

EVENT FLASH

Telcordia Sold to Warburg Pincus and Providence Equity Partners

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IN THIS EVENT FLASH

This IDC Flash analyzes the announcement of the agreement to sell Telcordia to private investors.

SITUATION OVERVIEW

On November 18, 2004, SAIC announced the signing of a definitive agreement to sell its subsidiary Telcordia Technologies to Warburg Pincus and Providence Equity Partners for \$1.35 billion in cash.

Telcordia was founded in 1984 with divestiture from AT&T. It employs 3,200 people today, primarily at its headquarters in Piscataway, New Jersey. IDC estimates that 2004 revenue will approach \$880 million. The company's products support 80% of U.S. telephony traffic, 100% of U.S. toll-free traffic, and 95% of U.S. wireless number portability transactions. Additional details can be found in *Telcordia: Up for Sale?* (IDC #31690, August 2004) and *Telcordia Buys Granite for Full Integration* (IDC #31281, May 2004).

FUTURE OUTLOOK

The agreement to sell Telcordia ends a summer and fall of speculation about the company's future. This resolution removes the uncertainty and provides the corporate stability that are essential for the continued success of Telcordia, its customers, and its partners. The new owners can capitalize on the groundwork that has been laid by the current Telcordia leadership to make the company truly dominant in the global telecommunications market.

With the backing of two firms that are experienced, known, and well regarded within the telecommunications market, Telcordia can now move on to continue reinventing itself. Telcordia as a company has long shown significant depth and experience on its home turf of telecommunications. Until a couple years ago, these assets appeared to the outside as raw materials that might or might not be aligned with market requirements. The current management team put a face and a structure on Telcordia that were sorely lacking. The Elementive branding spurred key marketing and product management efforts. Many of the formative changes were structured and put into place. As always in a change process, hurdles have popped up in the new Telcordia organization. Yet to be accomplished are the deep, thorough cultural changes and further evolution of the company — which require years rather than months to become established.

The timing of the deal is somewhat unfortunate because service providers with convergence (of networks, services, and customers) and IP multimedia services issues could benefit today from Telcordia's know-how — if Telcordia were already fully established as a "new generation" product vendor. Telcordia has just recently shed the proprietary, slow, and expensive image of its past. The 30% cuts to RBOC maintenance pricing over the past three years was a key step. The company's software and services expertise is critical to the success of next-generation services and networks. But, until recently, longtime Telcordia customers were explicitly looking elsewhere for future software and services technologies.

Now, as service providers push forward with plans for new services and improved operating models, this deal confirms that the company is stable and visibly growth oriented. The new owners still need to push Telcordia's reforms forward. Fortunately for them, the vestiges of the old Telcordia — the "Bellcore" days, the Telecom Act of 1996, and legacy voice infrastructures — are all increasingly historic.

Telcordia is in transition at the same time as the telecommunications industry is undergoing transition. As its key customers and other large established incumbent operators work to move forward with IP networks and key services, Telcordia is challenged to make sure that it is the first choice supplier for its customers. Melding old and new represents a substantial and long-term challenge for service providers. They need a partner that knows both the old and the new operational environments. The number 1 job of its new owners has to be fueling the continued development of its new investment to anticipate and meet this requirement.

Even with the increased level of consolidation activity ongoing among OSS and billing vendors, Telcordia will remain at or near the top of the heap, based on size, influence, and growth potential. The greatest benefits to the new owners will come from execution on a telecommunications playbook that is almost written. Telcordia has the best players for the new game, and we are all hoping that Warburg and Providence bring out and support the best managers.

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