Mobile operator consolidation in Europe

Less is more?

Fact based analysis

13 July 2015

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Questions

Did the consolidation...

1. ...increase revenues?
2. ...increase EBITDA?
3. ...decrease subscriber acqusition/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

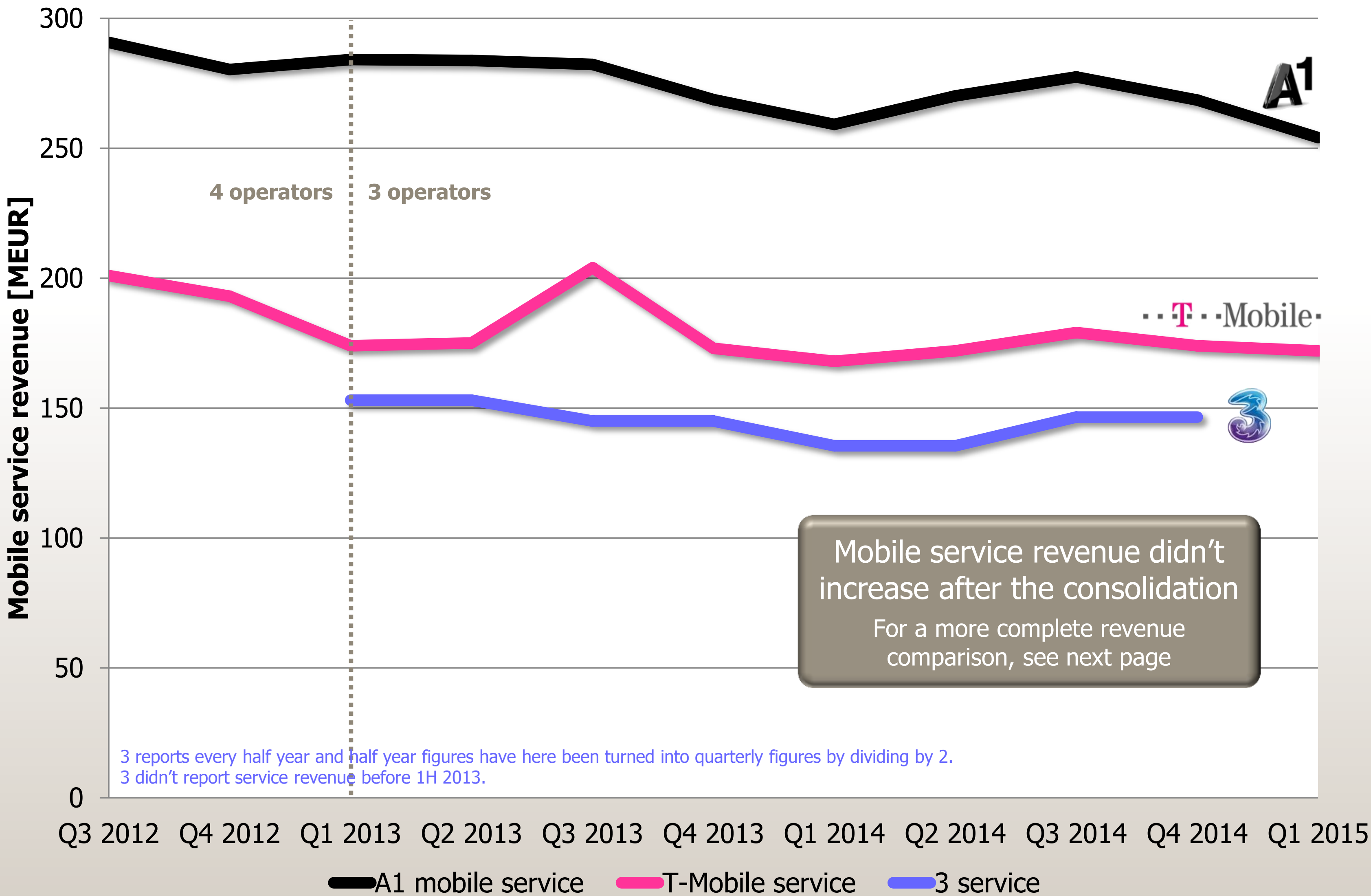
Austria

Background

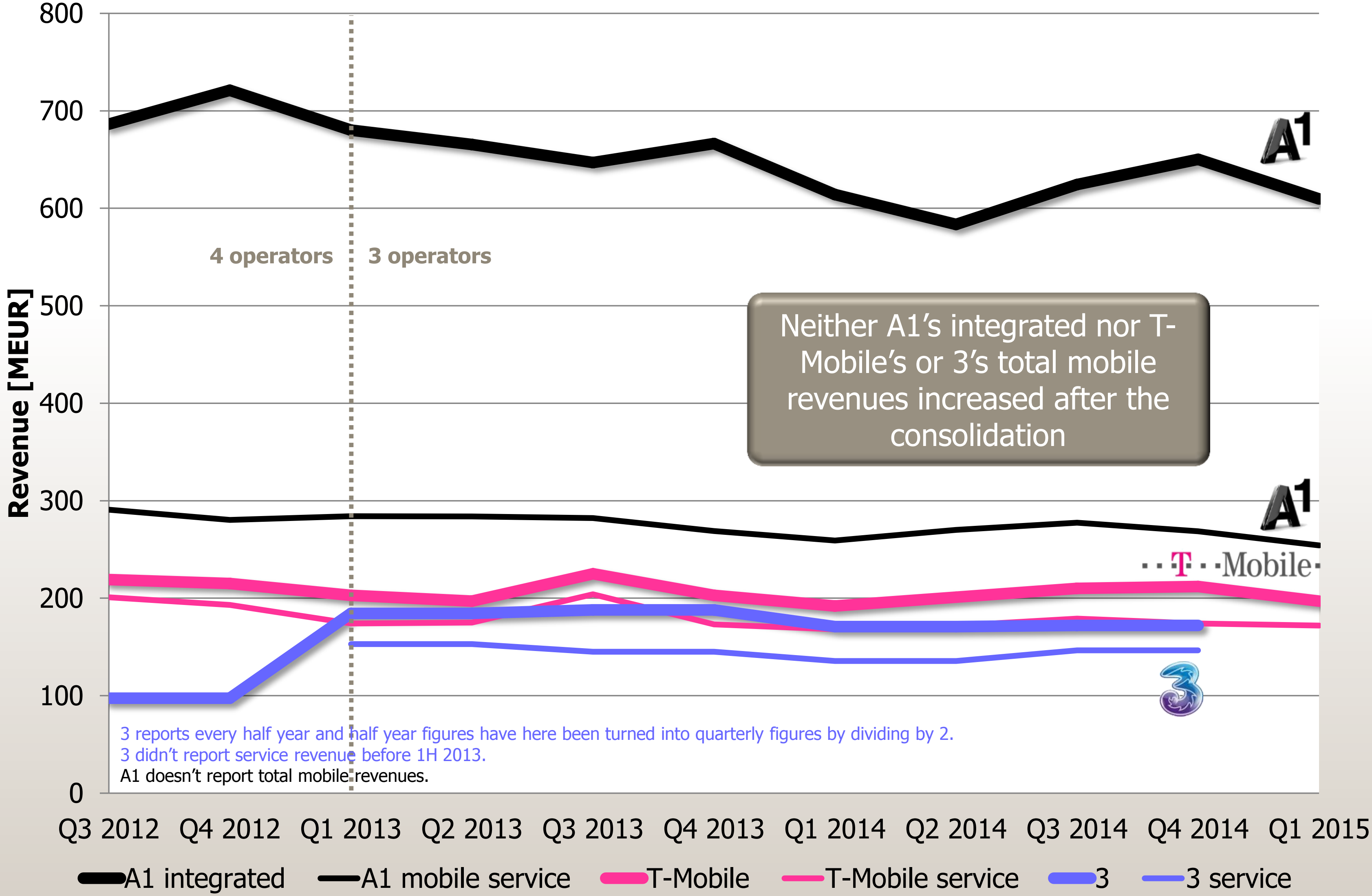
Austrian consolidation

- 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

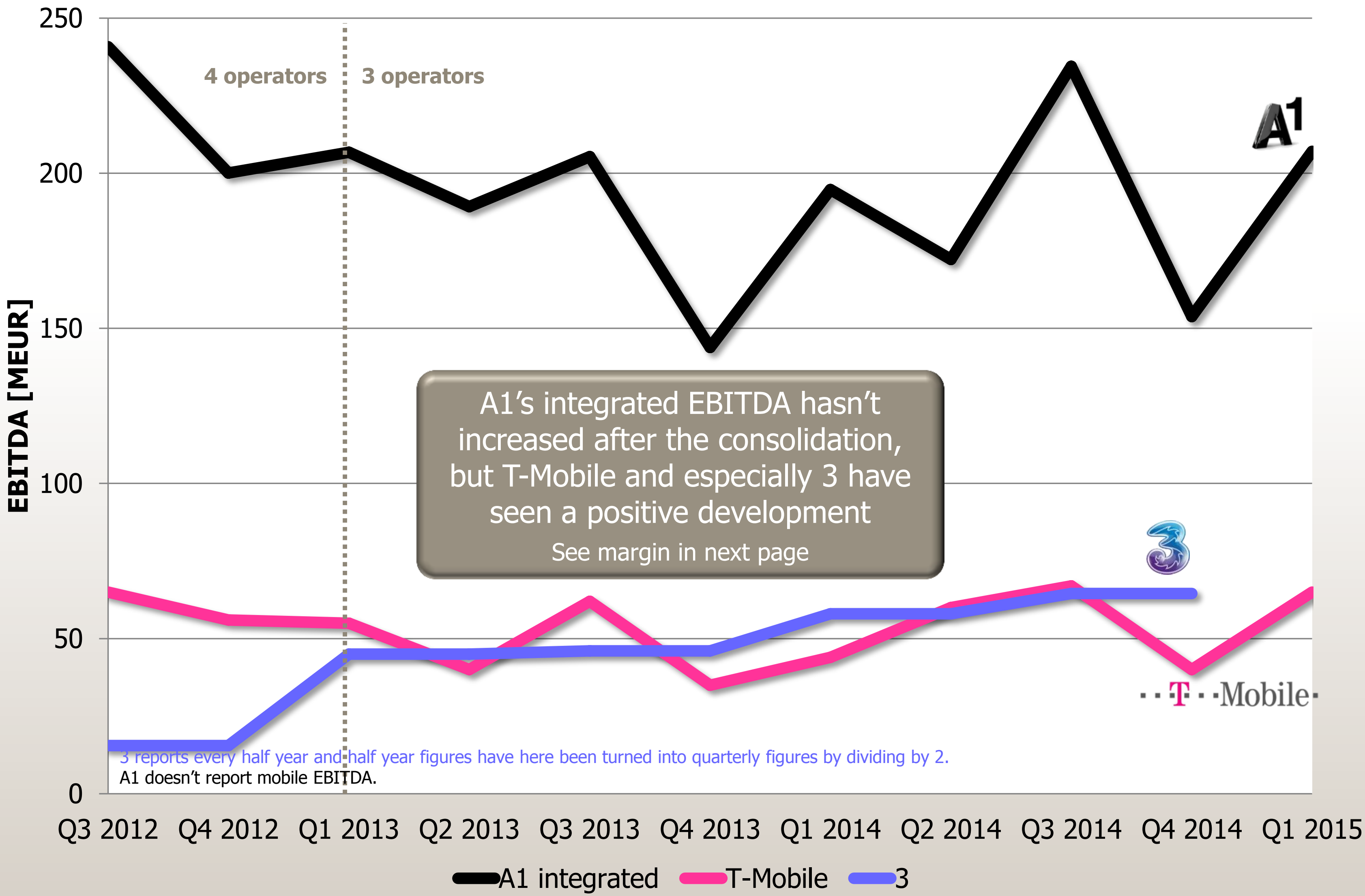
1 ...increase revenues? (1) ✗



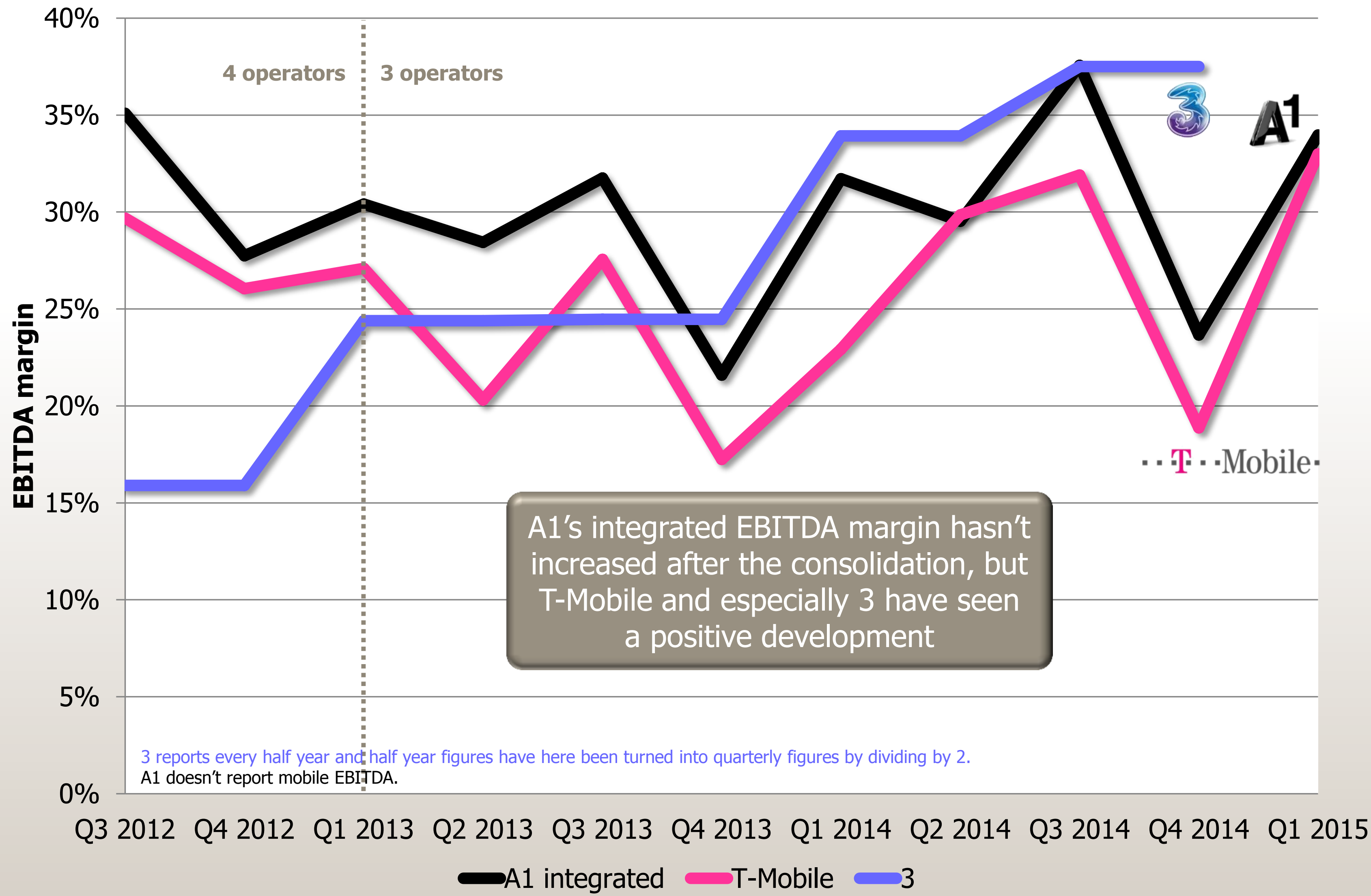
1 ...increase revenues? (2)



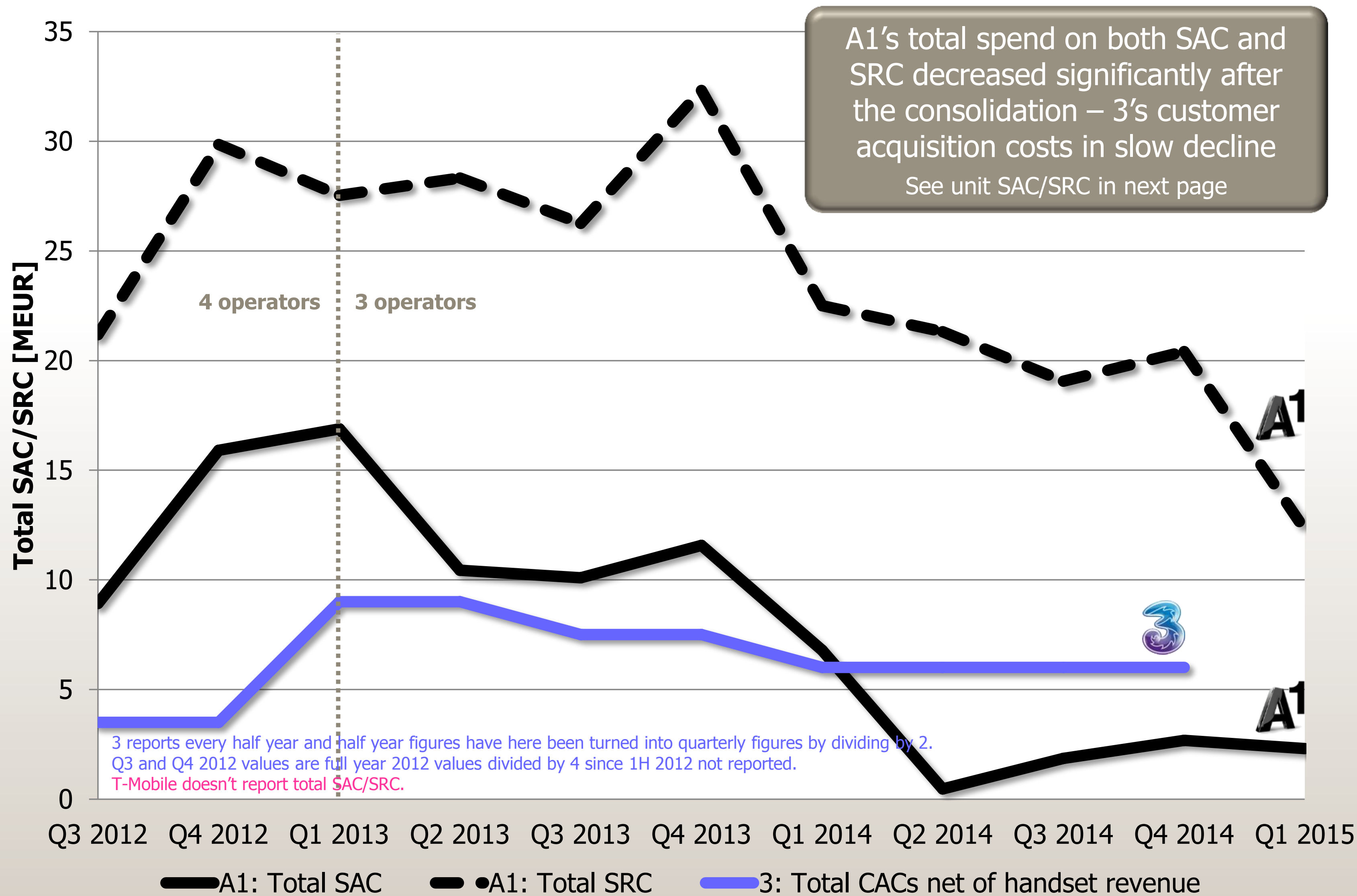
2 ...increase EBITDA? (1) ✓



2 ...increase EBITDA? (2) ✓

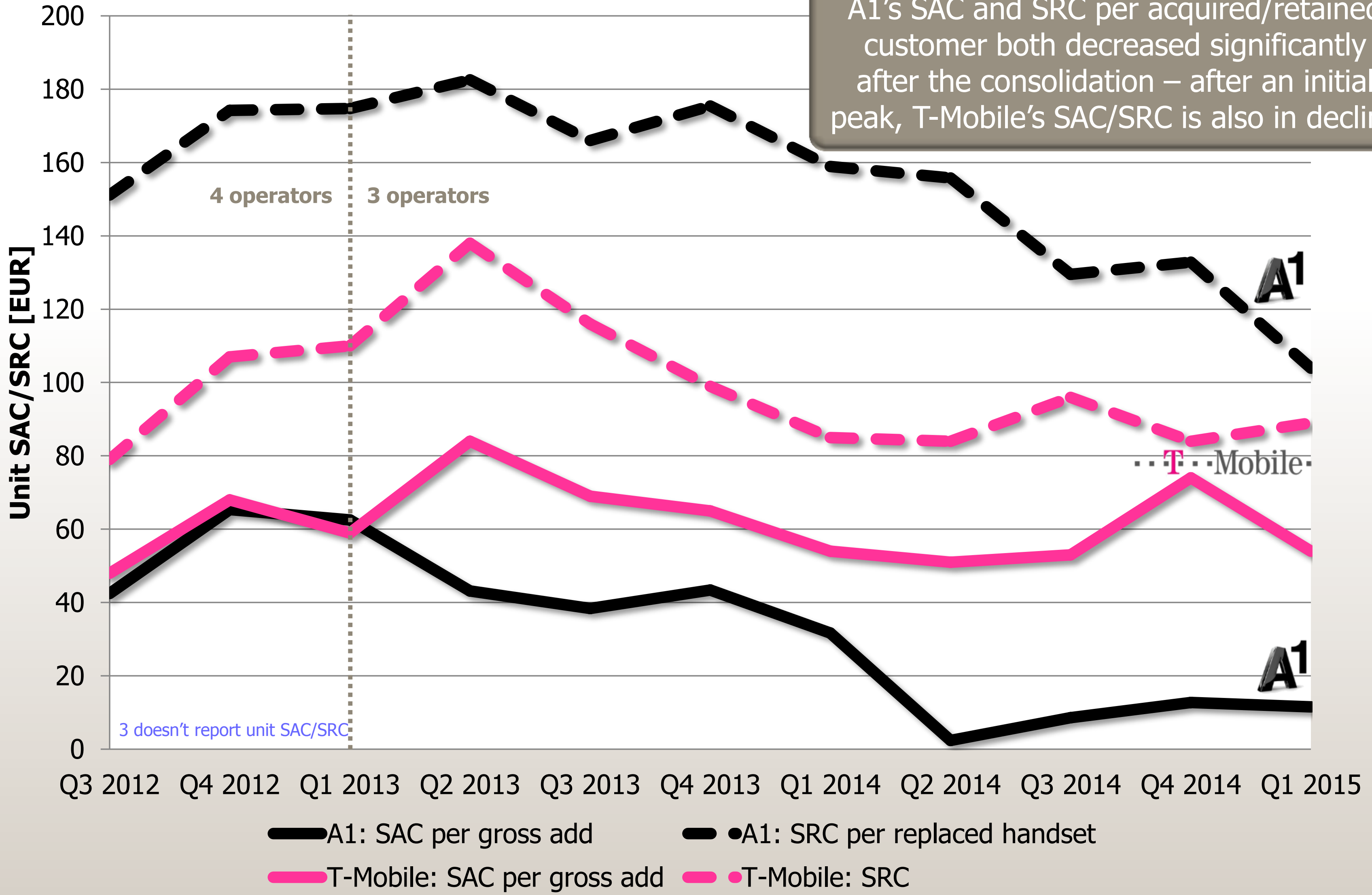


3 ...decrease SAC/SRC? (1) ✓

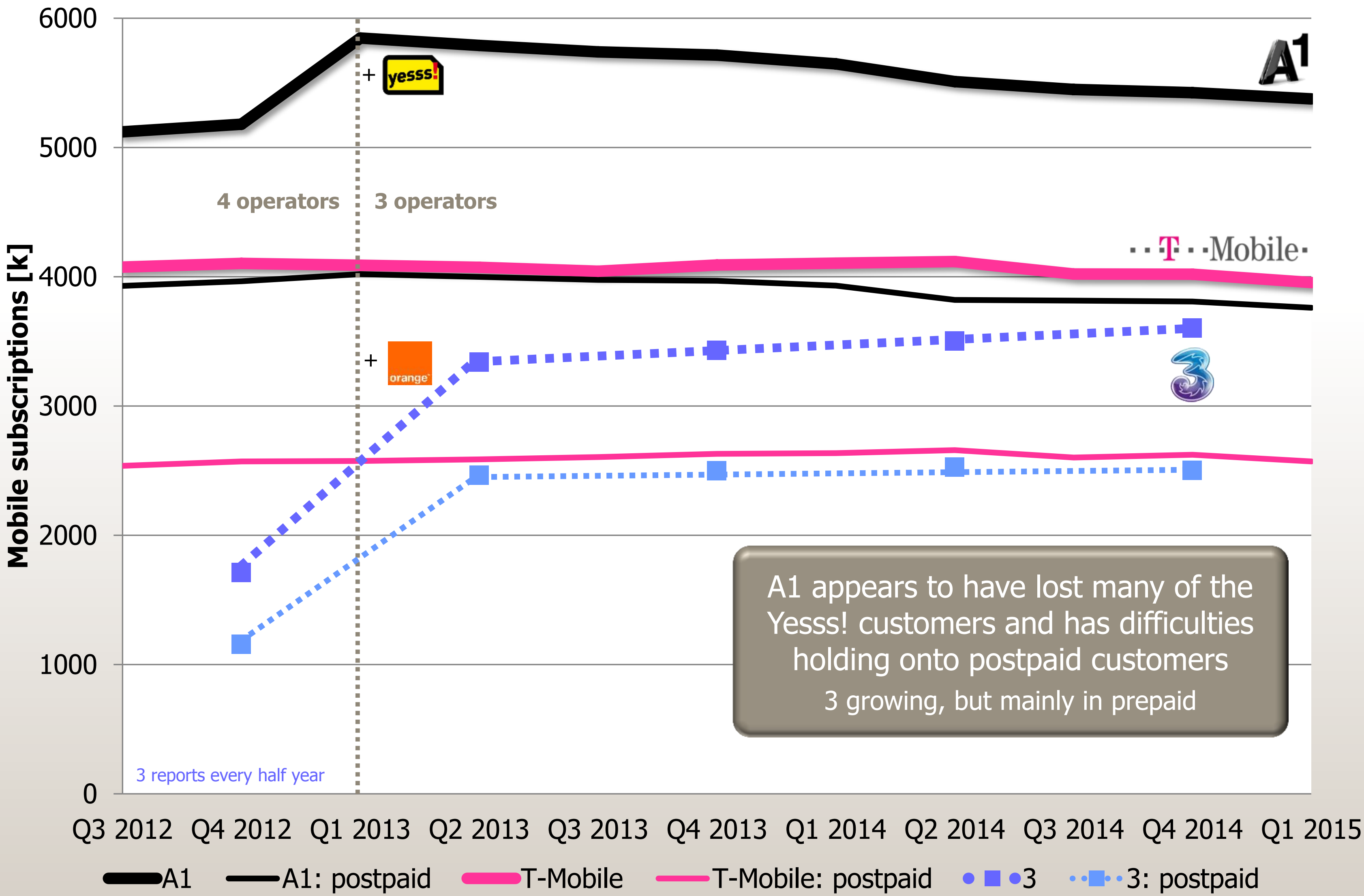


3 ...decrease SAC/SRC? (2) ✓

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



4 ...slow down subs growth? ✓



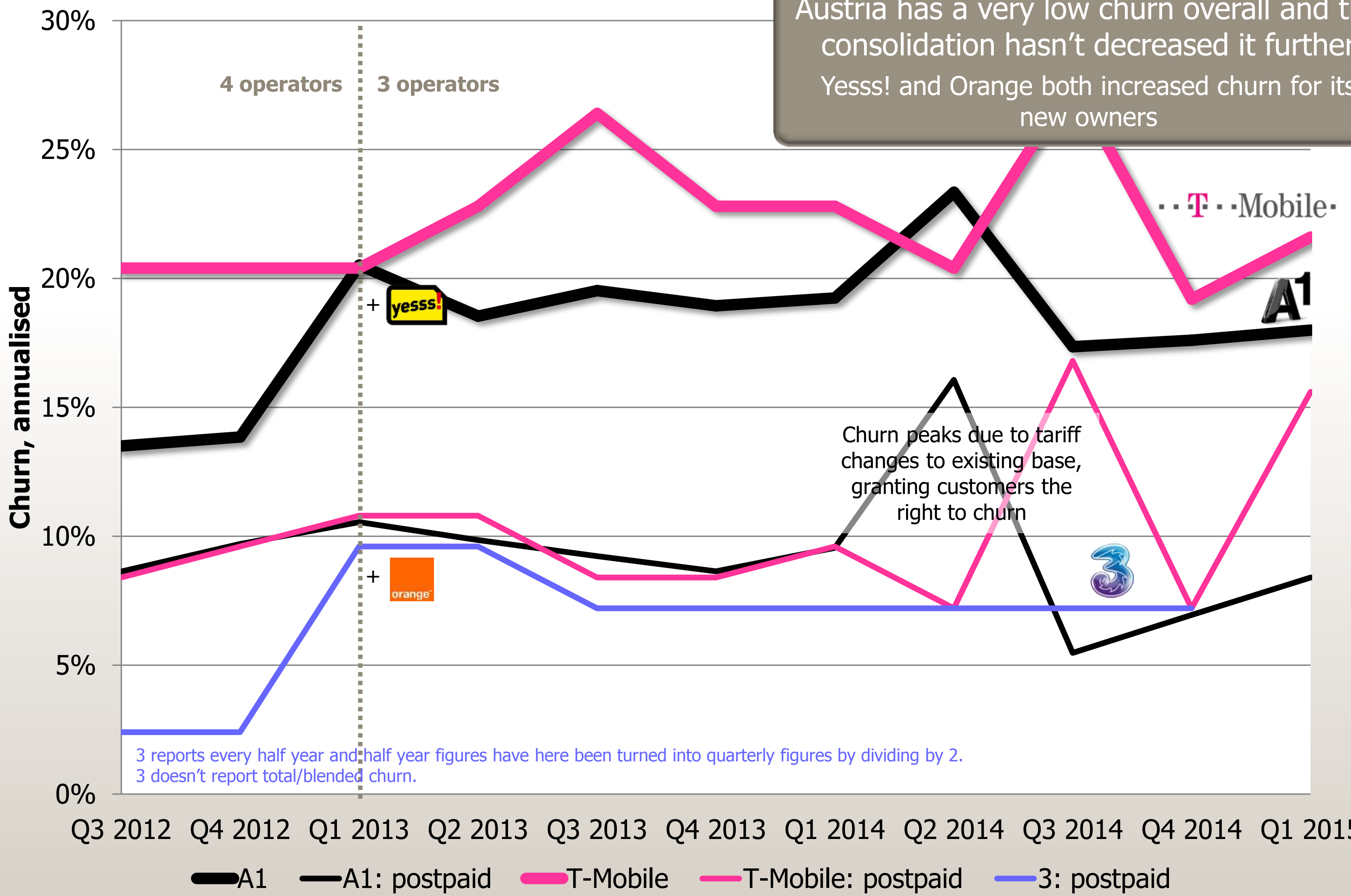
A1 appears to have lost many of the Yesss! customers and has difficulties holding onto postpaid customers

3 growing, but mainly in prepaid

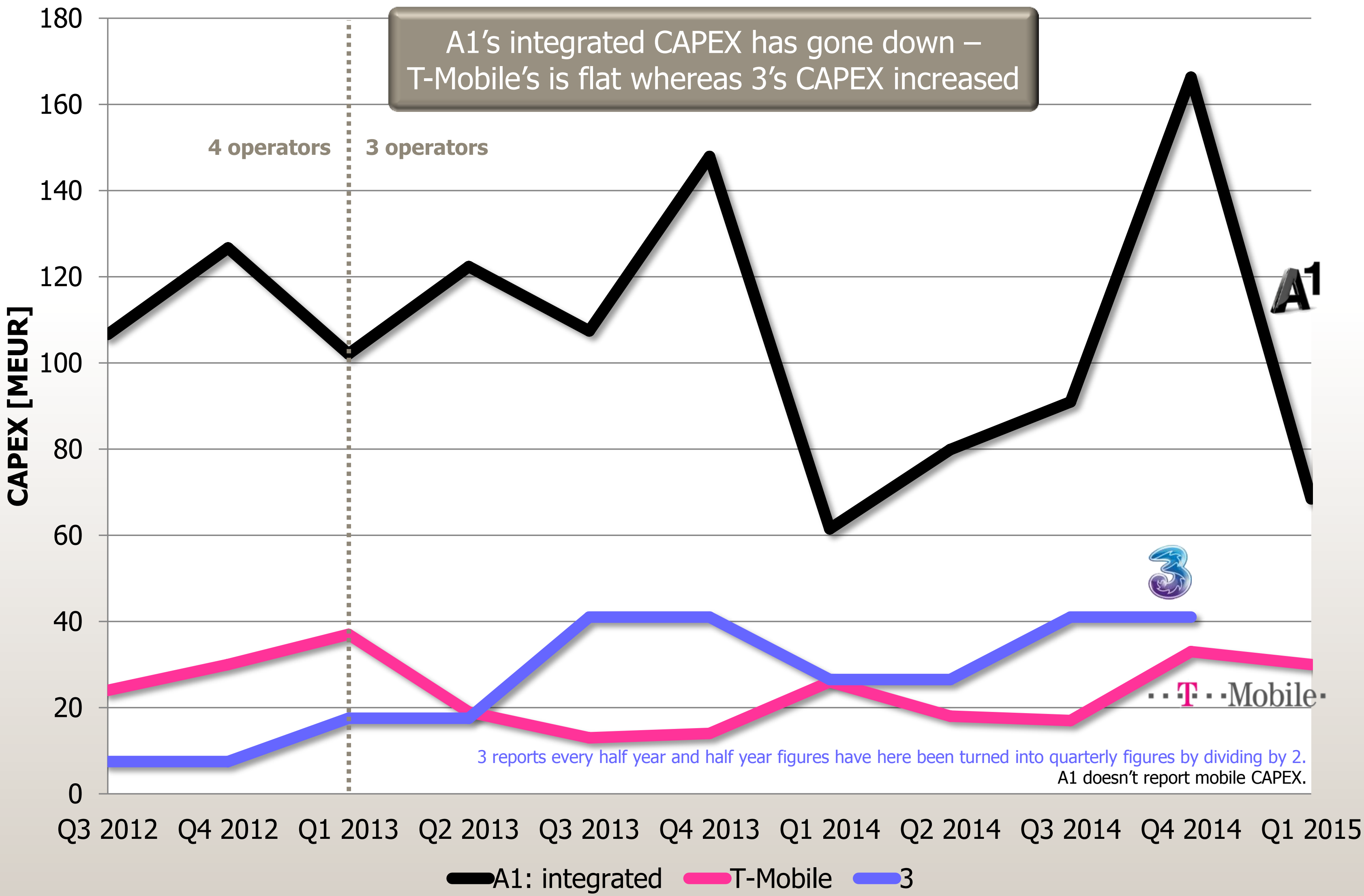
5 ...decrease customer churn? ✗

Austria has a very low churn overall and the consolidation hasn't decreased it further

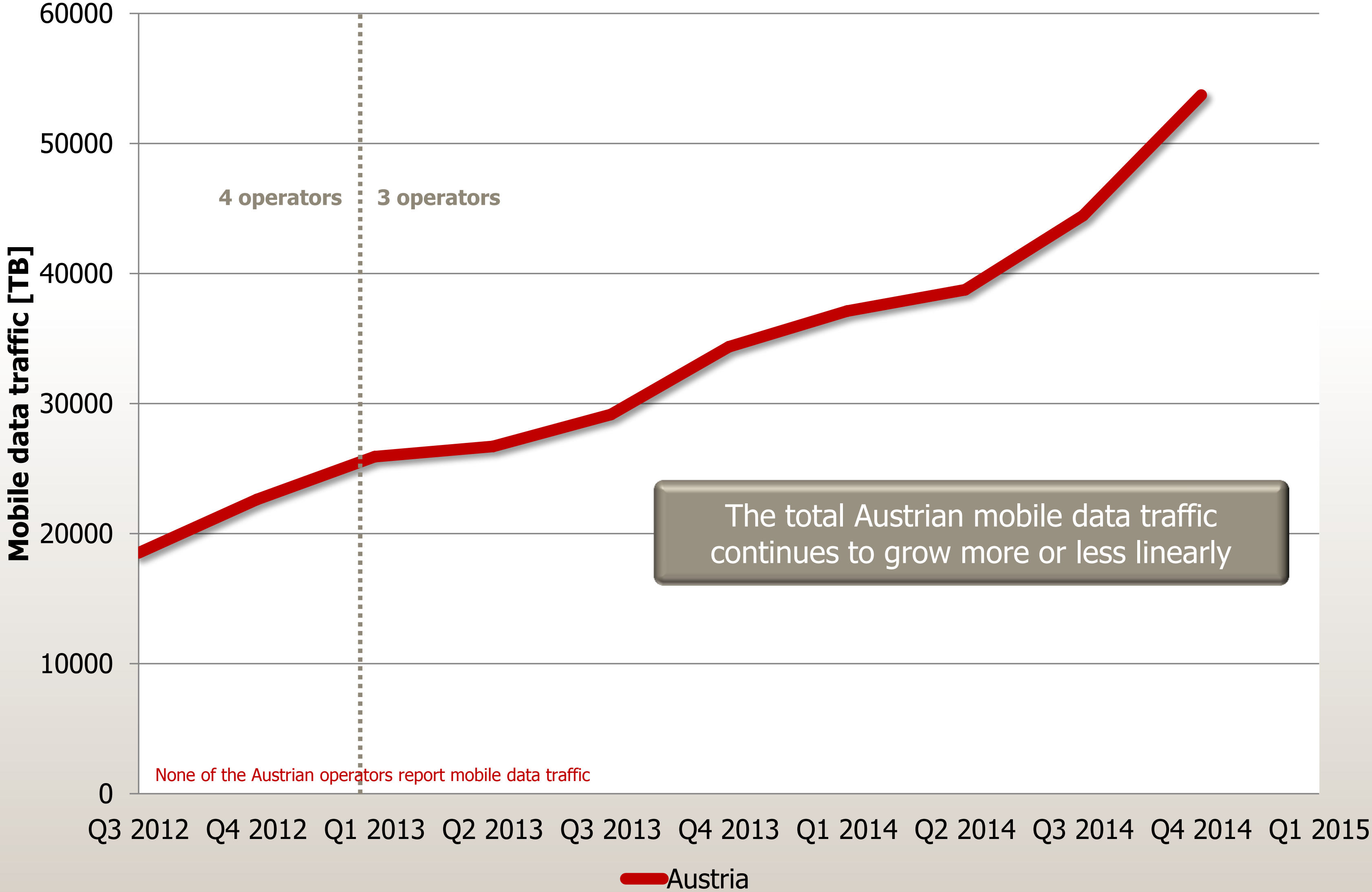
Yesss! and Orange both increased churn for its new owners



6 ...decrease CAPEX? ✗



7 ...slow down data traffic growth? ✗



Questions

Austria

Did the consolidation...

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

3 of 7

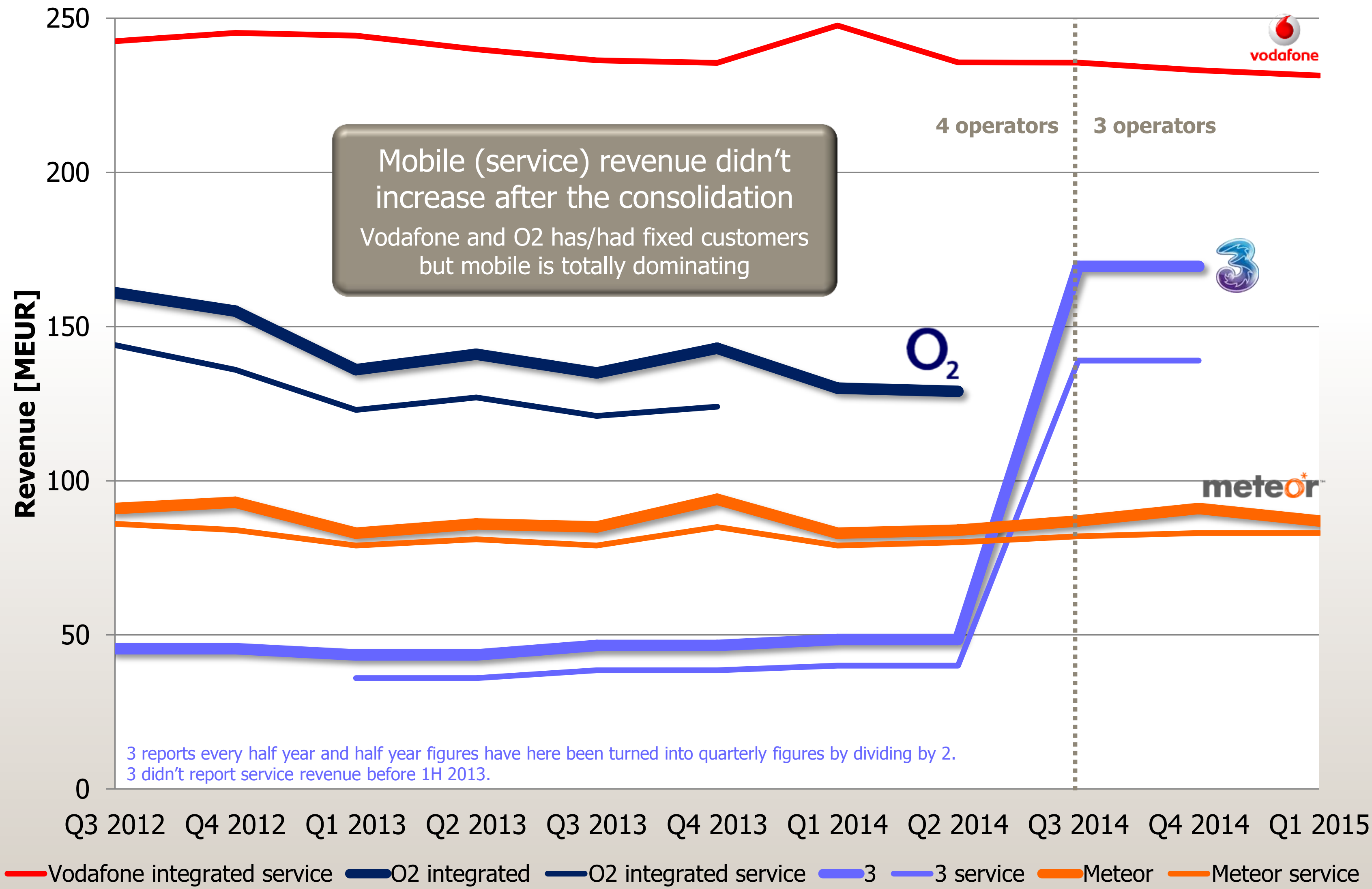
indicators suggest that market competition has been hurt

Ireland

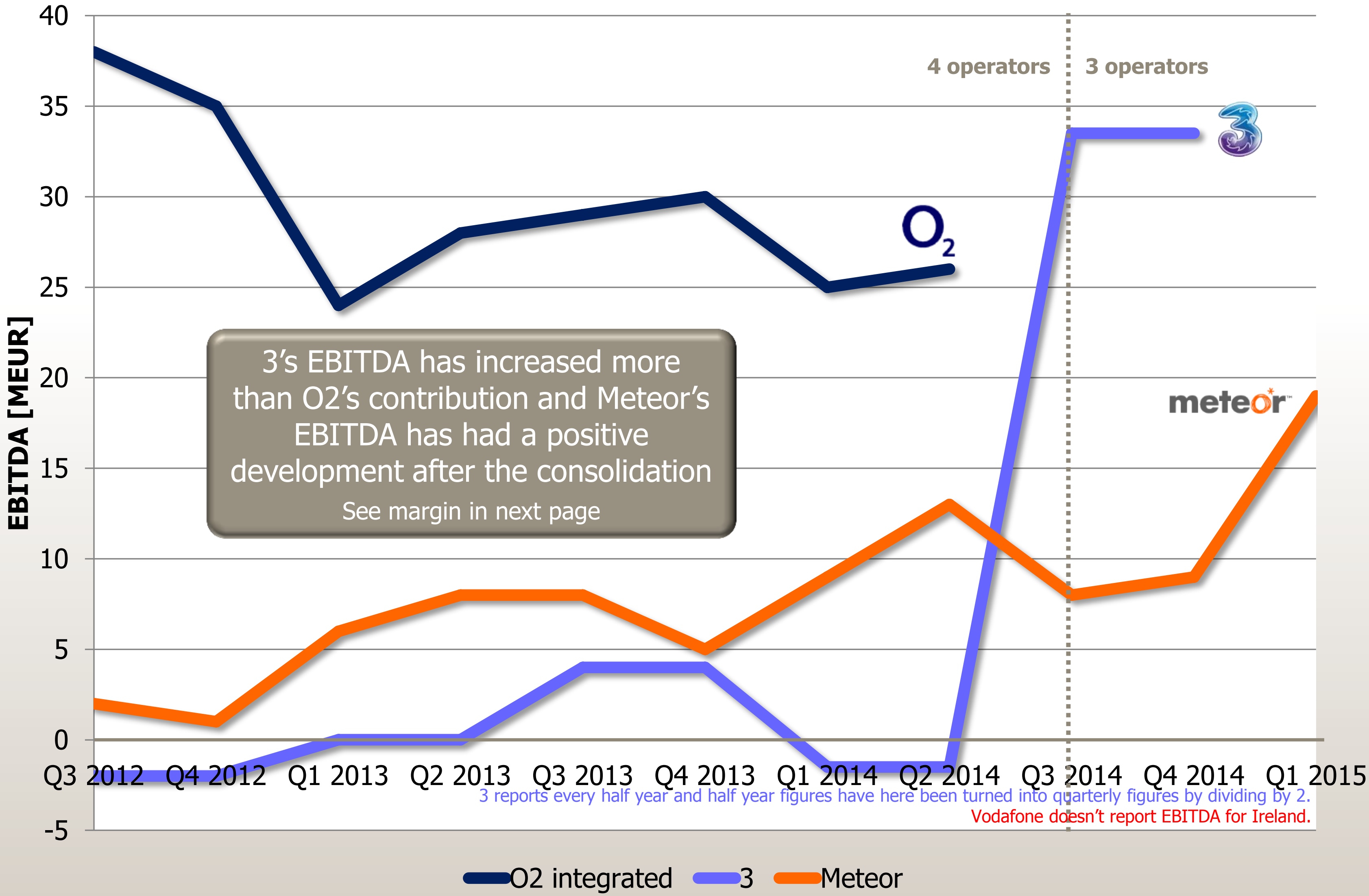
Background
Irish consolidation

- 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

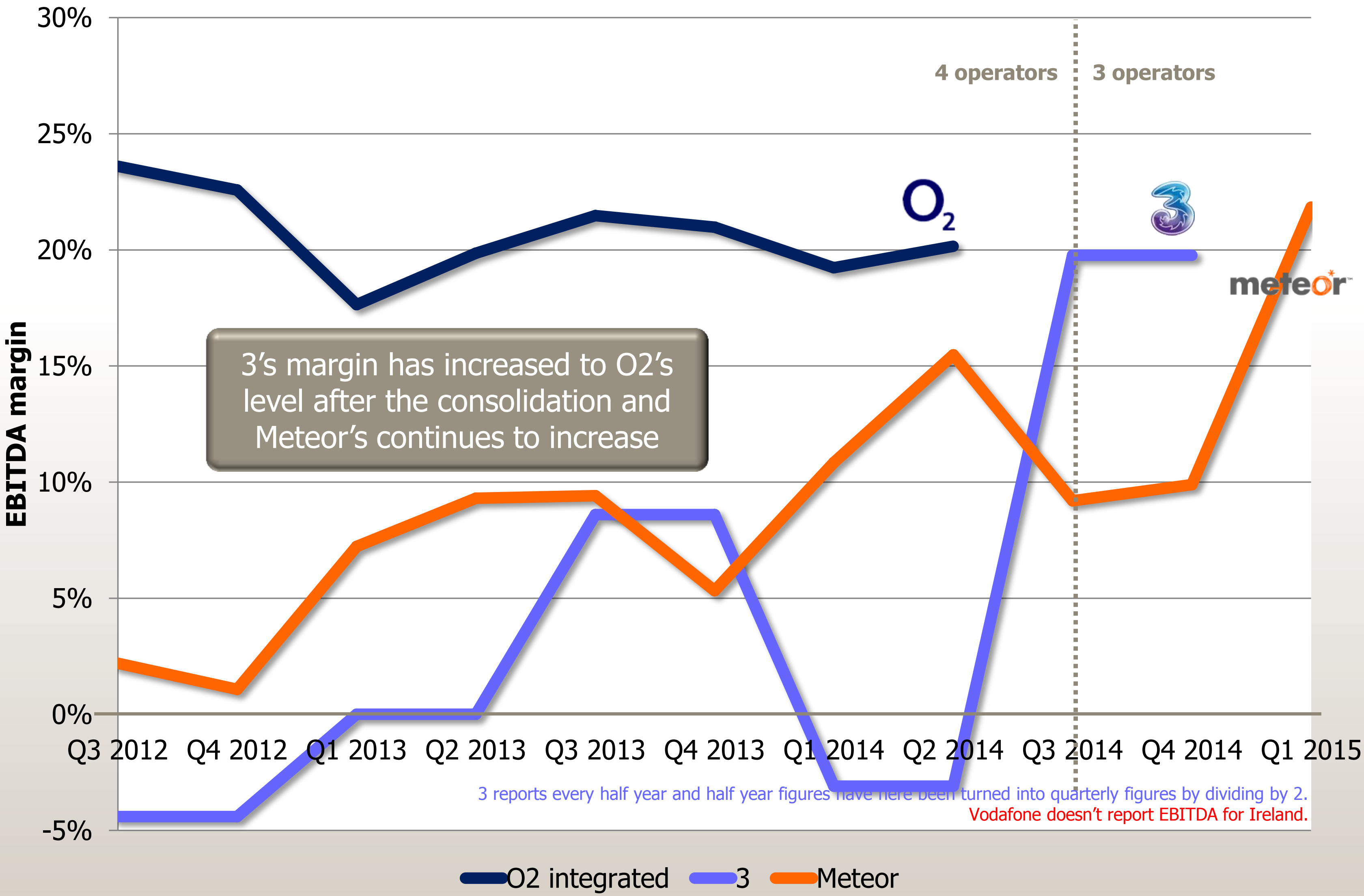
1 ...increase revenues? ✗



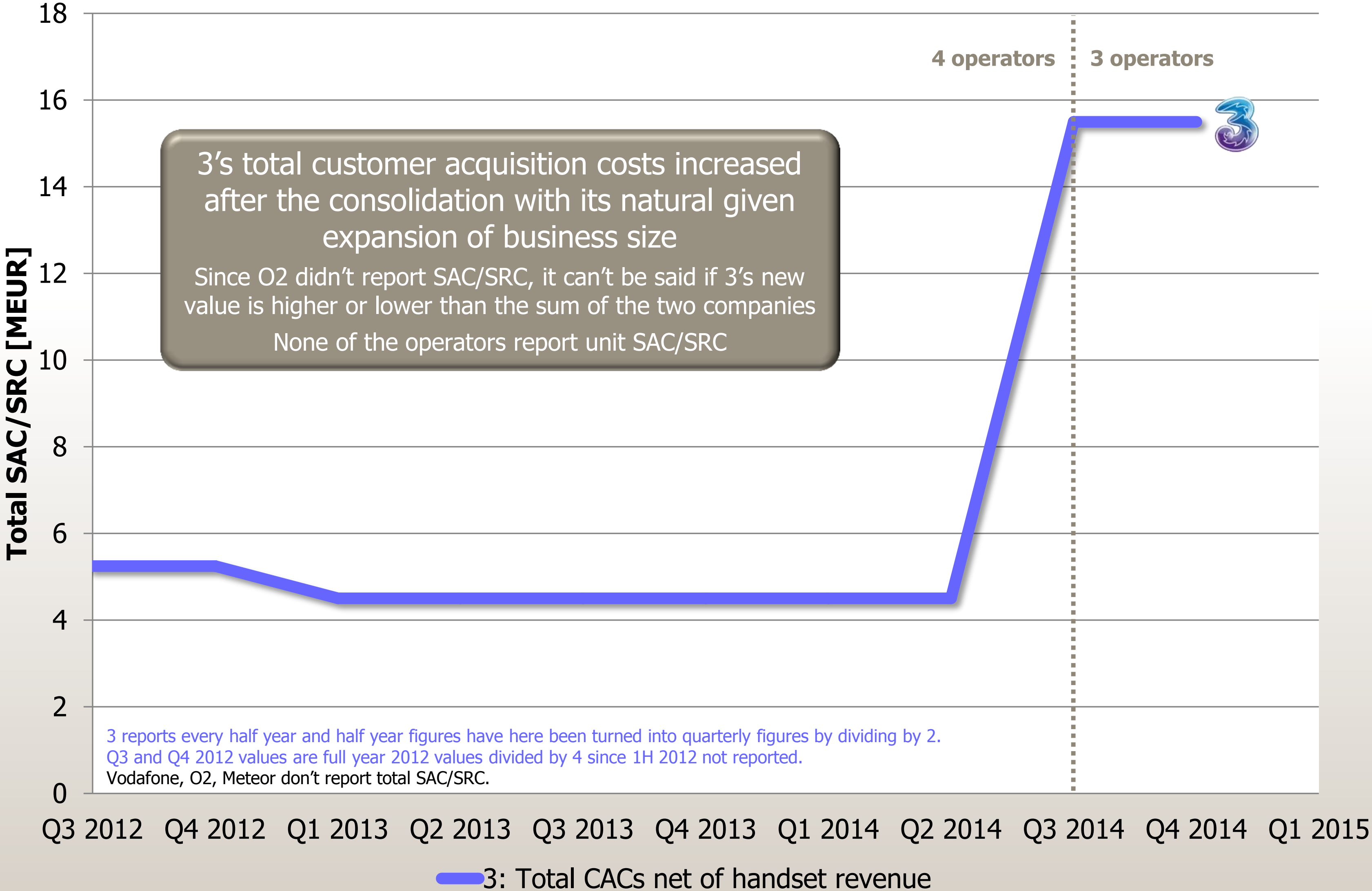
2 ...increase EBITDA? (1) ✓



2 ...increase EBITDA? (2) ✓



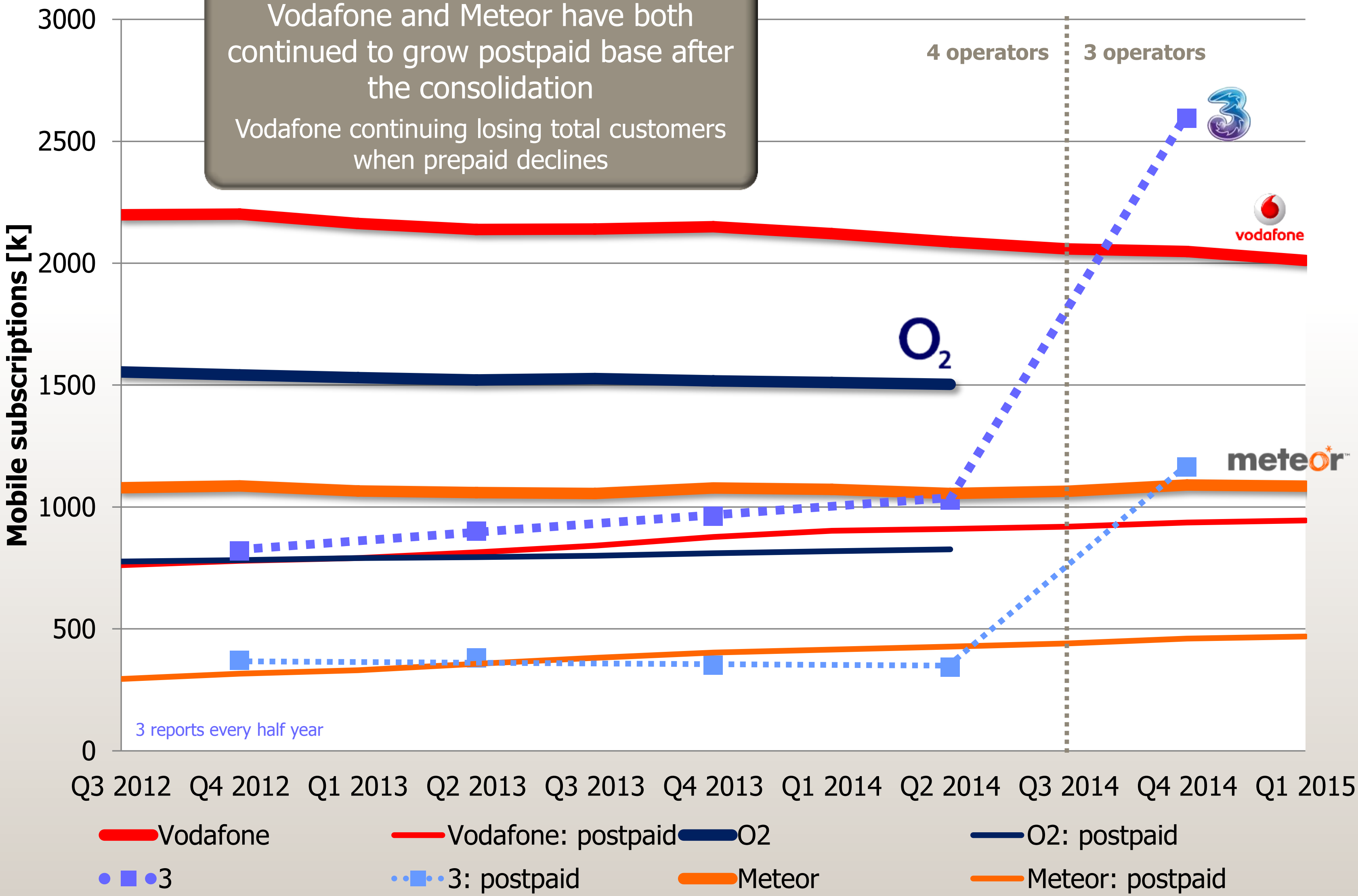
3 ...decrease SAC/SRC? ?



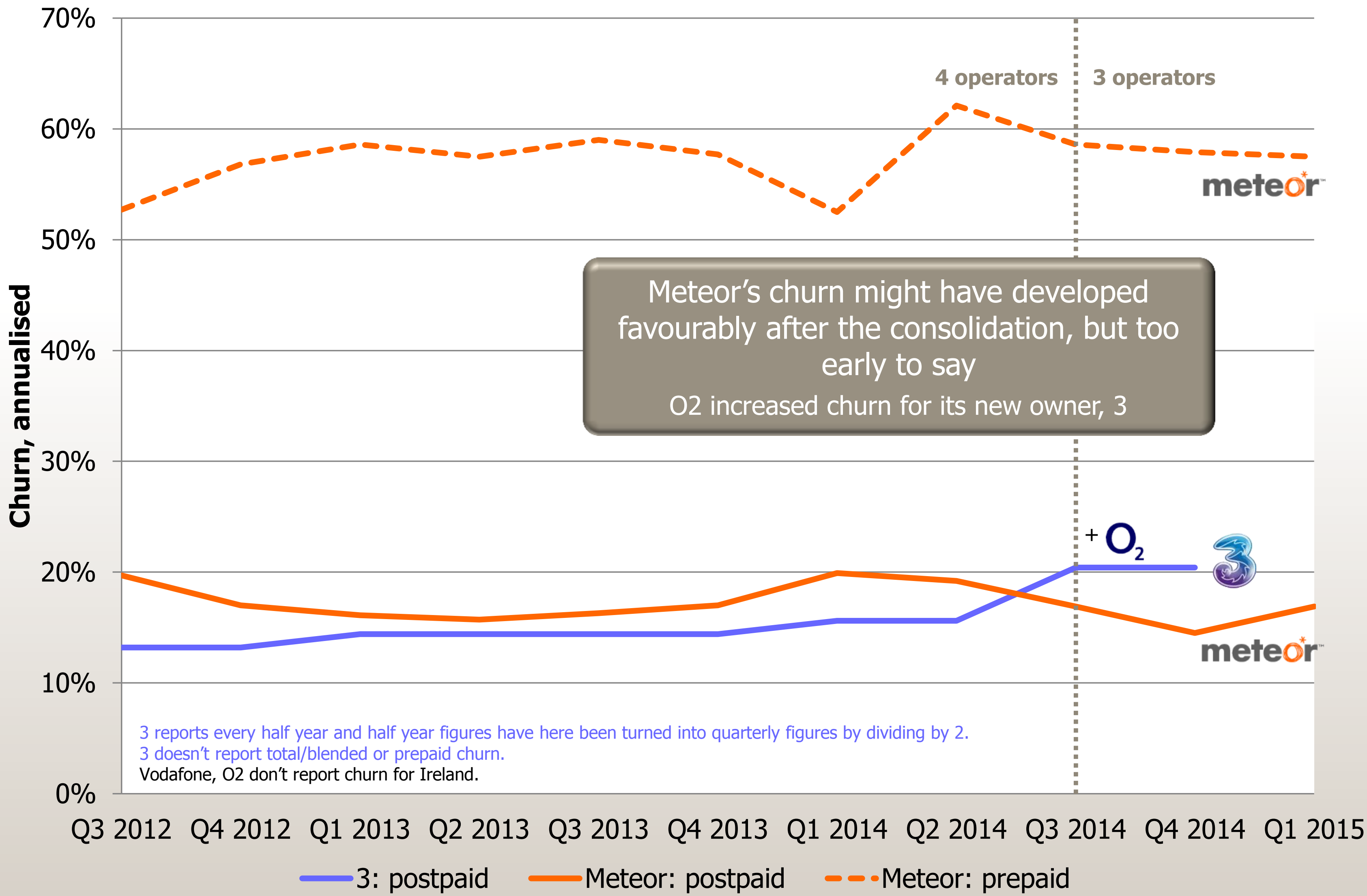
4 ...slow down subs growth? ✗

Vodafone and Meteor have both continued to grow postpaid base after the consolidation

Vodafone continuing losing total customers when prepaid declines



5 ...decrease customer churn?



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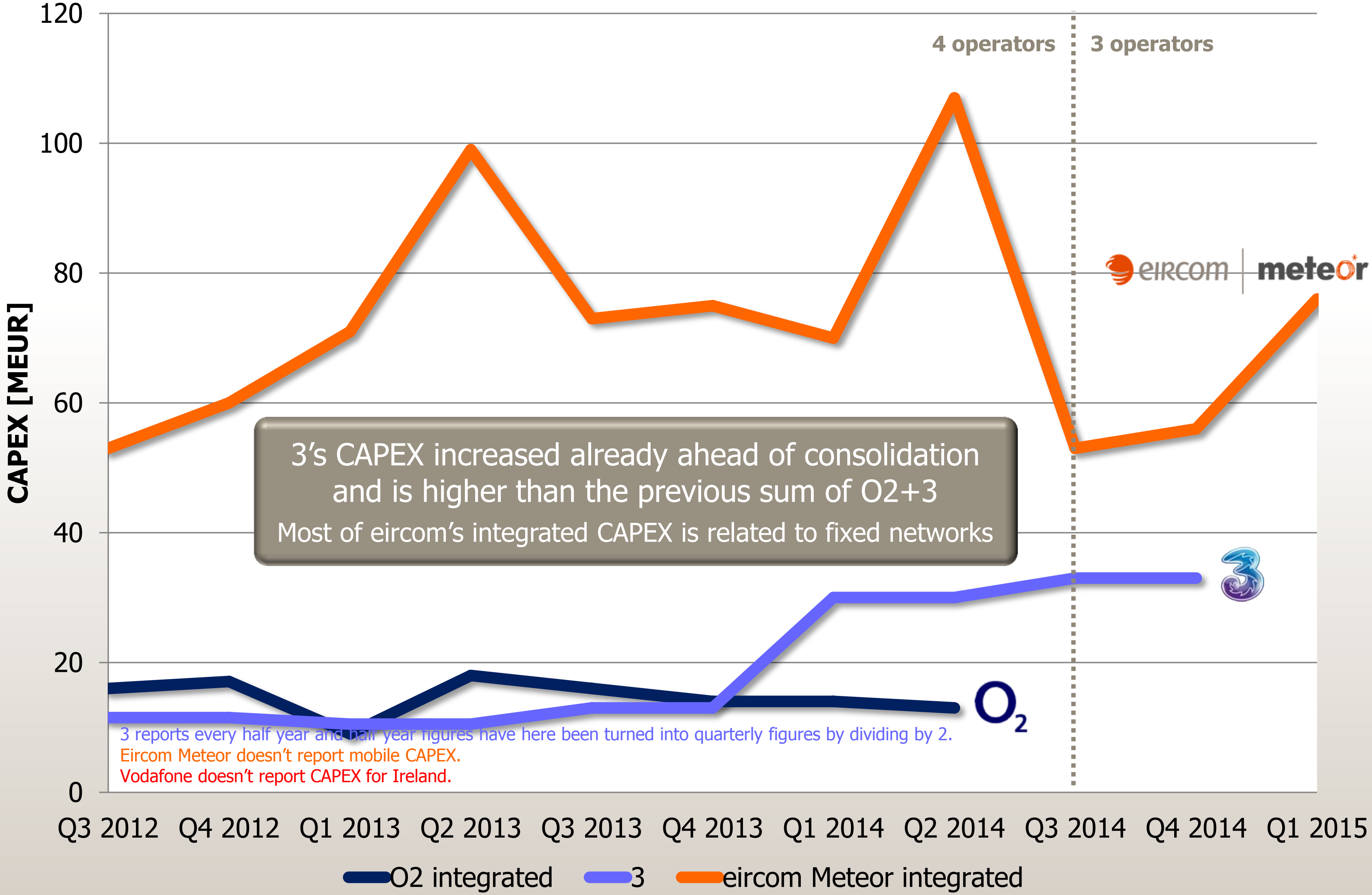
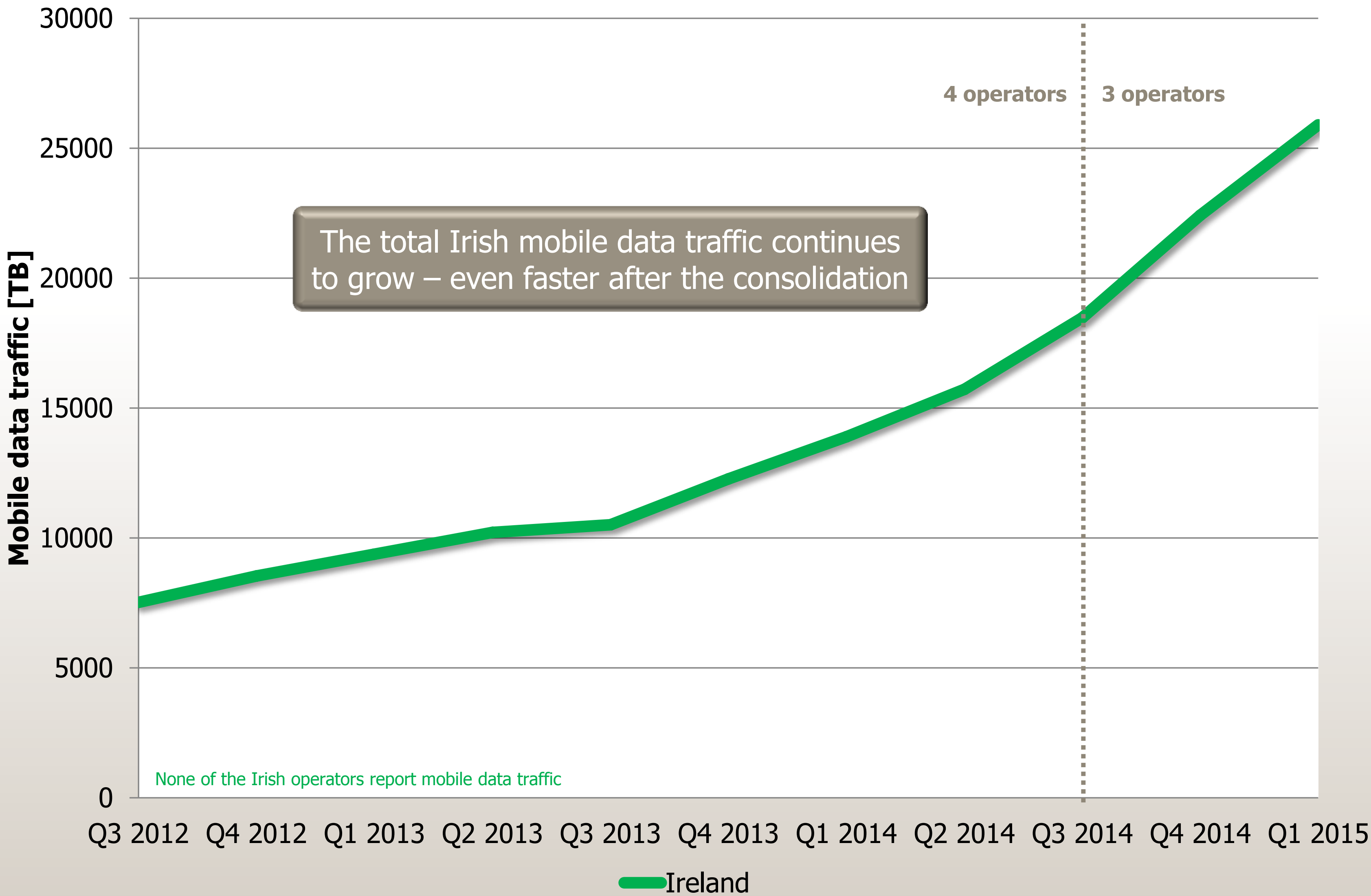
6 ...decrease CAPEX?



7 ...slow down data traffic growth? ✗



Questions

Ireland

Did the consolidation...

1. ...increase revenues? ×
2. ...increase EBITDA? ✓
3. ...decrease subscriber acqusition/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

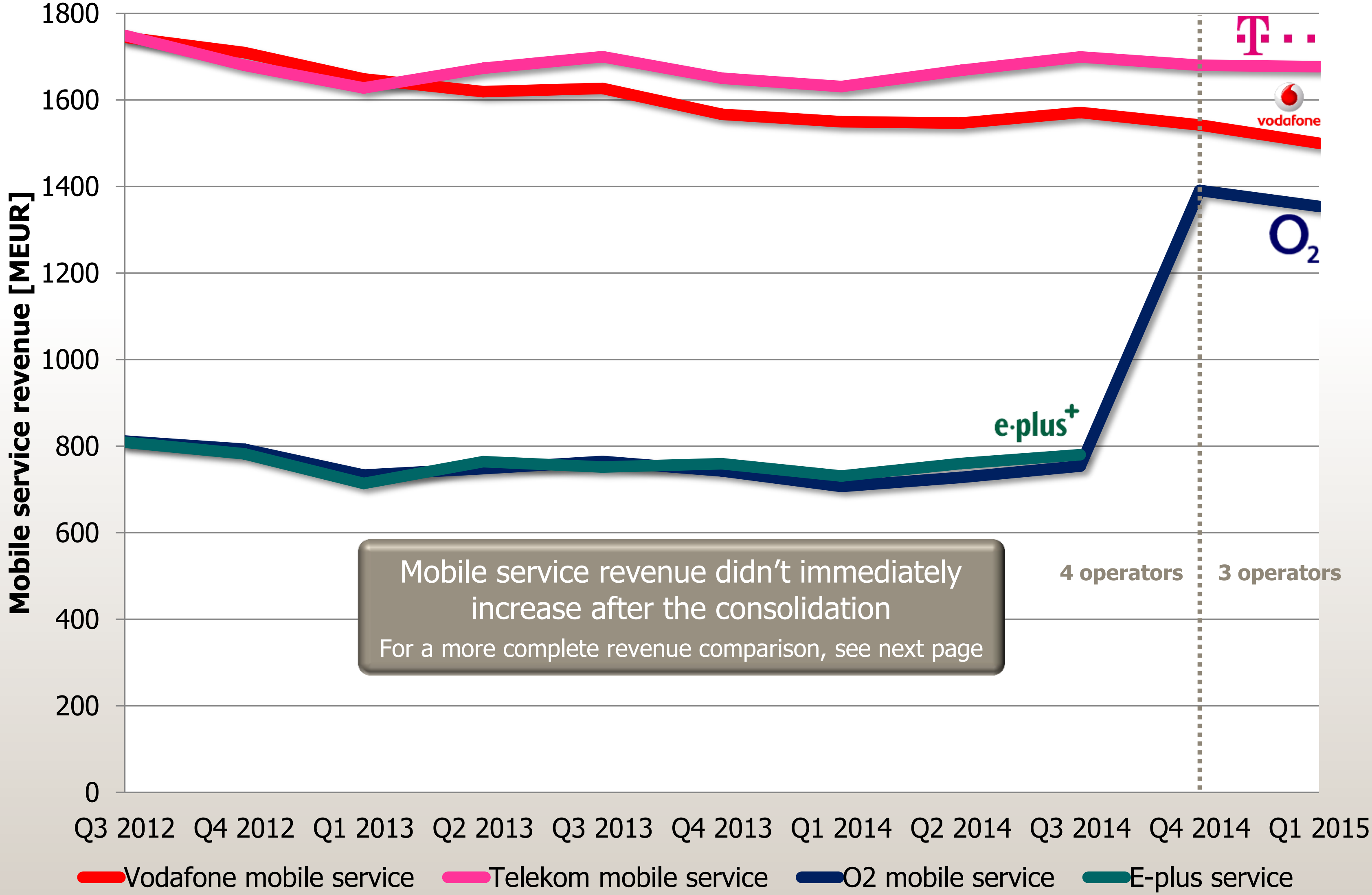
Germany

Background

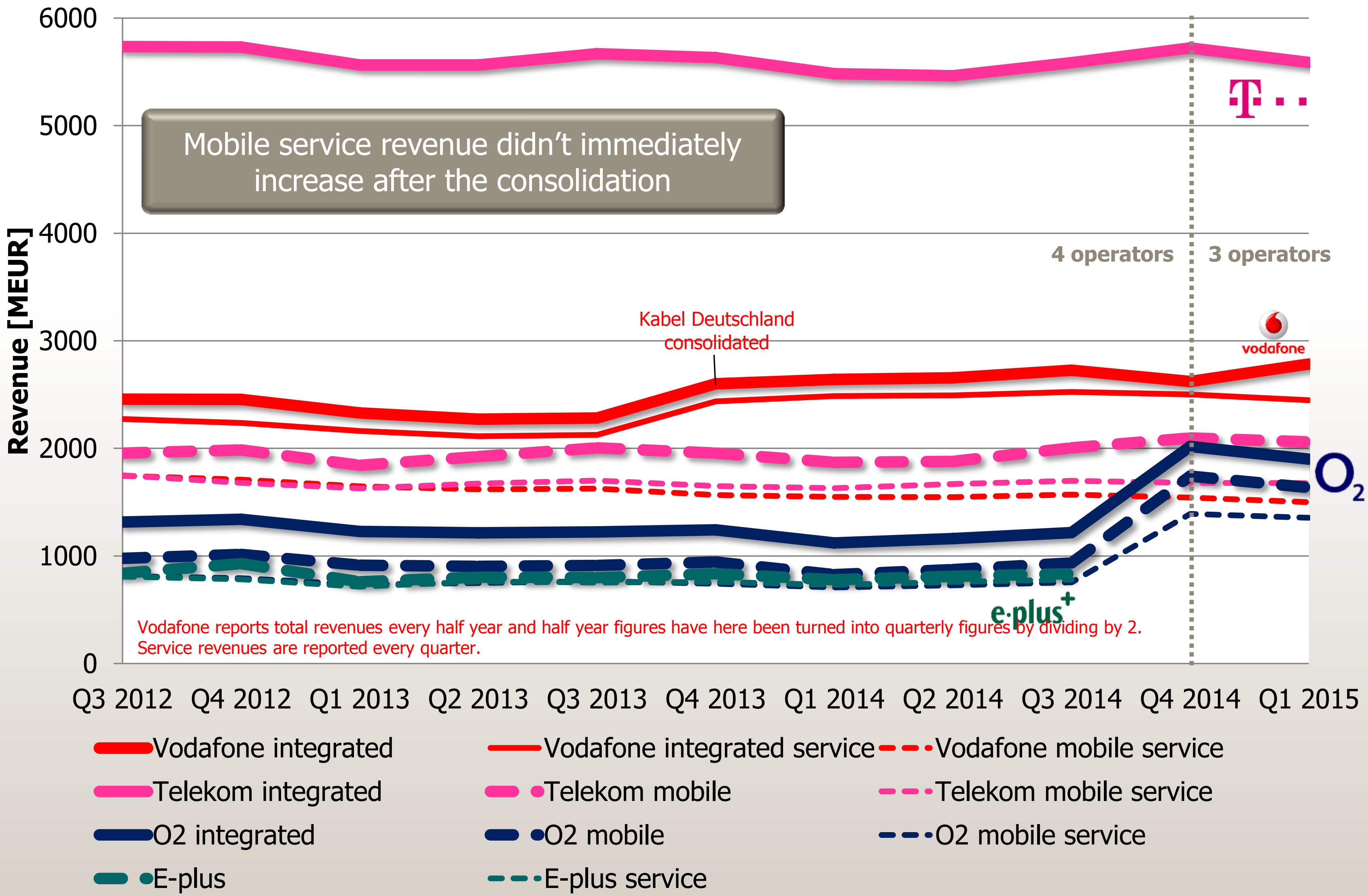
German consolidation

- 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

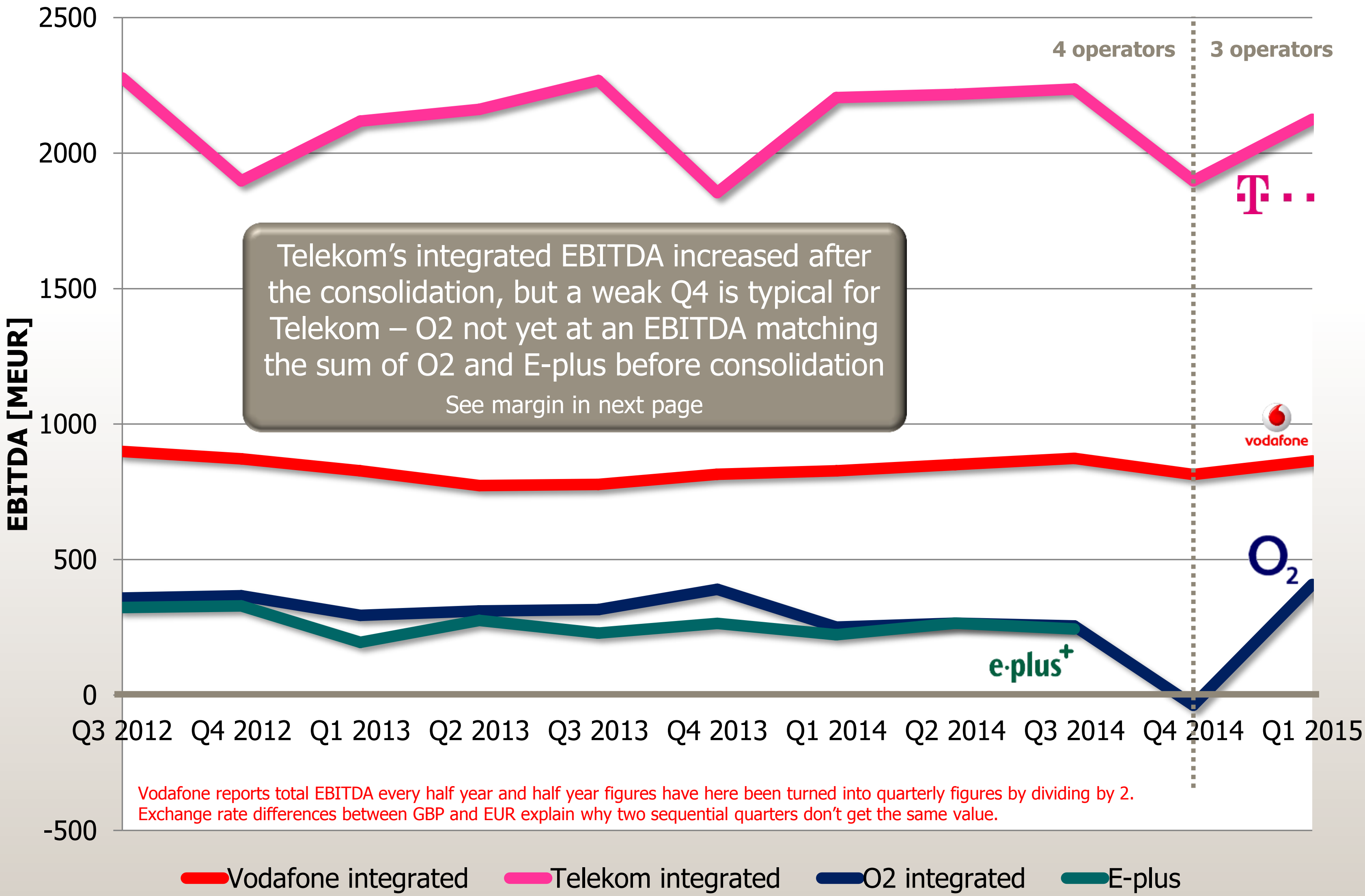
1 ...increase revenues? (1)



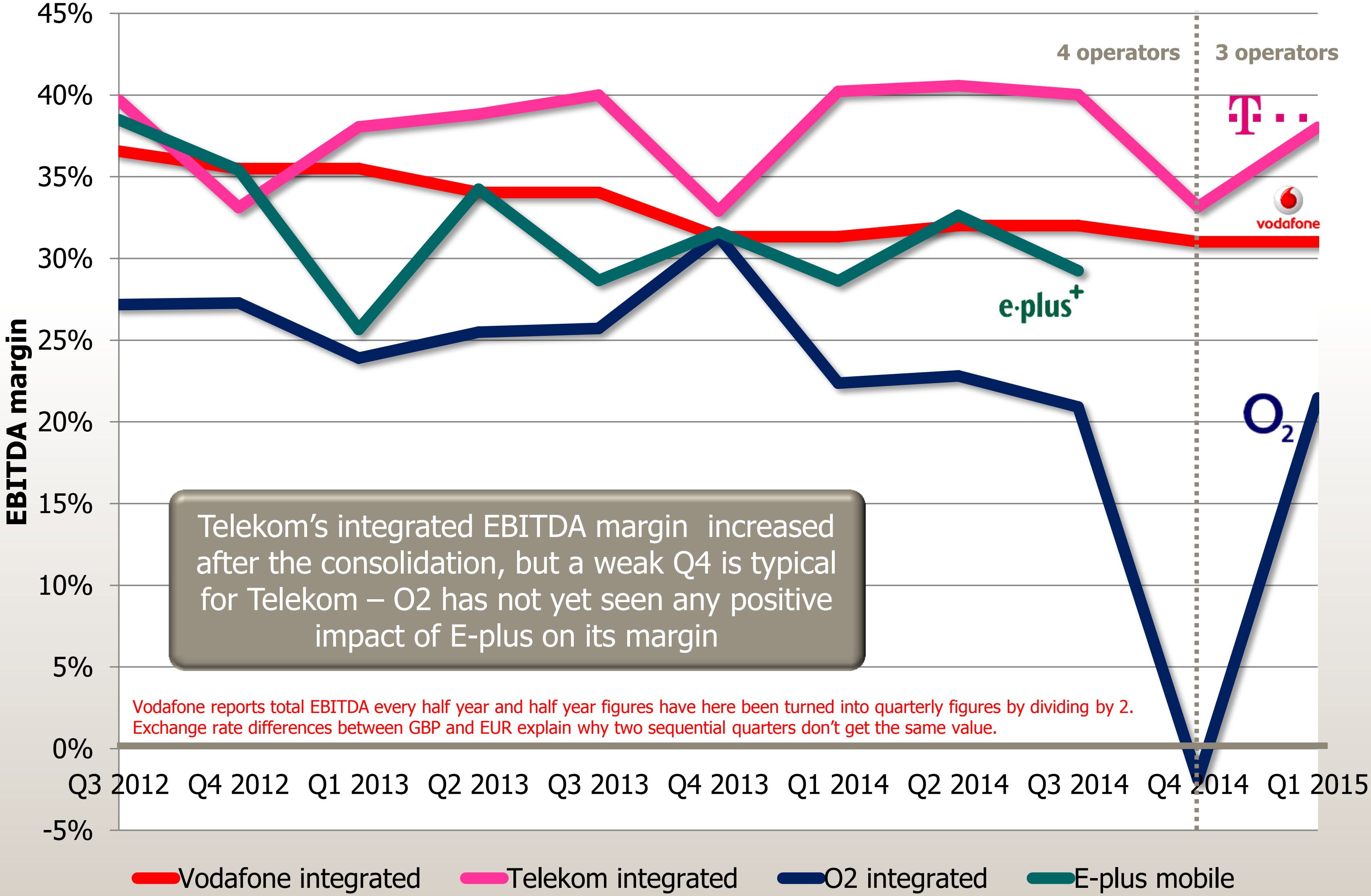
1 ...increase revenues? (2)



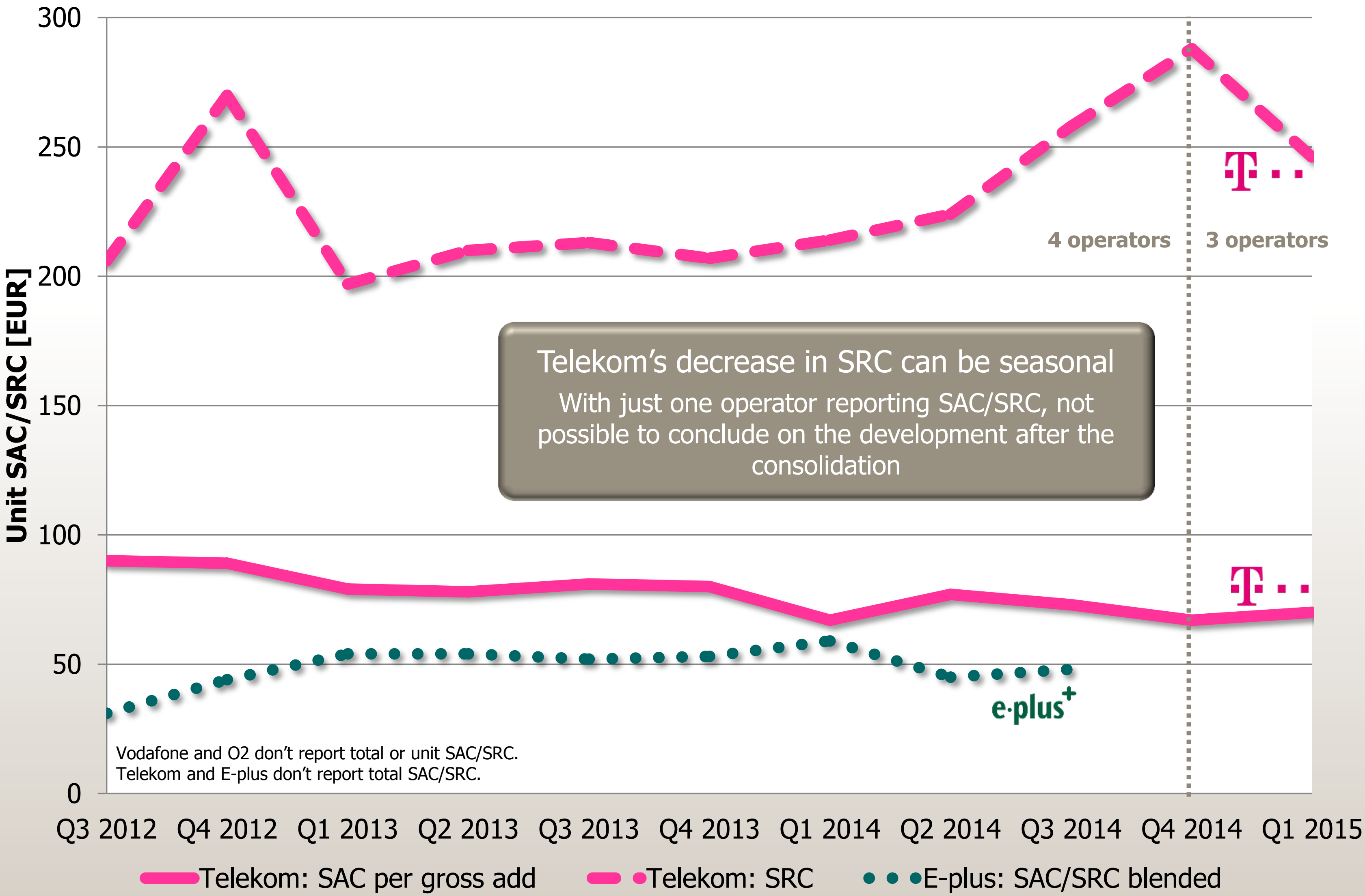
2 ...increase EBITDA? (1)



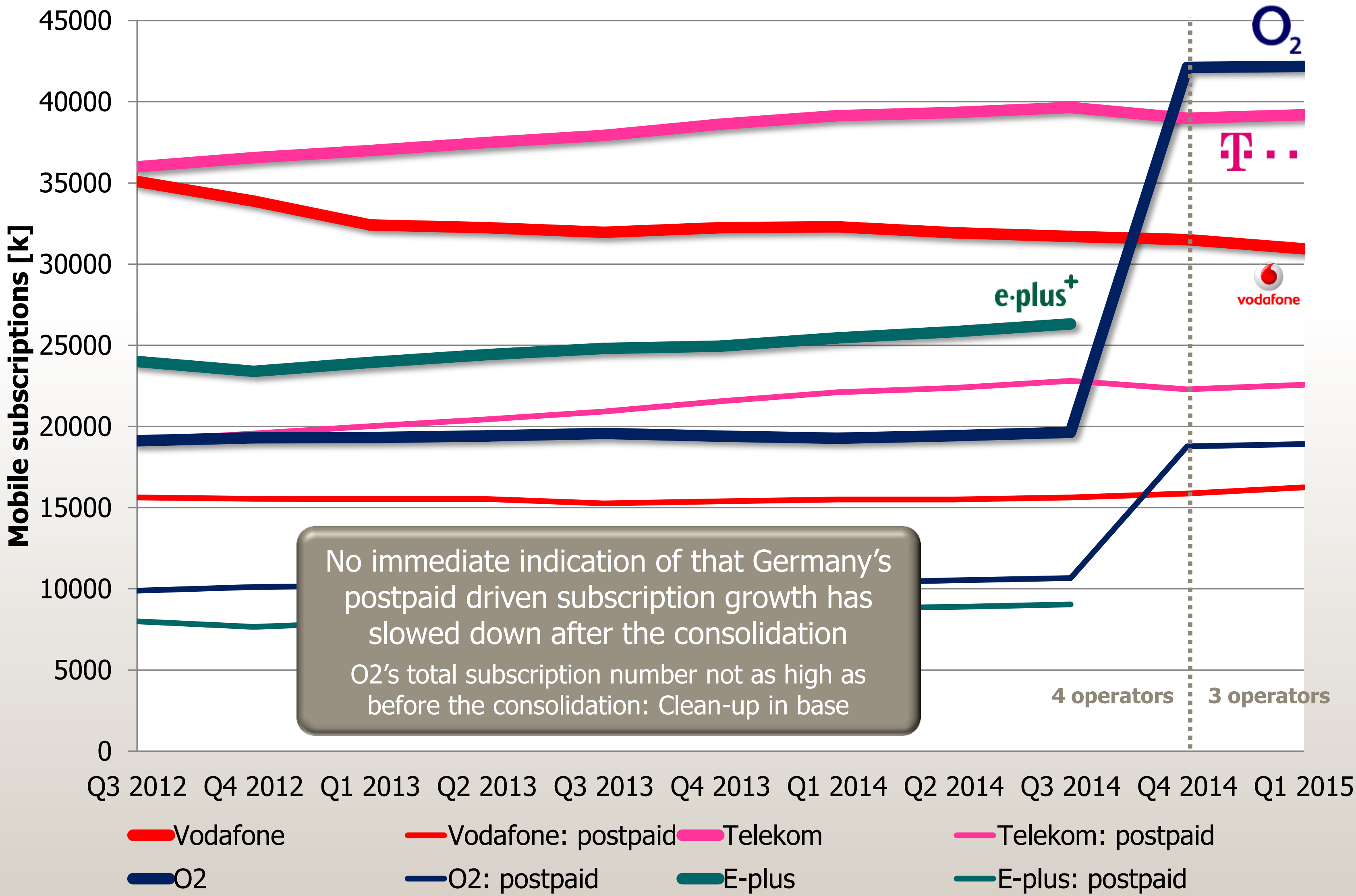
2 ...increase EBITDA? (2)



3 ...decrease SAC/SRC? ?



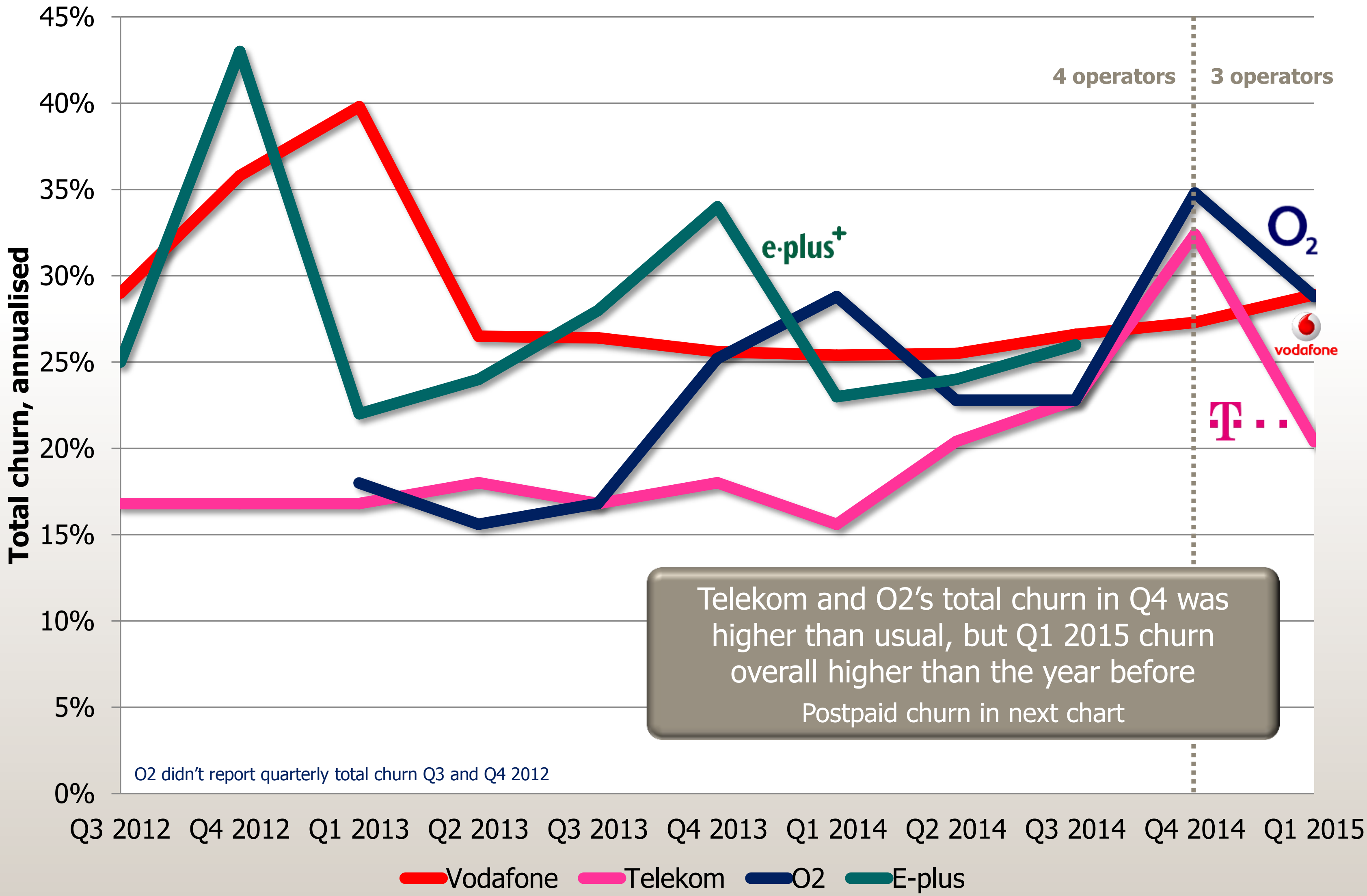
4 ...slow down subs growth?



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

5 ...decrease customer churn? ✗



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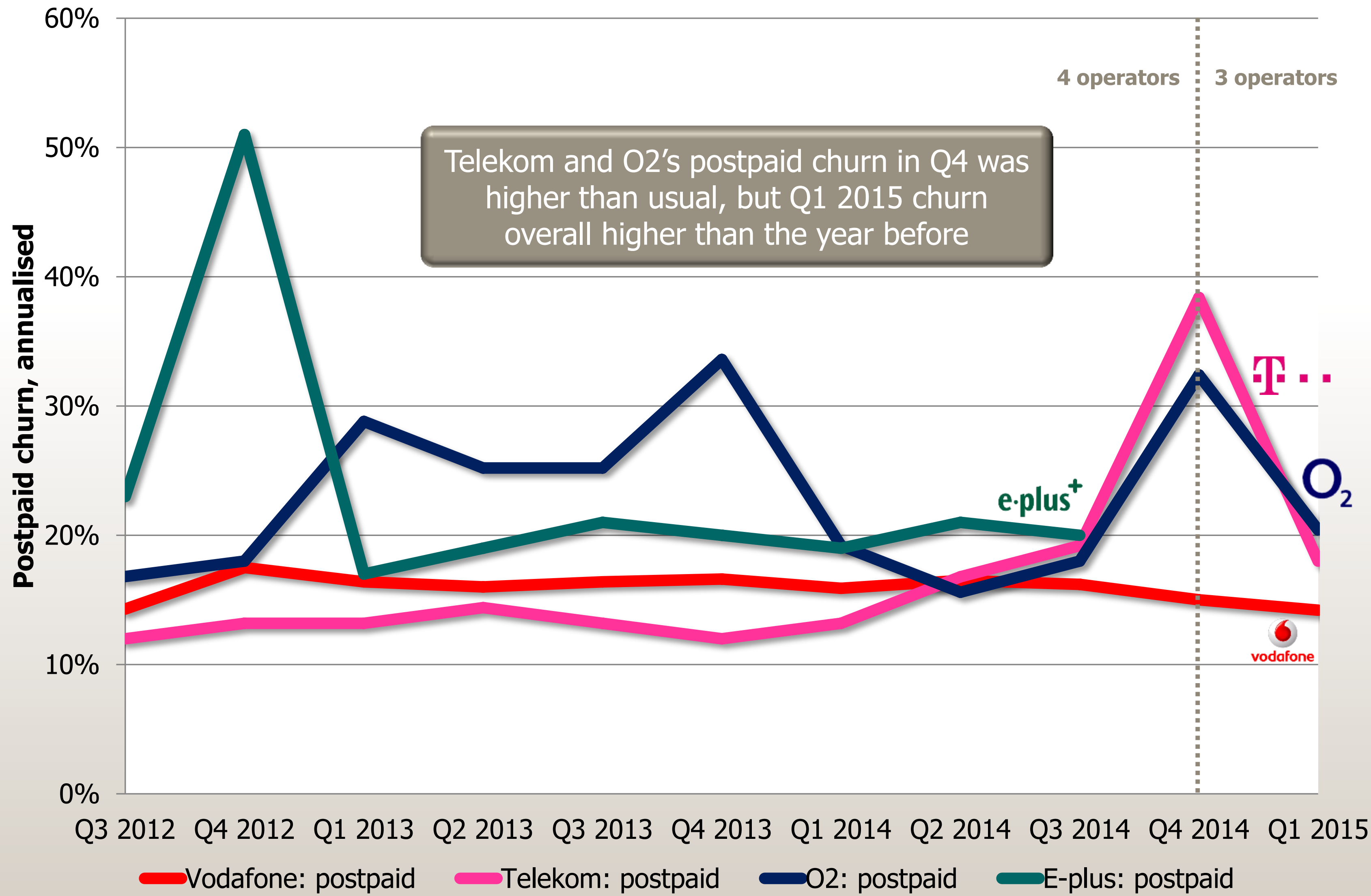
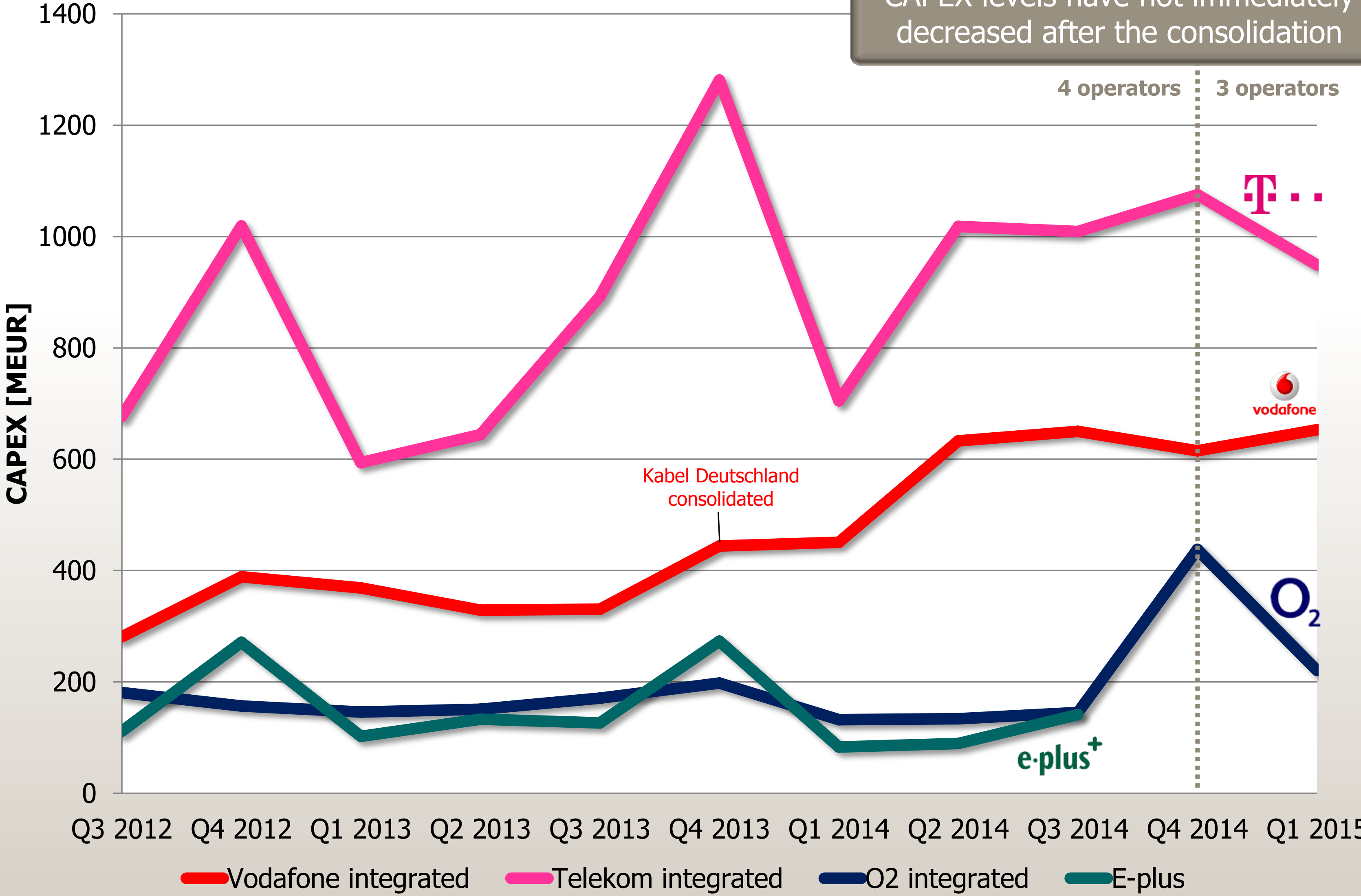
5 ...decrease customer churn? ✗

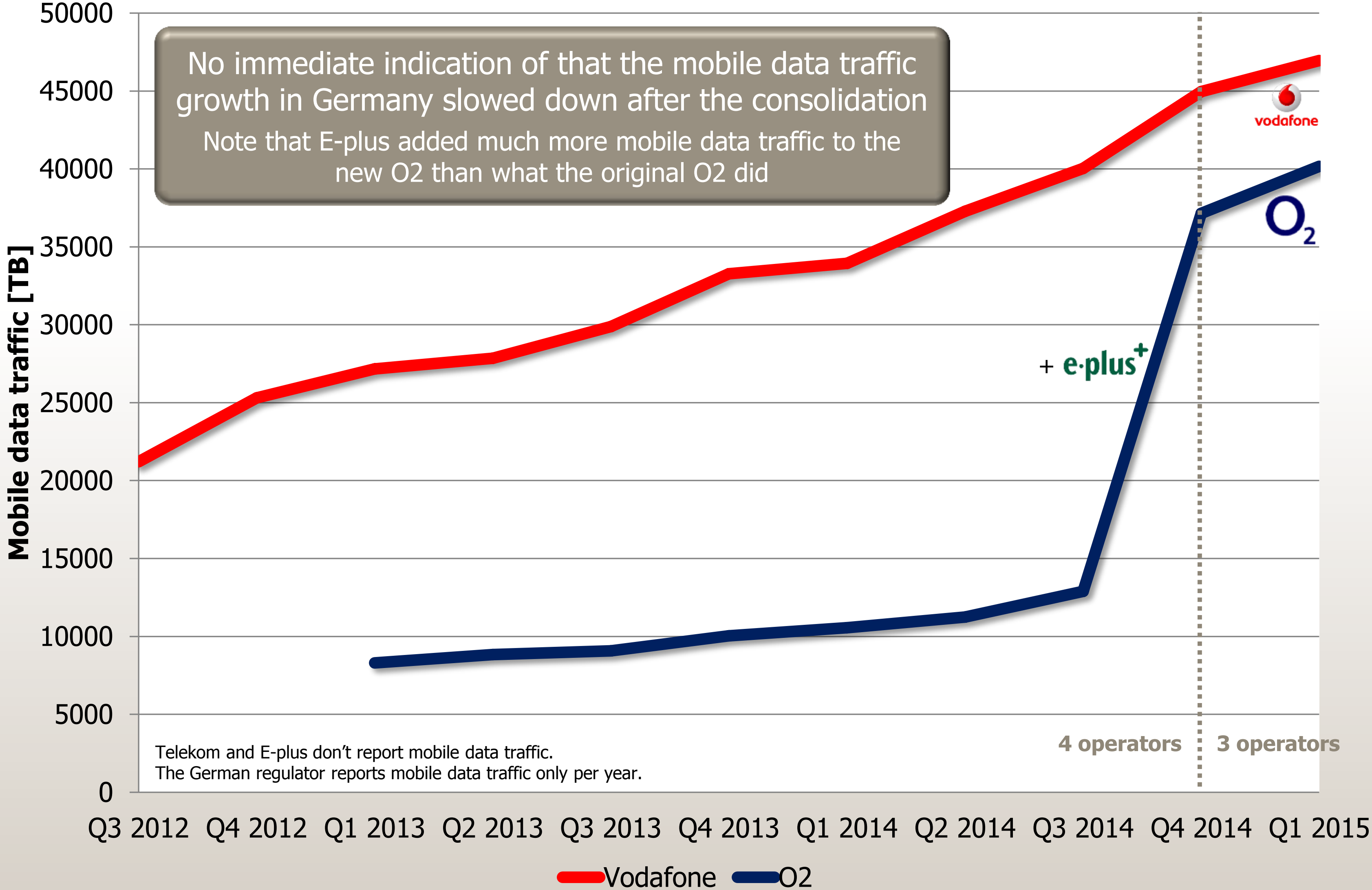


6 ...decrease CAPEX? ✗

CAPEX levels have not immediately decreased after the consolidation



7 ...slow down data traffic growth?



Questions

Germany

Did the consolidation...

1 ...increase revenues? ×

2 ...increase EBITDA? ×

3 ...decrease subscriber acqusition/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

Norway

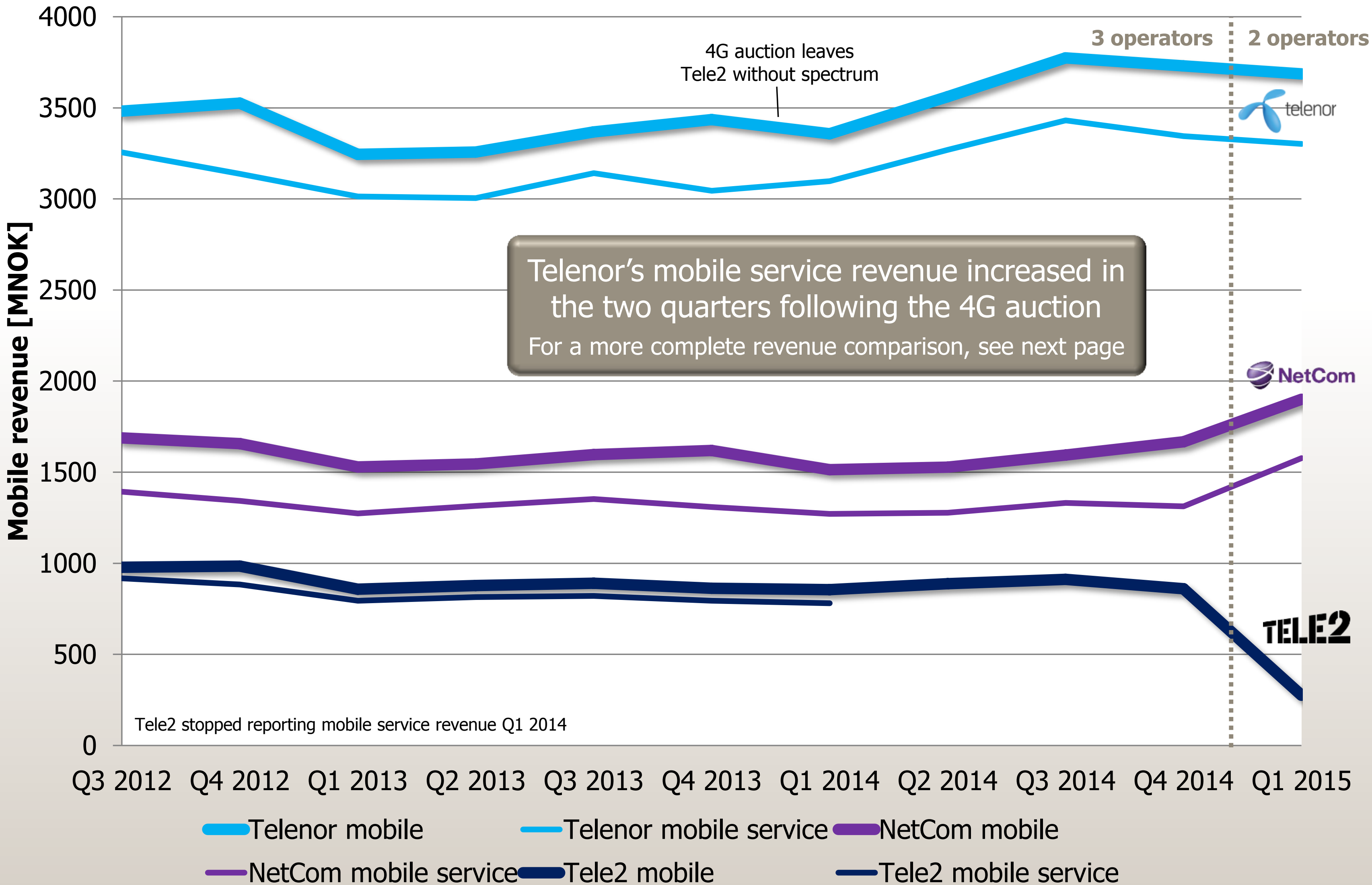
Background

Norwegian consolidation

Norway is not a member of EU

- 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

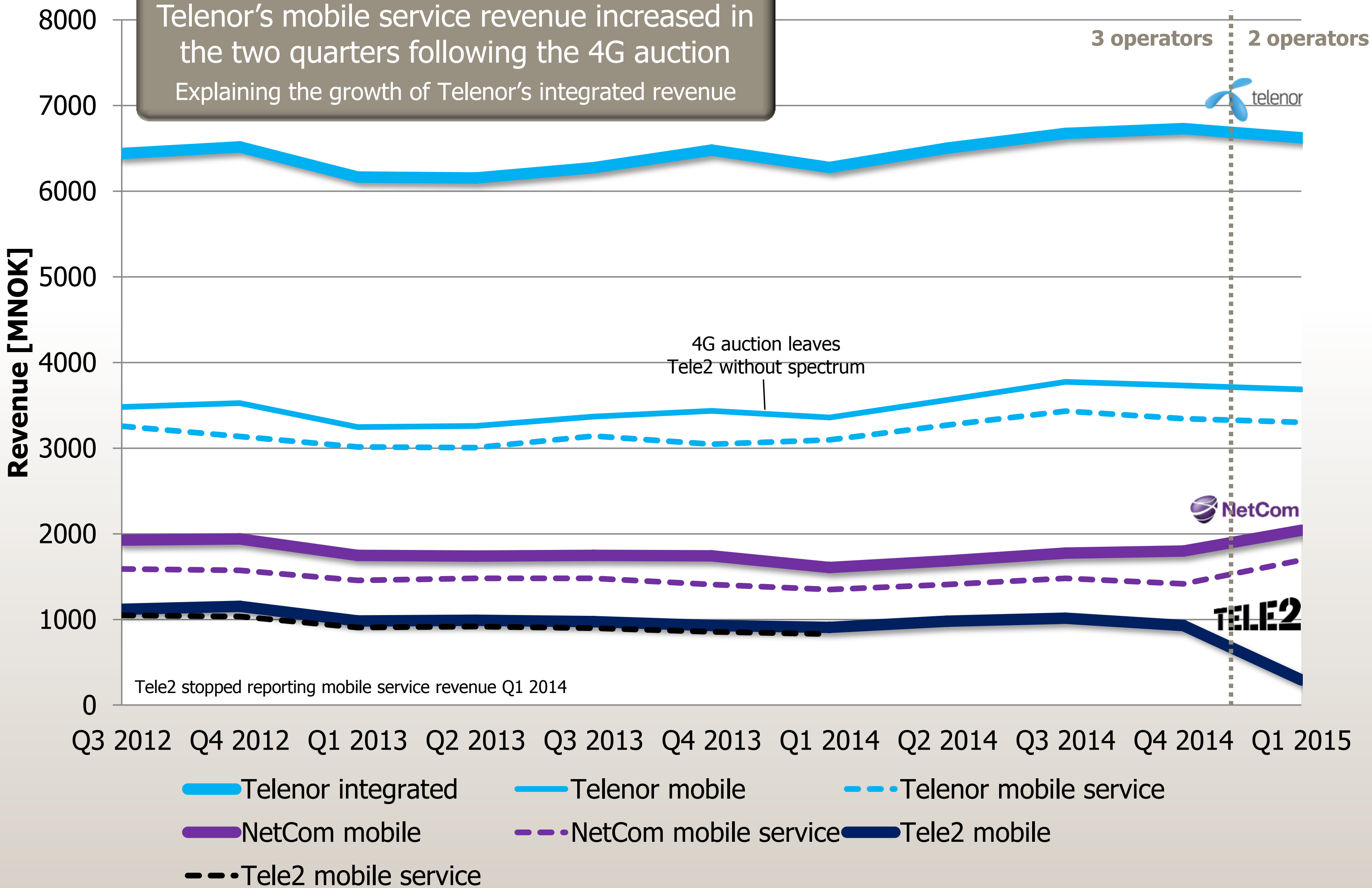
1 ...increase revenues? (1) ✓



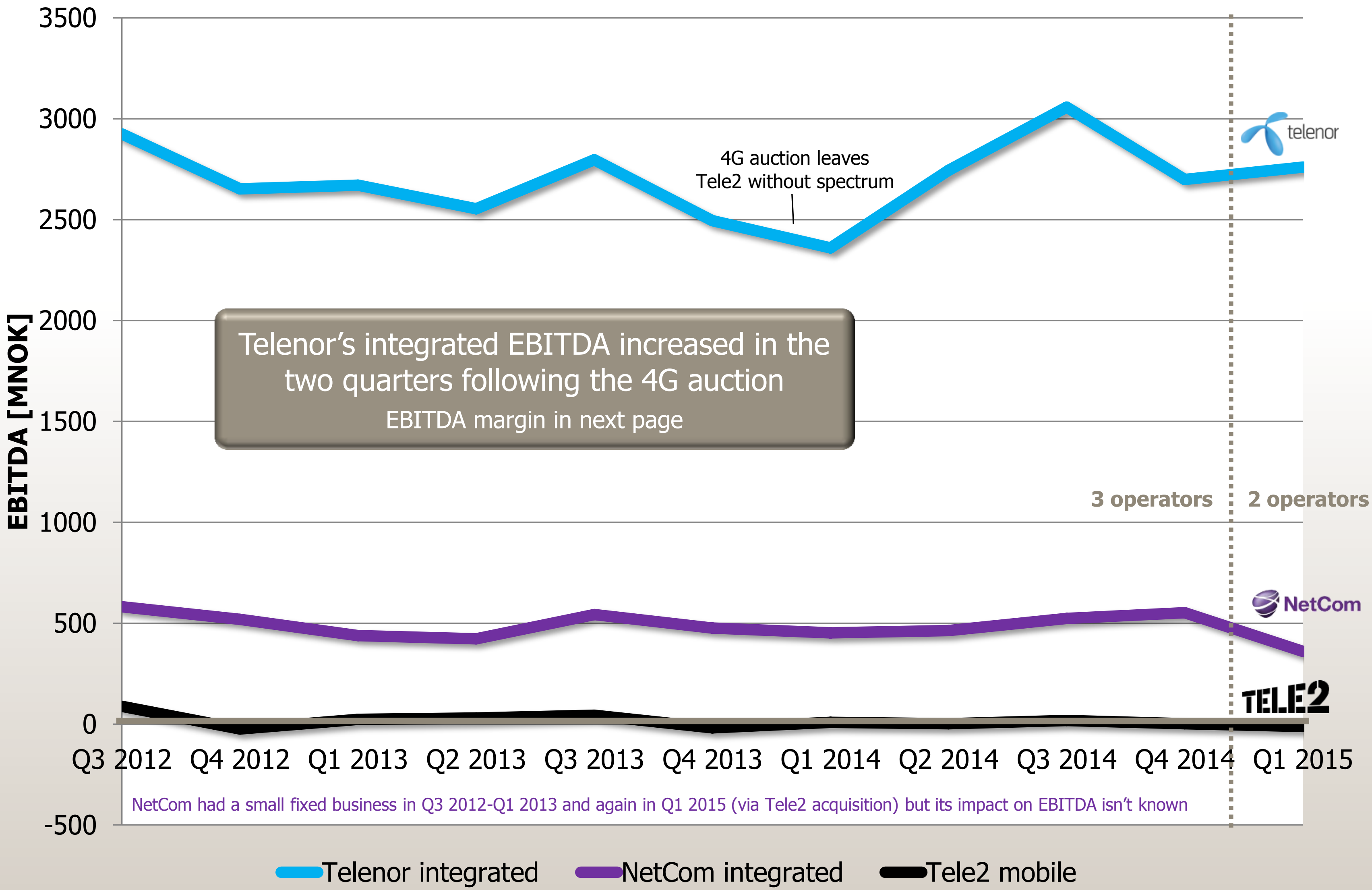
1 …increase revenues? (2) ✓

Telenor's mobile service revenue increased in the two quarters following the 4G auction

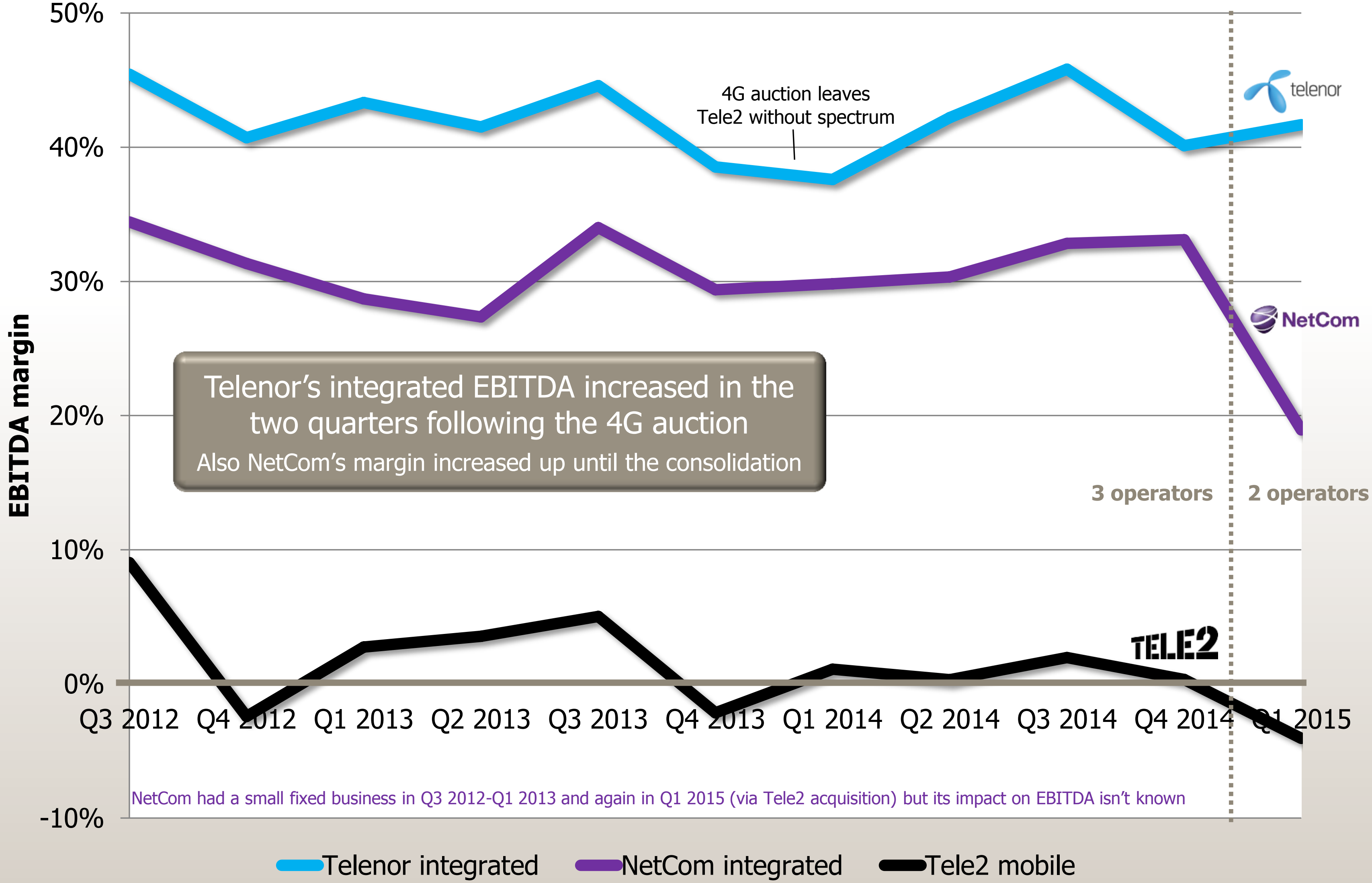
Explaining the growth of Telenor's integrated revenue



2 ...increase EBITDA? (1) ✓



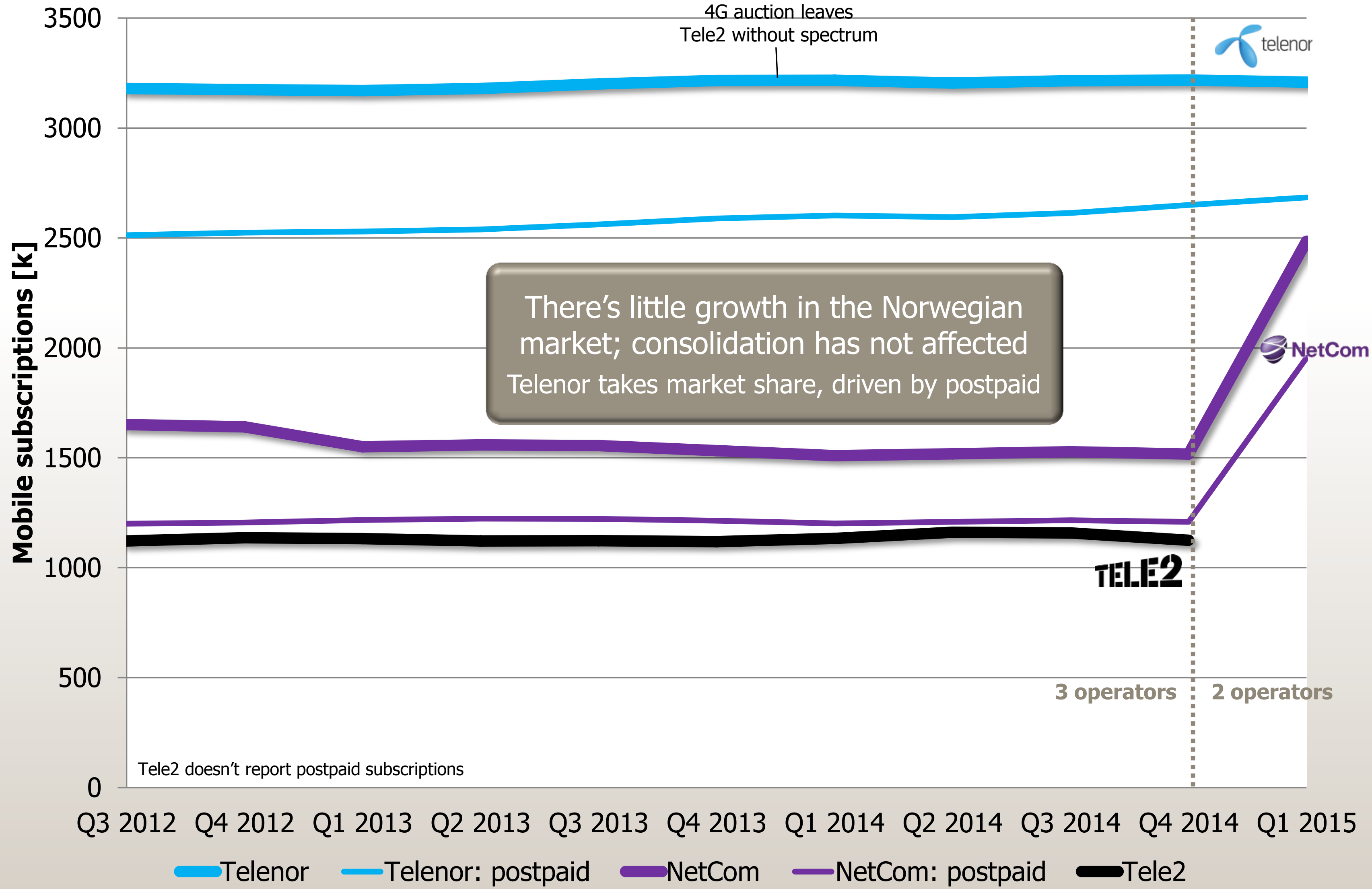
2 ...increase EBITDA? (2) ✓



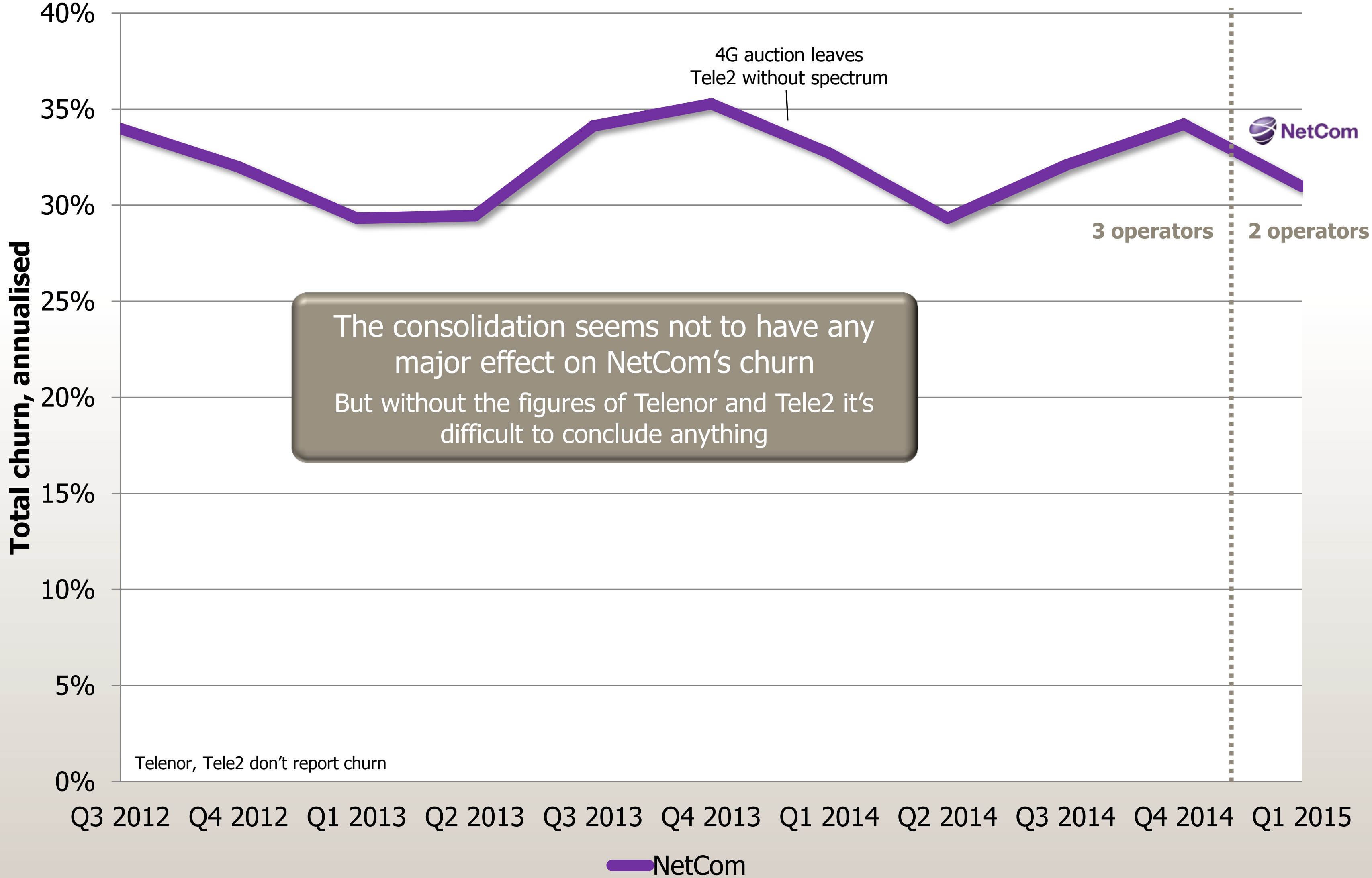
3 ...decrease SAC/SRC? ?

None of the Norwegian operators report SAC/SRC

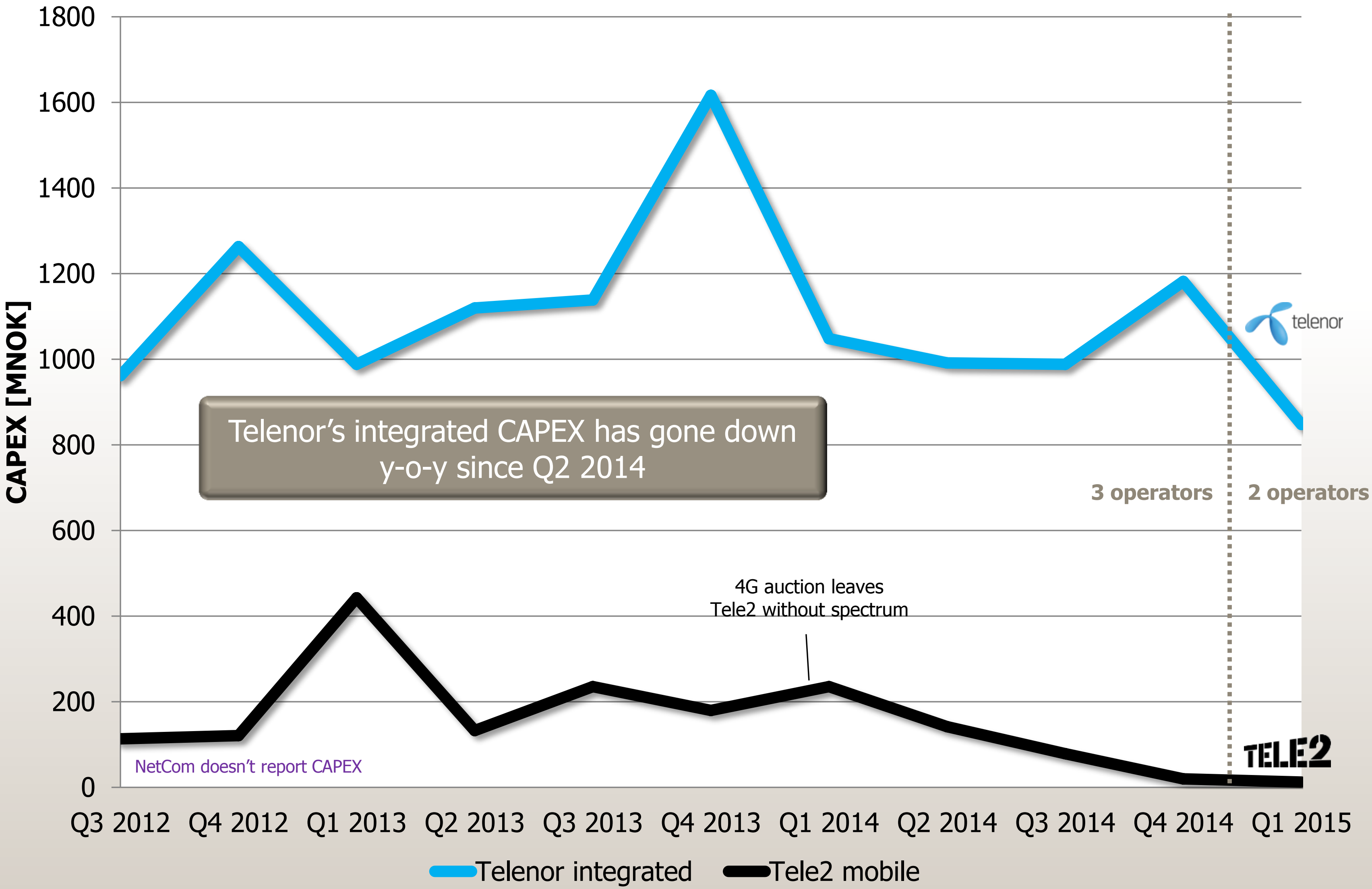
4 ...slow down subs growth? ✗



5 ...decrease customer churn? ?



6 ...decrease CAPEX? ✓



7 ...slow down data traffic growth? ?

None of the Norwegian operators report mobile data traffic and the Norwegian regulator doesn't do it quarterly

Questions

Norway

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3. ...decrease subscriber acqusition/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

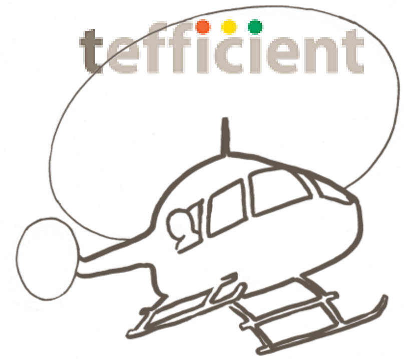
Conclusion

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

Give feedback via email analysis@tefficient.com or via Twitter @tefficient

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 acqusition and retention the most obvious indication
    - A1 has consequently lost customers, though



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