

"We are seeking to determine if the target meets our strategic criteria of scope and scale, business synergies and shared values."

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Duane Albro spoke to Global M&A Network about the evolution of the telecommunications industry, their collaborative team approach combined with an Acquisition Screening Evaluation tool for screening deals, the red flag indicators that break a deal, as well as his insights on pursuing a competitive expansion strategy in the fast growing cloud-computing arena as demonstrated by WVT's recent purchase of Alteva LLC.

Q: How has the telecommunication industry evolved given your thirty-five plus years of experience in the industry?

Mr. Albro: Telecom has moved from being a circuit switched, voice communications world with switching nodes that set up calls from one address (telephone number) to another, to being a free-flowing data pipe moving enormous volumes of digital data around the world in nanoseconds.

As computer processing power and cloud computing continues their exponential growth, the data centers that support the cloud and backbone network, as well as the local access transport necessary to carry this data, must keep pace. Some people say cloud computing is a return to the old mainframe computer time share services but its radically different in that cloud computing is hosted software applications rather than simply mainframe processing capacity and the growth in hosted business apps will continue to fuel the fast-growing cloud-based world.

Q: The telecommunications sector has been consolidating during the past two years. What are the underlying elements driving the M&A activity in the telecommunications sector in North America?

Mr. Albro: As the panoply of RLECs (small regional/rural ILECs) continue to face cable competition and wireless substitution, exacerbated by FCC moves to shift the subsidy of the landline telephone and with the rapid emergence of cloud computing, they must redefine their business for survival. The RLECs must also find alternate sources of revenue or consolidate to restructure their cost structures. This trend is quickly reaching critical mass at the same time that the larger ILECs are faced with very similar issues.

There are a limited number of ways to diversify without losing touch with their core competencies. Many of the larger ILECs long ago moved solidly into wireless and are now diversifying by buying data centers to reduce cloud-computing costs and they are selling off much of their less-dense more-rural customer base. At the same time, many medium size ILECs are emulating the large ILECs by buying data centers and others are building or buying CLECs in contiguous areas while others are looking to cloud-computing. Each company is solidifying their strategic play but all of the smart ones are clearly looking for a new diverse path to profitability.

Q: In regards to WVT's strategic growth plans, does the company plan to grow organically or through add-on acquisitions?

Mr. Albro: We have been candid with our shareholders about our need to grow our CLEC business because of the decline in residence access lines in our ILEC. For several years we've noted our intent to build or buy in the CLEC space. In 2009 we acquired USA Datanet in Syracuse, NY, a CLEC that was contiguous to our WVT CLEC operations in NY State. We then began migrating our entire WVT CLEC operation under USA Datanet, while also building our own cloud-computing unified communications company within USA Datanet. We have been very successful in using this edge-out strategy in both the hosted apps we provide our customers and the territories in which we operate. We will continue with this very successful strategy and we will build or buy.

Q: How does WVT identify and evaluate acquisition targets?

Mr. Albro: We look for more than just increasing scale and scope by adding territories or products. We also look for synergies between the two companies as well as shared values. Our top leaders, the CFO, COO and I, work with our board of directors to gain consensus on potential target areas. Essentially, the strategic view is developed by our CXOs and thoroughly reviewed and discussed with the board and, once we have consensus, the CXOs begin compiling the targets. We also work our network of established contacts both within the telecom/communications industry and with investment bankers with whom we have long-standing relationships.

Q: Is there an internal checklist to determine whether to pursue an acquisition opportunity deal?

Mr. Albro: We do compile a list of targets and I personally reach out to the CEOs of the respective targets and begin discussions. If the discussions move into the stage of potential acquisition talks, we then use an Acquisition Screening Evaluation tool that assists in evaluating the deal in several dimensions.

Generally, we are seeking to determine if the target meets our strategic criteria of scope and scale, business synergies and shared values. Then our tool enables us to develop a priority order for potential acquisitions. In all cases, our board requires that any acquisition be accretive to earnings so that is also a key criteria.

Q: In general, what are potential "deal breakers" during the due diligence process of a potential target?

Mr. Albro: The first insight to potential deal breakers is the ease with which a target can provide critical information. If a target is slow to respond, it can be an indication of a lack of professionalism and a possible sign of poor management. Any misrepresentations, especially financial ones, are an immediate alarm and probable deal breakers.

Other probable deal breakers are finding indications of declining markets or declining company performance results and any clear indications of a lack of values in the treatment of employees. Definite deal breakers are demands by a target that are either financially or operationally unattainable and a deal that is either too costly or un-accretive.

Q: Does the deal structure make a difference in achieving financial objectives as it relates to M&A?

Mr. Albro: The deal structure definitely makes a difference. Except for very small acquisitions, we require a three part deal structure, that is cash + earn-out + stock. The cash is because we are a conservatively managed company with very little leverage and we are prudent in managing our balance sheet. The earn-out is an assurance that the business performance of the target will continue and the stock portion of the deal is longer-term assurance that the target will have a vested interest in the long-term performance of our business.

Q: Congratulations on recent acquisition of Alteva. How was this deal identified?

Mr. Albro: Alteva was identified, from several sources, as a leading-edge cloud-computing company with a high-growth trajectory. Sources included CEOs in the cloud-computing sector as well as investment bankers, which highly recommended Alteva because of their apparent corporate values of caring for customers and employees. As talks ensued over many months, it became clear that this was a game-changer for WVT.

Q: Looking ahead, what are clear benefits in acquiring Alteva?

Mr. Albro: Alteva brought significant strengths in their sales process and solid sales performance, where we did not. It was facing a need for serious personnel growth and financial resources to sustain their market growth and we had both available resources from our declining ILEC business and financial resources from our fiscally conservative management of our business.

Alteva was also a leading-edge provider of hosted app products that WVT, through our USA Datanet subsidiary, was attempting to grow but with less success than Alteva. Its customer base was more up-market in the medium-large-enterprise space while USA Datanet's was down-market in the SMB space. More importantly, Alteva brought a CXO team that shared our values and had the potential to take over and run our cloud-computing business. The synergies clearly stood out from all the other targets we were considering.

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Q: In your experience, how relevant is it to have an integration plan in achieving synergistic value? What makes for a successful integration having previously acquired assets of USA Datanet in 2009, and presently Alteva?

Mr. Albro: An integration plan is a mandatory step to achieving any synergies. Our integration plan for Alteva was being jointly formulated at the same time we were negotiating our definitive agreement.

The moment we signed our closing documents our integration team very actively began its work. We conducted a full day orientation for the new senior leadership team (all director-levels and higher) within three business days of closing. At that time we also reviewed our shared values of caring for customer and employees, the way we will manage our business and thoroughly reviewed the new leadership assignments and integration roles for each one of the business leaders. It is an example of the classic business principle that “without a road map you may never reach your destination.”

Q: In closing, what book are you currently reading?

Mr. Albro: I'm currently re-reading Judith Bardwick's *Danger in the Comfort Zone* because it addresses the need to understand diverse business cultures and offers keen insights to building leadership teams that work collaboratively.

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