Telecommunications industry overview

Telecom Sector – Global Perspective

Components and factors responsible behind the growth of telecommunications industry

Two major factors responsible for the growth of telecommunications industry are use of modern technology and market competition. One of the products of modern technologies is optical fibers, which are being used as a medium of data transmission instead of using coaxial or twisted pair cables. Optical fibers can carry a high volume of data and are easier to maintain and install. Use of communication satellites makes this telecommunications industry a booming industry.

The use of mobile network has a crucial role behind the growth of an improved telecommunications industry. Leading companies are showing their interest to invest in this telecommunications industry.

Telecommunications industry is going to be a digitized one. Use of ISDN (Inter Services Digital Network) makes this telecommunication industry a total digitalized system and eventually enhanced the speed and quality of digital communication.

Economical aspect of telecommunication industry

World telecom industry is taking a crucial part of world economy. The total revenue earned from this industry is 3 percent of the gross world products and is aiming at attaining more revenues. One statistical report reveals that approximately 16. 9% of the world population has access to the Internet.

Present market scenario of world telecom industry

Over the last couple of years, world telecommunication industry has been consolidating by allowing private organizations the opportunities to run their businesses with this industry. The Government monopolies are now being privatized and consequently competition is developing. Among all, the domestic and small business markets are the hardest.

Market potentiality of world telecommunication industry

The world telecommunications market is expected to rise at an 11 percent compound annual growth rate at the end of year 2010. The leading telecom companies like AT&T, Vodafone, Verizon, SBC Communications, Bell South, Qwest Communications are trying to take the advantage of this growth. These companies are working on telecommunication fields like broadband technologies, EDGE(Enhanced Data rates for Global Evolution) technologies, LAN-WAN inter networking, optical networking, voice over Internet protocol, wireless data service etc.

Top Global Telecom Players

NAME

ABOUT THE COMPANY

SUBSCRIBERS in millions (09′)

REVENUE (in US billion$)

China Mobile

State owned Company, one of the 2 mobile phone monopolies in China

Over 508

16. 115

Vodafone Group

Britain’s largest Telecom operator

Over 427

68. 32

Telefónica, S. A.

Multinational Company with stakes in Spain, Latin America & Europa. Owns the O2 Brand

Over 210

72. 13

América Móvil

Mexican Operator. Controlled by the world’s richest man Carlos Slim

Over 201

30. 2

Telenor Group

The company has a strong footprint in Central and Eastern Europe and Asia with over 40, 000 employees.

Over 172

15. 73

Deutsche Telekom AG

German telecom Company. Also owns t-mobile.

Over 150

82. 13

China Unicom

China Unicom (BVI) Limited effectively holds 40. 92% of the company and China Netcom Group (BVI) Limited holds 29. 49%, while the remainder is traded on the Shanghai, Hong Kong and the New York stock exchanges. Both majority shareholders are state controlled enterprises.

Over 186

14. 62

TeliaSonera AB

Offer services in 20 markets in the Nordic and Baltic countries, the emerging markets of Eurasia, including Russia and Turkey, and in Spain.

Over 150

15. 04

France Télécom S. A.

It is the main telecommunication company in France, the third largest in Europe. It currently employs about 180, 000 people worldwide.

Over 193

68. 08

Bharti Airtel

One of Asia’s leading integrated telecom services providers with operations in 19 countries across Asia and Africa. Zain is the new acquisition.

Over 124

7. 254

Mergers & Acquisition

Mergers and acquisitions (M&A) and corporate restructuring are a big part of the corporate finance world. Every day, Wall Street investment bankers arrange M&A transactions, which bring separate companies together to form larger ones. When they’re not creating big companies from smaller ones, corporate finance deals do the reverse and break up companies through spinoffs, carve-outs or tracking stocks. Not surprisingly, these actions often make the news. Deals can be worth hundreds of millions, or even billions, of dollars. They can dictate the fortunes of the companies involved for years to come. For a CEO, leading an M&A can represent the highlight of a whole career. And it is no wonder we hear about so many of these transactions; they happen all the time. Next time you flip open the newspaper’s business section, odds are good that at least one headline will announce some kind of

M&A transaction. Sure, M&A deals grab headlines, but what does this all mean to investors? To answer this question, this tutorial discusses the forces that drive companies to buy or merge with others, or to split-off or sell parts of their own businesses. Once you know the different ways in which these deals are executed, you'll have a better idea of whether you should cheer or weep when a company you own buys another company – or is bought by one. You will also be aware of the tax consequences for companies and for investors.

Defining M&A

One plus one makes three: this equation is the special alchemy of a merger or an acquisition. The key principle behind buying a company is to create shareholder value over and above that of the sum of the two companies. Two companies together are more valuable than two separate companies – at least, that's the reasoning behind M&A. This rationale is particularly alluring to companies when times are tough. Strong companies will act to buy other companies to create a more competitive, cost-efficient company. The companies will come together hoping to gain a greater market share or to achieve greater efficiency. Because of these potential benefits, target companies will often agree to be purchased when they know they cannot survive alone.

Distinction between Mergers and Acquisitions

Although they are often uttered in the same breath and used as though they were synonymous, the terms merger and acquisition mean slightly different things. When one company takes over another and clearly established itself as the new owner, the purchase is called an acquisition. From a legal point of view, the target company ceases to exist, the buyer " swallows" the business and the buyer's stock continues to be traded. In the pure sense of the term, a merger happens when two firms, often of about the same size, agree to go forward as a single new company rather than remain separately owned and operated. This kind of action is more precisely referred to as a " merger of equals." Both companies' stocks are surrendered and new company stock is issued in its place. For example, both Daimler-Benz and Chrysler ceased to exist when the two firms merged, and a new company, DaimlerChrysler, was created. In practice, however, actual mergers of equals don't happen very often. Usually, one company will buy another and, as part of the deal's terms, simply allow the acquired firm to proclaim that the action is a merger of equals, even if it's technically an acquisition. Being bought out often carries negative connotations, therefore, by describing the deal as a merger, deal makers and top managers try to make the takeover more palatable.

A purchase deal will also be called a merger when both CEOs agree that joining together is in the best interest of both of their companies. But when the deal is unfriendly – that is, when the target company does not want to be purchased – it is always regarded as an acquisition. Whether a purchase is considered a merger or an acquisition really depends on whether the purchase is friendly or hostile and how it is announced. In other words, the real difference lies in how the purchase is communicated to and received by the target company's board of directors, employees and shareholders.

The Deal

Start with an Offer

When the CEO and top managers of a company decide that they want to do a merger or acquisition, they start with a tender offer. The process typically begins with the acquiring company carefully and discreetly buying up shares in the target company, or building a position. Once the acquiring company starts to purchase shares in the open market, it is restricted to buying 5% of the total outstanding shares before it must file with the SEC. In the filing, the company must formally declare how many shares it owns and whether it intends to buy the company or keep the shares purely as an investment.

Working with financial advisors and investment bankers, the acquiring company will arrive at an overall price that it's willing to pay for its target in cash, shares or both. The tender offer is then frequently advertised in the business press, stating the offer price and the deadline by which the shareholders in the target company must accept (or reject) it.

The Target's Response

Once the tender offer has been made, the target company can do one of several things:

- Accept the Terms of the Offer – If the target firm's top managers and shareholders are happy with the terms of the transaction, they will go ahead with the deal.
- Attempt to Negotiate – The tender offer price may not be high enough for the target company's shareholders to accept, or the specific terms of the deal may not be attractive. In a merger, there may be much at

stake for the management of the target – their jobs, in particular. If they're not satisfied with the terms laid out in the tender offer, the target's management may try to work out more agreeable terms that let them keep their jobs or, even better, send them off with a nice, big compensation package. Not surprisingly, highly sought-after target companies that are the object of several bidders will have greater latitude for negotiation. Furthermore, managers have more negotiating power if they can show that they are crucial to the merger's future success.

- Execute a Poison Pill or Some Other Hostile Takeover Defense- A poison pill scheme can be triggered by a target company when a hostile suitor acquires a predetermined percentage of company stock. To execute its defense, the target company grants all shareholders – except the acquiring company – options to buy additional stock at a dramatic discount. This dilutes the acquiring company's share and intercepts its control of the company.
- Find a White Knight – As an alternative, the target company's management may seek out a friendlier potential acquiring company, or white knight. If a white knight is found, it will offer an equal or higher price for the shares than the hostile bidder.

Mergers and acquisitions can face scrutiny from regulatory bodies. For example, if the two biggest long-distance companies in the U. S., AT&T and Sprint, wanted to merge, the deal would require approval from the Federal Communications Commission (FCC). The FCC would probably regard a merger of the two giants as the creation of a monopoly or, at the very least, a threat to competition in the industry.

Closing the Deal

Finally, once the target company agrees to the tender offer and regulatory requirements are met, the merger deal will be executed by means of some transaction. In a merger in which one company buys another, the acquiring company will pay for the target company's shares with cash, stock or both. A cash-for-stock transaction is fairly straightforward: target company shareholders receive a cash payment for each share purchased. This transaction is treated as a taxable sale of the shares of the target company. If the transaction is made with stock instead of cash, then it's not taxable. There is simply an exchange of share certificates. The desire to steer clear of the tax man explains why so many M&A deals are carried out as stock-for-stock transactions. When a company is purchased with stock, new shares from the acquiring company's stock are issued directly to the target company's shareholders, or the new shares are sent to a broker who manages them for target company shareholders. The shareholders of the target company are only taxed when they sell their new shares. When the deal is closed, investors usually receive a new stock in their portfolios – the acquiring company's expanded stock. Sometimes investors will get new stock identifying a new corporate entity that is created by the M&A deal.

Why They Can Fail

It's no secret that plenty of mergers don't work. Those who advocate mergers will argue that the merger will cut costs or boost revenues by more than enough to justify the price premium. It can sound so simple: just combine computer systems, merge a few departments, use sheer size to force down the price of supplies and the merged giant should be more profitable than its parts. In theory, 1+1 = 3 sounds great, but in practice, things can go awry.

Historical trends show that roughly two thirds of big mergers will disappoint on their own terms, which means they will lose value on the stock market. The motivations that drive mergers can be flawed and efficiencies from economies of scale may prove elusive. In many cases, the problems associated with trying to make merged companies work are all too concrete.

Flawed Intentions

For starters, a booming stock market encourages mergers, which can spell trouble. Deals done with highly rated stock as currency are easy and cheap, but the strategic thinking behind them may be easy and cheap too. Also, mergers are often attempt to imitate: somebody else has done a big merger, which prompts other top executives to follow suit. A merger may often have more to do with glory-seeking than business strategy. The executive ego, which is boosted by buying the competition, is a major force in M&A, especially when combined with the influences from the bankers, lawyers and other assorted advisers who can earn big fees from clients engaged in mergers. Most CEOs get to where they are because they want to be the biggest and the best, and many top executives get a big bonus for merger deals, no matter what happens to the share price later. On the other side of the coin, mergers can be driven by generalized fear. Globalization, the arrival of new technological developments or a fast-changing economic landscape that makes the outlook uncertain are all factors that can create a strong incentive for defensive mergers. Sometimes the management team feels they have no choice and must acquire a rival before being acquired. The idea is that only big players will survive a more competitive world.

The Obstacles to making it Work

Coping with a merger can make top managers spread their time too thinly and neglect their core business, spelling doom. Too often, potential difficulties seem trivial to managers caught up in the thrill of the big deal. The chances for success are further hampered if the corporate cultures of the companies are very different. When a company is acquired, the decision is typically based on product or market synergies, but cultural differences are often ignored. It's a mistake to assume that personnel issues are easily overcome. For example, employees at a target company might be accustomed to easy access to top management, flexible work schedules or even a relaxed dress code. These aspects of a working environment may not seem significant, but if new management removes them, the result can be resentment and shrinking productivity. More insight into the failure of mergers is found in the highly acclaimed study from McKinsey, a global consultancy. The study concludes that companies often focus too intently on cutting costs following mergers, while revenues, and ultimately, profits, suffer. Merging companies can focus on integration and cost-cutting so much that they neglect day-to-day business, thereby prompting nervous customers to flee. This loss of revenue momentum is one reason so many mergers fail to create value for shareholders. But remember, not all mergers fail. Size and global reach can be advantageous, and strong managers can often squeeze greater efficiency out of badly run rivals. Nevertheless, the promises made by deal makers demand the careful scrutiny of investors. The success of mergers depends on how realistic the deal makers are and how well they can integrate two companies while maintaining day-to-day operations.

Conclusion

One size doesn’t fit all. Many companies find that the best way to get ahead is to expand ownership boundaries through mergers and acquisitions. For others, separating the public ownership of a subsidiary or business segment offers more advantages. At least in theory, mergers create synergies and economies of scale, expanding operations and cutting costs. Investors can take comfort in the idea that a merger will deliver enhanced market power. By contrast, de-merged companies often enjoy improved operating performance thanks to redesigned management incentives. Additional capital can fund growth organically or through acquisition. Meanwhile, investors benefit from the improved information flow from de-merged companies. M&A comes in all shapes and sizes, and investors need to consider the complex issues involved in M&A. The most beneficial form of equity structure involves a complete analysis of the costs and benefits associated with the deals.

Telecom Sector Overview – INDIA

Sub Base: 635. 51 mn

second largest market

Wireless Penetration: 53. 77%

lowest in the world

HHI Index: very high

one of the most competitive market

Prepaid Base: 96%

one of the highest in the world

Usage per sub per month:

Minutes: 480

one of the highest

ARPU: – US$ 4. 6

one of the lowest

Rate per minute: – US$ 0. 01

one of the lowest in the world

VAS:-11. 6%

One of the lowest

Wireless Market Structure

Subscriber Trends

Customer Market Share (CMS)

About Bharti Airtel

BhartiAirtel, a leading mobile service provider in India is Bharti Enterprises' flagship company. According to Forbes Global 2000 list, BhartiAirtel, India's pioneering private telecommunication service provider is ranked no. 826.

This integrated telecom service provider operates three strategic business units covering 23 telecommunication circles. These 3 strategic businesses are mobile business, enterprise business, and Airteltelemedia business. Their mobile business comprising fixed wireless and mobile services is spread over 23 telecom circles, whereas their Airteltelemedia business provides telephone and broadband services to clients in 94 cities. International and domestic long distance services and end to end telecommunication solution for companies are included in Airtel enterprise business.

Brief history

BhartiAirtel was established as Bharti Tele-Ventures Limited in 1985. This telecommunication company is a joint stock holding enterprise headquartered in New Delhi. BhartiAirtel, commonly called ' Airtel' is among largest mobile service operator with a subscriber base of nearly 75 million. Airtel has a submarine cable landing station in Chennai connecting this South Indian city to Singapore.

Products and services

Services offered by BhartiAirtel can be classified into the following:

Mobile services – Based on number of customers BhartiAirtel is largest mobile service operator in India. This company offers mobile services based on GSM technology. For convenience of its customers BhartiAirtel has both pre- paid and post-paid facilities.

Enterprise business – BhartiAirtel provides integrated services comprising mobile, telephone, broadband, data and connectivity services internationally as well as nationally for small, medium and large scale enterprises. Its carrier service provides network connectivity through optic fiber over a distance of more than 35, 000 km. BhartiAirtel is a member of South East Asia – Middle East – Western Europe – 4 consortiums which include 15 global telecommunication service providers.

AirtelTelemedia Services – This Company offers high speed broadband services through landlines in 94 cities.

Financials

BhartiAirtel till March 2008 had assets worth US $6. 61 billion. During period between April 2007 – March 2008, it achieved sales amounting to US $6. 61 billion and profits of US $0. 94 billion.

Awards and recognition

BhartiAirtel was adjudged ‘ Best Carrier India’ at 2008 Telecom Asia. It was recognized as ‘ Best Cellular Service Provider’ and ‘ Best Broadband Service Provider’ at V&D 100 awards for 2008. In 2007, BhartiAirtel won ‘ Business Leadership Award’ from NDTV Profit.

BHARTI AIRTEL'S ROADMAP

The management of BhartiAirtel Ltd is led by ManojKohli who planned to introduce affordability and high usage in its African portfolio which is currently a high price environment (with tariffs in some markets as high as Europe/US according to Bharti).

Some of the key points about replicating Indian Wireless business model in Africa that are in favor of Airtel are,

Bharti's 15-country portfolio has a population is 459m as of June 2010. Share of population living in urban areas in Africa is ~40% according to Bharti and expected to grow to 40%. This compares to 30% of India's population living in urban areas.

The youth population in Africa accounts for a fourth of the global youth and had a median age of 17-18 years. The working population is estimated to be higher than that in China and the middle class is 400m people, expected to growth to 500m. GDP growth in 27 economies in Africa is 5%+.

BhartiAirtel stressed that governments had received Bharti well in Africa and that some officials stated that Bharti's

plans are in-line with their own.

Current Wireless penetration adjusting for Multiple SIMs is around 24%.

Operators have 20MHz of 2G spectrum and 10MHz of 3G (those who do) which Bharti stated implies little room for more competitors.

COMPANIES OF BHARTI ENTERPRISES

BhartiAirtel: BhartiAirtel is India’s leading provider of telecommunications services. The company provides GSM mobile services across India in 23 telecom circles and broadband & telephone services in 90 cities.

Bharti Teletech Ltd.: Bharti TeleTech manufactures and exports world-class telecom equipment under the brand Beetel’. It is the only Indian telephone company to be present in 30 countries mapping 5 continents. The company’s product range include Basic Telephones, Caller ID Phones, Caller ID Boxes, Cordless Phones, 2. 4 GHz Digital Cordless Phones, DECT 1. 8 GHz Phones, and Set Top Boxes.

Telecom Seychelles Ltd: Telecom Seychelles Ltd provides comprehensive telecom services including GSM Cellular, PSTN (Fixed Lines), Fax and Data, International Roaming, connectivity to Internet Services, Maritime Telecom Services (INMARSAT) and International Collect and Credit Card calling, in Seychelles, under the brand ‘ Airtel.

BhartiTelesoft Ltd: BhartiTelesoft Ltd provides value added services and solutions to wireless and wireline carriers worldwide. BhartiTelesoft Ltd ha deployed products and solutions in 25 countries to over 100 network, and has a customer base of 150 million across 5 continents.

TeleTech Services (India) Ltd: TeleTech Services (India) Ltd is a joint venture between TeleTech Holdings, Inc., world’s leading full-service provider of business process outsourcing and Bharti TeleTech Ltd. The company offers offer the entire spectrum of front-to-back-office business processes ranging from voice and non-voice customer support, back office administration (including credit and collections, account maintenance, application processing, claims processing, asset management, document management etc.), sales and marketing (including database marketing, marketing support, web sales and marketing etc.) to global customers.

FieldFresh Foods Pvt Ltd: FieldFresh Foods (P) Ltd is an equal partnership venture between Bharti Enterprises and ELRo Holdings India Ltd, an investment company of the Rothschild family. The company provides premium quality fresh produce to the markets worldwide and promotes world class standards for agricultural practices, progressive farming techniques & identification and adoption of appropriate technologies.

Bharti Retail Pvt Ltd: Bharti Retail Pvt Ltd. is a 100% subsidiary of Bharti Enterprises. Bharti Retail is planning to launch its retail outlets in multiple consumer friendly formats in several cities across India

African Telecom Sector

It is one of the best penetrating opportunities for the global telecom players is the telecom market in Africa. In Asia, Europe, North America, the telecom sector is approaching a saturation point. The growth in these areas will be comparatively slower. The companies always look for the maximization of profit, whether it may be through cutting down of cost or increasing the sales. If the market reaches a saturation point then there is no opportunity to increase the sale. And if the company cannot decrease the cost then it will try either to diversify or to expand its grip in the global market. If the areas like North America, Asia and Europe are already in a saturation point then the next growing market for the global player will be Africa continent. Some of the major players in the telecom sectors of Africa are MTN, Zain, Vodacom, STC etc.

Since the processes of liberalization and privatization have been taken into consideration by African countries such as Uganda, Tanzania, Nigeria, The Sudan, South Africa and Kenya, their telecommunication infrastructures have improved drastically. Many African governments have developed their telecommunication infrastructure by privatizing their former state-owned enterprises. So these open up the stage for global players to perform in it. Africa has become the fastest growing mobile-network market during last five years. The mobile user base has increased to more than 82 million in Africa. A survey by Ernst & Young shows that between 2002-07, the industry grew by 49. 3 percent as opposed to Asia which recorded a 27. 4 percent growth. This report's estimate growth of the industry almost doubles that of Brazil which stood at 28 percent in the same period and is almost seven times the growth of France which grew at 7. 5 percent over the same time. Even there was a report by The World Bank in which it mentioned that Afro-nations like Kenya have 95% of mobile network penetration and coverage gap of only 5%. Thus making it an attractive market to lure some of the major player from the world. Let's think a bit over this scenario. Why the Afro mobile market is developing so late and faster than any area that used to be at the same period of time. In 2004, only 6% of the African citizen owned mobile. The supply side was much higher than the demand side. And the prices dropped, but made the African mobile network market a huge potential market for the global players. They produced low cost and user-friendly phones and network plans to attract more and more customer so that the company can increase its customer base. But there some other criteria or which we also call as external environment of a company which affects a company to operate in that area. The Law of Land also affects the company to design its operation in a country. They may be the tax-policy, the FDI policy of the government, the policy regarding and regulating the telecom sectors etc. Because of these regulations, there are many Afro-nations like South Africa which hold a huge potential market. In South Africa, there are only three players in telecom network market.

The heavy tax burden on both the operator and consumer is the major challenge for the industry, with an average taxation on the operator's profits standing at 30%. For example, in Kenya, people pay tax of 26% on mobile communication and the operator pay the remaining 4%. The total tax paid is 30%. But still the government of these nations opines that the industry is highly profitable, despite of the fact that return on investment could be delayed due to poor infrastructure. The Afro-nation doesn't have the apt infrastructure or the geographical hindrances as well as the population is scattered. The main problem lies with the electric infrastructure. The company has to keep more than 2000 standby generators because of frequent power failure. On of the company operating in Kenya, Safaricom spends over KShs 171 million on diesels due to lack of power supply. This makes the cost of investment much high in comparison to the other area. The operating cost of the company is high in this area because of frequent power cut and even the tax rate is also high, thus bringing down the profit of the company. But it may be the future scenario of these countries which lures the global players. The company may sustain the loss in the short-run but it may earn profit in the long-run. Because the economy of Afro-nations are growing at a remarkable rate and the infrastructure are also gradually increasing. So it may in the long-run be aptly developed so as to favor the network industry. Moreover this is the entry level of the network sector in Africa as it is developing but once it get saturated the threat to entrants decreases because if they enter in to the segment, they will not find any extras to lure the customers.

African Wireless Market

Customer base: 36. 36 Mn

Perfomance Indicators:

Revenue: 9, 583 Mn

EBITDA: 2, 635 Mn

Prepaid Base: 99. 3%

ïƒ one of the highest in the world

Usage per sub per month: 103 Minutes

ïƒ one of the lowest

ARPU: ~US$ 7. 4

ïƒ one of the competitive market

Rate per minute: ~US¢ 7. 2

ïƒ one of the highest in the world

VAS: ~7. 9%

ïƒ one of the lowest

Emerging Market Characteristics in India & Africa:

Source: Airtel Investor Presentation Aug 2010

About Zain

Zain is a Kuwait based company started under the name of Mobile Telecommunication Company (MTC) in 1983 and was later rebranded to ZAIN in 2007. Zain has present operation in 25 countries covering 17 countries in Africa and 8 countries in Middle-East, with a estimated workforce of 15000. As on February 2010, about 60% of the Zain customers are in Africa contributing only 15% to the net profit of Zain. Zain has a total of 65 million customers. Out of which 39 million customers are from Africa. The eight countries in Middle-East where Zain has it Operation are Bahrain, Iraq, Jordan, Kuwait, Saudi Arab, Lebanon, Palestine and Sudan, It has its operation in Lebanon under the brand name of MTC TOUCH. The seventeen countries which comprises of the members of the Zain’s Operative family in Africa are Burkina Faso, Chad, Democratic Republic of Congo, Republic of Congo, Gabon, Ghana, Kenya, Madagascar, Malawi, Niger, Nigeria, Sierra Leona, Tanzania, Uganda, Zambia and Morocco. Mr. Nabeel Bin Salamah is the CEO of the Zain Groups and Mr. Barak Al-Sabeeh is the chairman of the board of Director of the company.

FINANCIAL FIGURES OF ZAIN

Revenue : US$ 7. 441 Billion

Net Income : US$ 1. 196 Billion

Overview

4th largest mobile operator in the world in terms of geographic footprint, with a commercial presence in 23 countries

580 Million+ people under l