

2012 [TA M&A Report](#) Update:



What BCN Telecom Wants to Buy This Year

March 2012

Telecom Association Executive Director Dan Baldwin interviewed BCN Telecom CEO Dick Boudria recently about their announced desire acquire additional companies in 2012. Following is the interview published for the benefit of TA's 3,800 members.

[Click here](#) to read the interview online. [Click here](#) to view TA's 2012 M&A Report and Preparation Checklist to view how BCN's M&A activity fits into the larger picture of M&A activity among TA members.

The following interview was recorded in January 2012.



Dan Baldwin: This is Dan Baldwin. Today we're speaking with [Dick Boudria](#), the Founder, Chairman and Chief Executive of [BCN Telecom](#), a nationwide CLEC and carrier services reseller that has recently joined TA as one of our newest vendor members.

Dick, thanks for joining us today.

Dick Boudria: It is my pleasure, Dan, and I appreciate the opportunity to do this interview with you.

Dan: The reason for our conversation today is BCN is once again in an acquisition mode and TA's members want to learn more.

Our first two questions are how big and stable is BCN relative to other competitors that claim to be in an acquisition mode like GLOBALINX, Endeavor, Abovenet & MegaPath and what size and kind of companies are you looking to acquire?

Dick: First, I would like make a couple of preemptive remarks, and then I will directly answer your questions. As you have stated, BCN is actively working to grow its top line through [accretive](#) transactions in addition to expanding our active agent channel which in turn drives BCN's organic growth.

We do have the funding in place, the carrier portfolio, the full product suite with nationwide coverage, the operational automation, a professional experienced team, and a very successful track record proven over 18 years. In addition to all of this we have very significant operating leverage which makes this an easy financial decision for BCN.

Our model transaction is an [asset purchase](#). The first payment to the seller would be upon signing a [Definitive Agreement](#); the balance would be at closing; with a residual income stream. Size-wise, we do not have any restrictions; however, our preferred bite size would be \$3 million to \$15 million per annum.

2:00 Our main priorities are to execute an accretive transaction based on a book of business customers with quality revenue and performing receivables within our coverage areas. Our immediate objectives are a timely and efficient integration, the improvement of the existing agent and customer relationships, proving in our profitability, strengthening our carrier options and up-selling the new customer base with our total solution.

Directly answering your first question, I would say that BCN does not claim to be in an acquisition mode, we are in an acquisition mode. Our history speaks for itself, which is an important point because there is a lot of what I would characterize as tire kickers out there.

If we source someone we are interested in speaking with; we will establish contact, or we will do an on-site visit. It then is a question of us doing our due diligence which is rather comprehensive. If the deal is right for all parties, we will pull the trigger.

We have done 10 successful acquisitions within an 8-year period, even though we have not been active in doing so for the last couple of years, our track record speaks for itself. We're not out there just looking around or trying to probe for information or finding out what's going on in the marketplace, or trying to low bid transactions. We're very specific in what we're looking for, and we do transactions in a number of different ways. We will not waste anyone's time, including our own. Time is too precious.

4:19 BCN is a midsize corporation. We fall in the \$50-100 million revenue range. We are profitable, and as I said before we do have the funding in place for this purpose.

At present, we are privately held, and I have elected to stay that way. We are really not interested in private equity investments or IPO activity. As a matter of record, in the past we have been publicly held on the New York Stock Exchange, and we have also had involvement with private equity investors, so for our own reasons that is not our preference.

I think being a privately-held company with management being the majority shareholders keeps everybody on the same page. We also have a high motivation and enthusiasm to do well as owners. As I said, we don't have an issue with capital or

funding so that is how we are doing it in today's world which seems to be working out very well.

Dan: Question #2. Telecom agents and channel sales partners hate when their vendors are acquired because they're always asked to sign a new agreement. My understanding is BCN is one of the more agent friendly acquirers in the marketplace.

Dick: Yes, that is a very true statement. I don't think anyone treats agents better than BCN, and certainly when we're walking them through a transaction it always helps if the Chairman and CEO of the acquiring entity started out as an agent; which is the case here. I understand the importance of the agent and their involvement, and for them to be excited about how they are going to be treated by the new company. Therefore, this has always been of critical importance within our acquisition strategy in order to gain more agent distribution and coverage.

6:54 We've been very successful with the agent channel in all of our transactions because we make this a very seamless process with the new agents. For example, the commissions from the acquired entity to agents are considered evergreened in nature. What we will do is we will work with the new agents to improve the terms for their agreements, their commissions, bonuses, special promotions, and of course we are giving the agents a full product suite to sell into their existing bases, which they probably wouldn't have at present.

So this new customer experience will be exceptionally noticed by not only the customers, but by the agents as well. Essentially the agents will have I would say a preferred agreement keeping all the better elements of their existing contracts, and we would be enhancing that. They would also have more to sell, a better back office and support, and they would be making more money for starters. So I think they should be very enthusiastic about becoming part of the BCN structure.

As I said, that has been one of the key successes that we have experienced in doing these type transactions over the last several years. We understand the importance of the agent community, and again I think we treat them better than anybody else out there doing this.

Dan: Some of your past acquisitions have included I think Telcorp, Norcom and a few others?

8:48 Dick: I will just do them in order. Starting in 2002 with [Norcom](#), which was an asset purchase. [Telcorp](#), was in 2003, which was another asset purchase. [NAS](#) (Norcom Agency Sales), was in 2003 as well. [Cornerstone Technologies](#) we did in 2004. [Marathon](#) in 2006. [WCS](#), that was a joint venture, that was also in 2006. [Groveline](#) we did in 2008, as an asset purchase. TSI was a joint venture, that was also in 2008. [Powercom](#) which is now [Lambeau Telecom](#), that was completed in 2009. That was also an asset purchase.

The total monthly revenue that we purchased was \$3.8 million (\$45 million per year). Now, going back over this extended period; we still have over 52% of this revenue in place, and it's very profitable. That's spanning a period of time going back to 2002. All these transactions were different in nature; different sizes, different people involved, but I think you can see that we've done an excellent job not only through the quick and efficient integration, but also customer retention and up-selling.

10:52 Dan: The administrative, or back office support for these purchases, do they largely stay in place? Or were you just buying the recurring revenue and maintain it with your existing back office?

Dick: What we usually do, and again it depends on the specific transaction, but for example with the Groveline, we did retain some of the employees and a market presence there. BCN has a very open minded approach, which favors all involved parties equally, irrespective of the principal's reason for selling.

However, we do examine what is the rationale; what is the motivation, is it personal, is the person looking to get out of the business, retire, are they ill, are there financial issues or other business-related issues that the owners can't or choose not to deal with? We then go in and do an assessment of the organization. Who's tied to the customers. They may have some direct sales people in place, or organizationally there is someone else who has been doing the care and feeding of the customers. Or there may be a few or many agents involved.

12:43 But again, we try to make this a seamless process, and if there is a positive reputation of the company, or there is an importance of keeping employees and a market presence, we will do that like we have done with others to include Powercom out in Wisconsin. In that case we did give them a more favorable name in Lambeau Telecom.

Again, it really depends on the transaction, the nature of it, who's involved, but we don't just arbitrarily say our back office is the best, or we don't need any other help. Depending on the size of the transaction, we have metrics in place in terms of how much more revenue, whereby we may have to bring on complex provisioners, additional trouble and repair people, or an additional billing person, or add to customer service, whatever is required. That is what has worked best for BCN.

Our experience has been there are a lot of talented people out there that can come through one of these acquisitions. We are also growing, expanding, and enhancing our organization when and where possible with personnel introduced to BCN through this process.

Dan: Question #3. I understand that BCN pays referral fees for successful acquisitions. What are the fees and how does that work?

14:48 Dick: When we are out there sourcing these transactions, they can come through any number of people. People like yourself, it could be another agent, it could be a regulatory attorney, it could be a broker, but essentially the stock answer would be the referral fees are negotiated, and I know that our fees paid are above current market rates.

When would it be paid? It would be paid at closing, but it would be all pre-agreed. Again, our intent and our action is driven by fairness and we would be looking for these people to provide further opportunities to us. BCN is always enhancing our reputation within the industry, and we consider this to be a vital part of it. A deal only works if all parties are in agreement and pleased with the ultimate outcome. The success fees would be more than attractive, but again I'm not going to arbitrarily put a mark on the wall.

Dan: So someone they think that would make a good opportunity, they need to give you a call, have a little conversation about who's bringing what to the table, and then put something on paper?

Dick: Precisely. It's all in the analysis. Once we get the actual data, we can go through it and determine what's going on. At that point we can get into a negotiation, but obviously the fee would be determined within these parameters. Hopefully in some cases the person bringing it to us would also serve to facilitate the negotiation so that the seller's expectations aren't outsized or over the top so that we can actually sit down and work through a meaningful transaction for all parties.

17:29 Sometimes the person bringing it to us wants to be involved, sometimes they don't, but again, we're really centered on our reputation and the next opportunity so we aren't going to do something that the person bringing the transaction to us would find upsetting or disturbing.

Dan: Question #4. We're hoping you can speculate on some recent purchases and let us know if they make sense in your brain, and comment as to whether these are some sort of similar purchases that you'll be looking at.

GLOBALINX purchased TMC. Did that seem to make sense to you?

Dick: Well actually we have a good relationship with GLOBALINX. They are a vendor of ours, so we do work with them. TMC was a very attractive property. My belief is that GLOBALINX wanted to expand so they could become what I would characterize a hybrid company, similar to BCN in terms of its product depth and scope

But again, anything I say would be my subjective opinion, and I'm certainly not going to disparage any other company or certainly somebody who we do business with, now or in the future. Of the four mentioned, again I think the best acquisition was the TMC acquisition, that would be the one I would be most attracted to.

I would also state, as a clarification, that the selling entity should also consider several things about the buying entity prior to entering into a definitive agreement and the final sale. The biggest thing being does the buying entity really understand the existing company; do they really know how to make improvements and will they want to? What's the driver behind the transaction for the buying company?

19:54 The seller, especially if they have residual ties to the book, should review the strength of management and the financial viability of company so if they have future obligations they can keep them. This way you will not put your existing customers and agents in jeopardy.

How are the customers going to be treated? How are the agents going to be treated? What are the coverage areas? What's in the carrier portfolio? The product depth? Their operational strength? The billing accuracy & capabilities, these are all serious points for the seller(s) to research thoroughly.

There is a lot to think about as it has been our experience in watching some of these type transactions take place is that there can and will be many people upset over what was expected and what actually happens.

Dan: The MegaPath purchase and Speakeasy, and more recently IP5280 in the BroadSoft hosted VoIP space, certainly the sellers weren't walking away? They were I suppose buying those companies to make their company bigger?

Dick: Right. But again, there are all the other things that I mentioned, and sometimes things are represented and they're not executed upon or delivered, and sometimes you have to take a wait and see attitude, which is difficult if you're directly involved. Obviously with the level of money that's being spent, one would like to believe that the people doing the buying had a clear vision of what they're hoping to accomplish; such as is it specifically revenue and profit they're looking for? Is it product line expansion? Are they picking up more distribution? Is it just technology related? And if you went through each and every one of these, there would be one or more of those reasons as the rationale and at least one would be publicized. However, with some of these private transactions it is difficult to really get the full information because it is not available.

Dan: Like the Intercall acquisition of Smoothstone, it seemed like they were telemarketing and conference calling company, and they wanted to pickup an enterprise hosted VoIP company so they were buying a whole new product line, and then TowerStream buying ColorBroadband a wireless provider in L.A., they were just expanding its footprint. Do those two acquisitions make sense?

Dick: Again, we have the buying company, what was their intent, and motivation; hopefully they're able to execute on it properly and it would be working out for them. But that's precisely what I said there are a lot of good companies within the industry and as you bring in new and different technology more companies are entering.

I'm proud of this industry. I've been in it for over 29 years, and I certainly want our ultimate success. There are hundreds of billions of dollars at stake, and more on its way. Companies like ours perform a very valuable service within the industry. When we compare the larger dominant facilities-based carriers and wireless providers, our type companies are more customer and agent centric.

24:26 I've watched our segment grow enormously. I came into the industry in the Fall of 1983, and then when I went out on my own in the early 90s I was involved first with multi-location WATS, 800 aggregation and SDN. I actually was at the first SDN resellers meeting in New York that was hosted by AT&T. When local service was deregulated in 1996, I was invited to the first meeting sponsored by Verizon up in Lake George, NY so I've watched this whole thing evolve albeit local, long distance, wireless and more. I think we were either the first company or one of the first companies to bundle all the services up in one bill, local; long distance, wireless and a number of other products, and definitely before it was in vogue or thought possible.

So there has been a lot that has happened within the industry. I've watched it steadily grow from that first meeting of 25 people there in New York, and even before that when I was an executive with GTE in Stamford, the interexchange carriers were my customers. I've had a lot of involvement along the way as this segment really did some impressive things while everybody kept saying that this concept, resale, it just isn't going to work. Well, we have proven them all wrong, and that is a most rewarding achievement.

26:32 Dan: Question #5. There seem to be many hosted VoIP firms with customer bases but not a lot of VC cash left. Are you looking to buy some of these retail hosted VoIP companies? If so, do you have a preference for BroadSoft, Metaswitch or Asterisk-based shops?

Dick: BCN as you know offers VoIP, and hosted, and cloud-based products. It took us a long time to vet out the providers in the market in order to make the best products available to our agents and customers. I do have a preference, and that would be BroadSoft as our preferred platform. We find that to be the most stable and robust.

Metaswitch, actually one of our partner businesses has one of those, would be one of the original platforms, and it has worked well for them.

Asterisk, is just a smaller, less expensive software based platform.

Buying a Hosted/ VoIP firm, cloud company, is not what BCN is specifically interested in. Even though these companies are the current buzz, especially down on the street at present, a lot of that money has dried up for different reasons.

Our belief is the technology being deployed is still searching for the best configuration /solution, and the companies that have been sold or who are being looked at now are definitely on the pricey side. While we are very enthusiastic and we've also worked

extensively with cutting edge technology, my experience has been I don't want to be the first one. While it is admirable to be a pioneer, a lot will be learned, a lot will be proven and a lot will be improved over time; BCN can afford to be patient and prudent.

29:02 New technology will be introduced to the industry, we watch to see how the actual users gravitate towards it, and how well it is received. However, if we were looking at a transaction and there was an existing revenue component there, we would not automatically disqualify the transaction.

Dan: A lot of the companies on the market today have a hosted VoIP in them, but it's not the biggest part of them.

Dick: Correct, BCN is getting good receptivity off those products. There certainly is a very robust and lucrative future there. And as I said, we wouldn't preclude a transaction if that was part of their portfolio, but as far as that representing 100% of revenue, we would not consider a sole purchase at this time.

Dan: Question # 6. If a guy with a lot of cash hired me to find acquisitions, I've got a list here of companies that I think would be worth considering. Looking at this list of some 20 odd companies, can you make any comments as to whether that looks like a great fit or you wouldn't be considering them?

Dick: Certainly. First, let qualify my remarks. Our business model supports very specific profile elements. We're interested in non-facilities based resellers that provide services nationwide on a single bill platform. The customer base should consist of small/medium/large size business customers.

31:17 The companies should also be privately held, not facility based, not publicly traded, not specifically master agencies, not VoIP/ Hosted exclusive and certainly not in bankruptcy or questionable financially, unless we can purchase select assets at aggressive price levels.

So based on that prequalification, I've taken the liberty of restructuring your list as some of these companies would not fit our profile/ business model. Under facilities based as the reason why we wouldn't be interested are: Accel Networks in Florida, American Telesis in Denver, and BBCOM out in L.A. It is the old make versus buy decision. As for Broadview Networks, they are a large company, they are facilities based, and they are also publicly traded. Then you have Telesphere in Phoenix, they are facilities based and to some degree VoIP focused.

The companies that would be specifically VoIP centered are Transbeam in New York City, Vocal IP, which eliminates our interest.

The companies that are too large outside the preferred bite size I discussed about before are, AireSpring, Granite Telecom which is specifically copper only, both are

rather large and they are specifically POTS/DSL so they are not into the total solution. MetTel in New York, fits this category also.

33:43 Then there are the master agencies such as, Bandwidth Advisors in Seattle and Intelisys, which we wouldn't be interested in pursuing. However, with some of these companies, we would consider working with them like we do with Nitel in Chicago.

These are the companies that we would be interested in: AccessPoint in Greenville, South Carolina. I believe Bandwave Systems in Philly, we have to research that one a little bit. Bulls Eye Telecom in Michigan, that would be a sizeable one, but again we have to get the current data on the company. At first glance we would be interested in DynaLink in New York and Ernest Communications in Atlanta. Touchtone in new Jersey is similar to BCN in what they are doing but they are smaller and they don't have the full product suite. WCS/Wholesale Carrier Services in Miami, we would be interested in speaking with them. Lightyear, we probably would like to go in and talk to them about buying select assets. TNCI, since they are in bankruptcy we would like to be able to pick up some of their customer assets at a discount.

35:38 There are a number of different approaches to these transactions, and I don't want to preclude anyone from serving one up. While I don't know if the book is big enough, or it fits the profile. I think we spent an extensive period talking about the profile, what we're looking for, and I've given my reason why I wouldn't be specifically interested in some of these other companies while trying to be very forthright and candid about it. It is a big marketplace out there, there is room for a lot of good companies and as I said before, I just happen to believe that BCN does it better, as do a number of other people.

I would also like to add that our focus is on the agent channel distribution, not on direct sales. Therefore, no channel conflict exists within this BCN.

If I may make a couple of closing remarks?

Dan: Please.

Dick: As you can see, we're focused on doing the accretive transactions in 2012. I think the timing is right, and should you or anyone else assist in sourcing a potential transaction partner, you will receive a success fee payment.

That's another part of our reputation, we pay commissions in a very timely fashion, as we pay success fees, and our vendors. I think that's critically important in our industry or in business in general.

We have an outstanding record of success in doing these type transactions. We have spent millions of dollars in doing them, but we have also made millions of dollars, and we have a very, very high retention rate here. We're capable of growing and expanding that book that we're purchasing along with the agents.

38:00 Again, I can promise a very comprehensive due diligence, but we do act quickly. I can do these transactions including regulatory approval within 90-120 days. Initially we will ask for specific data, do an on-site visit, and I'll have a definitive agreement if it's right within 10 days, along with a check or wire for the selling entity.

As soon as we have a signed definitive agreement, we start the integration process in parallel with the regulatory approval which could take 60 to 120 days depending on how complex it is. We have the integration model, we have the team, we have everything in place including who we have to go to on the regulatory side to expedite everything.

It is not haste make waste, it's just that BCN is extremely experienced and efficient. If somebody wants to sell, we want to buy, let's get in there, do a deal, pay the seller and go through the transition making it seamless for the customers and the agents. We then can transfer the customers, expand the distribution, start up-selling our products and services, move everything on our contracts, and make the transaction work the way we had anticipated.

In summary, BCN has the professional team in place along with the financial capacity to cleanly and expeditiously do a transaction which we will quickly and efficiently integrate.

We are very flexible and creative in our approach to these transactions, and again, we do enhance the customer and agent experience through our total value added solution. We're proud of our company and our reputation. We will flawlessly deliver on what we represent, that I can guarantee.

40:24 So we encourage everyone with customer assets that they are interested in selling to contact us, and hopefully the profile and the price will be correct, and a beneficial and profitable transaction can be made serving everyone's best interest.

I believe you have my contact information, and the first person they should reach out to should be Julian Jacquez. He is our Executive Vice President in Business Development.

Dan: Yes, we have that and we will go ahead and append that contact information to our blog post that we make from all this.

Dick: I would say if somebody just wants to talk to me directly, that is fine too. I would be very encouraging. We're enthusiastic about doing this, and I know that there are good people out there that have different reasons and motivations why they would like to sell a book of business. My commitment is to be a good steward and take care of the base and continue to grow it with the existing agent channel, which will prosper more than before.

It's extremely exciting, that while our economy both nationally and globally is still challenged, everybody is working hard at BCN to change that dynamic. We are in a

position to do these type transactions. We will do everything in our power to have it make sense, whereby all parties involved will be pleased with the immediate outcome and the future.

42:25 Dan: This is Dan Baldwin. Today we have been speaking with Dick Boudria, the Founder and Chief Executive of BSN Telecom, a nationwide CLEC and carrier services reseller who has recently joined TA as one of our newest vendor members.

Dick, I appreciate the time you have taken to share your comments. Anything else that we didn't touch on?

Dick: No. I think we've covered it all. I appreciate your time and hopefully it will stimulate interest in sourcing qualified transactions for BCN.

Dan: We look forward to following up after your next transaction and see how it went and who it was.

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