

SHARE OF THE MONTH

THE TIMES SATURDAY OCTOBER 4 2003

No negatives at Telecom Plus

Stella Shamoon is impressed by a 'utility warehouse' with plenty of room for growth

TELECOM PLUS is a robust, high-growth enterprise with an identity problem. Its shares are listed in the telecoms sector, yet it is a purveyor of integrated, low-cost utilities — gas and electricity, as well as mobile, fixed and internet telephony — to domestic households.

Nor can it be properly classed among utilities, since it does not own the infrastructure to supply such services. Telecom Plus piggybacks erstwhile monopolies among telecoms and utilities, notably British Telecom and British Gas, by persuading their customers to switch into its own lower-cost services while retaining the existing infrastructure installed in their homes.

It thus offers low-cost utilities without risk in terms of provision of technical back-up, such as repairs of gas leaks or faults on telephone lines. Telecom Plus merely contracts to supply lower-cost gas, electricity or telephony, while responsi-

bility for maintenance of infrastructure remains with the existing provider.

The compelling aspect of its business is that it acquires new customers very cheaply, and currently at a rate of between 7,000 and 8,000 a month. It does not spend money advertising or marketing its service.

Its new sales are scored by an army of 10,000 freelance "distributors", who derive commission from recruiting their friends, colleagues and neighbours to the 150,000-plus customer base. As it expands its customer base, so its bargaining power in procurement of the raw commodities required to service them at bargain rates increases — a virtuous circle.

The personal recommendation of Telecom Plus by distributors to people who know and trust them is highly persuasive. Once captured, new customers tend to stick. Its customer base grew by 40 per cent last year. On average,

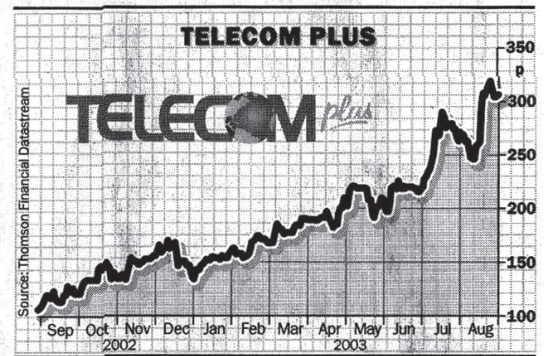
each household spends £400 to £1,000 a year, while heavy users who take all services spend much more.

Turnover soared 78 per cent to £58 million last year and pre-tax profits were 38.5 per cent higher at nearly £5.6 million. Its final dividend was increased by 30 per cent. It gets better. Results this year should beat expectations and the company has pledged to pay an interim dividend of 4.5p, up 80 per cent on last year.

With cash of between £7 million and £8 million (even after the £7.5 million spent on two strategic acquisitions) and strong cashflow, Telecom Plus can afford its "progressive and generous dividend policy". Not least because the founder and chief executive, Charles Wigoder, owns 25 per cent of the shares and lives essentially on his dividends rather than a big salary. He is proud that the differentiating factor between his business and that of its larger rivals is that, with his own money on the line, there is no waste of shareholders' funds.

The business was floated on the London stock market at 200p a share three years ago. It is capitalised at £186 million. The share price has snapped back with a vengeance from a low of 80p after two institutions sold out during the bear market.

The business has plenty of room for growth. British Telecom's customer base is 20 million. Telecom Plus, mean-



while, is poised to expand its customer base by a sustainable 8,000 to 10,000 a month over the next 12 months, and still its resources would not be at full stretch. If it can maintain its growth momentum without glitches in delivery of services, its business should grow at least fourfold within seven years. Meanwhile, the number of its distributors is growing at a rate of 400 a month.

They are recruited at conferences at nice hotels, during which juicy carrots are dangled before them. But this is not a pyramid selling operation. Telecom Plus distributors earn commission from the real income stream derived from the customers they introduce.

"All I need is one million customers," says Mr Wigoder. "We now have 150,000 or so customers — that is just 0.5 per cent of the market. This means that 199 out of 200 are not our customers — yet. It is

quite plausible that we could reach a stage where we will have recruited 20,000 distributors with an average of 50 customers each."

Telecom Plus has plenty of competition, but not of the integrated variety. It describes its business as the "utility warehouse". While the likes of Sainsbury and Tesco offer fixed-line and mobile telephony, few have entered the field of integrated, low-cost utilities, and not many will be able to do so cost-effectively.

Even if copycat businesses were to enter the field, Telecom Plus has first-mover advantage. Its state-of-the-art technology in billing customers and its distribution network would be hard to replicate. That is why I am tearing up all those brown envelopes with bills from my existing utilities suppliers and signing up for Telecom Plus, while also buying its shares at 310p.

COMPANY FACTFILE

Capitalisation.....	£186 million
Tangible assets.....	£7.7 million
Net debt.....	none
Price/earnings ratio.....	41.5
Dividend.....	4.5p (Interim) forecast
Yield.....	1.9 per cent (historic)
Share price.....	310p
12-month high.....	321p
12-month low.....	106½p