms (e.g., exclusivity, discounts) triggered regulatory scrutiny and limited flexibility
- Migration from legacy networks was slower due to customer friction and coordination across entities
- Multi-tenant model introduced conflicting priorities on pricing, service levels, and investment timing
- Separation required rebuilding systems and capabilities previously embedded in the parent



Case study two: Regulated NetCo separation

Legal separation does not create operational independence. Without aligned incentives, governance, and decision rights, execution becomes fragmented and stabilization is prolonged and costly.

Structural and operational demarcation

A wholesale-only infrastructure entity was separated from its European parent telecom group following regulatory intervention. The entity operates the network for a broad base of service providers but remains structurally and operationally interdependent with its former parent.

Challenges

- IT separation required prolonged dual systems and regulatory milestones, delaying full independence
- Governance required formalized consultation processes, slowing decision-making and investment cycles
- Incentive misalignment persisted across pricing, capex prioritization, and service performance
- Outcomes included tension between affordability goals and long-term investment levels
- Continued reliance on the parent raised questions around true operational independence

The Test: Refining operating models across the NetCo lifecycle

Failures follow a consistent pattern: operating models are not fully validated before separation, not fully executable at Day 2, and not designed to scale without friction. Across the NetCo lifecycle, asking the right questions at three critical checkpoints determine whether the model is viable.



Diligence: Test structural viability

Before separation, the question is whether the model works in principle. Investors and operators must rigorously validate the proposed operating model structure.

- Are responsibilities clearly defined across NetCo, ServCo, and third parties?
- Do MSA/TSA terms appropriately align incentives and economic exposure?
- Are field operations, activation, maintenance, and escalation paths clearly assigned?
- Does the economic model hold once operational responsibilities, SLAs, and real dependencies are reflected?



Separation: Test operational execution and Day 2 readiness

During separation and early operations, the focus shifts from structural design to execution readiness to confirm that the operating model functions.

- Are cross-party issues resolved effectively through escalation and governance?
- Are field operations workflows functioning across organizational boundaries?
- Are OSS/BSS interfaces stable and capable of supporting operations?
- Are SLAs measurable and enforceable in real operating conditions?



Stabilization: Test scalability and incentives for year one and beyond

Once operations are live, continuous evaluation should focus on how the model remains economically and operationally viable at scale.

- Are ServCos and partners behaving in ways that support NetCo outcomes (e.g., penetration, churn, build efficiency)?
- Do pricing structures and protections in commercial agreements still support the investment case?
- Can systems, governance, and workflows support growth in subscribers, build activity, and tenant participation?
- Are performance outcomes tracking with underwriting assumptions?

Across all three phases, successful NetCos treat the operating model as iterative rather than static. While core commercial terms and incentive structures are largely fixed at separation, leading operators continuously refine how the model is executed. That includes adjusting interface design, governance mechanisms, and the application of KPIs/SLAs to improve coordination and performance as real operating conditions emerge.

The Takeaway: Implications for NetCo investors and operators

NetCo carve-outs promise clarity and capital efficiency, but only if the operating model works. While market discussion often focuses on the structural logic of separation or ServCo growth, the reality is that NetCo performance is determined in execution, where operating complexity, dependencies, and incentives must be actively managed. The organizations that succeed are those that treat separation not as an endpoint, but as the beginning of a continuous process of operating model design, testing, and refinement.

For investors, this requires a shift in underwriting approach. Evaluating asset quality and market opportunity is necessary but insufficient. The operating model itself—asset perimeters, boundaries, responsibilities, hand-offs, incentives, and dependencies—must be explicitly assessed and pressure-tested to determine whether the investment case can hold under real operating conditions.

For operators, commercial interfaces, SLAs, and governance mechanisms cannot be left to evolve post-separation. They must be designed upfront with the same rigor as the transaction itself. Just as importantly, operating capabilities—workforce, systems, and execution capacity—must be sized and structured to match the complexity of the model being created.

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491998-60329/June 26
10042_Stg06A

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