



Analysys Mason's predictions for M&A activity in the telecoms market in 2019



The telecoms sector will experience plenty of M&A activity in 2019 due to the emergence of the infrastructure wholesale business model and new technologies that will create good opportunities for investors. Here are Analysys Mason's top-10 predictions for M&A activity in the telecoms market in 2019.

Prediction 1: acquisition multiples for infrastructure assets will continue to soar



Acquisition multiples for infrastructure assets (such as telecoms towers, fibre networks and data centres) will continue to increase. This increase will be driven by:

- the need of infrastructure funds and pension funds to deploy the capital raised recently.
- a shortage of infrastructure assets in the market.

Prediction 2: infrastructure carve-outs will become more common



Infrastructure funds will increasingly bid for vertically integrated operators and will split the asset to create more infrastructure-like vehicles and avoid competitive sales processes that often end in aggressive bidding wars among investors. A consortium led by Macquarie demonstrated this opportunity when it acquired TDC Group¹ and its operations in Denmark and Norway for USD6.6 billion in February 2018.

Operators will initiate more carve-outs of core infrastructure to benefit from the strong demand and increase the company's value for shareholders. The momentum of tower sales and lease-back deals will therefore continue in 2019 and a similar model will be applied to fibre as Altice demonstrated in France.² AT&T and



Verizon in North America have demonstrated that data centres are another asset class that can be monetised and other operators, such as KPN and Telefónica, are likely to follow their example.

¹Analysys Mason acted as commercial and technical advisor to Macquarie throughout the acquisition process.

²Analysys Mason acted as commercial and technical advisor to Altice throughout the sales process.

Prediction 3: financiers will put pressure on European fixed incumbents to separate and to sell stakes in access networks



Financial markets will put pressure on fixed European incumbents to separate their retail operations from the infrastructure and to sell a stake in their access networks. This pressure will come from a combination of factors, including:

- under-valuation of the infrastructure due to high trading multiples for this sort of asset (see Prediction 1)
- the need to raise capital to support fibre roll-out to face increasingly aggressive challengers.

Prediction 4: discussions about the benefits of creating a full-infrastructure business model will intensify



Financial and strategic investors will be increasingly interested in combining different telecoms infrastructure under the same roof, but a full-infrastructure business model is yet to come. Most infrastructure service providers generate most of their revenue from a single asset class (for example, towers, data centres or fibre) but we will see more convergence and differentiation in the future as infrastructure players seek to benefit from revenue synergies and economies of scope.

Infrastructure funds are already active across multiple asset types and can act as aggregators.



Prediction 5: the fibre deployment value chain will experience an increasing level of M&A activity



Investment in fibre network expansion will put pressure on the roll-out value chain (for example, telecoms infrastructure service companies), which will need to grow and consolidate to address its bottlenecks and meet the demand from established and new operators. This trend could represent an investment opportunity for smaller financial investors that want to benefit from the momentum of fibre investments [as discussed in a separate article](#).

Prediction 6: private equity firms will shop around for B2B cloud service companies



Private equity firms will renew their interest in the fragmented landscape of specialist B2B cloud service companies. This interest will be driven by increasing demand and the opportunity for consolidation, which offers equity firms a credible exit story for investors.



Prediction 7: operators' M&A agendas will be dictated by the need to strengthen their enterprise and IoT capabilities



Operators were involved in large M&A deals in 2018 (for example, [Vodafone–Liberty Global](#), [AT&T–Time Warner](#), [Comcast–Sky](#)). We expect the number of strategic M&A deals to be limited in 2019, although these isolated cases will involve large transactions.

M&A activity led by operators will largely focus on small acquisitions to expand their capabilities and boost their presence in the enterprise (including the cloud and IoT markets) space [as discussed in a separate article](#).³

³ For more information, see Analysys Mason's Enterprise-related M&A tracker. Available at www.analysismason.com/enterprise-manda-tracker-ren01-ren02-rdmz0.

Prediction 8: 5G is coming but it will be operator-led, limiting the financial investors' M&A opportunity in 2019

Fixed-wireless access (FWA) operators believe that 5G will make their business model more viable than in the past and, thus, attract funding. However, FWA operators will be limited by the shortage and high price of spectrum for 5G. Mobile operators will seek to acquire more spectrum from broadband players, but the MásMóvil–Eurona and Fastweb–Tiscali deals show that mutually beneficial deals may be done when mobile operators buy the spectrum licence only rather than the whole company.

Companies will launch new enterprise 5G business models and wholesale/neutral-host operators (for example, for small cells) that may trigger a wave of M&A deals, but we expect this to happen after 2019.



Prediction 9: more IoT MVNOs will find new owners



Arkessa, Stream, Transatel and Wireless Logic all gained new shareholders during 2018, often for substantial multiples [as discussed in a separate article](#). We expect this trend to continue in 2019.

Prediction 10: network virtualisation/cloud native will continue to support the ‘innovate-and-sell’ investment thesis for challenger software



The telecoms software space has been active from an M&A point of view – new technological trends, such as network virtualisation, have created the opportunity for new companies to emerge with innovative products. Much of the time, these new companies are acquired by the larger vendors that have the platform and the reach to monetise the product. This dynamic will not change in 2019 and private equity firms will hunt for medium-sized companies that need financial support to commercialise their products and that could be later sold to the leading industry vendors.



Analysys Mason is the commercial and technical advisor 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 350 transaction support assignments worldwide during the last 5 years.

Do you have any comments on our M&A predictions for 2019? Please get in touch with the author, [Alessandro Ravagnolo](mailto:alessandro.ravagnolo@analysismason.com) (alessandro.ravagnolo@analysismason.com).



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