Mobile operator consolidation in Europe

Less is more?

Fact based analysis
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Questions

Did the consolidation...

1. ...increase revenues?
2. ...increase EBITDA?
3. ...decrease subscriber acquisition/retention costs?
4. ...slow down subscription growth?
5. ...decrease customer churn?
6. ...decrease CAPEX?
7. ...slow down mobile data traffic growth?

Yes
on most indicators would suggest market competition has been hurt

For 3 of the 4 studied markets, short time has elapsed since the consolidation
If there is an interest, we might keep this set updated, though
Austria
Background
Austrian consolidation

• 2 February 2012
  • 3 reached an agreement with Mid Europa Partners (65%) and Orange Group (35%) to buy Orange Austria for 1.3 BEUR
  • Orange’s subbrand Yesss! including certain spectrum and network assets to be sold to Telekom Austria for 0.39 BEUR

• 12 December 2012
  • The European Commission approves the take-over
    • With the conditions that 3 should offer network access to MVNOs on very competitive terms and assist a new potential MNO with national roaming and site co-location

• 3 January 2013
  • 3 closes the acquisition of Orange Austria
...increase revenues? (1) ✗

Mobile service revenue didn’t increase after the consolidation.
For a more complete revenue comparison, see next page.

3 operators
A1 mobile service
T-Mobile service
3 service

4 operators

3 reports every half year and half year figures have here been turned into quarterly figures by dividing by 2.
3 didn’t report service revenue before 1H 2013.
Neither A1’s integrated nor T-Mobile’s or 3’s total mobile revenues increased after the consolidation.
A1’s integrated EBITDA hasn’t increased after the consolidation, but T-Mobile and especially 3 have seen a positive development. See margin in next page.

3 reports every half year and half year figures have here been turned into quarterly figures by dividing by 2.

A1 doesn’t report mobile EBITDA.
A1’s integrated EBITDA margin hasn’t increased after the consolidation, but T-Mobile and especially 3 have seen a positive development.

3 reports every half year and half year figures have here been turned into quarterly figures by dividing by 2. A1 doesn’t report mobile EBITDA.
...decrease SAC/SRC? (1) ✓

A1’s total spend on both SAC and SRC decreased significantly after the consolidation – 3’s customer acquisition costs in slow decline

See unit SAC/SRC in next page

3 reports every half year and half year figures have here been turned into quarterly figures by dividing by 2.

Q3 and Q4 2012 values are full year 2012 values divided by 4 since 1H 2012 not reported.

T-Mobile doesn’t report total SAC/SRC.
3...decrease SAC/SRC? (2) ✓

A1’s SAC and SRC per acquired/retained customer both decreased significantly after the consolidation – after an initial peak, T-Mobile’s SAC/SRC is also in decline.

3 doesn’t report unit SAC/SRC
A1 appears to have lost many of the Yesss! customers and has difficulties holding onto postpaid customers. 3 growing, but mainly in prepaid.

3 reports every half year.
Austria has a very low churn overall and the consolidation hasn’t decreased it further. Yesss! and Orange both increased churn for its new owners.

Churn peaks due to tariff changes to existing base, granting customers the right to churn.

3 reports every half year and half year figures have here been turned into quarterly figures by dividing by 2. 3 doesn’t report total/blended churn.
A1’s integrated CAPEX has gone down – T-Mobile’s is flat whereas 3’s CAPEX increased.
...slow down data traffic growth?

The total Austrian mobile data traffic continues to grow more or less linearly.

None of the Austrian operators report mobile data traffic.

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Questions
Austria

Did the consolidation...

1. ...increase revenues? ✗
2. ...increase EBITDA? ✓
3. ...decrease subscriber acquisition/retention costs? ✓
4. ...slow down subscription growth? ✓
5. ...decrease customer churn? ✗
6. ...decrease CAPEX? ✗
7. ...slow down mobile data traffic growth? ✗

3 of 7 indicators suggest that market competition has been hurt.
Ireland 🇮🇪
Background
Irish consolidation

• 24 June 2013
  • 3 reached an agreement with Telefónica to buy O2 Ireland for 0.78 BEUR

• 28 May 2014
  • The European Commission approves the acquisition
    • With the conditions that 3 should provide network capacity and MVNO services to two MVNOs and offer Eircom Meteor to continue its network sharing with O2 on improved terms with the merged network

• 15 July 2014
  • O2 Ireland consolidated into 3 Ireland
...increase revenues? ✗

Mobile (service) revenue didn’t increase after the consolidation. Vodafone and O2 has/had fixed customers but mobile is totally dominating.

3 reports every half year and half year figures have here been turned into quarterly figures by dividing by 2. 3 didn’t report service revenue before 1H 2013.
3’s EBITDA has increased more than O2’s contribution and Meteor’s EBITDA has had a positive development after the consolidation. See margin in next page.
...increase EBITDA? (2) ✓

3’s margin has increased to O2’s level after the consolidation and Meteor’s continues to increase.

Vodafone doesn’t report EBITDA for Ireland.
3’s total customer acquisition costs increased after the consolidation with its natural given expansion of business size.

Since O2 didn’t report SAC/SRC, it can’t be said if 3’s new value is higher or lower than the sum of the two companies.

None of the operators report unit SAC/SRC.

3 reports every half year and half year figures have here been turned into quarterly figures by dividing by 2. Q3 and Q4 2012 values are full year 2012 values divided by 4 since 1H 2012 not reported.

Vodafone, O2, Meteor don’t report total SAC/SRC.
Vodafone and Meteor have both continued to grow postpaid base after the consolidation. Vodafone continuing losing total customers when prepaid declines.

3 reports every half year.
...decrease customer churn? ✗

Meteors churn might have developed favourably after the consolidation, but too early to say.

O2 increased churn for its new owner, 3.

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3 reports every half year and half year figures have here been turned into quarterly figures by dividing by 2.

3 does not report total/blended or prepaid churn.

Vodafone, O2 don't report churn for Ireland.
3’s CAPEX increased already ahead of consolidation and is higher than the previous sum of O2+3. Most of eircom’s integrated CAPEX is related to fixed networks.

3 reports every half year and their year figures have here been turned into quarterly figures by dividing by 2. Eircom Meteor doesn’t report mobile CAPEX. Vodafone doesn’t report CAPEX for Ireland.
7 ...slow down data traffic growth? ×

The total Irish mobile data traffic continues to grow – even faster after the consolidation.
Questions
Ireland
Did the consolidation...

1. ...increase revenues? ✗
2. ...increase EBITDA? ✓
3. ...decrease subscriber acquisition/retention costs? ?
4. ...slow down subscription growth? ✗
5. ...decrease customer churn? ✗
6. ...decrease CAPEX? ✗
7. ...slow down mobile data traffic growth? ✗

1 of 7 indicators suggests that market competition has been hurt

Preliminary: Too short time has elapsed since the consolidation
Germany
Background
German consolidation

• 23 July 2013
  • Telefónica (O2) reached an agreement with KPN to buy E-plus for 5,0 BEUR and 17,6% of the new combined company

• 2 July 2014
  • The European Commission approves the acquisition
    • With the conditions that Telefónica commits to sell up to 30% of the merged company’s network capacity to up to three MVNOs at fixed payments and commits to sell spectrum to a new MNO entrant (or to those MVNOs)

• 1 October 2014
  • Telefónica consolidates E-plus
...increase revenues? (1) ×

Mobile service revenue didn’t immediately increase after the consolidation

For a more complete revenue comparison, see next page
Vodafone reports total revenues every half year and half year figures have here been turned into quarterly figures by dividing by 2.

Service revenues are reported every quarter.

Mobile service revenue didn’t immediately increase after the consolidation.
Telekom’s integrated EBITDA increased after the consolidation, but a weak Q4 is typical for Telekom – O2 not yet at an EBITDA matching the sum of O2 and E-plus before consolidation.

See margin in next page.

Vodafone reports total EBITDA every half year and half year figures have here been turned into quarterly figures by dividing by 2. Exchange rate differences between GBP and EUR explain why two sequential quarters don't get the same value.
2. ...increase EBITDA? (2) ×

Telekom’s integrated EBITDA margin increased after the consolidation, but a weak Q4 is typical for Telekom – O2 has not yet seen any positive impact of E-plus on its margin.

Vodafone reports total EBITDA every half year and half year figures have here been turned into quarterly figures by dividing by 2. Exchange rate differences between GBP and EUR explain why two sequential quarters don’t get the same value.
Telekom’s decrease in SRC can be seasonal. With just one operator reporting SAC/SRC, it’s not possible to conclude on the development after the consolidation.

Vodafone and O2 don’t report total or unit SAC/SRC. Telekom and E-plus don’t report total SAC/SRC.
No immediate indication of that Germany’s postpaid driven subscription growth has slowed down after the consolidation. O2’s total subscription number not as high as before the consolidation: Clean-up in base.
Telekom and O2’s total churn in Q4 was higher than usual, but Q1 2015 churn overall higher than the year before.

Postpaid churn in next chart.

O2 didn’t report quarterly total churn Q3 and Q4 2012.
Telekom and O2’s postpaid churn in Q4 was higher than usual, but Q1 2015 churn overall higher than the year before.
...decrease CAPEX? ✗

CAPEX levels have not immediately decreased after the consolidation

CAPEX levels have not immediately decreased after the consolidation
No immediate indication of that the mobile data traffic growth in Germany slowed down after the consolidation. Note that E-plus added much more mobile data traffic to the new O2 than what the original O2 did.

Telekom and E-plus don’t report mobile data traffic. The German regulator reports mobile data traffic only per year.
Questions
Germany

Did the consolidation...

1. ...increase revenues? ×
2. ...increase EBITDA? ×
3. ...decrease subscriber acquisition/retention costs? ?
4. ...slow down subscription growth? ×
5. ...decrease customer churn? ×
6. ...decrease CAPEX? ×
7. ...slow down mobile data traffic growth? ×

0 of 7 indicators suggest that market competition has been hurt

Preliminary: Too short time has elapsed since the consolidation
Background
Norwegian consolidation

- 6 December 2013
  - 4G spectrum auction leaves Tele2 without frequencies, granting license to unknown bidder
    - Later shown to be associated with Ice
- 7 July 2014
  - TeliaSonera (owner of NetCom) declares that it wants to acquire Tele2 Norway for 5,1 BSEK
- 1 October 2014
  - Tele2 agrees to sell mobile network infrastructure to Ice if the Norwegian competition authority approves TeliaSonera’s acquisition of Tele2 Norway
- 5 February 2015
  - The Norwegian competition authority approves the transaction
    - With the additional conditions that Tele2’s sub-brand Network Norway’s customer base, distribution and frequencies are sold to Ice, that Ice is offered national roaming by TeliaSonera, that TeliaSonera agrees to offer MVNO access, offer site co-location to Ice and selling three Tele2 shops to Ice
- 6 February 2015
  - TeliaSonera closes the acquisition of Tele2 Norway and consolidates it
    - Acquisition price reduced to 4,5 BSEK
Telenor’s mobile service revenue increased in the two quarters following the 4G auction. For a more complete revenue comparison, see next page.
1...increase revenues? (2)✓

Telenor’s mobile service revenue increased in the two quarters following the 4G auction. Explaining the growth of Telenor’s integrated revenue.

Tele2 stopped reporting mobile service revenue Q1 2014

- Telenor integrated
- Telenor mobile
- Telenor mobile service
- NetCom mobile
- NetCom mobile service
- Tele2 mobile
- Tele2 mobile service

4G auction leaves Tele2 without spectrum

3 operators → 2 operators
Telenor’s integrated EBITDA increased in the two quarters following the 4G auction.

NetCom had a small fixed business in Q3 2012-Q1 2013 and again in Q1 2015 (via Tele2 acquisition) but its impact on EBITDA isn’t known.

EBITDA margin in next page.
Telenor’s integrated EBITDA increased in the two quarters following the 4G auction. Also NetCom’s margin increased up until the consolidation.

NetCom had a small fixed business in Q3 2012-Q1 2013 and again in Q1 2015 (via Tele2 acquisition) but its impact on EBITDA isn’t known.
...decrease SAC/SRC? ?

None of the Norwegian operators report SAC/SRC
There’s little growth in the Norwegian market; consolidation has not affected Telenor takes market share, driven by postpaid

Tele2 doesn’t report postpaid subscriptions
...decrease customer churn? ?

The consolidation seems not to have any major effect on NetCom’s churn. But without the figures of Telenor and Tele2 it’s difficult to conclude anything.

Telenor, Tele2 don’t report churn.
Telenor’s integrated CAPEX has gone down y-o-y since Q2 2014.
None of the Norwegian operators report mobile data traffic and the Norwegian regulator doesn’t do it quarterly.
Questions
Norway

Did the consolidation...

1. ...increase revenues? ✓
2. ...increase EBITDA? ✓
3. ...decrease subscriber acquisition/retention costs? ?
4. ...slow down subscription growth? ×
5. ...decrease customer churn? ?
6. ...decrease CAPEX? ✓
7. ...slow down mobile data traffic growth? ?

3 of 7 indicators suggest that market competition has been hurt.

Preliminary: Too short time has elapsed since the actual consolidation – and 3rd operator not yet live.
Conclusion

Is market competition hurt?

• For three markets – Ireland, Germany, Norway – it’s too early to conclude*
  • Incumbent Telenor’s increased mobile service revenue, increased integrated EBITDA and decreased CAPEX following the 4G spectrum auction are, though, warning signs for Norway
    • Unlike Ireland and Germany where status quo could have been maintained if consolidation wouldn’t be approved, the Norwegian 4G spectrum auction result made it obvious that Tele2 would leave the market

• In Austria – the first market to consolidate – 3 of 7 indicators point at competition being hurt
  • Incumbent A1’s significant spend cut on customer acquisition and retention the most obvious indication
    • A1 has consequently lost customers, though

*) If there is an interest, we might keep this set updated
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