

Transaction Services

Your investment opportunity in the light of strategic, organizational, financial, operational and technological aspects



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 in new operator licences and seasoned operations businesses are often accompanied by both great uncertainty about fair transaction prices and high risks. It is therefore crucial for prospective investors to perform thorough feasibility studies and due diligence before closing a deal. Furthermore, where debt financing is concerned, the project's operational and financial covenants have to be negotiated with the lenders.

OUR APPROACH

Our Transaction Services cover all activities needed in the course of the acquisition or the sale of a licence or an operation, the associated funding and roll-out:

- 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 and Project Finance
- Network Infrastructure and Operations Due Diligence
- Roll-Out Plan Review and Benchmarking
- Operations Plan Review and Benchmarking

As in the case of optimization and innovation, which are usually cross-functional efforts, transactions also typically involve very diverse disciplines, all of which we cover via our services:

- Strategic issues: overall strategy, going-to-market strategy, functional area strategies, management skills, corporate culture

- Commercial and financial issues: market projections, business planning, financial statements analysis, accounting aspects
- Technical issues: legacy and future network infrastructure, operations processes
- Legal issues: corporate rights and obligations

We assess the investment opportunity in the light of strategic, organizational, financial, operational and technological aspects. We evaluate the investment opportunities by performing market research and feasibility studies employing a top-down approach. Where a new licence is concerned, we use business plan modelling to estimate the licence value; we support investors and operators in bidding for the licence (bid book preparation).

When the ownership of an operation is to be transferred, we perform assessments and due diligences to determine the market, strategic, tactical, organizational, human resource, operational, technical and, finally, financial conditions of the target entity, in order to estimate an enterprise value, identify risks, as well as

recommend appropriate action and suitable mitigation measures. Analysis of the operation's financial statements, current budgets and business plans is complemented by benchmarking against comparables from analyst research, as well as by development of our own assumptions on roll-out, operations and financial projections, which are used to further verify the assumptions and results of the operation's business planning.

We use a range of valuation methods, taking into account the operator's current financial position – assets, liabilities, claims, profitability – as well as Discounted Cash Flow (DCF) analyses based on a long-term business plan and market and transactions multiples. Scenario, sensitivity and Monte-Carlo analyses are among the tools we use to determine confidence intervals for our model results.

While the analysis and benchmarking of an existing operator business plan is a valid approach, if such business plan is high quality in terms of both the implementation and the assumptions pertaining to the model, we also provide customized business plan development using our own toolkit. This business plan can be designed as an “investor's case”, aimed at



the equity investor, or as a “banking case”, targeted at debt financing providers. In the latter case, we can also assist the operator or investor in negotiating the banking case parameters, e.g. the desired financial and resulting operational covenants, to help secure adequate financing.

The market research, the strategic appraisal, the long-term business plan, the findings of the management assessment and the organizational due diligence, but also the financial and operational benchmarks and the budgetary staffing and network roll-out plans, are deliverables that should be used seamlessly in the post-transaction phase, when all efforts shift towards optimization.

- **Strategic Investment Management:**

Strategic investment management is the high-level investor take on a global universe of business opportunities. It starts with the identification of a long-term investment strategy, considering the expansion into new geographical markets, the diversification into new products and services, the positioning along the value chain and the optimal degree of vertical and horizontal integration. The investment universe is subsequently screened for appropriate opportunities and targets. These are then further analyzed and prioritized. We provide decision support to management on whether or not to pursue a project. Project roadmaps help to systematically implement the decisions taken and to review progress by the use of milestones.

- **Feasibility Study:**

We undertake feasibility studies as a first proof-of-concept of a new licence bid, a greenfield launch of operations, or the acquisition of a seasoned operator. Top-down methods are used to estimate market potentials, competitive environment, regulatory impacts, revenue generation capacity, resources needed and, finally, the viability and profitability of the project.

- **Strategic Due Diligence:**

Strategic due diligence is the high-level, qualitative ingredient in transaction services. Its purpose is to determine the overall fit of the target company into the buyer’s bigger context, as well as the chances of long-term, sustainable success of the target operations in their own markets. The analysis is heavily

focused on the major critical success factors of a telecommunications operator, with underlying business model, key technology decisions, going-to-market strategy, value proposition, market intelligence, competitive strength and performance being the main areas of differentiation.

- **Management Assessment:**

Management assessment is a major component of strategic due diligence. It is based on the understanding that the target company’s executive team is the standard setter of its corporate strategy and at the same time – via its leadership and management qualities – the key determinant of its success.

- **Licensing and Regulatory Affairs:**

Licensing aspects and regulatory issues are crucial considerations for any telecommunications operation. These comprise the rights and obligations under telecommunications and spectrum licences – such as one-time and recurring fees, telecommunications services allowed under the licence, details of assigned spectrum, limitations with regard to the technologies to be deployed, mandatory roll-out and coverage requirements – but also additional ones, such as microwave frequency fees, interconnection regime, national roaming regulations and any end-user price regulations. Links to technology topics exist in terms of availability, evolution paths and cost efficiency of compatible network infrastructure equipment and mobile terminals (handsets). While we consider technology migration to be part of our due diligence, review and planning services, and also consider it during optimization and innovation assignments, a dedicated mandate to review licensing and regulatory issues may still be required for complex situations, such as spectrum re-farming opportunities.

- **Commercial and Financial Due Diligence:**

The commercial and financial due diligence is the quantitative ingredient in transaction services. Its main purpose is to determine the fair transaction value of the M&A deal, equally important, however, is the identification of commercial and financial risks. These include market-driven revenue uncertainty, operational risks driving operational expenses (OPEX) and deviations from roll-out plans leading to an increase in capital expenditures (CAPEX). Also considered are accounting risks – an internal control assessment is

performed to determine whether there are significant deficiencies giving rise to more than a remote likelihood that a material misstatement of the company's financial statements will not be prevented or detected.

- **Business Plan Analysis and Benchmarking:**

Business plan analysis and benchmarking are major tools of commercial and financial due diligence. However, we also provide business plan review services in more narrowly defined assignments. We use a variety of analyst research sources in addition to our own opinion to gather comparable data against which to benchmark the key object parameters.

- **Asset Valuation:**

While asset valuation is generally part of every commercial and financial due diligence, we also refer to this as a dedicated, more specialized service aimed at determining the fair value of an individual or set of individual tangible or intangible assets. For instance, we perform valuations of new and seasoned licences, as well as of groups of company assets. When applied to licence valuation, this service usually comprises licence bid support.

- **Investor Business Plan Development:**

While business plan analysis and benchmarking presuppose the existence of an adequate, consistent, long-term business plan adhering to professional standards, our investor business plan development service focuses on building a complete business plan, based on our customizable, professionally developed, fully comprehensive, proven mature business plan model. Our framework is modular and covers everything, ranging from demographic and economic market projections, total telecommunications market forecast, subscriber model, revenue model, cost structure, roll-out and investment plan, to profit and loss projections and cash flow plan. The operational and financial key performance indicators are then computed and benchmarked.

- **Bankable Business Plan Negotiation and Project Finance:**

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 also differ from those from the owner's perspective and focus on the operation's capacity to cover interest payments



and principal repayments. We support the client in negotiating operational and financial 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.

- **Network Infrastructure and Operations Due Diligence:**

A network infrastructure due diligence provides assurance about the condition of physical network assets, while an operations due diligence assesses the effectiveness and efficiency of network operation processes. Appraisal of legacy network assets is not only a means of inputting an asset-based valuation and technical risk assessment, the installed base is also a key determinant of investment protection (in offering evolutionary technology migration paths), competitiveness on the market and attainable operational efficiency. Operations due diligence measures organizational strength, technical staff skills and process quality. This gives an indication of whether a competitive edge exists and whether the current structure allows for efficient operations and, finally, of fair value but also of potential risks.

- **Roll-Out Plan Review and Benchmarking:**

A roll-out plan review analyzes the network planning and investment section of the business plan. The roll-out plan is checked against coverage requirements and subscriber and traffic projections. Underlying network infrastructure unit prices are agreed at observable market prices. The methods applied comprise analytical procedures and benchmarking. The goal is to identify over- or underestimations of investment and funding requirements, as well as to achieve a roll-out combining cost-efficiency with sufficient coverage and capacity to guarantee a high quality-of-service (QoS).

- **Operations Plan Review and Benchmarking:**

An operations plan review focuses on the staffing and operations sections of the business plan and is designed to cross-check the planned operations processes and identify potential over- or understatements of effort and costs. For instance, the staffing plan is checked against the projected network roll-out, planned distribution logistics, subscriber growth and quality-of-service (QoS) level to be achieved. Risks and areas of potential efficiency improvement may be identified in the process. Analytical pro-



cedures and benchmarking are used to determine inconsistencies and to compare the plan against industry averages and best practice. The result may be modifications to the business plan or recommendations to improve operational efficiency, whether in-house or by out-tasking and outsourcing.

RELATED LEGAL SERVICES

We recognize that legal aspects are a crucial component to successful transactions and thus cultivate strategic partnerships with competent law firms, which we can consult for our projects. As many legal issues are highly location-specific, local lawyers are also frequently involved. Our clients also often delegate their own legal advisors, who then participate in the field work.

The legal due diligence provides a detailed summary of all legally relevant information available on the respective target company and its critical analysis, focusing on typical scenarios and risks in the telecommunications industry. The legal due diligence is thus aimed at notifying the client of any legal risks posed by the target company, relating to telecommunication facilities and networks, public licences, intellectual property rights and all significant contracts. Ideally, the legal due diligence would cover the client against any risks which might occur by entering into and signing agreements, warranties or catalogues of warranties, etc. In short, we understand legal due diligence to comprise risk assessment, value assessment and preservation of evidence concerning, among others:

- Company status: articles of association, shareholding and shareholder agreements, business licences
- Telecommunications-specific administrative/public licences and permissions, as well as related regulation
- Regulation regarding emissions
- Further relevant public law (e.g. building permits)
- Ownership of network and other assets: freedom from encumbrances (third-party rights, such as reservation of title, liens, pledges)
- Distributor and agency agreements, general terms and conditions
- Customer contracts
- Supplier contracts

- Financing contracts
- Insurance
- Intellectual/industrial property rights: patents and trademarks
- Corporate compliance
- Pending litigation

Lawyers with a telecommunication industry background support the due diligence team in “asking the right questions” and in requesting all the necessary documents, as well as in providing customized checklists and document request lists. The lawyers scrutinize all the relevant documents, as well as gathering additional information from respective registers, the regulator and other offices. Due diligence team and client are provided with a comprehensive legal due diligence report that highlights and evaluates legal risks, as well as suggesting the best measures to address such risks.

CLIENT BENEFITS

Investors and operators benefit from a thorough upfront evaluation of any new licence bid, greenfield operations launch, or merger or acquisition.

They receive support in prioritizing business opportunities and in identifying any risks posed by the deal. We provide them with an objective, substantiated opinion on the fair value of a business opportunity.

Furthermore, the deliverables become supporting documentation in securing and structuring the deal's financing.

Additionally, we deliver guidance on how to subsequently maximize enterprise value, thus enabling a successful transition from deal closure to implementation.

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



CONTACT

Investelecom Inc.
 P.O. Box 32643
 Ras Al Khaimah
 United Arab Emirates

info@investele.com
www.investele.com