SPOTLIGHT

Telco Mergers and Acquisitions

Strategic Backgrounds, Use Cases and Future Developments

2021

DETECON
CONSULTING

Contents

1 What is it all about?

The Detecon Spotlight "Telco Mergers and Acquisitions — Strategic Background and Industry Trends" has been observing worldwide transaction trends in the telecommunications industry for many years. As in previous years, we provide strategic insights and discuss the underlying deliberations that drove market activity in 2020.

A look back at 2020 reveals that the Covid-19 pandemic dictated the pace of the game in many regions of the world. While in the meantime Asia has begun to show signs of resurgence, Europe and North America continued their economic struggles in early 2021. Nevertheless, 2020 did not prove to be the catastrophic year for the telecommunications industry that initial expectations predicted. It is true that numerous pending deals and negotiations were suspended in early 2020, but confidence rebounced later during the year. This was particularly true for Europe, which remained a major M&A hub in 2020.
With so many jobs and school instruction shifting into the online sphere, telecommunications companies have been designated as essential to society. This is also reflected in the customer perception of telecommunications companies and increased demand for telco services. From a commercial perspective, customers are also looking at better service offerings to satisfy their needs and wishes.

In contrast to our past editions, we will now be focusing more closely on observed trends and motivations rather than on analyses of deals. Relevant deals relating to the observed trends will be highlighted. Please feel free to contact us at any time; we would be delighted to hear what topics you want to see us emphasize more in next year's edition!

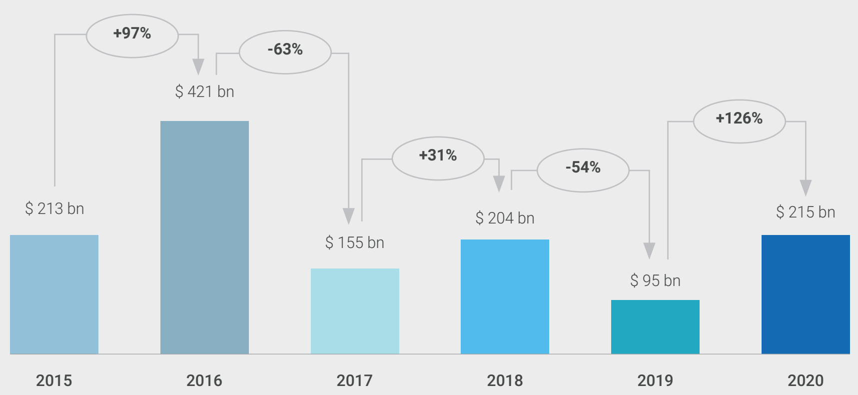
2 Overview and key findings

The year 2020 was certainly a time that none of us are likely to forget anytime soon. We are now going to look back on a year full of ups and downs and examine the M&A events that occurred in the telecommunications industry and impact they had.

As uncertainty grew in early 2020, M&A transactions were either delayed or simply canceled; businesses had their hands full ensuring business continuity and keeping their operations running. Later in the year, however, when decision-makers had adapted to the new situation and had understood shifts in consumer preferences, M&A activities began to flourish once again, as is evidenced by increased M&A activity in the latter quarters of the year. All the turmoil in the general market environment seemingly left M&A activity unscathed in 2020 (see Figure 1).

The **total number of deals** was up by nearly 25% compared to the previous year, with 239 transactions in 2020 and 191 transactions in 2019. At the same time, the **total deal value** jumped from US$ 95 billion to US$ 215 billion in 2020, which is an increase of 126% (see Figure 1).

Figure 1: Development of Deal Values 2015–2020



Source: Detecon

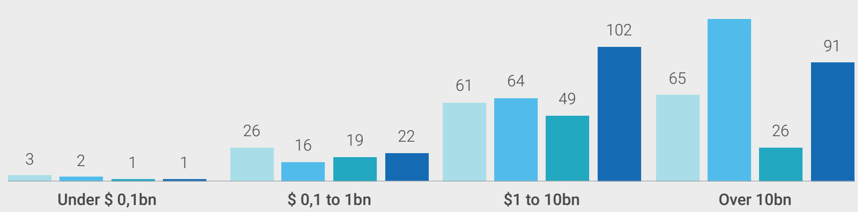
Furthermore, the **deal value structure** in 2020 deviates from that of the previous years (see Figure 2). Notably, small-value deals below US$0.1bn decreased slightly while the deals worth between US$0.1bn and US$1bn increased by 40 percent over last year; deals worth up to US$10bn experienced an even stronger rise of 70 percent.

Figure 2: Deal Number per Size Cluster 2017-2020

Source: Detecon

The number of large-scale transactions over US$10bn remained relatively stable, indicating that most of the additional transactions compared to the previous year were conducted in the midsize deal value range. However, those three large-scale transactions accounted for US$91bn in overall volume, meaning that each of them was above average in value (particularly the Nippon Telegraph-NTT DoCoMo deal and the Telefonica UK-Virgin Media deal).

Figure 3: Deal Value per Size Cluster 2017-2020



Source: Detecon

Figure 4 displays the acquirers and targets of the ten largest deals in 2020.

Figure 4: The Ten Most Significant Transactions in 2020

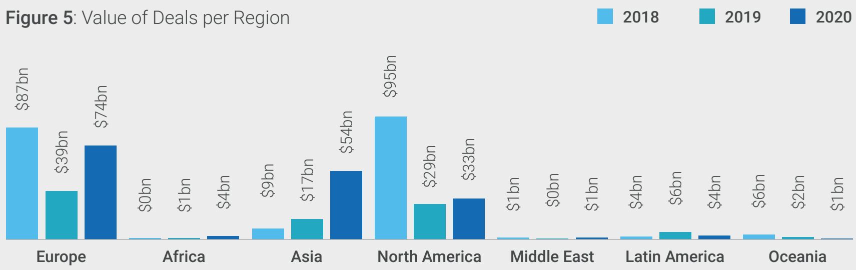
Deal	Deal Value US$m	Target	Country	Acquirer	Country	Stake acquired
1	40.346	NTT DoCoMo, Inc.	Japan	The Nippon Telegraph and Telephone Corporation (NTT)	Japan	43.8%
2	38.900	Virgin Media Limited	UK	Telefonica UK Limited	UK	100%
3	11.790	Astound Broadband LLC	USA	Cellnex Telecom S.A.	Spain	100%
4	8.495	Cogeco, Inc.	Canada	Altice USA, Inc.	USA	100%
5	8.100	Astound Broadband LLC	USA	Stonepeak Infrastructure Partners	USA	100%
6	7.429	Sunrise Communications Group AG	Switzerland	Liberty Global plc	UK	100%
7	6.900	TracFone Wireless, Inc.	UK	Verizon Communications, Inc.	USA	100%
8	5.700	Jio Platforms Limited	India	Jaadhu Holdings LLC (Facebook)	USA	9.99%
9	5.551	MásMóvil Ibercom, S.A.	Spain	KKR, Cinven, Providence	USA, UK, USA	99.3%
10	4.209	Cogeco, Inc. Canadian Assets	Canada	Rogers Communications, Inc.	Canada	100%

Source: Detecon

A detailed analysis of the **deal distribution across the globe in 2020** returns the following results (see also Figures 5 + 6):

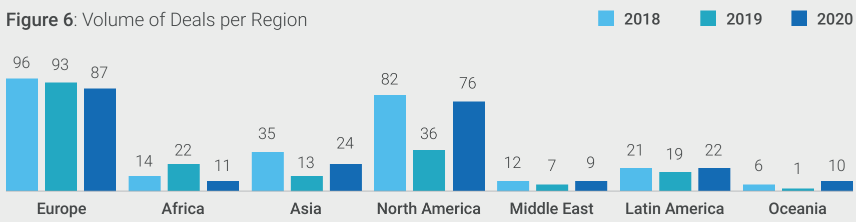
- Most deals (87) were closed in Europe, following the trend of previous years and establishing Europe as the most prominent M&A region in the telco industry. In terms of the number of deals, Europe, along with North America, outperformed all other regions combined.
- Deal values in Europe significantly increased compared to previous years, nearly doubling the amounts spent (US$74bn) over last year (US$39bn). This can partly be attributed to the Telefonica U.K.–Virgin Media deal. But even if this deal is disregarded, activity on the European market still reached a very high level.
- In the USA, the number of deals (76) was more than double the figure of the year before (36). However, total deal values (US$33bn) stagnated, evidencing the smaller size of acquisitions in comparison with other regions.
- Notably, Asia experienced a significant increase in deal values (US$54bn), a surge of 317 percent (over the previous US$17bn). However, deal numbers (24) stayed relatively stable, similar to previous years (13), indicating a significantly higher value for each deal. It is essential to point out that the NTT-DoCoMo deal was a substantial driver for this jump.
- M&A activity in the Middle East, Latin America, and Canada stayed stable over the previous year; only Oceania experienced more than a slight increase in the number of deals.

Figure 5: Value of Deals per Region



Source: Detecon

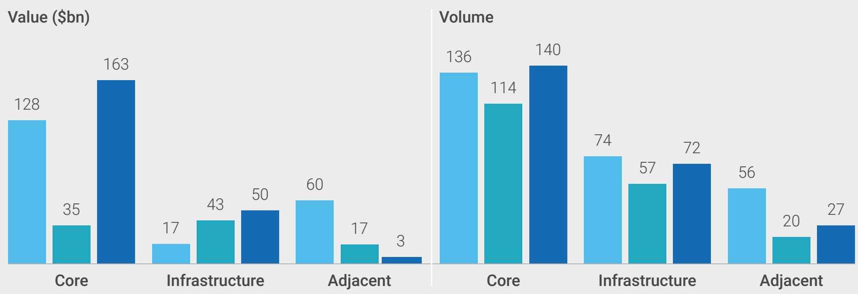
Figure 6: Volume of Deals per Region



Source: Detecon

The topic of **5G still hangs over telecommunications providers**, significantly influencing their investments in different sectors and leading to a vertical consolidation of the market. Notably, both the number of deals (72) and total deal value (US$50bn) for **infrastructure** (towers, data centers, fiber optic, and spectrum) increased slightly, indicating that there is still demand for more basic technologies and accounting for 30 percent of all announced transactions. Furthermore, declining investments (US$3bn from 27 deals) in **adjacent industries** and services (internet, satellite, technology, and media) were observed, a development that was accompanied by a significant increase of transactions (US$163bn from 140 deals) featuring companies that support telcos in strengthening their **core business** (multiplay, mobile, and wireline). Looking at these numbers, we again notice high deal values stemming from only a few high-profile deals. However, the number of deals also indicates that this is not just a one-time effect; instead, it is related to the consolidation on markets and a focus on cleaning up balance sheets to increase revenue and profits for the imminent and necessary infrastructure investments. These deals account for 58 percent of all announced transactions.

Figure 7: Value & Volume of Deals per sector



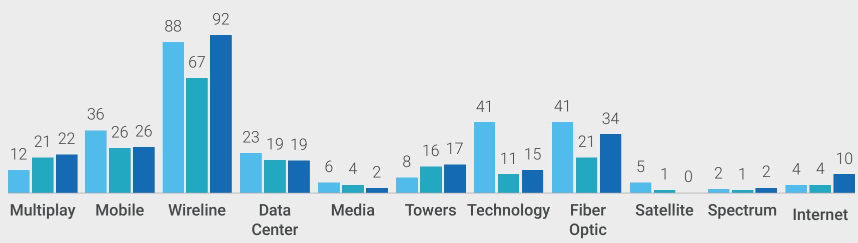
Source: Detecon

Looking at Europe, we observe that out of the 87 deals that were concluded, 57 were driven by investments in core business (41 wireline, seven mobile, and nine multiplay). This is in stark contrast to what was happening on the other side of the Atlantic. North American telcos focused more on strictly infrastructure investments (13 data centers, one tower, and 18 fiber optic), which accounted for 32 of the total 76 announced deals.

A more in-depth look into the different sectors (see Figures 8 + 9) shows us that the greatest attention was paid to wireline companies, with Europe accounting for nearly half of all wireline deals worldwide (41/92). However, deal values in wireline transactions remain low (US$25bn), reflecting the underlying technology's overall maturity (copper cables) compared to more future-oriented technologies such as optic fiber. In terms of deal values, multiplay (US$77bn) and mobile (US$61bn) transactions experienced a significant upturn and were driven by higher deal volume, deal numbers remaining stable compared to the previous years.

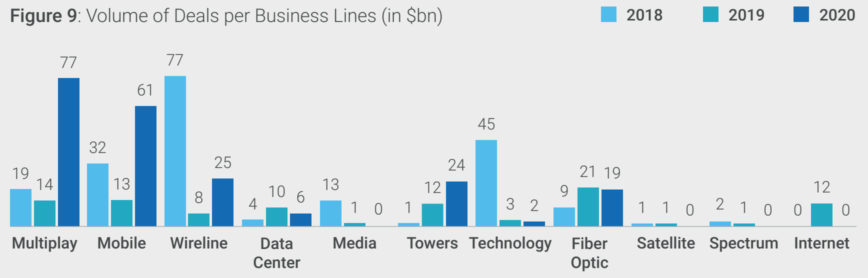
Furthermore, optic fiber experienced steady growth over the previous year (32 transactions worth US$19bn), which is in line with the last several years and highlights the rising importance of this technology for the creation of gigabit societies. Another noteworthy point is the decrease in media company investments, which came to a nearly complete halt, as was also true of other adjacent industry transactions such as technology, satellite, and internet.

Figure 8: Volume of Deals per sector



Source: Detecon

Figure 9: Volume of Deals per Business Lines (in $bn)



Source: Detecon

Ultimately, the data from 2020 reveal that, **despite the economic downturn, the telco M&A markets experienced a comparatively active year**. Based on our data, we were able to determine three prevailing trends:

- Telcos focused more on **investments in their core business** while devoting fewer investments to adjacent industries
- Europe was the regional **M&A hotspot**
- **Infrastructure transactions** are still key for telcos in view of 5G rollouts

We will delve more deeply into these trends in Chapter 3.

The conduct of M&A projects became an enormous challenge in 2020 as some segments of the M&A deal cycle moved into the virtual sphere. Due diligence and deal closings were particularly difficult to deliver in a fully remote setting in which aspects such as relationship building were given rather short shrift.

Overall, telecommunications companies had a great year in 2020 in comparison with many other industries, and the difficult circumstances underscored once again the importance of the industry. As the people in most white-collar jobs and education began adapting remote working methods during the COVID pandemic in 2020, society as a whole realized the essential nature of telecommunications companies and their services. Customers started to perceive the telecom industry as indispensable for their daily lives.

As more and more people found their work and social lives confined to the space within their own four walls, the subsequent increases in digital services such as video conferencing and streaming, virtual private networks, file-sharing, cloud-based applications, and other applications put significant pressure on operators' networks. And yet these surges in demands for connectivity services, particularly in early 2020, did not lead to any major outages and the industry's networks have been able to deliver.

3 Observed trends in 2020

Drawing on the available deal data from 2020 and overall M&A activity, we observed three key trends in 2020:

1. **Focus on (telco) core business**
2. **Stable infrastructure investments**
3. **Europe as an M&A hotspot**

Although we have directed increased attention to infrastructure topics and to a European focus on M&A activities in earlier editions, our concentration on the telco core business may come as something of a surprise to some readers. Find out more about the background, the reasoning, and the implications in our deep dives.

3.1 Trend 1 – Focus on (telco) core business

Owing to the spread of COVID-19 and its implications for society as a whole, delivering faster speeds, greater coverage, and fundamentally enabling many aspects of everyday life have become more important for telcos than ever before. The worldwide pandemic heavily impacts every sector and has led to unprecedented measures, by both governments and businesses, as they try to limit the spread of the virus by imposing travel restrictions and creating the necessary conditions for remote work. As people began spending more time working from home while still consuming data for leisure purposes, network traffic increased immediately and significantly across all application types[1] Refocusing on a telco's strong core businesses, the provisioning of mobile, fixed line and reliable broadband, became a significant trend in 2020.

In recent years, telco operators have experienced a highly dynamic market, an increasing number of competitors because of the repeated lowering of entry barriers, and, most recently, the unpredictable effects of the global pandemic. Besides the internal challenges such as the high costs of 5G licenses in conunction with the uncertainty regarding the viability of 5G monetization, high unit costs per GB, or the lack of capital for M&A, external threats such as the erosion of core margins for voice services and TV (for instance) from OTT operations, the pressure on wholesale business, or new regulations requiring capital expenditures have given rise to a critical situation for telcos.[2] Seeking to balance slow organic revenue growth caused by declining ARPUs due to competition and declining wireline voice revenues, telcos are striving to realize expanded capacity and coverage while safeguarding their customer relationships. This has prompted them to refocus on core business and the consolidation of wireline and mobile segments.[3]

Quantitative analysis of the M&A deal volume in 2020 proves that this trend is particularly relevant.[4] The industry segment "core telco" consisting of the sub-categories multiplay, mobile, and wireline adds up to a deal value of US$163bn and a total deal volume of 140 transactions in 2020. This is clearly in stark contrast to our other trends Stable Infrastructure Investments (72 deals) and Europe as M&A Hotspot (87 deals) and puts the "Focus on Core Business" trend in the uncontested lead position.

The four most striking core business deals in 2020 were NTT Group and NTT DoCoMo (US$40.35bn); Telefónica UK (O2 UK) and Virgin Media Limited (US$38.9bn); Stonepeak Infrastructure Partners and Astound Broadband LLC (US$8.1bn); and KKR, Cinven, Providence and MásMóvil Ibercom (US$5.55bn):

The Japanese Nippon Telegraph & Telephone (NTT) operator acquired its mobile unit **NTT DoCoMo** in Q4 for US$40.35bn so that it would be able to compete in the constantly escalating price war and efficiently distribute costs for the 5G network rollout. NTT DoCoMo is Japan's largest mobile company with over 80.61 million customers across the country and accounts for 55 percent of NTT Group's annual operating profits. NTT Group is the leading telecommunications provider in Japan, operating domestically as well as internationally and cultivating its customer base and expertise in communication networks and ICT over decades.[5] NTT's move is fueled by rising government pressure for more aggressive price cuts on mobile fees and intended "to eliminate so-called parent-child pairs of listed companies seen as potentially abusive to minority shareholders." [6]

Another noteworthy deal is the joint venture between **Telefónica UK (O2 UK)** and **Virgin Media Limited** for US$38.9bn. This deal has attracted a lot of attention from market and regulatory authorities and triggered in-depth investigations because it creates a significant new power on the British telecommunications market. The deal was cleared in April 2021 by the Competition and Markets Authority as "a thorough analysis […] has shown that the deal is unlikely to lead to higher prices or a reduced quality of mobile services."[7] Telefónica UK (O2 UK) is a British mobile network operator owned by the Spanish telco Telefónica S.A. and is the second-largest mobile operator in the United Kingdom. Virgin Media is a subsidiary of Liberty Global, a large international TV and broadband company, and operates in the UK and Ireland as a provider of broadband, TV, mobile, and fixed services. The parent companies agreed to merge their British business units as a means of enhancing their ability to compete against market leader British Telecom in mobile and broadband services.[8]

In Q4, **Stonepeak Infrastructure Partners** announced that it had entered into a definitive agreement to acquire **Astound Broadband**, the sixth-largest US cable operator. Stonepeak is acquiring Astound from TPG Capital and Patriot Media Management for the sum of US$8.1bn. Astound provides internet, broadband communications solutions, phone services, digital TV, and fiber infrastructure. Stonepeak is an active investor in North American digital infrastructure with investments in data centers and in fiber optic and wireless services and has further noted that the move highlights its interest in delivering high-speed data services and creating the premier internet experience on their markets.

The fourth notable M&A deal not only underscores the trend "Focus on Core Business," but highlights as well another secondary trend: high investments by private equity firms who have noticed the steady performance and importance of telco operations during the pandemic. The consortium of three private equity and global investment firms, **KKR, Cinven, and Providence**, acquired the Spanish **MásMóvil Ibercom** for US$5.55bn to create added value on the Spanish telecommunications market. Moreover, the acquisition endows MásMóvil with the capital it requires to strengthen its investment strategy and position on the market against its rivals. MásMóvil is the fourth-largest telecommunications operator in Spain, providing mobile, fixed and broadband services. KKR is a global investment firm based in New York City, and Cinven is a private equity firm based in London; Providence Equity Partners, which is domiciled in Providence, Rhode Island, USA, also focuses on private equity investments, especially in the Spanish telecommunications sector.[9]

As previously mentioned, reliable and innovative telco services are in the public eye more than ever before. The pandemic has accelerated digital transformation in every sector, and telecommunications companies are expected to make it happen. Besides the pandemic, factors such as price wars, emerging competitors, and new regulations are forcing telcos to boost their capabilities by pursuing core business deals.

While M&A deals that facilitate scaling an operator's business and enable revenue-based synergy gained traction in 2020, the same cannot be said for deals that take the company on a new trajectory. A year before, in 2019, many telcos continually participated in smaller acquisitions to gain new skills or to enter an adjacent market (this was elucidated in the M&A Spotlight of 2019). Even if investments in adjacent industries or portfolio diversification do not generate especially large deal values, the volume of these activities remains relevant as telecommunications companies seek to broaden the scope of their portfolios. This is further accelerated by the growing number of people working from home that paves the way for these new offerings.[10]

Leveraging acquired capabilities and adding them to their core business will remain relevant for telcos in the near future if they are to compete effectively and be among the winners in the fast-moving telecommunications industry. Moreover, core telco services have attracted investment firms that view these investments as an attractive opportunity. Investment firms benefit from a range of growth opportunities available for the business, and they can pursue more aggressive investment strategies than public or semi-public operators. Telcos not pursuing M&A deals that hold the prospect of revenue-based synergy risk missing out on the ultimate round of industry consolidation or, even worse, might become a tempting target for another firm's acquisition.[11]

3.2 Trend 2 – stable infrastructure investments

As pointed out in our previous Detecon Telco M&A spotlights, infrastructure M&A remains a strong driving force in the world of telco M&A.

The telecom infrastructure market is generally characterized by high barriers to entry comprising significant capital requirements, regulatory intervention, and longevity as leases often span decades.

Growing demand for data services can, in the short to middle term, be addressed solely by expanding capacity and coverage that in turn leads to rising demand for cell sites and optic fiber deployment and the subsequent massive increases in network costs. Owing to declines in their traditional revenue streams, price pressure, and increased competition, however, telecommunications companies are unable to bear the costs for massive infrastructure investments alone.

Telecommunications operators utilize a service-based business model that is in stark contrast to infrastructure-centered models with lifecycles exceeding 20 years. Paired with high CAPEX linked to infrastructure development, there is little incentive for operators to develop actively networks themselves. The disparity between short and long business life cycles favors a structural separation of the business models, so operators look to monetize their infrastructure assets. Moreover, digital infrastructure assets are valued at enterprise value/EBITDA valuation multiples that are about three times higher than the multiples of the integrated operator.

2020 was an active year in the sphere of telco infrastructure M&A with large-ticket deal announcements.

Most notably, Cellnex announced in November its acquisition of 24,600 tower sites from CK Hutchison for its portfolio at a total price of €10bn (€8.6bn in cash and €1.4bn in new shares). The deal also includes proposals for rollouts of up to 5,250 sites over the next 8 years.[12] The transaction will allow Cellnex to enter three new markets (Austria, Denmark, and Sweden) and strengthen its foothold on existing ones (Ireland, Italy, UK). After the conclusion of the deal, Cellnex' portfolio will count slightly more than 100,000 global tower sites and solidify Cellnex' position as Europe's largest towerco.

Although in 2021 rather than in 2020, American Tower has made public an agreement with Telefónica to acquire Telefónica's Telxius Towers and its 31,000 communication sites in Germany, Spain, Brazil, Chile, Peru, and Argentina.[13] The total transaction value is stated at around €7.7bn, catapulting American Tower into one of Europe's top five towercos. In Latin America, American Tower is looking at strengthening its position on four current markets. For Telefónica, the deal presents a great opportunity to reduce debt (an initial endeavour was halted by the Competition Directorate of the EU Commission in 2016 when Telefónica tried to sell O2 to Hutchison in the UK) and to focus on other strategic initiatives.

In the optic fiber sphere, EQT Infrastructure and OMERS announced in February the acquisition of Deutsche Glasfaser, the fastest-growing provider of gigabit internet connections in Germany, from KKR for a total of more than €2.5bn.[14] Deutsche Glasfaser provides fiber-to-the-home (FTTH) service to more than 600,000 households and 5,000 businesses. The company will be combined with EQT's portfolio company inexio to form a leading FTTH player in rural Germany. EQT Infrastructure will hold 51 percent in the combined group while OMERS will own 49 percent. According to the announcement, the group is committed to investing more than €7bn in the rollout of high-speed internet infrastructure in Germany over the next several years.

For operators, selling infrastructure to independent or semi-independent entities frees up much-needed capital required for other initiatives that better suit their service-based business models. Instead of pouring funds into upgrading their last-mile access, they can focus on their core networks or tap into new service offerings.

For investors, infrastructure assets are interesting as they are able to generate stable and robust cash flows from long-term leasing agreements. Entities separate from MNOs (think infra-, fiber- and towercos) may also be better suited to drive network sharing and planning with easier access to public funds. While the average tenancy ratio of MNO-captive telecom towers worldwide is around 1.1, this figure stands at almost 2.0 for independent towercos.[15]
In a captive environment, towers and other infrastructure assets are cost centers on an MNO's balance sheet while for a dedicated infraco they are profit centers that become long-term sources of recurring revenue from multiple tenants.

Apart from asset sales, however, telcos may very well be interested in capturing growth in the infrastructure sphere — either by finding themselves in the driving seat in operator-led infracos or by retaining smaller stakes in infracos. Momentum in this sphere remains strong, and we remain optimistic regarding further business opportunities and M&A activity.

3.3 Trend 3 – Europe as an M&A hotspot

In 2020, Europe was once again the focus area for M&A transactions, followed by the USA and Latin America. In this chapter, we will offer further insights into deal dynamics, focus areas, and market trends in 2020 as well as indications for 2021. M&A activity across the European Union was particularly noteworthy in the areas of regulatory, wireline, and fiber optics.

In May 2020, the European Court of Justice sent a huge signal to the telecommunications industry. The justices annulled the previous decision of the European Commission and its competition authority to block the merger of the operators O2 and Three (deal volume US$13.5bn).[16] The ruling issued in 2016 had failed to prove that such mergers would be detrimental to competition in Europe.[17] The decision handed down in May 2020 opened the door for companies to reconsider M&A activities in the European market. The merger between Telefónica's mobile company O2 UK and Virgin Media can be mentioned as one example. With the successful merger, the two companies created one of the UK's largest entertainment and telecoms firms (deal volume US$39bn).[18]

Besides the ruling of the European Court of Justice, there is a second driver that mirrors the strong growth of wireline deals in Europe. Almost half of 2020's global wireline deals were transacted on the European continent. The European Telecommunications Network Operators' Association (etno) points to the operators' striving for consolidation as the main indicator for deal activities. Compared to other countries, the European market is highly fragmented, featuring 47 primary MNOs in contrast to 7 in the USA and 3 in South Korea and Japan; in these circumstances, reaping the benefits from economies of scale becomes a substantial challenge.[19]

Besides wireline deals, dynamics in the sector of fiber optics are a third area for M&A activity in Europe. As the 5G spectrum auctions are being held, European governments are strongly pushing and supporting 5G rollouts as well as optic fiber deployments.[20] In 2020, Germany was one of the most attractive growth markets for optic fiber in Europe, certainly owing in no small part to increased attention from government officials. The German government has set the goal of building a nationwide gigabit network offering high growth potential for German optic fiber companies like Deutsche Glasfaser,[21] which was itself involved in one of Europe's biggest deals in 2020. Omers and EQT Infrastructure acquired Deutsche Glasfaser for €2.5bn from KKR.

For 2021, the European market appears to have become a less uncertain environment for investors now that Brexit has become fact. Consequently, an increase in European M&A activities can be expected. For example, the UK's four MNOs (EE, O2, Three, and Vodafone) have agreed to set up a shared rural network (SRN) to increase the UK's 4G network coverage to 95 percent by 2025.[22] In view of this and other strategic decisions, we expect M&A growth in optic fiber and equipment.

On the other side of the Atlantic, data center deals are gaining traction. In 2020, the US recorded above-average growth in the data center sector and was responsible for nearly three-quarters of the global M&A activity in that segment. The increasing demand for data center capacities by private and corporate users was the main force behind the strong growth of deals in this area. Seeking to cut the costs incurred by the use of on-premises solutions, corporate users are increasingly shifting their operations to cloud-based services. As the amount of generated data rises, large data center operators are looking for solutions that will expand their footprint and ensure competitiveness.[23] The investments by Equinix and EQT Infrastructure illustrate that acquisitions continue to be one of the most effective ways to achieve these goals. Equinix expanded its footprint in Canada through the purchase of 13 data center sites (US$750m) from BCE Inc. (Bell).[24] The acquisition of EdgeConneX Inc. brought into the fold of EQT Infrastructure a leading data center provider with a global footprint. The purchase of 40 facilities on 33 markets across North America, Europe, and South America and serving fast-growing hyperscale and edge ecosystems had an estimated value of US$2.5bn.[25]

3.4 Excursus on OpenRAN

Interestingly enough, direct acquisitions or mergers are not the only options that telecommunications companies are considering. They are giving increasing thought to alternatives such as partnerships, minority stakes (“try before you buy”), or the establishment of joint ventures. Particularly partnerships and the creation of partner ecosystems play a vital role in how market players will act in the future. One such example is the topic of OpenRAN (Open Radio Access Network) which stepped up the pace in 2020. As they maneuver along the journey towards 5G and deal with the related growth of data traffic and elevated levels of service requirements, today’s network operators have started to rethink their operating models. Seeking to define new ways of deploying their networks and reducing the cost of infrastructure equipment and network operations, they are exploring opportunities within the OpenRAN space. The O-RAN Alliance is pursuing the objective of transforming the radio access networks industry in the direction of open, intelligent, virtualized, and fully interoperable RAN solutions.[26] OpenRAN has massive implications for mobile networks as operators would be able to opt into different software and hardware from various vendors as opposed to being locked into proprietary technology and solutions. The “fairly” new Japanese operator Rakuten is one of the front runners, focusing on a new OpenRAN strategy to unlock the traditional supply chain that may ultimately also benefit smaller vendors, system integrators, and application developers. Thanks to the disaggregation of software and hardware and the modularization of network functions, the concepts of existing infrastructure vendors like Ericsson, Huawei, Nokia, Samsung, and ZTE are running into challenges. Looking back at 2020, we see many operators across the globe starting to take a closer look at OpenRAN as an addition to their 5G rollouts. In view of current developments on the market and the verification of OpenRAN strategies by operators, we will be keen to follow events as they unfold and expect added traction in the near future.

4 Outlook

While operators have lost roaming revenues because of travel bans and a general decline in travel, they are still in a comfortable position as businesses increasingly realize that fully remote or hybrid ways of working can be and are effective. An increased focus on these remote or hybrid ways of working are expected to remain in place even after the lifting of lockdowns and the easing of tensions in the overall situation. This will in turn likely result in steady demand for telecommunications services. Sustained demand will be supplemented as end customers start to perceive greater value in improved products and services. In an industry characterized by price competition, consumers are looking more and more closely at other factors such as resilience and reliability. And they are willing to pay more for better service.

The Covid-19 pandemic has accelerated disruptive trends and kick-started discussions about strategic options and future business models in (virtual) executive conference rooms. Decision-makers are proactively looking at ways to increase business scope, to consolidate portfolios, and to stake out the best position for their companies in the future. From an M&A perspective, the solid performance of telecommunications companies has attracted the interest of investment organizations, and we expect this to continue in the near future. M&A dynamics in the industry may be shaken up by investment organizations and private equity investors pushing onto the market. Operators will increasingly find themselves in discussions with exactly these organizations in the future.

In Europe, mobile operators will continue to face the same familiar challenges such as rising capital requirements for spectrum, ongoing 5G deployments (including optic fiber deployment for converged players), saturated and highly competitive retail markets, and additional pressure on financials resulting mainly from the Covid-19 pandemic. In response to these circumstances, further in-market consolidation will become increasingly interesting for operators.[27] Furthermore, large telcos are expected to continue their divestment of cell towers and data centers with the aims of strengthening their balance sheets and focusing on their core business: the provision of high-quality services to their customers.

In North America, we expect the push for data center investments to continue in 2021. Main indicators are the growing demand of private households for online entertainment and fast streaming solutions as well as the rising popularity of topics such as IoT or 5G networks for corporate users.

In Asia, many countries have handled the pandemic and its economic implications well. As restrictions are lifted and travel resumes, we expect a strong rebound in deal numbers after a troublesome year while waiting in suspense to see whether the 2020 surge of deal values will persist in 2021.
Overall, we remain optimistic on M&A activities in the medium to long term across various areas:

- Further divestment of cell towers and data centers by operators carrying heavy debt
- Divestment of other non-strategic assets by telecom players
- Push of private equity players into the telecoms industry
- Consolidation of smaller ISPs and wireline companies
- Smaller acquisitions across SDN/NFV and cloud computing

5 The authors

Björn Menden is Managing Partner, Head of Region Middle East and Africa, and Global Chapter Lead Digital Operations & Performance at Detecon. He advises telecommunications companies on different markets all over the world on strategic and organizational topics.

Sasha Wakounig is Senior Consultant at Detecon and supports clients in their transformation and restructuring journeys, focusing on strategic and organizational topics, operating models, and processes.

Christopher Wörndle is Senior Consultant at Detecon and advises IT and telecommunications companies in Europe, North America, and the Middle East on organizational, process, and transformation topics.

Kim Lea Gertkemper is Consultant at Detecon and advises clients from the telco industry on strategic and organizational topics such as digital maturity, their transformation journey, and skills assessment.

Tim Vogel is Senior Consultant at Detecon whose focus is on strategy and finance. He supports clients in the IT and telecommunications industry throughout Europe and the Middle East during their digital transformation.

6 The Company

Creating Future Business

Detecon is the leading, globally operating technology management consulting company with headquarters in Germany, which has been combining classic management consulting with high technological competence for over 40 years. The focus of its activities is on digital transformation: Detecon supports companies from all areas of business to adapt their business models and operational processes to the competitive conditions and customer requirements of the digitalized, globalized economy with state-of-the-art communication and information technology. Detecon's expertise bundles the knowledge from the successful conclusion of management and ICT consulting projects in over 160 countries.

Detecon is a subsidiary of T-Systems International, one of the world's leading vendor independent providers of digital services and subsidiary of Deutsche Telekom.

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7 Footnotes

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