

Transaction Services

- Investor Business Plan Development
- Bankable Business Plan Negotiation
 - Project Finance

WHAT'S IT ALL ABOUT?

With the deregulation of national markets, fierce competition and with investors and operators envisaging a worldwide business opportunity universe, the telecommunications marketplace is becoming increasingly global. However, these large investments are often accompanied by high risk and great uncertainty about chances for success and about future profitability. Business planning is therefore an essential management decision support tool.

With our **Investor Business Plan Development** service, we perform a quantitative analysis of the investment opportunity, considering external market parameters, as well as internal strategic, operational, technical and organizational constraints. We do this by performing thorough market research, assessing the client's strategy, and then combining these inputs with our market and operational experience to develop a comprehensive, fully customized long-term operator business plan, using our own, tried-and-trusted toolkit. We continuously benchmark the assumptions and key parameters of our own business plan model against independent analyst research available for the target market or comparable markets and operators. Our output includes long-term projections for all operational and financial key parameters and an evaluation of the project's profitability from an investor's point of view. A detailed risk assessment also forms an integral part of our analysis.

We also support the funding process by providing "bankable" business plans using more conservative assumptions and focusing on the key parameters from a lender's point of view, i.e. indicators relevant to debt service coverage in terms of both long-term solvency and short-term liquidity. Finally, we assist our clients in negotiating the financial and derived operational covenants with the lenders to facilitate the financing structuring. These services are included in our **Bankable Business Plan Negotiation** and **Project Finance** consultancy.

OUR APPROACH

Our investor business plan development services are based on building a complete long-term operator

business plan "from scratch", based on our comprehensive, fully customized, professionally developed, proven mature business plan model. Our framework is modular, comprising the main, interlinked building blocks "subscriber module", "revenue module", "operational expenses (OPEX) module", "capital expenditure (CAPEX) module" and "accounting module". The actual, spreadsheet-based model is complex and computationally demanding – for reference, a detailed view is shown as a block diagram.

Thorough research of the market and the competitive environment, as well as an assessment of the client's strategy, form the starting point for operator business planning, as they determine many business plan parameters, such as target end-user segments, subscriber mix and average revenue per user (ARPU) to be expected, forecasted cost structures, etc. We perform this research using publicly available data, external analyst intelligence and our consultants' own knowledge base and network. We use data available for the target market, but also comparable data from other markets. Equally, throughout the whole modelling process, we use benchmarks against which we measure our business plan assumptions, inputs and outputs.

Next, the operator business plan is developed step-by-step, starting with demographic and economic market projections and the resulting total subscriber forecast. Innovations in technology are then predicted and subscriber migration scenarios developed. This leads to multiple technology sub-markets, each with a certain current and expected future competitive constellation and characteristic subscriber segmentation. Our market model simulates the changes in market share for the various competing operators in the single sub-markets, taking into consideration competitive churn, market attractiveness and retention of technology migrants. Detailed subscriber segmentation is performed for the target operator's subscriber base in the applicable sub-markets. By combining the output with ARPU projections for the individual segments, we forecast operator revenues.

We use a set of methods to predict ARPU, as illustrated in the figures. In market constellations where high future growth is anticipated, the ARPU forecast is checked against the total market penetration assumptions, using a top-down market ceiling estimation,

based on an affordability model. In mature markets, this is replaced by a budgetary top-down computation of ARPU growth potential from new services. If the client so desires, a full bottom-up remodelling of ARPU composition per user segment can be performed, specifically considering take-up rates, usage and unit prices for the individual services. The interconnection regime is taken into account to break down voice revenues according to outgoing and incoming traffic.

The next step consists of projecting costs. The operational expenses (OPEX) – including cost of goods sold (CoGS) – are modelled bottom-up, using the respective cost drivers, e.g. revenues, traffic, number of subscribers and new subscriptions, headcount, number of points-of-sale, number of radio sites, network elements, etc. We use our large knowledge base and inputs from the local market to determine proper direct and indirect cost structures (composition) and fair valuation of the line items (absolute amounts). The investment and capital expenditure (CAPEX) plan is built based on network roll-out – with coverage requirements, subscriber projections, technology migration and reinvestment being its main drivers – and on unit equipment prices observable in the market or as per the client’s sourcing data.

After considering a preliminary capital structure, our accounting module then delivers profit and loss projections, which we assess for operational efficiency by evaluating gross margins, EBITDA (earnings before interest, tax, depreciation and amortization) and EBIT (earnings before interest and tax) margins, both in terms of breakeven times and long-term attainable levels. Furthermore, we benchmark the latter against competitors and comparable operators.

Cash flow projections are analyzed for peak funding requirements and related breakeven and payback periods. Special consideration is given to the estimation of long-term growth and terminal value. A discounted cash flow (DCF) analysis delivers the project profitability metrics: net present value (NPV), internal rate of return (IRR), profitability index (PI), breakeven, payback and discounted payback. After determining enterprise value, valuation multiples – such as EBITDA multiples, value per subscriber – again lend themselves to benchmarking. The profitability analysis is complemented by a detailed risk assessment. This is accomplished by

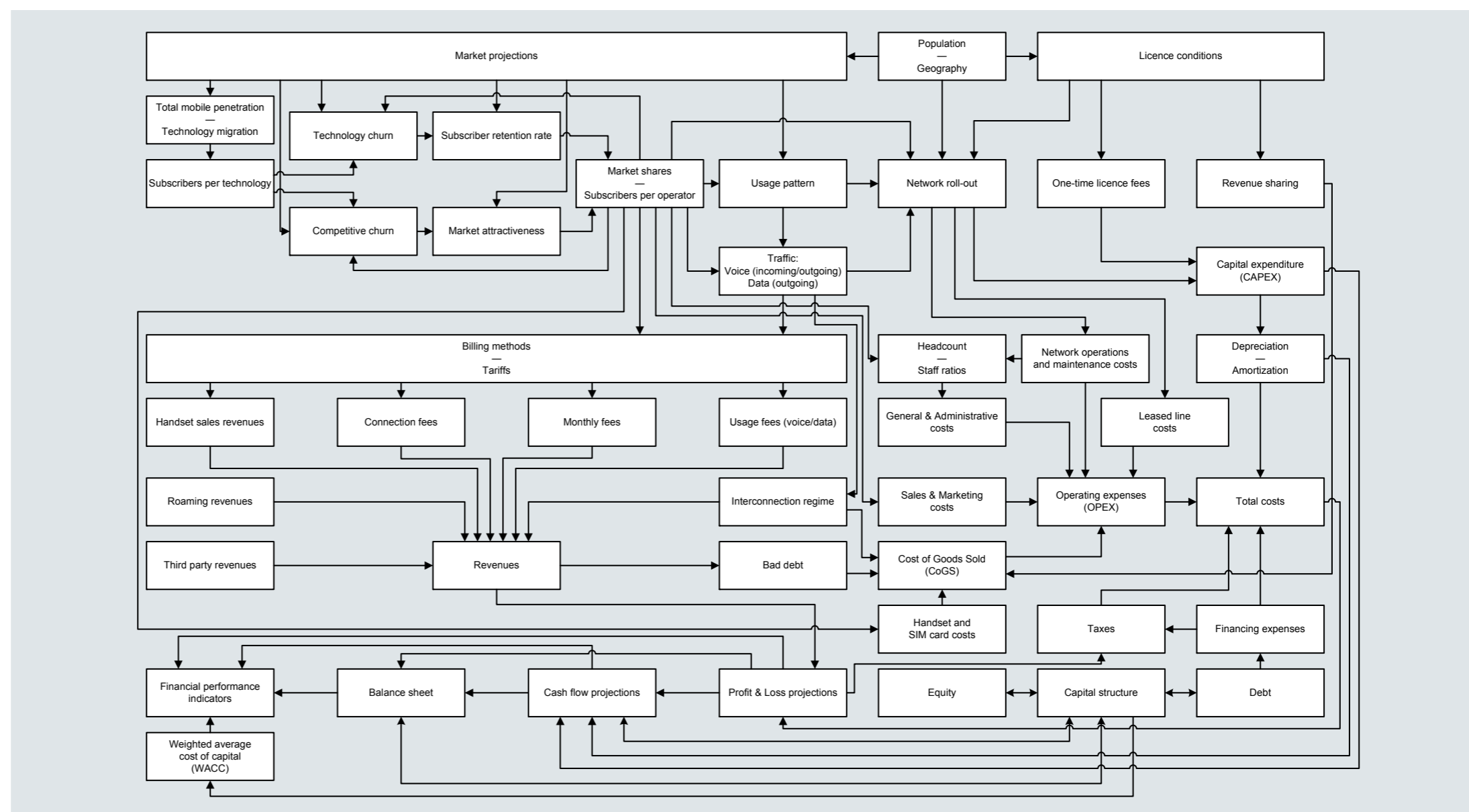
scenario, sensitivity and Monte-Carlo analyses used to study the robustness of the previously derived business plan results, as well as to determine confidence intervals around the estimated data midpoints.

If needed to secure project financing, our bankable business plan negotiation and project finance services would provide the more conservative view of lenders then required. Key performance indicators from the lender’s point of view differ from those from the owner’s perspective and focus on the operation’s

capacity to cover interest payments and principal repayments, i.e. on long-term solvency (the firm’s ability to pay its non-current obligations as they come due) and short-term liquidity (the firm’s ability to pay its current obligations). We support the client in negotiating financial and derived operational covenants typically designed to provide the limits within which the business must be run – a breach of one or more covenants would trigger a need to refinance.

CLIENT BENEFITS

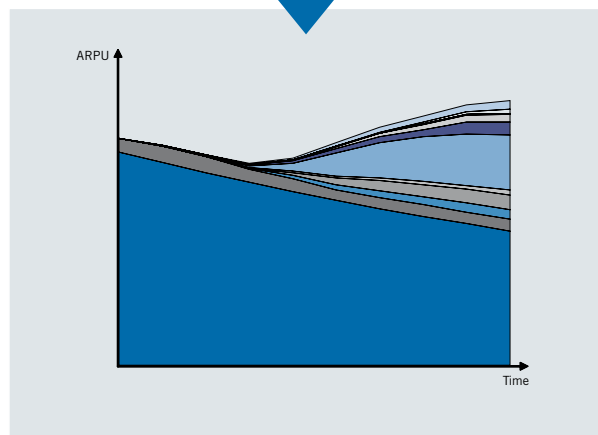
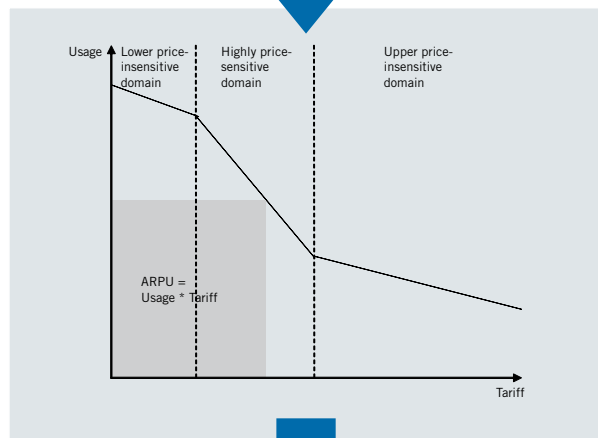
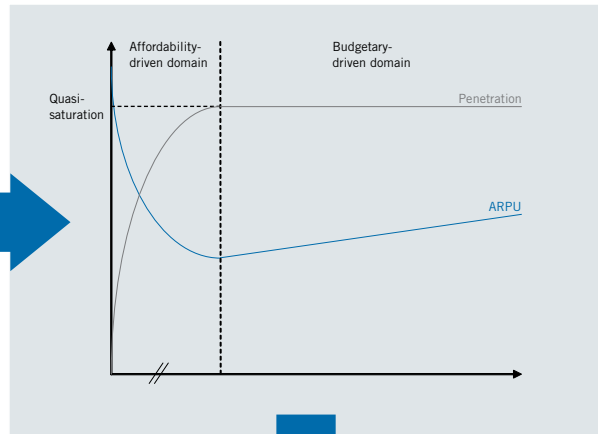
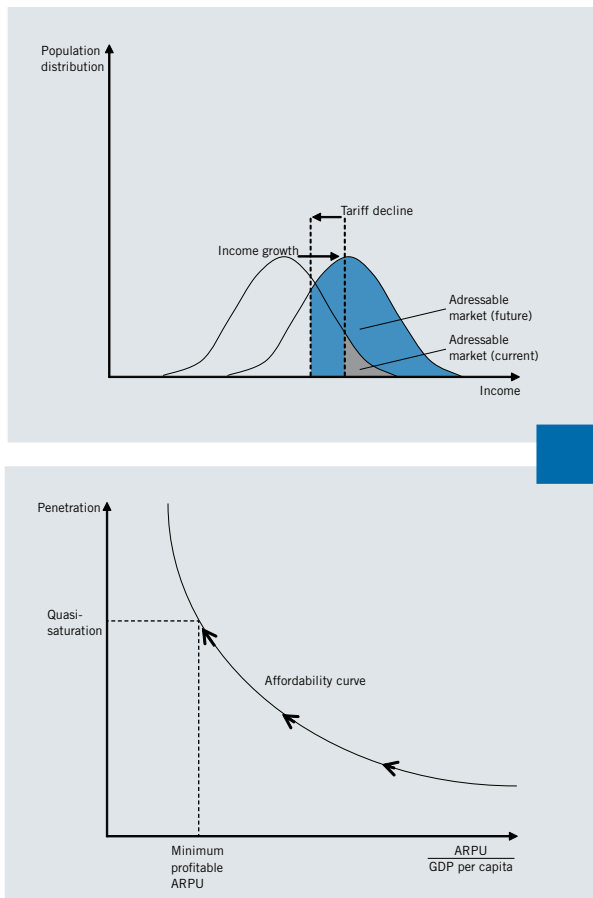
Investors and operators benefit from a thorough quantitative assessment of major investment projects. They benefit from a comprehensive, fully customized operator business plan developed using our professional, tried-and-tested mature business plan model toolkit. Our market research and experience acts as a warranty for adequate model inputs, depending on the business case use – as a management decision support instrument or to secure project financing, including debt.



Detailed structure of our business plan model

OUR ARPU MODELLING FRAMEWORK

We use a combination of top-down and bottom-up approaches to forecast average revenue per user (ARPU).



Developing markets are characterized by low current telecommunications services penetration and limited competition, personal income in relation to service pricing being the limiting factor. However, the typical dynamic economic growth in these countries causes disposable incomes to rise while competition simultaneously drives down tariffs, two factors making larger portions of the population addressable for telecommunications services. Our affordability model reconciles total penetration with ARPU forecasts, by estimating the “market ceiling” (maximum feasible penetration) implied by income and ARPU projections.

Mature markets are saturated, and voice revenues are typically flat or slightly decreasing, but there is potential for ARPU growth, as new data applications induce customers to spend larger budgets on telecommunications – now available as a result of long-term economic growth and changes in usage patterns.

Bottom-up modelling looks at specific individual services and their related customer target segments, launch schedules, take-up rates, usage and pricing. Price sensitivity analysis supports appropriate pricing of the new services.

OUR SERVICES

We offer a broad range of advisory services, as presented in our portfolio matrix. We position our individual solutions alongside services practices and service clusters.

| | Strategy and Marketing | Corporate Finance and M&A | Operations and Technology Management |
|-----------------------|---|--|---|
| Transaction Services | Strategic Investment Management · Feasibility Study Strategic Due Diligence · Management Assessment Licensing and Regulatory Affairs | Commercial and Financial Due Diligence · Business Plan Analysis and Benchmarking · Asset Valuation Investor Business Plan Development Bankable Business Plan Negotiation · Project Finance | Network Infrastructure and Operations Due Diligence Roll Out Plan Review and Benchmarking Operations Plan Review and Benchmarking |
| Optimization Services | Going-to-Market Strategy · Segmentation · Target Marketing · Product · Pricing · Promotion · Sales Channels · Customer Care Organization Development Partner Selection and Sourcing | Financial Performance Measurement and Benchmarking Forecasting and Budgeting Service and Process Costing | Network and Process Performance Measurement and Benchmarking Business Process Reengineering · Process Audit and Improvement Shared Delivery · Regionalization and Centralization · Outsourcing and Managed Services |
| Innovation Services | Business Development · Growth and Transformation Mobile Virtual Network Operator · Mobile Virtual Network Enabler Value Added Services | Financial Modelling and Financial Engineering | Technology Appraisal and Roadmapping Network Planning and Migration Network Infrastructure Sharing |



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