

AR Telecom balances need to invest for growth and achieve business performance targets with flexible finance solution



Customer: AR Telecom

Industry: Service Provider



Challenge:

- Deploy triple play services to attract and retain new customers
- Manage negative impact of investment on key performance indicators
- Mitigate associated risk of technology obsolescence

Solution:

- Cisco Capital financial solution to build an IP Next-Generation

Results:

- Migration path to new technologies that may emerge in the future
- Minimised impact on financial targets
- Protected existing credit lines
- Reduced cost of capital

For service providers around the world, moving to an IP Next-Generation Network is fundamental for future success. It enables the convergence of networks, services and applications for greater revenue, reduced costs and better differentiation. The challenge is how to do this without jeopardising financial performance and commercial targets? AR Telecom's innovative approach provides the ideal answer.

Challenge

Since its formation three years ago, AR Telecom has evolved to become one of Portugal's leading telecommunications companies. Triple play - broadband Internet, digital TV and fixed telephony - lies at the heart of its strategy. In order to attract and retain new customers, the operator is building an IP Next-Generation Network (IP NGN) to increase coverage and accelerate service delivery in major cities like Lisbon and Porto. This innovative platform involves the integration of fibre (to the base station), wireless (to a local antenna) and traditional cable (to the home). In addition to dealing with these complex challenges, the company also has to effectively manage the technology and commercial risks associated with major investment projects of this kind.

Goncalo Santos, Chief Financial Director for AR Telecom, explains: "There is no standard 'out-of-the-box' solution or guarantee that the technology choices we make today will still be valid in two or three year's time. In this sense, of course the risk is greater." Like all start-up companies, AR Telecom has an added responsibility to its stakeholders.

Goncalo Santos continues: "It means we have to keep one eye on protecting existing credit lines and the other on financial performance and meeting Key Performance Indicators (KPIs), such as EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation) and cash flow targets."

Solution

To deliver the next stage of its network evolution, AR Telecom issued a competitive tender, followed by several months of testing, before selecting the Cisco® solution. The platform includes Cisco Catalyst 2960, 3750 and 6500 Series Switches, and 7600 Series Routers, closely integrated with Cisco Cable Modem Termination Systems. The next challenge was to focus on making sure the deal worked from a financial standpoint.

Goncalo Santos says: "The obvious option was to purchase the equipment through additional borrowing, but we were keen to reduce the cost of capital. We also wanted to avoid taking a direct hit on EBITDA (also referred to as operating cash flow) while still treating the asset as a tax-deductible item. Working with Cisco Capital® we were immediately on the same page. The various models they produced helped us to develop our thinking, validate the cost benefit analysis and ensure the right commercial framework."

The Cisco Capital finance solution will allow the operator to use the Cisco technology over an initial 36-month period. At the end of the primary term, AR Telecom may refresh their technology or opt to retain the equipment indefinitely.

The refresh option saves up to 15% of their original costs. Should AR Telecom wish to retain the equipment, the financial solution is funded at a rate below their internal rate of borrowing i.e. cheaper than using their own internal funds.

Results

By deciding to finance as opposed to purchase, AR Telecom was able to avoid upfront investment and spread the project's costs. Not only will this improve return on investment, it will also ensure that the achievement of break-even cash flow targets are not jeopardised. The Cisco Capital solution means that the operator can borrow at a lower rate (compared to interest rates offered by other lenders), while preserving existing credit lines in case they have to be used for other requirements in the future. The contract also enables AR Telecom to mitigate risk and continue to 'ride' the technology wave.

Goncalo Santos sums up: "Unlike vendors who simply sell you equipment, we see Cisco Capital as a long term business partner. They have helped us to acquire the latest technology with built-in protection against obsolescence. This will allow us to provide even better service to more customers - both now and in the future."

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-Goncalo Santos, CFO, AR Telecom

For More Information

To find out more about Cisco Capital finance solutions, please go to www.cisco.com/go/catalyst6500