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TELECOM DEAL OF THE YEAR

A Deal Heard 'Round the Globe

TPG and GS Capital land Alltel, and there was no shortage of interest

BY JESSICA PAPINI

Alltel Corp.'s sale to **TPG Capital** and Goldman Sachs Capital Partners for $27.5 billion was one for the books; it was the largest LBO in the US telecom sector, the second largest LBO and the fifth largest M&A transaction in 2007.

Citigroup's Turnbull: 'The consortium developed an aggressive, fast approach and presented it to Alltel and its board.'

Last February, the Chief Executive of Alltel, Scott Ford, kicked off merger talks stating in an earnings call that the nation's largest wireless network was reviewing its strategic options. Alltel repeatedly evaluated its strategic options over the years, and made a decision that the time was right to shop the company.

The news was not surprising to the telecom industry, and — following Ford's comments — private equity firms and strategic investors expressed interest in the company.

Merrill Lynch acted as advisor to Alltel on the transaction, in addition to JPMorgan and Stephens Inc. Merrill Lynch has been a strategic advisor to Alltel for the past 12 years, and has built a strong strategic and financing relationship with the company. "After advising a company for so many years, you are able to provide the best advice, regardless of whether a transaction is done or not, and the timing was crucial on this deal," says Victor Nesi, head of Americas investment banking at Merrill Lynch.

Deal At A Glance

Category: Telecom
Advisors: Goldman Sachs, Merrill Lynch, Citigroup, JPMorgan
Deal Size: $27.5 billion
Date Announced: May 20, 2007
Date Completed: Nov. 16, 2007

The telecom space had been under consolidation for a few years, and strategically it made sense to partner with a major player or go private. Mergers such as Sprint and Nextel, and AT&T and BellSouth took place within the last few years.

TPG decided to get involved in the bidding for Alltel as it had been looking at telecom opportunities over the past few years. "While being active globally, **TPG** had been cautious over the last number of years about the US telecom market given dislocation," says **Gene Frantz**, partner at **TPG**, adding that US wireless increasingly represents one of the few areas of attractive growth in the telecom sector.

TPG's management team called Citigroup and the two parties started a more in-depth analysis at Alltel following Ford's announcement.

After **TPG** became interested in Alltel, Goldman Sachs entered the picture. "Our private equity group teamed up with **TPG** as a potential buyer of Alltel, and the consortium hired us as the M&A advisor," says Andy Rabin, managing director in investment banking at Goldman Sachs. Citigroup and Goldman served as financial advisors to **TPG** and GS Capital Partners during the transaction.

TPG and GS Capital Partners hired Goldman as a strategic advisor and also for the financing, Rabin notes. It was the largest-ever investment for GS Capital Partners.

After discussions between interested parties, on May 8, 2007, Alltel sent a letter and invitation for submitting final bids, including a draft merger agreement, to each of the private equity sponsor groups. The deadline for the bid was June 6, 2007, but the letters stated that Alltel reserved full discretion to accelerate or preempt the process.

"The consortium developed an aggressive, fast approach and presented it to Alltel and its board," says Citigroup's Jonathan Turnbull, managing director, global communications investment banking. That proved to be an important tactical move that differentiated the offer from the competing bids, he added.

"We outmaneuvered other bidders and pre-empted the process," says **TPG**'s **Frantz**.

There was some controversy about the process, and "Alltel had to defend itself in the marketplace by saying what it did was fair and that it was pleased with the offer," Nesi said.

On May 20, the deal was announced. The process required all parties to be nimble, and the deal was completed relatively quickly, Rabin said.

"It was a unique situation because private equity firms were advantaged over the strategic buyers," says Turnbull, adding that strategic buyers were limited in their ability to acquire the assets due to the timing of the auction.

"Clearly, it turned out to be the right decision, and there was no need for the second step auction," says Nesi, who is now global head of the technology, telecommunications and media industries group at Merrill Lynch Global Private Equity.

Additionally, transactions similar to this - large deals with loads of leverage - will be more challenging in the near future.

"If the dislocation in the fixed-income markets continues this year, transactions of Alltel's size will be more difficult to do," agrees Michael Costa, managing director and vice chairman of global investment banking for Merrill Lynch, who also worked on the deal.

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