

# COVID-19: operators expect EBITDA margins to decline by low single digit percentage points in 2020

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Most operators have temporarily suspended their financial guidance for 2020 due to the COVID-19 pandemic. However, there is a general consensus that the COVID-19 outbreak will have a negative but temporary effect on EBITDA levels in 2020 (some operators believe that the percentage decline will be in the low single digits), and will lead to a slowdown in capex growth.

This article provides an overview of the impact that operators expect the COVID-19 crisis to have on their EBITDA and capex in 2020, based on reporting from over 15 operators, mostly in Europe and North America.<sup>1</sup>

## COVID-19 will lead to a reduction in some revenue, but also in some costs

There is already early evidence of the impact of COVID-19 on operator financial performance in 1Q 2020, even though lockdown measures were not introduced by governments until late March 2020 in most countries.

The COVID-19 crisis will negatively affect operator revenue, [as mentioned in our previous report](#), and certain categories such as mobile roaming, pay TV and advertising will be particularly badly hit. Verizon anticipates that its mobile service revenue growth will be “3 to 5 percentage points lower than originally expected in the second quarter [2Q 2020].” Sky reported that its pay-TV revenue fell by 5.8% in 1Q 2020 year-on-year as a result of lower sport subscription revenue, postponed production of sport-related content and lower advertising revenue. Altice USA expects that its revenue from advertising will fall by more than 30% year-on-year in 2Q 2020.

Operators also expect to see some opex reductions due to factors such as reduced churn rates and lower general and administrative expenses. However, credit losses will increase and some operators in our sample have already increased their bad debt reserves for 2020. Around 800 000 Verizon customers (mainly mobile) reported that their ability to pay has been directly affected by the COVID-19 pandemic in 1Q 2020, but other operators (such as Orange and Swisscom) have stated that they have not yet seen an increase in bad debts among their customers as of May 2020.

Several operators have stated that they plan to introduce cost-containment measures and to accelerate the implementation of cost-reduction programmes in order to compensate for the expected decline in revenue. Tele2’s CEO said that the company plans to “free up resources by reducing sales-driven costs, pausing or temporarily scaling down some initiatives while fast-tracking part of our planned long-term cost reduction.”

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<sup>1</sup> We have included the following telecoms operators in our sample: Altice USA, BT Group, Charter, Elisa, KPN, Orange, Proximus, Rogers, Sky, Swisscom, Tele2 Group, Telefónica Deutschland, Telekom Austria, Telenet, Telenor Group, Telia, Veon and Vodafone Group.

## Operators expect that their capex and EBITDA will be lower than previously anticipated in 2020

Almost all of the operators in our sample have lowered their capex forecasts for 2020. Orange's CEO stated that "there's no doubt that the current conditions will bring about reduction and slowdown or postponing of some capex during 2020."

Verizon is the only operator in our sample to have revised its 2020 capex outlook upwards (by USD1 billion to USD18.5 billion). The CEO said that this was "to facilitate Verizon's network activity and help support the economy during this period of disruption."

Uncertain revenue and declining costs mean that only a handful of operators have updated their EBITDA forecasts for 2020 (Figure 1). The CEO of Telenet stated that "for the full year 2020, we expect COVID-19 to have a moderately negative, yet temporary impact on both our revenue and adjusted EBITDA performance of around 2 percentage points." Tele2 said, "We see a known impact of roughly SEK50 million (USD5.1 million) per month in underlying EBITDAaL." This is mainly related to international roaming and equipment sales. Assuming that the COVID-19 outbreak lasts for 6 months, the EBITDA will fall by SEK300 million (USD30.7 million). This corresponds to a 2.5% decrease in EBITDA year-on-year. Only Elisa and Telefónica Deutschland have not changed their EBITDA outlooks for 2020.

**Figure 1: Anticipated impact of COVID-19 on EBITDA in 2020 for a number of selected operators, as reported in April-May 2020<sup>2</sup>**

| Operator                    | 2020 EBITDA forecast                                    |   | Notes   |
|-----------------------------|---|---|---|
|                             | Before COVID-19   | After COVID-19  |   |
| Elisa                       | Same level or slightly higher than in 2019              | Same level or slightly higher than in 2019              | Outlook unchanged   |
| Sky                         | Not reported  | Not reported  | EBITDA will decline by roughly 60% (year-on-year) in 2Q and 3Q 2020 combined  |
| Tele2 Group                 | Single digit growth                                     | Aiming for the same level as in 2019                    | EBITDA will decrease by SEK50 million (USD5.1 million) per month for the duration of the pandemic   |
| Telefónica Deutschland      | Broadly stable to slightly positive year-on-year growth | Broadly stable to slightly positive year-on-year growth | Outlook unchanged, but the operator is monitoring the potential impacts of COVID-19   |
| Telenet                     | +1% growth year-on-year                                 | -1% growth year-on-year                                 | The revised forecast includes only the impact of the lockdown between March and May 2020, excluding any additional potential lockdowns in 2H 2020       |
| Telenor Group               | +2-4% growth year-on-year                               | Reduced EBITDA growth                                   | Estimated that COVID-19 caused EBITDA to fall by NOK150 million (USD14.7 million) in 1Q 2020 (around 1% of EBITDA)                                      |
| Vodafone Group <sup>3</sup> | Not reported  | Flat or slight decrease in year-on-year growth          | A decline in roaming traffic is estimated to lead to a decrease in EBITDA of up to a EURO.5 billion (USD0.54 billion) in FY2021 (around 3.5% of EBITDA) |

<sup>2</sup> The following operators temporarily suspended their 2020 EBITDA forecasting due to COVID-19: Altice USA, BT Group, Orange, Proximus, Rogers, Telia and Veon.

<sup>3</sup> Vodafone Group's outlook refers to the 12-month period ending in March 2021.

| Operator | 2020 EBITDA forecast                 |                                      | Notes   |
|----------|--------------------------------------|--------------------------------------|---|
|          | Before COVID-19                      | After COVID-19                       |   |
| KPN      | Stable or slight growth year-on-year | Stable or slight growth year-on-year | Outlook unchanged, but the operator did not quantify the potential impact of COVID-19 |
| Swisscom | CHF4.3 billion (USD4.4 billion)      | CHF4.3 billion (USD4.4 billion)      | Outlook unchanged, but the operator did not quantify the potential impact of COVID-19 |

Source: 1Q 2020 operator reports and Analysys Mason

The telecoms industry has proven to be more resilient to economic crises than other industries, and operators expect that the effect of COVID-19 on EBITDA will be temporary. However, we are in the early days of a very fluid situation. The duration of governments’ restrictive measures and the economic impact of COVID-19 remain uncertain. Most operators appear to assume that the worst will be over by 3Q 2020 (at least in terms of lockdowns). If this is not the case, EBITDA levels may be driven down even further and for longer.