



Analysys Mason's predictions for M&A activity in the telecoms market in 2022



The year 2021 will be remembered as the busiest year ever for Analysys Mason's transaction support team. We were nonetheless able to set aside time to get together 'virtually' and brainstorm our top-10 mergers and acquisitions (M&A) predictions for 2022. This particular series of telecoms, media and technology (TMT) predictions always generates a great deal of interest among our readers, recording the largest number of click-throughs on our website last year. So this year again, we are giving our loyal readers the opportunity to discuss the trends we foresee for 2022, which is expected to be another record-setting year for the digital industry.

Prediction 1: telecoms operators will seek in-market consolidation deals to benefit from cost efficiencies



Telecoms operators continue their struggle to find growth within their core business. Some have taken action by branching out into adjacent areas and increasing their revenue contribution from cyber security, financial services, Internet of Things (IoT) and Industry 4.0, smart homes, healthcare and e-commerce. However, diversification does not answer the question of how to make the core connectivity business competitive in the long run, a goal that can only be achieved by seeking further cost efficiencies, as working on increasing revenue alone will not be sufficient.

In this context, Analysys Mason predicts further in-market consolidation as a means for operators to gain scale and decrease fixed costs. This theme is not just a prerogative of developed markets, we see it becoming increasingly relevant in emerging economies as telecoms markets reach competitive maturity and investment requirements do not fade away. Restrictive regulations in certain regions will continue to be a hurdle that is difficult to overcome, but we understand that policy makers are expected to shift their strategic priorities, thus allowing the creation of a more sustainable telecoms landscape over time.



Prediction 2: more operators will set up separate cloud and technology divisions, triggering a deal-making spree

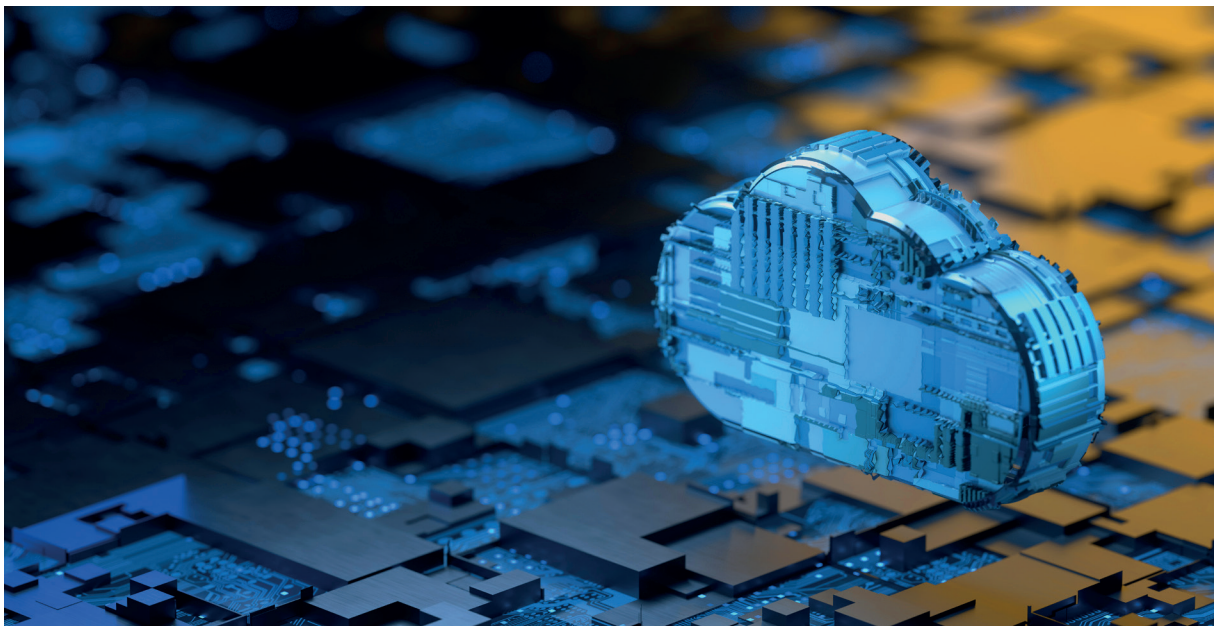
There is a big debate around the reliance of telecoms operators on juggernaut cloud service providers and their IT capability gaps to be competitive in the digital space beyond connectivity. Telecoms operators are following a dual strategy. On the one hand, they are inking partnerships deals to complement their capabilities, as in the case of T-Systems that created sovereign clouds in Spain and Germany with Google (see Analysys Mason's [Public cloud provider and CSP partnership tracker](#)). On the other hand, some telecoms operators are looking at strategies to bring more capabilities in house, for example Vodafone created Vodafone Technology with ambitions in Europe and Africa to hire (or retrain) 7000 software engineers to help innovate and launch new services/products.

More operators are expected to set up separate technology divisions to showcase their IT capabilities and allow these divisions to operate and grow independently from the core business. This strategic decision will trigger investments as the new entities can be expected to complement their technology

portfolios with targeted acquisitions such as the Geprom⁴ deal that was recently announced by Telefónica's Tech business or the three acquisitions made by NCS (Singapore-based Singtel's IT arm) to win capabilities in data analytics and cloud.

Technology businesses are growing at faster rates than connectivity businesses and, therefore, attract higher valuations. Some operators will look at the financial markets to benefit from this. We have already seen some examples with Saudi operator STC that spun off its technology division and launched an IPO in September 2021. STC Solutions trades at nearly twice the EBITDA multiple of its parent company, thus highlighting the shareholder value creation benefits of this type of deal. Telefónica is rumoured to be looking for a minority stake investor for its Tech division that covers its footprint in Europe and Latin America, while Italy's TIM may be looking for an investor in its cloud division Noovle.

⁴ Geprom is a technology-based engineering company with headquarters in Spain.



Prediction 3: IoT take-up driven by the COVID-19 pandemic will hasten private equity deals and consolidation

The telecoms industry has been awaiting the explosion of the demand for IoT to take place for a long time. Instead, take-up has been steady, but far from displaying the hockey stick curve many stakeholders hoped for. The good news is that Analysys Mason has seen [recent contracts for a larger number of connected devices than before](#), potentially driven by the rapid implementation of digital strategies due to the COVID-19 pandemic, and the industry feels there is more growth to come.

Growing demand and the presence of a very fragmented landscape at both the connectivity and

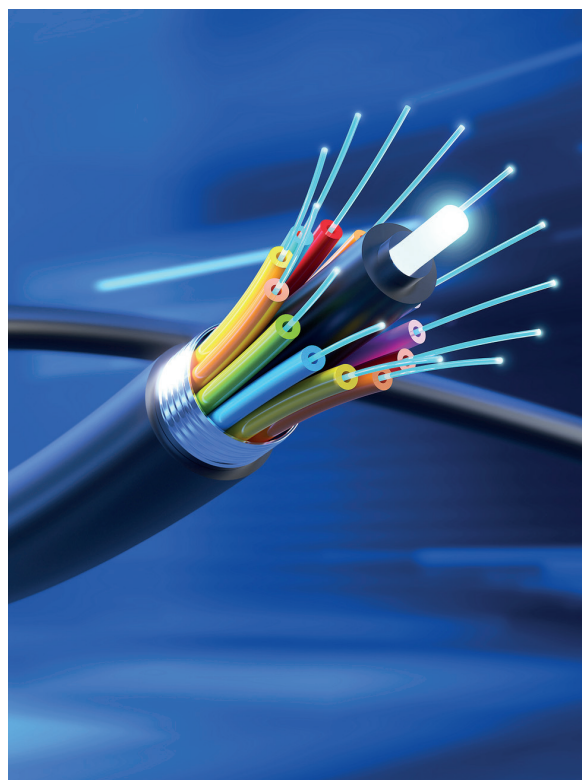
platform level is expected to renew the interest of financial sponsors in the IoT market. Analysys Mason predicts that private equity owners that backed winning investment platforms will aggressively drive a consolidation agenda to rationalise the sector. Analysys Mason also expects opportunities for investors in the network layer because there are scores of independent players operating LoRa networks, and Sigfox is going through a restructuring that has seen the parent company divesting its local operator Heliot in Germany, Austria, Switzerland and Liechtenstein. More divestments could follow in 2022.

Prediction 4: cable operators are turning coax into fibre and wholesale, which will create opportunities for financial investors

Cable operators have historically relied on DOCSIS upgrades to improve the quality of experience and remain competitive. However, cable operators' attitude towards fibre is shifting with an increasing number of players deciding to upgrade their existing footprint – hence, not just future roll-out – to full-fibre architecture, thus forfeiting the upgrade to the most advanced DOCSIS standards (such as 4.0). The reason behind this change in strategy is threefold:

- defensive, as coaxial overbuild by either altnets or incumbent operators is no longer a secondary strategic priority
- cost saving, as [fibre networks incur lower costs](#)
- wholesale ambitions, as resellers have historically shown a clear preference for fibre.

There will be opportunities for financial investors to support cable operators to finance the full-fibre upgrade, regardless of that being open or closed to third-party internet service providers.



Prediction 5: the tower market will undergo consolidation

Compared to the more mature US market, the tower market in the rest of the world remains fragmented. However, Analysys Mason expects the tower market to undergo consolidation, resulting in a maximum of four or five large players, plus smaller ones focusing on market niches, per geography in the long run. Financial and strategic – and to a lesser extent operational – incentives to aggregate assets across countries are clear and consolidation is likely to occur for towercos operating in a single market via mergers with larger international companies.

Consolidation is unlikely to happen within the next few years given that tower markets have different levels of maturity. For example, we see the consolidation

opportunity as being particularly relevant in Europe, and it is no coincidence that this is where competition authorities have started taking an interest in the passive infrastructure market (see recent developments in France and the UK), which could trigger further deal-making. The presence of captive towercos – mainly in Europe – is not necessarily an issue as mobile network operators (MNOs) have expressed their intention to operate those companies at arm's length (that is, independently) as much as possible. The alignment of priorities and interest between MNOs that own towercos could result in the creation of regional captive towerco champions active across multiple markets.

Prediction 6: there will be further consolidation in the SME market, while incumbents will consider their options for their B2B divisions

The rapidly changing landscape for enterprise connectivity and service provision is creating winners and losers, with buy/build strategies being the obvious thesis in the small and medium-sized enterprise (SME) market. Key types of players to look out for are network aggregators (preferably with modern SD-WAN cores) and platform businesses (voice/unified comms), particularly in low penetrated cloud markets (such as Germany).

For larger investors, conversations should be happening with incumbents. It is increasingly obvious that tying the enterprise division of an incumbent operator to its own wholesale products is not value-creating for shareholders and the division should be free to use any infrastructure it can. Analysys Mason expects the divestment of incumbents' enterprise divisions to become more commonplace as part of the inexorable vertical disaggregation of fixed incumbent operators.



Prediction 7: there will be more hyperscale data centre deals and new cloud regions



The cloudification of businesses is driving an increasing demand for hyperscale data centres around the world. The number of cloud regions required by hyperscalers is increasing as more markets are reaching the critical mass necessary to justify the investment. The demand for in-market presence and sovereign clouds will be key drivers to deploy new hyperscale data centre facilities in new markets. Asia-Pacific is particularly active from an M&A point of view at the moment, but we see this as a strong trend across all continents and in particular where hyperscalers lack a strong local presence.

We predict that more hyperscale platforms will emerge and that existing ones will be seeking opportunities to expand their footprint to address cloud service providers' challenges coming from building more and operating critical facilities in new markets. The key success factor will be to secure the relevant partnerships – anchor tenant – at the outset of the project. As stated in Prediction 2, there will also be opportunities for telecoms operators to play a role by setting up dedicated businesses to meet demand and leverage existing infrastructure to support hyperscalers as partners as opposed to competitors.

Prediction 8: investors will look for the 'edge' everywhere

Infrastructure investors increasingly talk about their future investments in edge data centres. The problem is that there is no commonly accepted definition of where the edge computing capabilities should sit. The location of the edge could vary significantly between use cases. Most recent investments focused on locations in Tier 2 or 3 cities outside the more established cloud regions, but have rarely gone further than that. For instance, Lumen built 75 edge locations in the USA and is able to offer <5m/s latency to 95% of US businesses, and Proximity Data Centres expects to be able to cover 95% of businesses in the UK with a handful of locations (<20). Edge – and micro-edge – computing has many promising use cases, but only a few have a clear business case at this point, with others needing more investigating.

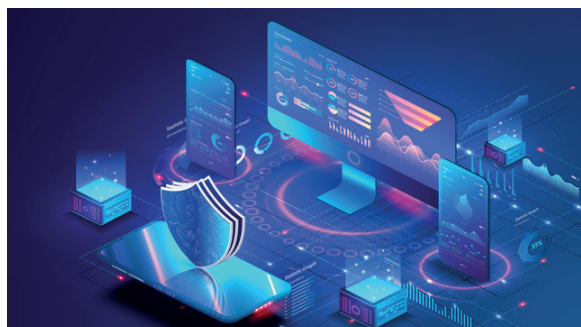
Investors face the challenge of needing to be ahead of the game and position themselves in a growing infra segment in spite of uncertainty on the demand side. The good news is that edge locations can be expected to sit alongside modern telecoms networks. As such, there is an opportunity to invest in selected telecoms assets (such as telecoms nodes at various levels within the fixed network hierarchy) that are likely candidates to be edge-computing locations and benefit from more stable and traditional anchor tenancy revenue from telecoms businesses. A good example is the strategy followed by digital infrastructure fund Digital Colony with its deals with Liberty Global and COLT.

Prediction 9: cyber security will continue to be a hot area for investment

We saw a flurry of high-profile M&A activity in the market in 2021. This included the merger of consumer security-focused giants NortonLifeLock and Avast, the purchase of McAfee Enterprise and FireEye by private equity group STG and the subsequent merger of the two vendors, and OpenText's acquisition of Zix Corporation to strengthen its portfolio for small and medium-sized businesses (it intends to integrate the assets of Carbonite, Webroot and Zix).

We expect this consolidation trend to continue in 2022, as many areas of cyber security remain very fragmented. We also expect private equity investors to continue to seek opportunities in areas of cyber security that are not the focus of investors in public markets (for example, email security specialists Proofpoint and Mimecast were acquired by private equity groups Thoma Bravo and Permira, respectively, in 2021). The private equity groups hope to increase the value of these businesses and take them public again in a couple of years.

2021 was also a year with significant IPO activity in the cyber-security market. SentinelOne went public in the highest-valued cyber-security IPO ever in June (its implied valuation at its opening stock price was USD8.9 billion). Darktrace, a UK-based vendor, went public on the London Stock Exchange in April, in a rare cyber-security IPO in a European stock market. We expect to see further significant cyber-security IPOs in 2022, primarily those of endpoint security specialists, and most likely of Bitdefender and Cybereason.



Prediction 10: ESG topics will become increasingly relevant for financial investors

Operators have started to focus on green issues and sustainability as part of their environmental, social and governance (ESG) strategies to satisfy the expectations of investors, regulators and consumers. 46% of respondents to Analysys Mason's consumer survey considered operator sustainability goals to be 'important' or 'essential' in their buying decision in 2021 ([listen to the podcast](#) and [read the article](#)).

Analysys Mason predicts infrastructure investors to include more ESG themes in their due diligence processes. Investments in telecoms are closely linked to ESG priorities. Deals with a positive ESG impact will

have much higher chances of being approved by investment committees and shareholders. Many initiatives can be measured in terms of carbon footprint reduction and higher digital inclusion. Telecoms investments – given the enabler nature of telecoms networks – have further spill-over effects on other sectors that must be digitally enabled to achieve their own ESG goals. This upside is harder to measure, but it should not be forgotten by the investment communities when taking capital allocation decisions. The possibility to access the green bond market could be beneficial given the success demonstrated by operators in issuing green bonds at attractive yields.

It is worth mentioning that most of the themes covered in our [2021 M&A predictions](#) are still relevant for 2022. We would be pleased to further discuss our top predictions and those, no less important, that did not make the shortlist this year. We expect 2022 to be another exciting year for deal makers and we plan to share this journey with our clients as your most trusted commercial and technical adviser.

Analysys Mason is the commercial and technical adviser of choice of several major financial investors and industry players thanks to our exclusive focus on telecoms, media and technology (TMT) and the experience that we have gained in over 600 transaction support assignments worldwide during the last 5 years. 2021 was our biggest year ever with around 180 assignments, thus showing a great acceleration of activities thanks to our team expanding across domains and geographies.

Do you have any comments on our M&A predictions for 2022? Please get in touch with the author, Alessandro Ravagnolo (alessandro.ravagnolo@analysismason.com).

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