

# 10 TOP TIPS TO MAKE A TELECOM ACQUISITION WORK FOR YOUR TECH COMPANY

TELECOMS OFFER A LOT OF OPPORTUNITIES FOR TECH COMPANIES. IF YOU KNOW HOW TO GET THE RIGHT ACQUISITION DEAL

SEPTEMBER 2018

## TELECOMMUNICATION COMPANIES ARE ACQUIRING START-UPS AND COMPANIES IN THE TECHNOLOGY SECTOR AT BREAKNECK SPEED

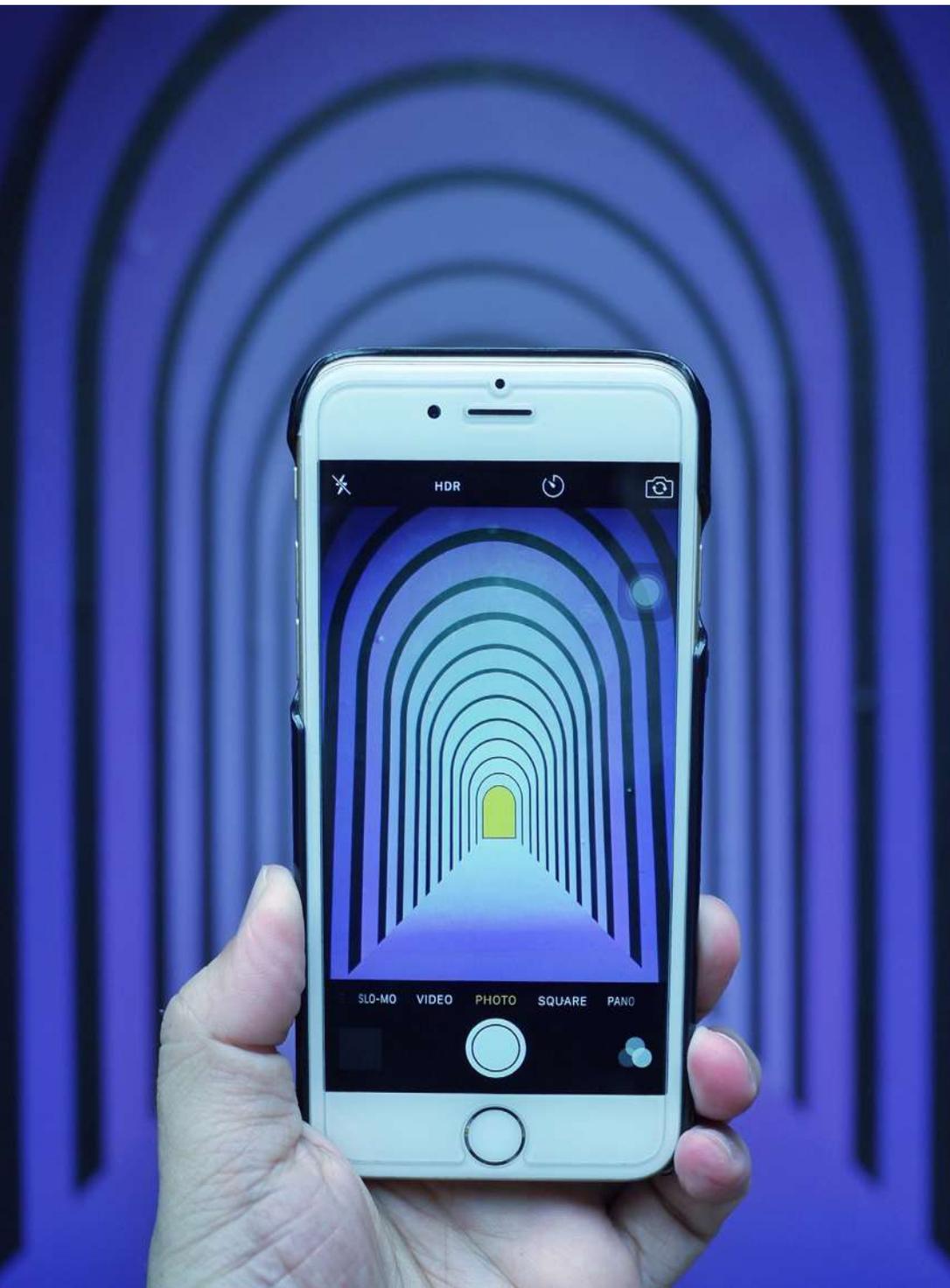
For technology companies, such deals can lead to many new opportunities. However, increased growth, innovation-boosts, access to new customers and practical business synergies risk being balanced out by challenges that can arise before, during and after an acquisition process.

Insights about what to expect from an acquisition, how to optimise the acquisition process and how to get the result that you are hoping for are crucial.

BDO follows the telecoms and technology sectors closely. We advise companies in both industry spaces on a wide array of business, audit and tax related issues, including mergers and acquisitions. Our industry experts have extensive experience and expertise on how to negotiate and structure deals, as well as practical experience from working in both the technology and telecoms industries. They know the thought processes, tactics and granular details of what it's like to sit on either side of the negotiation table first hand.

Here, they present 10 tips for a technology company to get the best out of an acquisition by a telecom company.





## 1. KNOW WHAT TELECOMS ARE LOOKING FOR

A key aspect of understanding your company's value and laying the foundation for a good acquisition negotiation process is knowing telecoms' acquisition trends, strategic focus and business targets.

These trends are good news for many technology companies, as telecoms companies are increasingly looking outside of their traditional sphere of interest when pursuing acquisitions. This includes everyone from smaller telecoms to giants like Verizon and AT&T. It seems to be a strategy of 'the best defence is a good offence' – especially in relation to the technology industry, which has been snapping up market share from telecoms via, for example, online streaming and Voice over IP (VoIP).

Telecoms are focused on technology companies in a variety of sub-industries. One trend is acquisitions of companies that have brought complementary or competing products or solutions to market quicker than the telecoms. A second is companies whose solutions benefit the strategic focus of telecoms.

An example of the latter is Telstra Ventures' acquisition of IT implementation company Company 85. While a relatively minor deal, it augmented Telstra's IT integration capabilities and created a host of synergies across the company.

Companies that have relevant software, automation and virtualisation solutions – especially in connection with networks – are currently also very high on the wish list of telecoms who are trying to take advantage of business opportunities tied to [the networked economy](#).

Another focus area is companies that enhance the so-called 'quad-play' services, where broadband internet, television, wireless and landline phone are offered to customers as bundled deals. Some companies are busily moving beyond quad-play into content by acquiring media companies. Big data and data analytics is another area of great interest to telecoms who have vast stores of data about their customers but have so far generally struggled to leverage the vast potential for business insights and new services.



## 2. KNOW YOUR VALUE PROPOSITION – AND WORTH

Knowing telecoms' acquisition strategies and on-going business goals is a starting point for formulating your strategy and goals for an acquisition negotiation. Knowing your value proposition – and what your company is likely worth – are other cornerstones of the process.

The first step is finding answers to question like: how your products or services can solve telecoms' current challenges, improve their market position, what benefits does a telecom gain from acquiring you and why should they acquire you over one of your competitors.

Insights like these, and recognising how the market landscape looks to the party you are negotiating with, are crucial. Understanding why your capabilities are of strategic and propositional value to the telecoms company also forms part of the foundation of setting realistic targets for the negotiation process. Furthermore, it helps with figuring out how to make your company look as appealing as possible to a telecoms company and likely provides valuable arguments for the negotiation process.

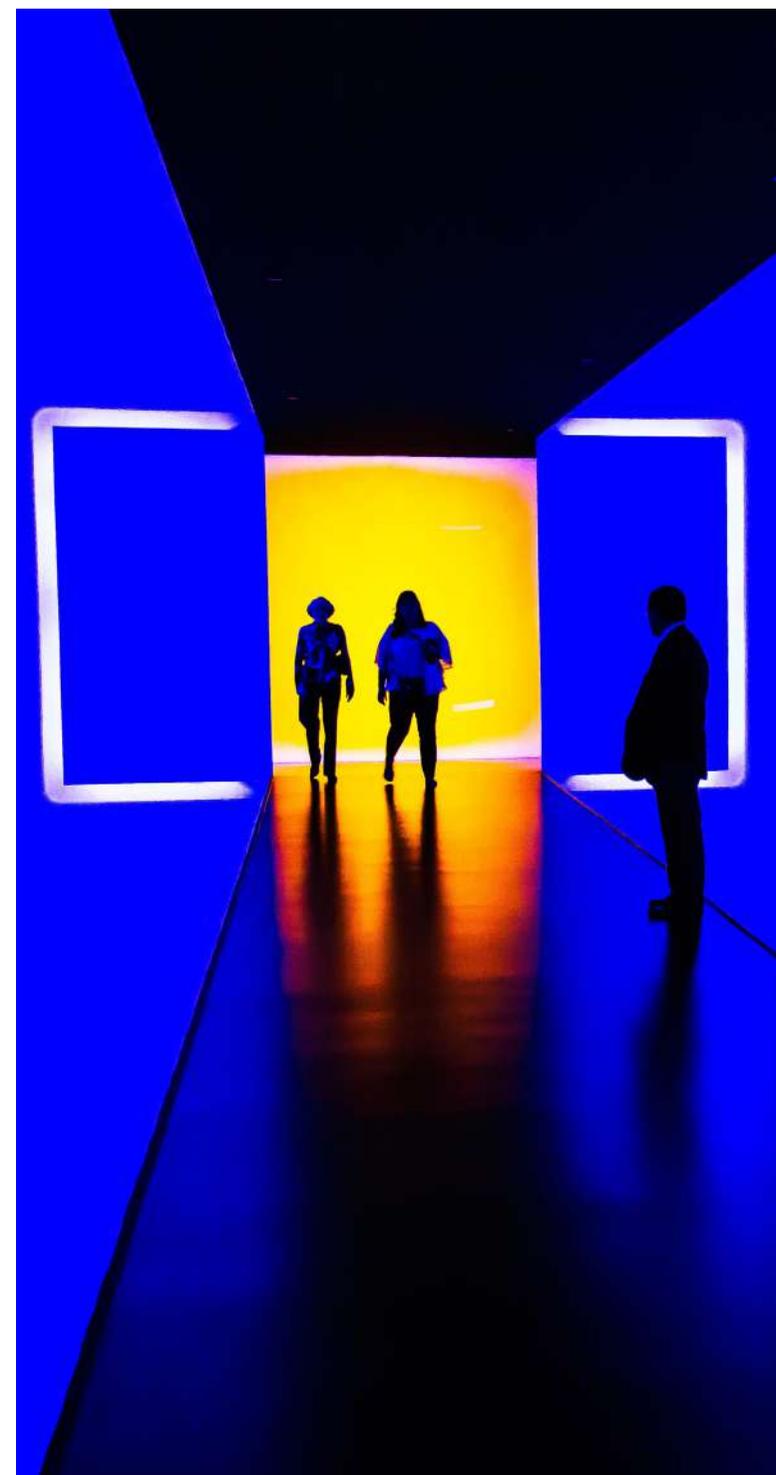
While it may sound simple, a clear, well-defined value proposition includes analysis of many different business areas, including your current services and products, on-going R&D, legal situation, intellectual property rights, employee contracts, potential claims and liabilities, third-party reliance for services, cash-flow, warranties, compliance and tax issues. Each part of this non-exhaustive list has many sub-parts.

Thankfully, such an analysis serves several purposes, including helping to figure out what your company is likely worth to a telecom. Your value calculation should also include projections of future earnings and growth potential – and what synergies, efficiencies and new opportunities that your services and solutions create for the telecom company looking to buy you.

A good yard-stick to help determine your company's worth is looking at previous, similar deals. However, it is important to note that each negotiation process, situation and nature of the telecom looking to acquire you and each tech company (in this case you) are different.

Finally, when determining your value proposition and worth, it is important to realise that some of your good selling-points can be double-edged swords in a negotiation process. If you, for example, have highly skilled key employees that have helped you gain the upper hand on your direct competitors, telecoms companies may identify a high degree of reliance on said employees as a risk, as they could potentially leave you in during or after the acquisition process.

Telecoms will, naturally, look to minimise expenses in relation to an acquisition and may use various negotiation tactics to reach their goals. If you have identified your value proposition and set a realistic target, you will easier be able to discern what is negotiation tactics and what are real areas of concern. This will also ensure that you don't start the negotiation process with unrealistic goals that could get in the way of a deal being finalised.





### 3. KNOW WHAT YOU CAN EXPECT TO GAIN FROM A TELECOM'

When considering whether an acquisition by a telecom company is the right move, it is vital to know what your company can expect to gain.

The list of potential benefits is long. Telecoms can leverage a vast organisational and contact network, in-house expertise and much more to help your company reach the next level.

If your solutions or services are customer-facing, the most obvious advantage is telecom companies' huge, existing customer base. The size of most telecoms means that an acquired technology company gains access to literally millions of potential customers. Many telecoms have a strong, international profile and customer base, which means easier access to markets that could otherwise have been too expensive and difficult for your company to pursue.

Telecoms' vast experience of operating in these markets will also help your company. As will their insight into how to engage potential customers. Telecoms also have much experience with what works and what doesn't. That applies to both technical aspects of your current solutions, as well as ongoing R&D, and to business areas such as marketing,

sales and customer interaction. Another potential benefit is related to data. Most telecoms have vast troves of customer data, which can potentially be of benefit to your company post-acquisition.

It should be noted that there can be a lot of T's to cross and I's to dot before gaining access to said expertise, data or customer base. Telecoms adhere to strict compliance and data protection regulations and are generally forced to move at a somewhat more pedestrian pace than most technology companies are used to.

In the meantime, both parties in a tech – telecom acquisition can leverage other synergies to streamline business processes and lower costs in areas like marketing and sales.

Many technology companies considering potential acquisitions may be looking at ways of taking their company – or solutions – to the next level. In such a case, telecoms provide an excellent alternative to traditional funding alternatives such as VCs. Telecoms will often value on-going R&D and development over short-term profitability. This approach often differs from the more profit-centred focus of VCs.



## 4. KNOW WHAT YOU WILL – AND WON'T – GAIN ACCESS TO

While there is great business potential associated with an acquisition by a telecom company, you should not assume that you will be 'handed the keys to the kingdom'. At least not straight away.

Telecom companies need to balance opportunity and risks concerning business decisions that can affect other parts of their organisation, as well as its compliance with current and coming rules and regulations. The [BDO Telecoms Risk Factor Survey](#) shows that changes to regulations remain one of the most significant risk factors identified by telecoms, with the new [European GDPR laws](#) providing an excellent example of how new regulations lead to data protection challenges.

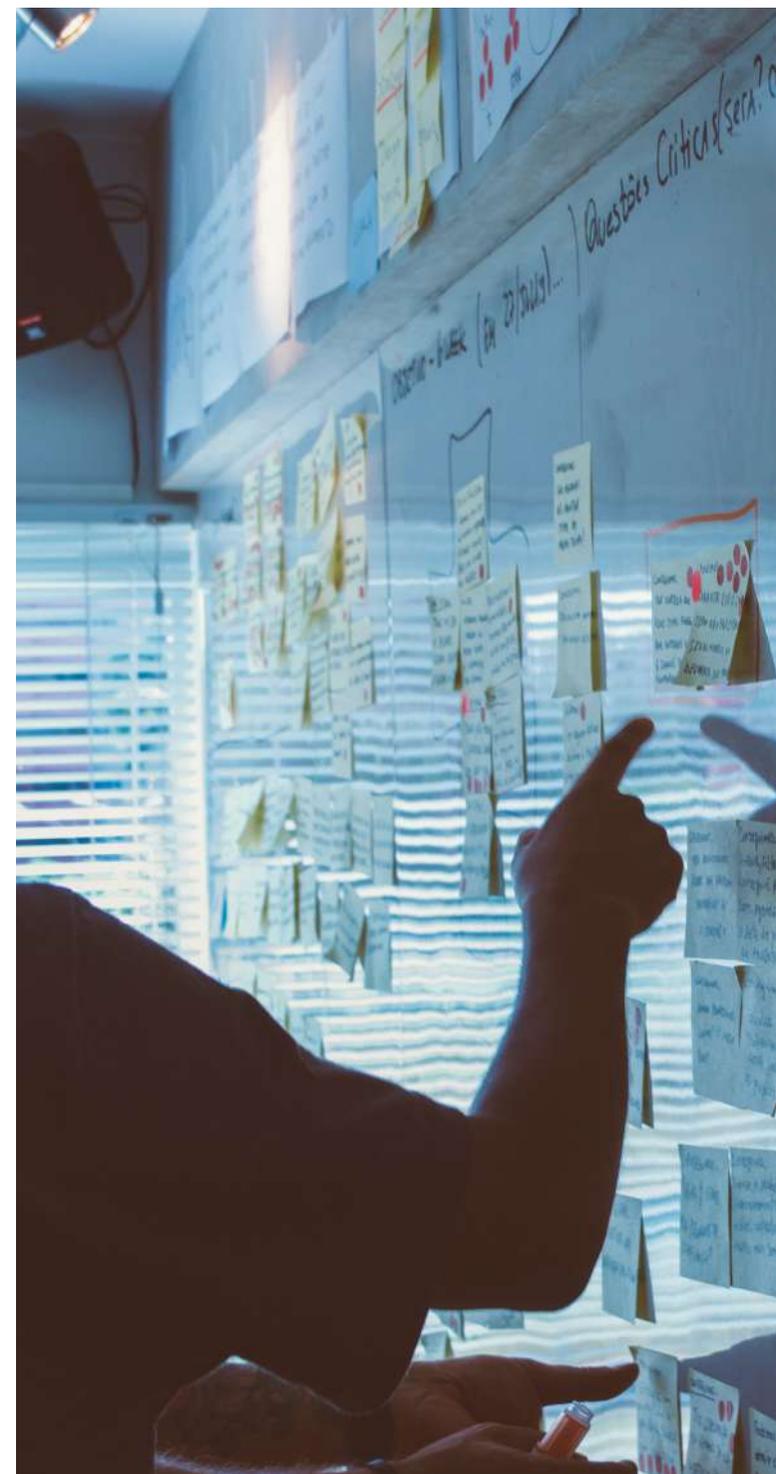
The perceived risk may, in turn, affect how quickly – and how much – access to data your company can be granted. That being said, one of the main reasons behind many telecom acquisitions of technology companies is the desire to better leverage the potential advantages found in their vast troves of data. In other words, you can generally count on access. Just a little bit slower than you may be expecting.

Similar issues can affect other parts of your company. Post-acquisition, you become part of a large organisation with many more inter-connected parts that need to be considered. For example, a quick roll-out of your new product

or solution could mean lower revenue in other parts of the business. A situation that in turn could lead the telecoms company to delay roll-out or limit your solution's access to specific markets or internal resources.

Being part of a big organisation also means that there will be competition for available resources and expertise. While your company may, for example, look at your post-acquisition strategy and identify a goal of quickly gaining access to sales, marketing and PR expertise in relation to a push into a new market, you can find that you will be at the back of a long queue of other departments who want access to the same resources.

An acquisition negotiation process is an opportunity for your company to detail what you are looking to gain access to – and when – post-acquisition. Detailing best-case and worst-case scenarios of your situation post-acquisition and how they can affect your ability to reach your goals will help you identify negotiable and non-negotiable targets for the acquisition in relation to access to resources. You do, however, need to be realistic and know that the telecom's other business considerations may make some wishes unrealistic. The same applies to the timeline of access to various business areas, such as sales, marketing and PR professionals, as well as data, post-acquisition.





## 5. KNOW HOW TO DO TWO THINGS AT ONCE

A deal negotiation is a time and labour-intensive process, which can last months, and in some cases even years. Maintaining focus on negotiation the deal and running the day to day operations of a business is daunting, draining prospect.

Groundwork and preparations should begin well in advance of sitting down at the table and starting negotiations. Part of your preparation is figuring out which areas a telecom will be focused on during both due diligence and contract negotiation. Many companies, including technology start-ups, should start planning out the process and necessary documentation at least a year in advance of any negotiations taking place. It may well be a good idea to ally yourself with an outside consultant that not only knows what needs to be done before negotiations begin but can help speed up the process at the negotiation table. A consultant will be able to assist in the process of sounding out potential buyers, thanks to their extensive networks of business contacts.

Even if your company takes all of these steps, there is a lot to prepare for – and to prepare.

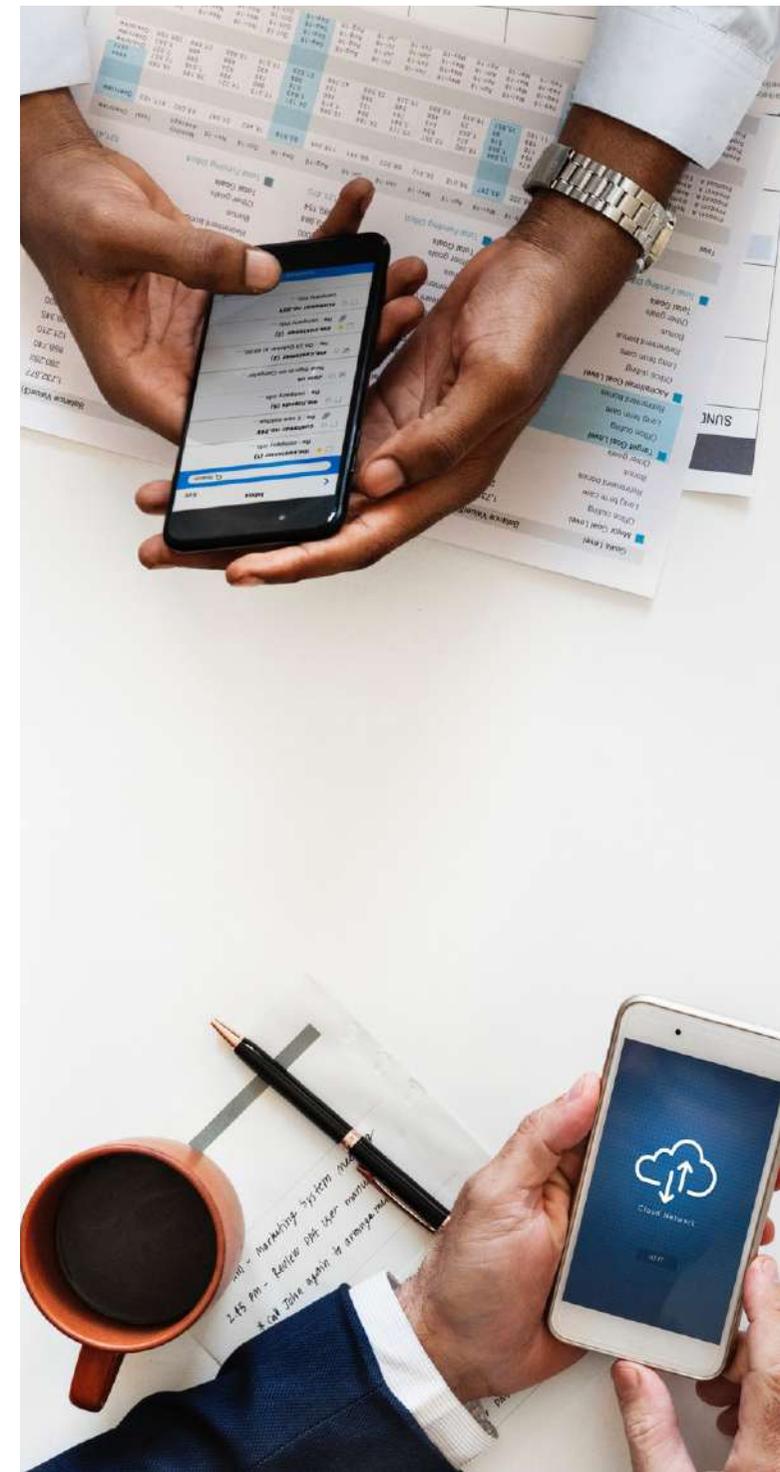
Propositional and contractual negotiations, evaluating client risk, product risk, documenting your business'

compliance with laws and regulations, creating and managing documentation and updating/expanding it during due diligence and subsequent negotiations is an immense undertaking whose parts are interconnected. Changes in one area will likely lead to work in others.

In short, your company needs to be prepped and mentally prepared if you are to achieve your goals for the acquisition while simultaneously ensuring that the company keeps operating smoothly.

Leading up to a possible acquisition process, a technology company may want to look at ways of dividing and delegating responsibilities for certain aspects of the day-to-day running of the business to parties that won't be directly involved in the acquisition negotiations.

Employees may also be affected by ongoing negotiations, as this could affect their future. Finding ways of allaying any fears and worries will be essential if your company is to keep running as per usual. One useful tactic is to engage your employees in as open communication as possible about the goals and aims of the potential acquisition, as well as continuously updating them with what is happening and how it is likely to affect their situation.





## 6. KNOW THE POSSIBLE RISKS AND CHALLENGES

**In most cases, a telecom company is a very different kind of organisation than a technology company.**

The department-hierarchy, tiers of decision makers and need for extensive cross-departmental documentation and approval may seem cumbersome and laborious to tech companies. However, they are in place with good reason.

That said, telecoms' structure and seemingly pedestrian pace when implementing new strategies and developing solutions may be viewed as a risk by some technology companies that have traditionally relied on moving at a brisker pace.

Losing focus on the day-to-day business of running a company and making sure that you are not at a disadvantage if the acquisition process ends without an agreement is another important risk area to consider before and during a deal negotiation. Companies need to work with a regularly updated Plan B of what to do if negotiation break down.

Once you become part of a telecom company, there are other risks to consider. For example, that your team may be split up. Some key employees may be moved to other projects or departments. An associated risk is that your company may be wholly subsumed into existing organisational structures, meaning that you may no longer have control over decision-making processes.

Becoming part of a larger organisation may also, in extreme cases, mean that your product or solutions could be temporarily shelved.

While your new, disruptive solutions may be why a telecom

company chooses to invest in you, it may simultaneously be a threat to existing revenue sources. Sometimes telecoms will, very naturally, look at their overall business revenue. This may spur them to look at whether your technology is a threat to existing revenue streams. If so, your technology or solution risks being put in the slow lane or in extreme instances even cancelled.

Other risks include a lack of necessary resources set aside to handle the merger and post-merger processes, unrealistic targets and short-term goals, a lack of funds or organisational focus that hinders you reaching set targets as well as potential uncertainty and dissatisfaction amongst employees.

Each risk mentioned above can, to a degree, be mitigated during deal negotiations. For example, it is advisable to ensure that your buyer agrees that any budget and staff cuts that will be carried out due to synergies from becoming part of a large organisation are made as soon as possible to minimise uncertainty amongst employees. Setting realistic, long-term goals and targets during the negotiation process may also help to minimise some post-acquisition uncertainties.



## 7. KNOW THE DOCUMENTATION REQUIREMENTS

Many technology companies will be surprised by telecoms' reporting requirements. This post-acquisition will also apply to the technology company.

Compared to life before the acquisition, decision-makers in the technology company will likely be spending a lot more time documenting and seeking approval (in writing) from various other departments than they were expecting.

It is not necessarily something unique to telecoms but a feature of most large organisational structures.

The same goes for many of the other formal requirements in the organisational ecosystem of a large telecom that may come as surprises. There will be an increase in meetings as well as compliance requirements that extend beyond decision-makers. Programmers, for example, will more often than not also be required to produce increased amounts of documentation regarding the work they do on specific products and solutions. The same may apply to other staff groups.

For a small technology company, this can be a bit of an eye-opener and something that should be prepared for ahead of the integration process. A process that in its own right involves a lot of documentation work.

For technology company founders, who are often more interested in the technology than the business side of things, this is perhaps something that needs to be a focal point during an acquisition process. Certain things need to be clarified between the parties with regards to what needs to be documented, how the documentation is supposed to be completed, by whom and finally who is responsible for oversight and compliance, how often, who handles it and who is responsible for oversight and compliance.

It may also be a good idea for a technology company to look into whether the increased documentation requirements necessitate adding additional staff either before or after an acquisition.





## 8. UNDERSTAND THE CULTURAL DIFFERENCES

Telecoms and technology companies often have very different business cultures.

The old Facebook maxim of 'move fast and break things' does not work well within a telecom company. It also did not work at Facebook, once the company reached a certain size. Technology companies need to make sure that they are prepared for the cultural changes that will invariably take place post-merger. At the same time, it is important to ensure that the unique aspects that foster innovation and enable fast growth are not lost.

Both parties have to ensure that they don't risk stifling the other party. If that happens, the business culture, which is often a central part of what makes a company tick, could be lost; as could the innovative drive and work satisfaction of employees.

If you are an R&D intensive company, it may well be a good idea to secure that you will be integrated as a separate department with clear goals and deliverables; an approach that will likely meet with approval from the other side of the negotiation table. Telecoms are acutely aware of the cultural differences and don't want to lose your innovative spirit so will often be very interested in finding ways of maintaining it post-merger.

Before a potential acquisition, a technology company should try to clearly define what its culture is, what parts of that culture makes is successful and how it can best maintain those parts of its culture after an integration.

That process can be used as a starting point for a negotiation with the telecoms company about how best to merge the two cultures with each other. One possible way of achieving this is by setting a list of targets or integration goals, identifying key strengths, areas of similarity and difference and making joint decisions on how to integrate the two business cultures without losing the best qualities of each.



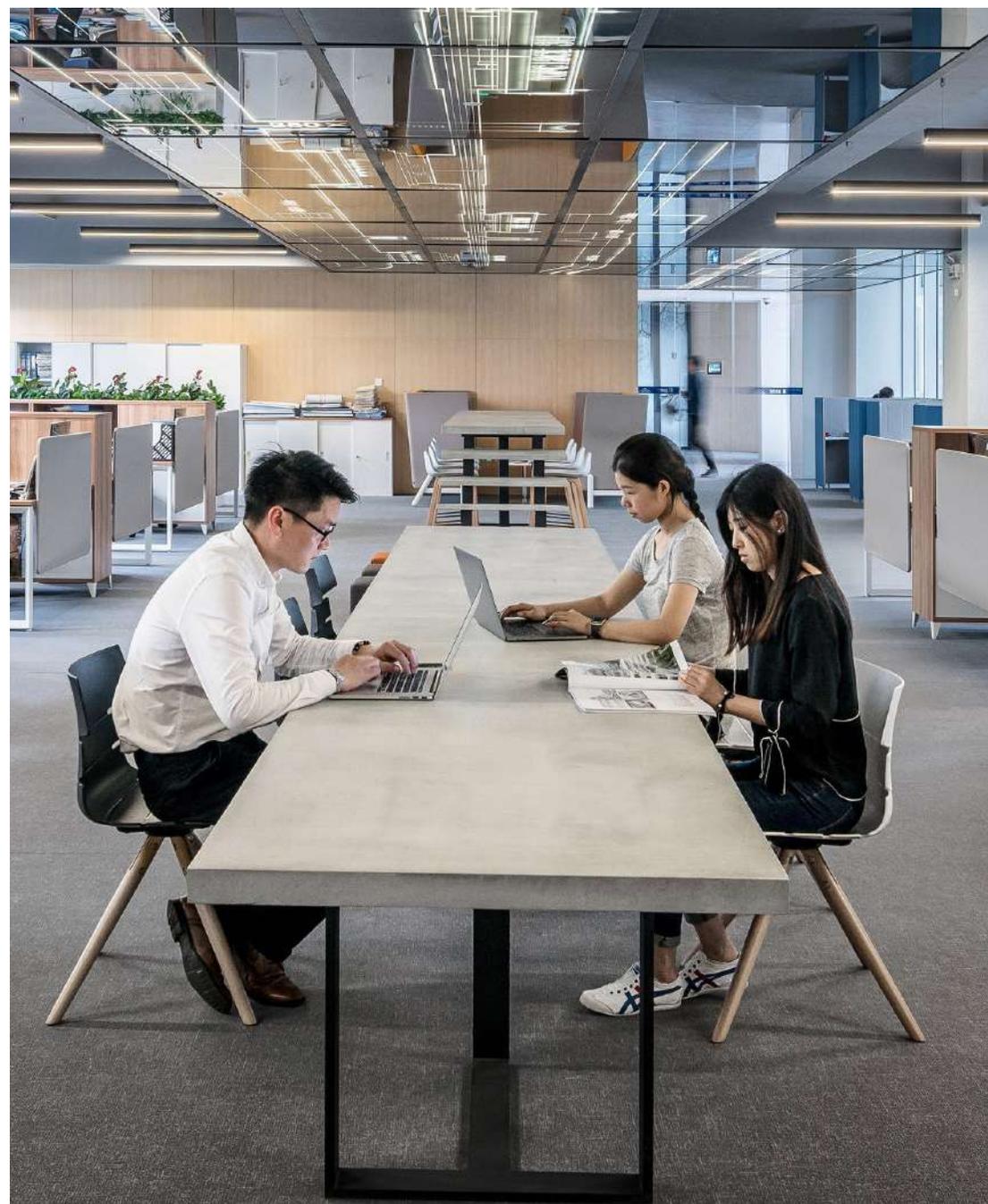
## 9. KNOW YOUR POST-MERGER GOALS AND TARGETS

Before sitting down for negotiations, a technology company needs to be very clear on what they/you as a seller want to get out of the acquisition – and how best to achieve those goals. Are you, for example, entering into a deal to take the company to the next level?

Are you selling to cash in on all the hard work and get an earnout? Or do you want to start a new company? These relatively simple questions have a lot of variables. What is the timeframe for the reaching the next level, for example? What defines 'next level'? How long an earnout are you willing to accept? These are just a few initial questions that need answers. Otherwise, both you and your company risk a deal negotiation that will be more laborious and time-consuming than need be and that you might be unable to attain.

During the negotiation process, it is also important to make clear what your roles, responsibilities, core offerings and targets will be post-acquisition. One of the key areas is to identify and detail expectations and targets for your services and products post-merger. Pricing and KPI targets, as well as how to measure them, should be agreed upon during negotiations. While it may sound relatively straight forward, the exact nature of selling products and services within a larger organisation is something that will take some getting used to for tech companies. Without attention to detail, the pricing of your company's services and solutions within the organisation can become very opaque.

Lack of clarity for how things like costs, sales and performance are measured will, in turn, affect your ability to reach set targets – including your potential earnout target. Setting clear goals for an earnout based on performance can be very hard to calculate once you have become subsumed into the wider corporate environment, as can re-negotiating goals, KPIs and targets. Making sure that these aspects are addressed during a negotiation process is a first step to avoid later complications and disappointments.





## 10. KNOW THAT THERE'S HELP TO BE HAD

This guidance is by no means exhaustive and each point mentioned could be subdivided into a separate set of recommendations.

One key takeaway for technology companies should be is that preparation is vital. As previously mentioned, the sales process often needs to begin at least a year in advance of any actual negotiations taking place. The same goes for setting clear goals. Once you have made that decisions to sell, it needs to be spelt out what your role and responsibilities will be post-sale. Otherwise, you will end up in a process that is unnecessarily frustrating and challenging for both sides.

While telecoms companies are very interested in technology acquisitions, [the BDO Telecom Risk Factor Survey](#) also highlights how they are acutely aware of risks such as fluctuating interest rates and access to finance. Both can influence their willingness to meet your demands during an acquisition process; especially if it becomes unnecessarily prolonged due to inadequate preparation or unrealistic goals.

While an acquisition process usually takes time and involves many tasks that you have probably have little previous experience with the good news is that there is little reason to undertake all of it on your own.

The final recommendation is that you find a good advisor to consult with during the entire process.

A good advisor team is often essential for this process to be successful. You will likely never have sold a company before. Even if you have, it was probably not to a telecom. A consultancy will, on the other hand, have gone through this process many times. In a perfect scenario, your collaborator will have experience with not just the negotiation process but also with how telecoms companies work and think. Insights such as these are vital in every step of the deal.

In short, a consultancy will be able to draw on vast experience and expertise to help you overcome many of the obstacles that may arise on the way to an optimal sale and post-merger integration process.



## FOR MORE INFORMATION:

### **CHRISTIAN GOETZ**

Partner, BDO Germany; Leader,  
Global Telecommunications team  
+49 69 95 941 514  
christian.goetz@bdo.de

### **AFTAB JAMIL**

Partner, BDO USA;  
Leader of Global Technology industry team  
+ 1 408 352 1999  
ajamil@bdo.com

### **JAKOB SAND**

Partner, BDO Denmark, Leader of Technology,  
Life Sciences, Media & Entertainment  
and Telecommunication Transactions  
+45 39 15 52 02  
jks@bdo.dk

### **TOM MANNION**

Principal, BDO USA,  
Global Telecommunications team  
+ 1 404 979 7130  
tmannion@bdo.com

### **ROBIN BROWN**

Corporate Finance Director – Head of Tech M&A  
+44 20 7893 3119  
robin.brown@bdo.co.uk

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