On the lookout for new business

Away from the headline deals, some of the most interesting M&A activity has indicated a growing focus on new business segments.

The market for telecoms M&A is poised for a surge in activity in 2015, after several moves late last year began shaping the landscape for potential buys going forward. Buoyant trends in the overall number and value of deals are thus set to continue this year.

The appetite for global telecoms M&A maintained a healthy outlook in 2015 as carriers sought to continue towards consolidation in many markets. A variety of interesting activity took place not only from the perspective of traditional telecoms assets, but also in fresh business areas – so a set of diverse drivers looks likely to propel M&A activity into 2016.

Some observers believe that, moving forward, carriers will seek further deals involving the cloud and data centres and broaden into new business verticals, as well as building their potential in areas such as machine-to-machine (M2M) and the internet of things (IoT) in a bid to see off ever-increasing competition from over-the-top (OTT) players.

As a gauge of the overall buoyancy of telco M&A, financial-data company Mergermarket estimates that the value of global transactions in the sector rose from $224 billion in 2014 to $260 billion last year – even though the number of deals remained almost the same, at 194 compared with 196. Furthermore, the value of deals has been sustained between these levels for the past three years, roughly double the numbers reported for several years before in the wake of the financial crisis.

So full-steam ahead for the coming year? Not exactly, it turns out. Although the appetite for deals may well be there, a couple of factors mean it is not totally clear-cut how things will develop. One is that the regulatory outlook for large-scale deals in Europe is slightly hazy, following a few events towards the end of last year that muddied the waters.

This began last September, when TeliaSonera and Telenor pulled out of the merger of their mobile operations in Denmark, after being unable to reach an agreement with the European Commission on its conditions for ensuring the market remained competitive. Some observers interpreted this as the EC growing frostier on consolidation, even though it had seemed to soften its stance just the previous year in allowing Three Group's buy of O2 Ireland and Telefonica Deutschland to snap up German mobile operator E-Plus. This has therefore raised question marks about other deals, such as some of the consolidation activity in the UK.

Another source of potential deal uncertainty this year comes from reports that emerged at the back end of 2015 of a slump in the leveraged finance markets in North America and Europe, which could make debt financing for deals more expensive and challenging. Joseph Radecki, head of telecommunications for KPMG Corporate Finance, says he hesitates to say the market will see a meaningful reduction in M&A deals as a result, but that it could pose a risk.

NEW AVENUES

But even if there are hold-ups in headline consolidation deals, carriers still have the chance to spread into adjacent business markets, as well as seek cloud and data centre acquisitions in a bid to improve their position in the enterprise IT space. And Matt Walker, an analyst at Ovum, points out that such deals are relatively easy compared with in-market consolidation because they tend to raise far fewer regulatory issues. "These deals come in many flavours. They're not the largest or most frequent, but this is the area to watch over the next few years," says Walker. He says targeted acquisitions can aid telcos that are trying to become cloud players in terms of gaining fresh infrastructure and skill sets – and points to the example of NTT Communications, which he cites as becoming an important global cloud player over time by purchasing a series of companies in that space. For NTT Com, this trend continued in 2015, chiefly through taking an 86.7% stake in Germany-based European data-centre operator e-shelter last June – consolidating the increasingly strong presence the company has established in Europe in recent years by gaining assets in the key data-centre market of Frankfurt and other German cities, as well as Austria and Switzerland.

The ethos behind this type of deal, says Michael Wheeler, EVP of global IP network business unit at NTT America, is that "we really see ourselves as being an ICT provider, not just a telco", and that having co-location facilities from the ground up helps to avoid missing out on key margins. Last year, NTT Com also bought Cyber CSF, a data centre provider in Indonesia, to strengthen in a market where it had already seen considerable growth. Wheeler expects the carrier's M&A activity this year to be on a similar scale of that in 2015, with maybe one big deal on a level comparable to that of e-shelter and one or two smaller ones. Another carrier that has made significant strides in the enterprise and data-centre arena is Telstra, which wrapped up its purchase of telecoms provider Pacnet last year. Paul Abfalter, director of Pacnet integration at Telstra, refers to the sheer scale that this gives the company: "The combined network now represents up to 30% of intra-Asia lit submarine capacity, and a footprint of 58 data centres around the world," he says.

WHAT NEXT?

Ovum's Walker believes that future acquisition targets for telcos could include cloud and data-centre players such as Equinix, Rackspace, DuPont Fabros and Digital Realty, although it is unclear whether these could happen in 2016 or the longer term. In any case, he expects that as 2020 approaches, data centres will play a growing part in the service offerings of carriers, which will attach diminishing importance to whether a vendor is from the IT or telecoms world as telcos also provide more services in new business areas. "M&A is not driving all of these changes, but is accelerating them," he says.

Conversely, he says, data-centre providers themselves could eventually evolve through acquisitions and investments to become more akin to enterprise-focused telcos. And by doing so, they could in fact become even more attractive to traditional carriers.

Indeed, several significant intra-market transactions took place within that space last year. In late 2015, for example, Equinix gained clearance for a deal to acquire TelecityGroup in a bid to broaden its network and cloud density in Europe. The deal officially completed on January 18, 2016. And in September, Interoute struck a deal to buy Easynet.

But for telcos, there is also reason to exercise caution in this area, and there are some developments that hint at uncertainties going forward. At the time of writing, rumours emerged in the press that in the US, Verizon had begun a process to sell its data-centre assets, including those it gained from the acquisition of data-centre provider Terremark in 2011. AT&T and CenturyLink have also allegedly been considering the offload of assets, with some attributing this to fierce competition from public cloud providers such as Amazon and Microsoft.

Tom Mannion, director of valuation and business analytics at BDO, an international network of public accounting, tax and advisory firms, reflects on how such players are reshaping the entire market and the stiff challenge that telcos have facing up to them. "With cloud, how can they compete against Amazon and these new types of players? I don't know the answer to that," he says. "Amazon is jumping dramatically into cloud computing… and is a dynamic force in that marketplace."

Nonetheless, he believes carriers will ultimately need to make acquisitions in areas such as data centres, the cloud, machine-to-machine (M2M) communications and the internet of things (IoT), and work out how to make the most of these opportunities, given that their traditional revenues are being eaten into from all sides.

DIVERSE PURSUITS

Some carriers are looking into M&A in the area of M2M and other new business segments as ways to bolster their overall digital offerings in a bid to keep up with the transforming market – with different players pursuing diverse routes to achieve this.Verizon wrapped up its $4.4 billion acquisition of AOL last summer, with a view to capitalising on the company's leadership in the digital content and advertising space. In announcing the deal, the carrier said the acquisition would also "support and connect to Verizon's IoT platforms, creating a growth platform from wireless to IoT for consumers and businesses". However, the company would not comment on what this will entail.

Meanwhile, Orange Business Services acquired fleet-management and vehicle-tracking solutions company Ocean last April, boosting its M2M offerings in this area. "Fleet management is at the centre of the customer experience and connected objects," says Olivier Ondet, director of marketing, strategy and communication for Orange Business Services.

This move came a mere month after Orange announced its new Essentials2020 strategic plan to meet the changing needs of the telecoms market in areas such as IoT, Big Data and the cloud, including an objective of increasing the contribution of IT services to the revenues of Orange Business Services by 10% by 2020. Not only that, but the company also announced at almost the same time that it had struck a deal to acquire the remaining shares in Cloudwatt, the cloud services provider it established with the French government, to help strengthen its enterprise cloud services – another key focus of Essentials2020. And this came just after Orange launched Digital Ventures, which aims to support start-ups in areas such as IoT, the cloud and enterprise data, in line with other operators that have launched similar ventures in recent years.

All these moves suggest that Orange is seeking to pursue a diverse approach to the transforming market, and that a key to this will be strategic acquisitions to put it at the centre of this. Other carriers are also looking at new areas, with Telecom Italia finalising deals in the automotive and education sectors last year and seeking to also refocus away from the traditional business towards other sectors such as ICT security, smart enterprise and smart retail. The company has also merged its Olivetti and Telecom Italia Digital Solutions units to aid the transition towards digital innovation.

"The focus of Telecom Italia acquisitions in 2015 was mainly on expanding the portfolio of services beyond the traditional core business, leveraging on the market opportunities offered by digital innovation," says Claudia Ballardin, head of operational M&A at Telecom Italia.

Telstra has its own approaches to the transforming market. "The telco market, like many others, is going through significant change due to global economic factors, rapidly evolving consumer trends and technology-driven disruption," says Scott McGibbony, director of corporate strategy at Telstra.

"This environment brings its challenges, but also opens up investment opportunities, especially for telcos willing to take a broader view and embrace the opportunity to be a leader in technology and innovation."

Apart from its Pacnet buy, Telstra has sought among other things to grow the health business that it launched towards the end of 2014 through a number of acquisitions last year of players such as health analytics firm Dr Foster and telemedicine solutions company Anywhere Healthcare. As McGibbony explains, "health is an example of how we are rethinking ourselves at Telstra as a technology company rather than as a traditional telco. As a telco, we bring the experience in connectivity and technology to drive change and efficiency in a sector characterised by rapidly growing costs."

For telecoms carriers, says Mannion, the main thing is to try and prepare for how the market may change in the future, even if the path ahead is not entirely clear – and how this pans out will help shape M&A. The key question, he says, is "how is the market going to shake out? These telecoms companies have to be positioned today for the market of tomorrow."

"The combined network now represents up to 30% of intra-Asia lit submarine capacity."

— Paul Abfalter, director, Pacnet integration, Telstra

AFRICA & MIDDLE EAST

TOP FIVE LARGEST COMPLETED DEALS IN AFRICA & THE MIDDLE EAST 2015

05.06.2015	Public Investment Corp.	ACQUIRED	Vodacom	$2.1 billion
27.08.2015	Cellcom Israel Ltd.	ACQUIRED	Golan Telecom Ltd	$300 million
21.04.2015	NATCOM	ACQUIRED	Nitel/Mtel	$252 million
22.02.2015	Orange	ACQUIRED	Mobinil	$237 million
05.06.2015	Millicom	ACQUIRED	Zanzibar Telecom Limited	$74 million

Source: **Capacity Intelligence**

Observers have talked of the potential for consolidation in Africa's telecoms industry, with a report by Moody's Investors Service last May predicting how the market might change.

Moody's said it anticipated that consolidation would ramp up in African markets as operators sought opportunities to cut costs and grow their market share, especially third- and fourth-Tier operators – and that activity would take place in countries with upwards of four operators or where there are telecoms players with a market share below 15%.

"We expect regulators... to favour transactions that support market stability and further capital investment and the expansion of service offerings," said Moody's.

The report added that "cross-market consolidation will be less challenging for the larger regional operators to pursue where greater geographic diversification and sizable market shares can be achieved", while European operators might leave African markets in which they have relatively small shares as they refocus on domestic markets in the face of revenue pressures.

One European operator that has continued to make M&A moves in Africa is Orange. Already this year it has struck a deal to acquire Bharti Airtel's operations in Burkina Faso and Sierra Leone, and agreed to buy 100% of mobile operator Cellcom Liberia. This follows transactions last year to increase its stakes in Mobinil in Egypt and Meditel in Morocco.

In January, the new owner of the assets of Nigeria's fixed-line operator Nitel said it had spent $1 billion on the company and plans to hire 4,000 employees as it rolls out 4G services later in 2016. Natcom Development and Investment, chaired by Nigerian banker and investor Olatunde Ayeni, bought the assets in 2015 for $252 million from the government, after a number of failed attempts to privatise the company, dating back to 2009.

ASIA-PACIFIC

TOP FIVE LARGEST COMPLETED DEALS IN ASIA-PACIFIC 2015

10.07.2015	Far EasTone Telecommunications Co	ACQUIRED	China Network Systems Co	$2.3 billion
21.05.2015	Tsinghua Holdings	ACQUIRED	H3C Technologies Co	$2.3 billion
21.10.2015	American Tower Corporation	ACQUIRED	Viom Networks	$1.17 billion
13.03.2015	TPG Telecom	ACQUIRED	iiNet	$1.1 billion
01.06.2015	Telkom Indonesia	ACQUIRED	GTA TeleGuam Holdings LLC	$250 million

Source: **Capacity Intelligence**

Several deals came to fruition in Asia-Pacific over the last year that involved data centre and cloud assets. One of these was the completion of Telstra's Pacnet buy, leading to the company doubling its number of customers in Asia and adding an intra-Asian cable network and 29 data centres.

Paul Abfalter, director of Pacnet integration at Telstra, says that the tie-up is proceeding smoothly so far. "Since completion in April, our customers have responded very positively," he says.

"We are tracking ahead of our targeted synergies, and we have combined the teams and customer-facing aspects of the two companies very successfully."

Colt Group separately wrapped up its purchase of KVH as it moved into 2015, giving it a set of data centre facilities across several key Asian markets, including Japan, Singapore, Hong Kong and South Korea.

Referring to the completion of its deal, Colt cited how the Asian IT market was hotting up: "With the IT industry in Asia growing at 12% each year, the acquisition of KVH will act as our launch pad for growth in Asia and beyond," Colt said.

"We are seeing increasing demand from our customers for network and data centre capabilities in the business hubs of Asia."

Such moves help serve the needs of multinational customers in different regions, it added.

Meanwhile, on Telstra's part, its move was far from its only acquisition activity in a bid to reposition itself as a technology company.

Aside from its series of buys to bolster its new health business, its US-based subsidiary Ooyala – a provider of video, analytics and advertising technology that Telstra acquired the previous year – acquired Nativ, a provider of cloud-based media logistics and workflow software and services, to aid the drive

EUROPE

TOP FIVE LARGEST COMPLETED DEALS IN EUROPE 2015

17.02.2015	Altice SA	ACQUIRED	Numericable-SFR	$4.4 billion
06.01.2015	Vivendi	ACQUIRED	Telecom Italia	$3.4 billion
27.01.2015	CommScope Inc	ACQUIRED	Broadband Network Solutions (TE Connectivity)	$3 billion
16.07.2015	Tele Columbus GmbH	ACQUIRED	PrimaCom AG	$777 million
02.03.2015	Abertis Infraestructuras SA	ACQUIRED	Galata	$774 million

Source: **Capacity Intelligence**

Telecoms players continue to seek M&A opportunities in the European market, with completion of a number of major deals still pending in markets such as the UK. Potential new moves are also on the horizon, with, for example, Orange in discussions about buying Bouygues Telecom.

But the recent breakdown of the merger between TeliaSonera and Telenor in Denmark means regulatory scrutiny may make the outlook for M&A a bit more uncertain. Towards the end of 2015, the planned merger between mobile operators Three and O2 in the UK became the subject of an in-depth investigation from Brussels over competition concerns, with a decision expected in the first few months of this year. On the other hand, the UK's Competition and Markets Authority approved BT's £12.5 billion takeover of EE in the same market in a fixed-mobile play.

"The likelihood of approval if you're going for a consolidation deal is becoming more difficult to predict," says John Delaney, an analyst at IDC. However, he does not believe things are entirely unpredictable because individual deals all have their own specifics and some are clearly more of a risk to competition than others. "That's really why the Danish rejection doesn't necessarily mean that's the end of consolidation," he says.

In other activity, Vivendi grew its stake in Telecom Italia to over 20%, while Altice and French player Numericable-SFR entered into final agreements with Vivendi over the acquisition of the 20% stake it owned in Numericable-SFR.

And Italian operator Wind, through its subsidiary Galata, agreed to sell over 7,000 telecoms towers in Italy to Abertis Telecom Terrestre.

Indeed, Matt Walker, an analyst at Ovum, believes the industry's tower market could be a "hotspot" of M&A activity for some time, as a quick means to raise cash without clear strategic downsides.

NORTH AMERICA

TOP FIVE LARGEST COMPLETED DEALS IN NORTH AMERICA 2015

12.05.2015	Verizon	ACQUIRED	AOL	$4.4 billion
27.04.2105	Lightower Fiber Networks	ACQUIRED	Fibertech Networks	$1.9 billion
14.07.2015	Digital Realty	ACQUIRED	Telx	$1.89 billion
26.01.2015	AT&T	ACQUIRED	Nextel Mexico SA	$1.88 billion
30.04.2015	Crown Castle International	ACQUIRED	Sunesys	$1 billion

Source: **Capacity Intelligence**

Activities involving megadeals have continued to take centre stage in the US over the past year, as telecoms and cable players have sought moves to strengthen in the face of ever-growing competition from over-the-top (OTT) providers.

"We are seeing companies that have grown dramatically fast whose tentacles have spread everywhere, the likes of which we've never seen before," says Tom Mannion, a US-based director of valuation and business analytics at BDO, an international network of public accounting, tax and advisory firms. He refers to how the disruptive presence of internet giants such as Facebook, YouTube, Google and Apple "has changed the game dramatically".

With this backdrop, big players have been seeking deals to boost their competitive positions. The proposed merger between Comcast and Time Warner Cable broke down last April amid regulatory concern about its effect on competition, but a newly proposed tie-up between the latter and Charter Communications is now awaiting federal approval. Meanwhile, AT&T completed its acquisition of DIRECTV last summer.

Verizon also concluded its $4.4 billion acquisition of AOL, thus acquiring a company with a strong basis in digital content and advertising platforms to culminate in what Verizon describes as an OTT media platform for creators, consumers and advertisers. The company said the deal would also boost LTE wireless video and "support and connect to" its internet of things (IoT) platforms, thus "creating a growth platform from wireless to IoT for consumers and businesses".

In light of these dynamics in the market and the continued competition from OTTs, it will be interesting to see how further M&A activity pans out in the US in 2016. In Canada, meanwhile, one of the biggest events of 2015 was Zayo Group's proposed acquisition of Allstream for $348 million.