

Case Study

**Analysing the Potential Implications of a Proposed
Merger**



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About the Client



- A leading telecom service provider based in Europe

Client Objectives / Goals



- The client wanted to augment its service portfolio by acquiring broadband services. It approached RocSearch to analyse the potential implications of a proposed merger with a target company
- They also sought to develop an understanding of the shortlisted target company's business profile, its financial and operational performance, future plans, and assess its attractiveness as a standalone entity

Approach and Methodology



- RocSearch looked through company filings, presentations and analyst reports to develop an understanding of:
 - Historical and forecasted financial performance of the target company
 - Company's operational KPIs
 - Strategies adopted by the company and future growth plans, especially related to expanding its subscriber base
- The team also developed a robust framework to understand the attractiveness of the target company and implications of the proposed merger by conducting:
 - Value assessment analysis of the company
 - Risks analysis of the merger

Sample Output



...aimed to reduce its capex, drive earnings, and increase free cash flow, ahead of the parent...

CAPEX... steadily reducing after a period of high investments

Year	CAPEX (€ million)
Mar-08	172
Mar-09	106
Mar-10	80

EBIT... sustained factors at play to drive margins

CHART REMOVED

Free Cash Flow... picking pace after remaining below the mark

Year	Free Cash Flow (€ million)
Mar-08	-44
Mar-09	60
Mar-10	100

*Note: Refer to slide notes for details

Sample Only - Engaged and Advising

- During 2008-09, the capex declined by ~50% as TelTalk had to make a reduced investment in its network infrastructure
 - Earlier, to keep pace with a high digit CAGR growth in its residential subscriber base** the company had doubled its capex outlay during 2008-07
 - A further reduction in Capex is expected in 2009-10, as the company is investment in a new CDMA and billing platform was completed during 2008-09
- Migration of residential customers to company's own network from BT and a shift towards higher margin business systems is driving EBITDA
 - However, this has been partially offset by an increase in infrastructure-related depreciation and the amortization of subscriber acquisition costs (SAC)
- TelTalk Group increased EBIT of 120% when recovering an increase of 20% in the previous year (2008 EBIT). This was some way below our expectations at the end of the year reflected an unexpected increase in the rate of growth in the residential mobile contracts as a result of a recovery in the entire housing market. - John Galbraith, Chairman, Capgemini Wireless
- Debt servicing (interest) outlay to finance acquisitions made during 2008-07 and capex reflected in a negative cash flow for 2008
 - During 2008-10, free cash flows are projected to increase by 150% driven by operational efficiencies and economies of scale
 - The company plans to maintain working capital and reduce the Capex, to increase the operating free cash flow

Results / Value-add



The study helped the client to assess the value of the company based on M&A broadband deal multiples in Europe and understand the pitfalls of the proposed merger