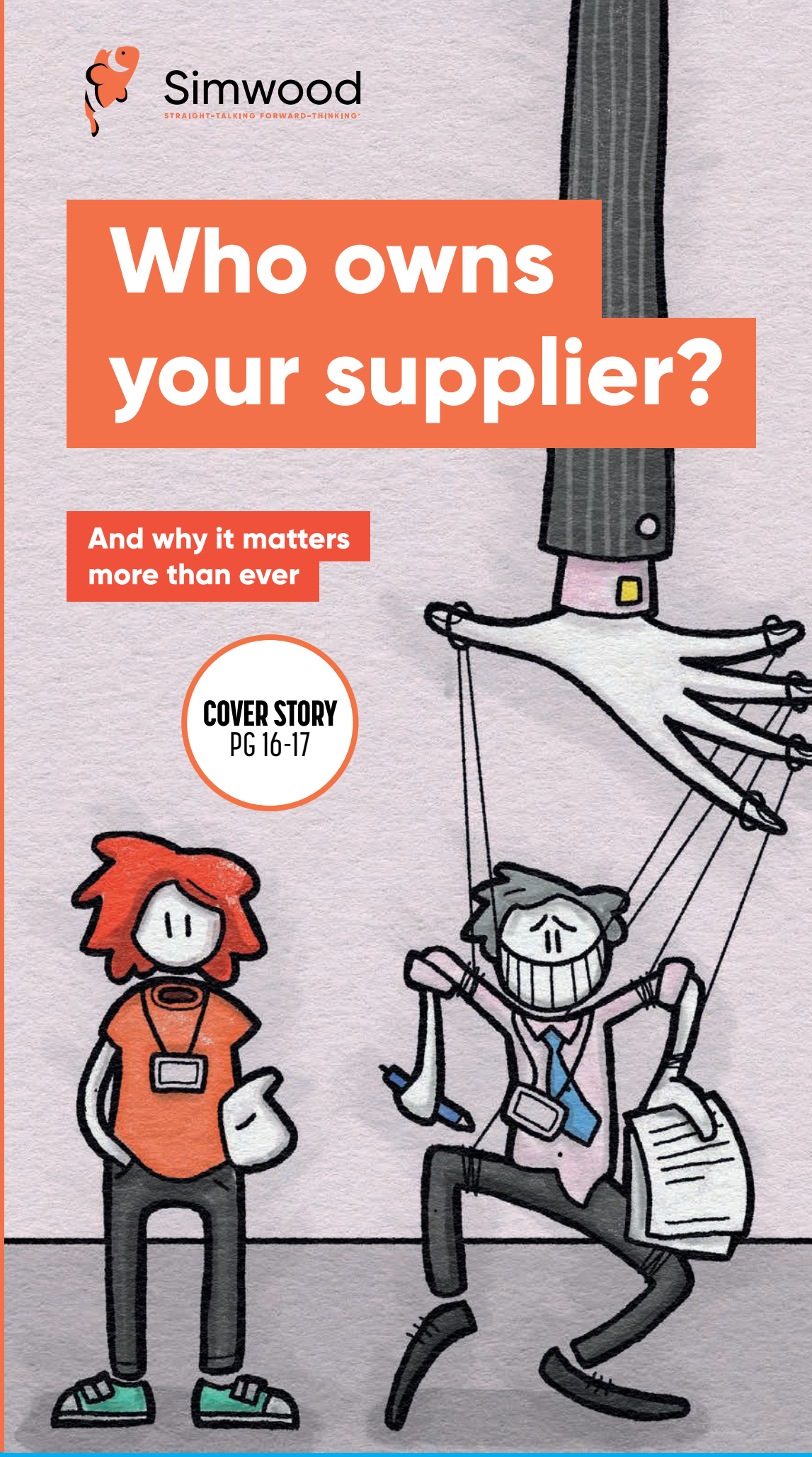
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STRAIGHT-TALKING FORWARD-THINKING

Who owns your supplier?

And why it matters more than ever

COVER STORY
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Who owns your supplier?



BY SIMON WOODHEAD
FOUNDER & CEO

You did the diligence on the product, the price and the service levels. *Simon Woodhead* argues that the thing most likely to damage your business over the next three years is the line nobody checks: who owns the company you buy from, and what they need to get out of it.

What do Phones 4u, Hawaiian Telcom and Avaya have in common? Each was owned by private equity, each carried heavy debt, and each ended up in administration or bankruptcy. Phones 4u lasted three and a half years. The High Court later recorded that the group was "quite highly leveraged". Hawaiian Telcom filed for Chapter 11 less than four years after Carlyle bought it from Verizon for $1.6bn, $425m of it equity and the rest debt. Avaya went into Chapter 11 nearly ten years after its $8.2bn buyout, reported at the time as "burdened by debt" from that deal, and filed again six years later under its lenders' ownership. Three different businesses, one shape: the cost of buying each of them ended up as debt the business itself had to carry.

Nobody in the UK channel chose their suppliers' shareholders, and almost nobody has read who they are. We check coverage, price, portal, support response, maybe the API. We do not check the capital structure above all of it, which is odd, because that is where the decisions that change your terms get made. The owner of your supplier has far more scope to ruin your business than your supplier does.

Not through malice. Through arithmetic, and the arithmetic is not complicated, however they spin it.

A fund does not buy a business in order to own it. It buys one in order to sell it again, in a few years, for more than it paid, usually having borrowed part of the price to do so. It will typically aim for a 3x return in 4-7 years so the appeal of leverage, minimising what they're actually investing themselves, is huge.

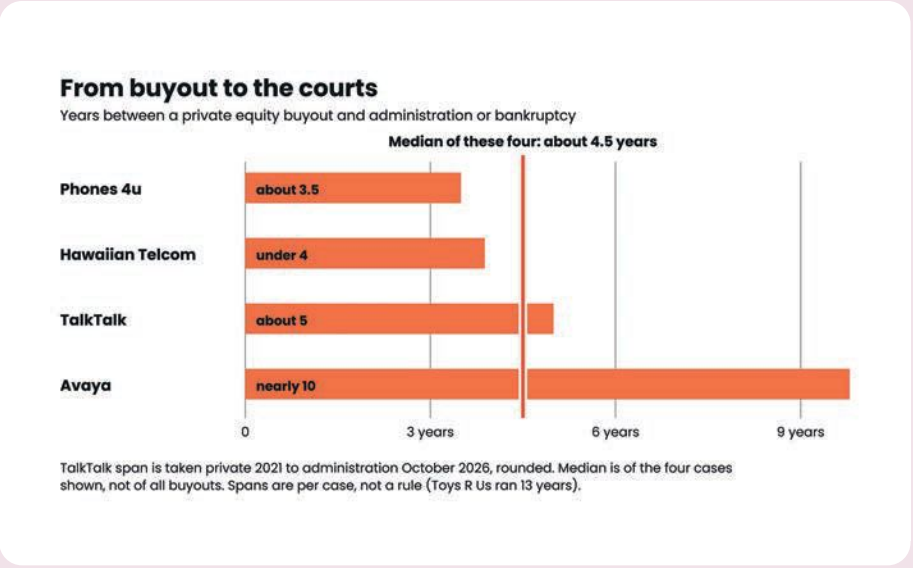
But the business has to become more valuable, obviously, and there are only three places that can come from. Price: charge the customers you already have more. Cost: spend less on serving them. Growth: win more of them, or sell them more, or maybe even convert more customers from indirect to direct. If you are a channel partner you are on the receiving end of these, because price is your margin and cost is the experience your customers get. Growth is the one you give them, as long as you're in the path to your customer. None of this requires anyone to necessarily behave badly: debt has to be serviced, a return earned, an exit prepared, and decent people inside that structure do what it requires of them.

This is not a new thing, and all the examples cited are in telecoms, but recent events have brought the question very much into focus. With so many "buy and build" operators, relying on cheap COVID-era debt in an ever more uncertain and expensive world, I've long speculated there will be more.

In September, Gamma's board recommended a cash offer from Bradbury Bidco, controlled by funds advised by Epiris, valuing the equity at a little over £1bn. That's great for them and I'm pleased for them, but what about you as a Gamma partner? The business you signed with and the business you deal with in 2029 are under no obligation to be the same business, and history shows us the probability of them being the same is vanishingly small.

At the other end of the same journey, in October, BT acquired TalkTalk Telecommunications and PlatformX Communications (PXC) out of administration. Administration is not a process anybody chooses or deserves, and there are friends and colleagues of ours in it who got that news over breakfast, which is really sad.

What finished TalkTalk, in my opinion, was the balance sheet, not the market. This was the business that unbundled more than three thousand exchanges when that was genuinely hard, then



opened them to the channel so small providers could buy what the incumbent kept for the big ones. By the end PXC reached around 98% of UK premises and served something approaching a thousand wholesale partners. It was taken private in 2021 in a deal worth about £1.1bn, and Ares, the private credit house, is reported to have put more than £380m into the group since 2024. Almost every bidder circling PXC at the end was the same kind of capital that created the problem.

TalkTalk would arguably be a better business today if private capital had never gone near it, and I no longer think that is a controversial thing to say.

Both of those stories were sold on scale: scale buys efficiency, efficiency protects the customer. But how is it then that Simwood can have an EBITDA margin of 31.6% versus a competitor more than a hundred times our size with 22%? That is not here to brag about profit. In absolute terms we're a rounding error, and a supplier waving its margin at its customers deserves to be asked why its prices are not lower. The comparison is worth making only because almost everything in it ought to run the other way.

Start with what each of us sells. About four fifths of our revenue is carrier services: numbers, interconnect, minutes and the platform underneath them. That is structurally the thinnest-margin end of this market, because it is the end where the buyer knows exactly what everything costs. Our comparator is basically inverted, with the majority of its revenue coming from the higher margin resale end of things. Then add size. We are less than a hundredth of theirs, so the fixed cost of running a national network lands on a revenue base more than a hundred times smaller.

On both counts the arithmetic should favour the larger, seat-weighted business. It does not. The margin is not coming from what we sell, because our mix works against us, so it has to be coming from what it costs us to sell it. We built the network rather than renting one, and we automate the work other people staff. That is the whole of it: efficiency.

And that, rather than the profit, is the point for you. An efficient supplier has room. An inefficient one only has the three levers from earlier in this piece, and two of them are pulled in your margin and your customers' experience. Efficiency is the one property of a supplier that protects you whoever ends up owning it, so it is worth asking about as directly as ownership.

When it comes to ownership, there's another fundamental difference. Simwood is 30 years old and owned almost entirely by the team. We raised £3,000 back in 1996 from friends and family but most of the equity I don't own has been given away to incentivise colleagues. The person answering your support ticket or building the solution for you is an owner of the business. Contrast that with someone who now answers to new PE masters who may have demands of them they're not altogether comfortable with.

I have written before about two tests for a supplier. Capability: have they already built what you need, or will you end up building it yourself while paying a company whose job it was to build it once, properly, for everybody? Alignment: does their growth depend on winning the same end customers you are chasing?

September and October have added a third, and it is now the urgent one. Who owns your supplier, what do they need out of it, and by when? A business is run for its owners. That is not cynicism, it is roughly what company law says. The business you sign with today will change substantially over the life of the contract.

So do three things this month rather than after the renewal. Read your change-of-control and termination clauses, and know today what happens to your numbers and your customers' data if you leave. Ask your largest supplier, in writing, whose network your traffic actually ends up on and who else is in the path. Then put the ownership question in the same email. A supplier who cannot answer it plainly has answered it.

Apply it to us and the answer is short. Simwood is privately owned and founder controlled, the group above us is our own, there is no fund behind it, and the people who work here hold shares and options in it. Our filed accounts record five approaches to buy the company last year, three of which became offers, from trade buyers through to private equity looking to use Simwood as a platform. We turned them all down. We concluded long ago that PE was not going to be part of our story. The people who need a return out of this business are the people answering your tickets, and what they need is for you still to be here in ten years.

See what we're building next.
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