

Case Study

# Assessment of a Potential Acquisition Target

## About the Client

- The client is a leading telecom service provider in Europe

## Business Objective

- The client had shortlisted TalkTalk as a potential acquisition target in the UK broadband sector and wanted to understand its business profile, along with its historical performance and future plans
- It also wanted to assess the attractiveness of the company as a standalone entity

## Results & Value Add

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- The end deliverable provided the client a better perspective of TalkTalk's historical performance and future plans
- It also helped in assessing the value of the company based on M&A broadband deal multiples in Europe and the potential pitfalls of a proposed demerger

# Research Methodology and Approach

The project was divided into two phases:

- Phase I: Profile TalkTalk, focusing on:
  - Strategy employed for growth in subscriber base
  - Financial performance of the company
  - Operational performance of the company
  - Strategies and plans for future
- Phase II: Attractiveness of TalkTalk and implication of the proposed demerger
  - Value assessment of the company
  - Potential risks to the demerger

# Screenshots

## TalkTalk started in 2003 as a fixed telephony provider, adding broadband and expanding rapidly through...

Sample Only Displayed and Abridged

Recorded triple-digit subscriber growth (y-o-y) and moved close to the million mark within two years of launching fixed telephony

CHART REMOVED

Note: 2003-04 growth not taken into account, as the service launched in Feb-03 so a y-o-y comparison between 03 and 04 is not possible

2003

During 2005-07, the company added XXmn. and XX mn. subscribers in voice and broadband, respectively through acquisition alone

	March 07	March 06
Broadband		
ADL		
TalkTalk Free		
TalkTalk Existing		

CHART REMOVED

In 2004, the company launched broadband and continued focusing on acquiring customers through low cost services

- Extended free international calls between TalkTalk customers in the UK and Ireland
- Launched free broadband offer, under a scheme with monthly rental of GBP 9.99
- Also explored the inorganic route to expand its customer base
- Acquired Onetel group of companies and UK and Ireland operation of Teel2 Communications, in December 2005
- The acquisitions helped the company add XXmillion subscribers
- In October 2006, it acquired ADL's Internet access business
- Company's share in residential broadband market increased from 2% to 10%, making it the 3rd largest player in the segment

Source: Carphone Warehouse Annual Reports (2003, 2004, 2005, 2006, 2007, 2008), Carphone Warehouse Press Releases

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## Q.1 How attractive is TalkTalk? Looking at its customer base, infrastructure and...

Sample Only Displayed and Abridged

Facts and Explanations

Our Point of View (POV)

Customer Base

UK Broadband Market Share (H109 Forecast)

Company	Share (%)
BT	25.5%
Virgin Media	22.5%
BT Sport	14.5%
Others	37.5%
TalkTalk	7.7%
Tiscali	7.7%

With almost a quarter of the broadband market, TalkTalk has a valuable appreciating asset under its belt

- As broadband itself becomes a commodity, ISPs are gearing to unlock the true value of their customer base through triple-play, value-added services, which will enable them to acquire more customers, reduce churn rate and increase ARPU<sup>1</sup>
- With the acquisition of Tiscali in May-09, TalkTalk gained entry into the IPTV services segment
- By 2008-end, Tiscali offered IPTV services over HomeChoice<sup>2</sup> network to ~0.1 million customers
- Even though the existing triple-play base for TalkTalk is small, the company is well-placed to expand

Given the competitive threat and the rapidly-changing customer needs, TalkTalk is amidst competing 'push' and 'pull' factors to step into triple-play offerings at a national level

There may be an implicit triple-play intent, even though TalkTalk is keeping its cards close to the chest on its plans and business model to provide IPTV services, while in the background it can be assessing the viability and firming up its strategy

Network Infrastructure

CHART REMOVED

TalkTalk has invested in migrating customers to its own networks, expanding its fully-unbundled network to XX exchanges

- This provides company ~60% coverage of the UK population
- At present TalkTalk offers 8Mbps ADSL, although ADSL2+ capability is being installed as a part of its 'Next Generation Network' roll-out

With an extensive independent coverage of the UK market and technology upgradation, TalkTalk will have a robust infrastructure

Even though the company does not have its own fibre optic network and may have to ride on BT's, that disadvantage will be moderated by market and technological changes<sup>3</sup>

Customer Support

Warrington (2 Centers), Preston (1 Center), Ham (1 Center)

TalkTalk has invested in upgrading servers to run its core systems including CRM, billing and reporting applications

- It has focussed on reducing the time for different processes and controlling costs
- The company has maintained a mix of outsourcing and in-house facilities for call center support<sup>4</sup>
- In 2006, it operated three call centers in the UK and invested in building another one in Iran
- Also outsourced services to call centers in South Africa

Since 2006, TalkTalk has invested tens of millions in setting up and expanding its customer support infrastructure, now present in the UK, South Africa and India

This mix of onshore and offshore, in-house and outsourced sourcing strategy is indicative of cost management and quality focus

Note: 1, 2, 3, 4) Please refer to slide notes for details

Source: Carphone Warehouse Analyst Report – Royal Bank of Scotland (June 2009), Virgin Media Annual Report (2008)

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