

NewsWatch: October – M&A and Other News

By Phillip J. Britt, Senior News Editor

Telecom operators in the last month have initiated mergers/acquisitions or divestitures in order to more tightly focus their resources, according to Mike Sapien, principal analyst for Ovum.

Vodafone sold its 3.2 percent stake in China Unicom while placing remaining minority stakes within the company into two regional groups, European operations and non-European operations. The restructuring plan goes into effect Oct. 1.

“Vodafone is trying to focus its business and sell off its less strategic investments,” Sapien said. “They’re

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trying to get away from these scattered investments where they have little control. They have a strong base of customers in both wire and wireline services. They’re making the decision about what businesses to invest in and what to sell off. They’re trying to focus most of their business in Europe. Outside of Europe, most people don’t know much about Vodafone.”

Outside of Europe, Vodafone’s business is primarily in sub-Saharan Africa and India.

The same basic philosophy was behind the announced plan of Swisscom to purchase the 18 percent of Fastweb that it didn’t already own and to delist the security, according to Sapien.

“There’s a general trend to clean up the investment portfolio,” Sapien said. “Partial ownership tends to get discounted in the market. With growth rates a little above flat, it’s a good time to gain control of investments without overpaying.”

Sapien added that AT&T followed a similar principle when selling Sterling Commerce earlier this year. Minority investments are no longer seen as assets. Instead, firms are concentrating where they have the largest base of customers.

However, not all business combinations make sense.

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There had been rumors that France Telecom and Germany's Deutsche Telekom were looking to merge. The rumors had sprung up as a result of Deutsche Bank increasing its stake in France Telecom to over 5 percent. France Telecom, still 27 percent owned by the French Government, has been struggling as it transitions towards a private company.

But the business and work cultures in the two companies are too different for a merger to make sense, according to Sapien. So he doesn't think that the companies were trying to downplay rumors to keep word from getting out before a deal is consummated.

BT and Microsoft, on the other hand, have been working together for some time and that business partnership was strengthened this month when BT's Onevoice service was qualified for Microsoft Office Communications Server 2007 R2.

Office Communications Server 2007 R2 users can now streamline communications by combining presence and instant messaging interoperability with BT Onevoice conferencing, and software-powered voice over IP in a single, unified platform globally.

"This has been a long time in coming," Sapien said. "Now they're finally doing something with Ribbit."

BT acquired Ribbit, a platform for creating voice-based

applications over the Internet nearly two years ago. BT can run those applications over its backbone network at a lower cost than Ribbit was able to lease those lines.

As business combinations make some telecom providers larger and more diverse, with increased

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triple and quadruple play offerings for customers, there will also be room for much smaller, niche companies to be very profitable.

Room for Small, Niche Players

Frontier Communications' announcement of \$40 million to expand broadband in Illinois in 2011, part of its goal to provide 85 percent of its Illinois customers



with broadband by 2013, will provide higher revenue services in areas where the company is the only or one of only a couple of choices for such services in the state, according to Sapien.

Beyond the desire for additional revenues, the company was likely under some pressure to expand its broadband offerings as a result of the approval of the acquisition of the \$8.6 billion in wireline assets from Verizon, according to Sapien.

The market for 'no frills' mobile operators such as Tesco will increase over the next five years as more and more people opt to select their service as they shop, according to a recent Ovum report.

The supermarket giant and other established retailers will see increased success in the 'no frills' mobile market as more people turn their backs on traditional players and go for convenience, according to Ovum.

Tesco and its counterparts are mobile virtual network operators (MVNO), buying minutes from traditional players to sell to their own customers.

It is a model that works well, as all the retailers need to do is free up shelf space for their mobile offering, then focus their resources on marketing, distribution and sales, leaving the networking issues to the traditional operator.

“Telecom News, Mergers, Acquisitions, Vodaphone, Microsoft, Office Communications Server 2007 R2, BT Onevoice, China Unicom”

Ovum predicts that the market for MVNOs will hit 85.6 million connections in 2015, up from 53 million in 2009. Meanwhile revenues will reach \$9.5 billion in 2015, up from \$8 billion in 2009.

Change at the Top

The month also saw the announcement of the passing of the torch at Amdocs Limited. Dov Baharav, the company's president and CEO, will retire in the first quarter of calendar 2011 and will be replaced by Eli Gelman, a current director and former executive vice president and chief operating officer.

“Dov began his tenure at a difficult time for the company and led it to new heights,” said Amdocs chairman Bruce Anderson. “During his years as CEO,



Amdocs doubled its revenue, significantly grew its product and services portfolio, expanded its global presence, and, ultimately, became the world's leading provider of customer experience systems.”

It's unknown at this time what changes might be in store for the company stemming from the change in leadership. During the conference call following the announcement of the change in early September, Gelman said: “I think it's a little bit premature for me to strategize. I can tell you in terms of my personality and the way I look forward, I like to do big things and to take the company to higher places and new places. But whether it is in one direction or the other I think it will be almost irresponsible for me to really share it with you at this time.”

The new business combinations among telcos will provide Gelman with some interesting challenges in the years ahead.