Proliferating platforms

Welcome to the ninth edition of Inside Telecommunications, Ernst & Young’s review of the most significant developments in the telecoms sector. In this issue, we consider a number of thought-provoking subjects, from connected car strategies through to new mobile operating systems and device form factors.

We hope you find this material useful. Please do not hesitate to share your feedback with me or any of my colleagues at Ernst & Young.

Jonathan Dharmapalan
Global Telecommunications Leader
While many players are seeking scale, we are also seeing new forms of innovation across a number of domains, both within and beyond the telecommunications industry. February’s GSMA Mobile World Congress in Barcelona showed a number of themes to be gaining in prominence.

Connected car strategies are maturing at a heady rate, with new alliances between car manufacturers, mobile operators and technology players arriving thick and fast. Mobile payments is another area where use cases are developing fast; for example, near field communications (NFC) scenarios are stretching well beyond payments toward identity and security services.

Pricing models are also the scene of continuing change. Last year, we considered how the migration to LTE networks was spurring operator attempts to jettison unlimited data pricing packages. With 4G services now available on all continents, it is clear that current customer plans represent an inversion of earlier packages, with unlimited voice and text featuring alongside tiered data.

Device subsidy models are also evolving in new ways as operators look to cut the costs associated with provisioning high-end devices and meet consumer demands for more flexible payment options.

UK operator O2 has announced a new tariff – Refresh – that splits out service plan components, allowing users who do not wish to upgrade their devices to pay only airtime costs once they have reimbursed the cost of their smartphones. Mobile operator T-Mobile USA has also confirmed that it will become the first major wireless player in the US to remove smartphone subsidies.

While news in the mobile industry sends ripples across the sector, the fixed-line market is also showing new signs of dynamism. For example, 1Gbps fiber broadband services have been announced by operators in the US and Australia, as other players reveal new fiber-to-the-home (FTTH) coverage targets. In March, China Telecom highlighted it would pass another 25m households this year, while French player France Telecom/Orange and SFR have announced they are cooperating to reach 100% FTTH coverage for the Paris region by 2020.

In years to come it will be interesting to see how the relationship between fixed and mobile broadband networks is redefined, with infrastructure upgrade paths in both technologies looking more ambitious than ever.
Connected car solutions bring cross-sector gains

The world of telematics and machine-to-machine (M2M) solutions for vehicles is evolving rapidly, driven by a number of factors. Increasing urbanization is spurring an increase in transport usage, from 8 billion daily urban trips in 2010 to a projected 11.3 billion by 2025.\(^1\) As passenger travel rises, mobile technology can bring new levels of convenience by enabling in-car entertainment, optimizing driving routes or aiding intelligent interactions between different modes of transport. In an Ernst & Young survey of German car owners, respondents found a range of mobile-related service add-ons appealing:

For their part, vehicle manufacturers see telematics as a route to aligning themselves better to changing consumer preferences. In-car infotainment is becoming a more important driver of vehicle purchasing decisions and may appeal to younger age groups, whose desire to own cars is less marked than that of past generations.

A number of announcements during Q1 2013 showed that leading automotive players are moving forward with connected car solutions. In February, General Motors announced a partnership with US carrier AT&T that will see the majority of its vehicles enabled with LTE connectivity by 2014. In January, German carmaker BMW announced an in-car hotspot – a Wi-Fi router housing an LTE SIM card – that can connect up to eight devices and also uses near field communications (NFC) technology for authentication.

Electric vehicle manufacturers are also sizing up M2M functionalities. In April, India’s Mahindra Reva Electric Vehicles announced a strategic technology partnership with Vodafone India to develop a range of services, including remote control air conditioning, locations for the nearest charging station and remote vehicle diagnostics.

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Telematics innovations are also having a profound effect on the car insurance market. By enabling greater driving performance insights, mobile technology is paving the way for new pay-as-you-go pricing models. Europe is set to lead the insurance telematics market, with more than 44m users of such services expected by 2017.2

Once again, mobile operators are leveraging partnerships to spur new service offerings in this space. In March, Vodafone struck a deal with US business risk management firm Towers Watson. As part of the agreement, Vodafone will integrate its Vehicle Connect services with Towers Watson’s “DriveAbility” program to provide analytics services for insurers to create new telematics propositions of their own. Insurers will be able to choose from a range of data collection services that combine driving data with external information such as traffic patterns.

In this light, new telematics services are adopting a range of business models, from business-to-consumer to business-to-business, across various industry sectors. At the same time, large technology players are also vaunting their capabilities in the connected car environment. In February, Ericsson and Volvo Car Group announced that they would jointly develop a cloud-based connected vehicle solution, with the Swedish technology player supplying managed services, consulting and integration services as part of the deal.

In March, IBM and NXP Semiconductors announced the results of a smarter traffic pilot, conducted in the Dutch city of Eindhoven. Over a six-month period, information on 48,000 incidents was logged via vehicle data, leading to reduced congestion and improved traffic flow.

Mobile operators are forming new ecosystems as they consider the role of mobile phone data in intelligent transport solutions. Last year, Orange set a challenge for research teams to use anonymized call patterns from its Ivory Coast subsidiary in ways that benefit society. In April, researchers from IBM subsequently developed “All Aboard”, a system designed to optimize public transport in Abidjan. Using 2.5 billion call records from five million phone users, a solution was developed that could reduce travel times by 10% across the capital, with a focus on improving the existing bus network.3

For carriers, the challenge remains how best to leverage their customer information assets for the purposes of connected car and “big data” solutions for transit networks. The range of solutions is complex and partner-dependent, with a fluid set of stakeholders depending on the kind of solution offered. In this light, operators must consider the use cases to which they are best aligned and adopt flexible approaches to partnering.

At the same time, technology approaches for in-car connectivity continue to grow. Embedded technology, along with tethered access and smartphone integration, all have a vital role to play. Yet obstacles remain. For example, tethering could work well with some use cases but have a poor fit with others, such as safety and security services. Meanwhile, smartphone integration services are largely operator-agnostic: there is a greater burden on vehicle manufacturers ensuring device compatibility through application programming interfaces (APIs) and software development kits (SDKs).

Cross-industry collaboration can help create a stronger base for innovation. In the case of tethering, by improving interoperability between handsets and head-units, while also building consensus on next-generation tethering technology. This is important because tethering will act as an essential substitute technology as embedded connectivity solutions mature.

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3 “AllAboard: a system for exploring urban mobility and optimizing public transport using cellphone data”, Orange, 20 April 2013.
Ethernet services continue to grow in popularity, driven by increasing bandwidth demands and growing cloud computing requirements. For enterprises looking for improvements in bandwidth rates alongside strong scalability and cost credentials in a Wide Area Network (WAN) environment, Ethernet represents the way forward, even if many have yet to fully jettison their legacy Frame Relay, T1 and ATM services.

Against this backdrop, leading service providers are extending their Ethernet capabilities. In January, BT Global Services announced it was adding nodes in US and Canada for its Ethernet Connect service. In a further move to bolster its Americas footprint, BT launched Ethernet Connect in Brazil and Mexico in March, with plans to launch in Chile, Colombia and Argentina before the end of this year.

Other players are leveraging partnerships to boost their global coverage. For example, US carrier Sprint has extended its Ethernet capabilities in Europe by establishing a new point of presence (PoP) at Interxion in Spain. While established carriers are ramping up their global footprints, the Ethernet space is also notable for a number of relative newcomers. US cablecos are a case in point and have been steadily growing their presence in recent years. Having only entered Ethernet services in 2010, Comcast’s business division is now its fastest growing as it targets larger-enterprise customers.

Those involved in the provision of in-car connectivity solutions should fully understand the various implications of changing regulations. On one hand, national mandates, such as those for stolen vehicle tracking in Brazil and emergency calling in Russia, represent important enablers for telematics solutions. However, the debate as to whether embedded connectivity is a source of driver distraction, or a way to protect against it, remains a source of tension that could work against in-car technology developments.

**Carriers boost Ethernet capabilities for retail and wholesale customers**

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Looking ahead, small to medium enterprises (SMEs) are likely to become a more important driver of demand. While small businesses already benefit from a range of business-grade broadband offerings, medium-sized enterprises remain somewhat underserved. Many such organizations have a small number of T1 lines, yet changing needs in terms of bandwidth, reliability and privacy mean they are ripe for Ethernet-based solutions.

Meanwhile, the carrier Ethernet market is also changing. In February, Comcast became the first service provider worldwide to achieve Carrier Ethernet 2.0 certification from the Metro Ethernet Forum, followed by Telstra Wholesale in March.

While standardization remains at the heart of service guarantees, operator wholesale units are also faced with the task of differentiating their carrier Ethernet offerings to make the most of the different factors driving demand for the service – for example, the rise of cloud-based applications or mobile backhaul needs.

In this light, the challenge is on for carrier Ethernet providers to consider value-adding credentials in areas such as flexible pricing options and more powerful online interfaces. At the same time, they need to focus on educating wholesale clients about the benefits available through migrating to carrier Ethernet solutions, as well as the key success factors involved.

Figure 3. US carrier Ethernet services revenue forecast, 2011–2016 (US$b)

The rise of the phablet

One of the key talking points at this year’s GSMA Mobile World Congress was the appearance of devices that straddle the worlds of smartphones and tablets. A number of vendors announced new products with screens of between 5 and 7 inches, leading market watchers to coin the term “phablet” to describe them. Devices such as the Samsung Galaxy Note, Huawei Ascend Mate and ZTE Grand Memo illustrate this new form factor, which is proving increasingly popular with consumers as demand for mobile web browsing and mobile video services continues to rise.

Meanwhile, shipment forecasts reflect the fact that the lines are blurring between device categories. In January 2013, IHS predicted that phablet shipments will total 146m by 2016, up from 25.6m in 2012 and an estimated 60.4m in 2013.\(^4\) This augurs well for the Android operating system (OS), which has thus far acted as the supporting platform for large-screen phones.

On the technology side, ongoing price reductions for large-size, high-resolution device displays are expected to support growth in the phablet category for some years to come. Asia-Pacific markets are expected to drive demand going forward, as Chinese vendors look to phablets to help them establish their brand credentials in high-end devices.

For vendors, this proliferation of form factors is something of a double-edged sword: strong demand for an emerging type of device may cannibalize more established products. Already tablet manufacturers such as Acer are dropping prices for tablets with 7-inch screens in the hope that a range of attractive price points will stymie the threat posed by the phablets. New form factors also represent something of a conundrum for developers — as categories proliferate, they must consider how far they wish to optimize content for different screen sizes.

Nevertheless, some industry watchers see the phablet as just one instance of a broader trend toward new device

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\(^4\) “Large-Display Smartphones Featured at CES; Shipments Set to More than Double in 2013,” iSuppli, 16 January 2013.
Smartphones remain the stellar growth story of the telecommunications sector, and the market for the mobile OS that underpin the device experience is just as dynamic. In recent years, the mobile OS space has increasingly become a two-horse race between Google’s Android OS and Apple’s iOS — together, they accounted for 88% of global smartphone shipments in 2012.5

However, recent months have seen established OS players focus on refreshing their offerings while a spate of new entrants have also debuted innovative mobile software platforms. Anticipation surrounding Mozilla’s Firefox OS has been high since it was first announced last year, and the platform is now due to launch in June in five countries: Brazil, Poland, Portugal, Spain and Venezuela.

That emerging markets feature so prominently in the list of launch markets underlines the positioning of Mozilla’s new mobile OS — as a pared-down, operator-friendly platform that sidesteps the walled gardens of rival mobile systems that have made such strong headway in developed markets. Based on write-once HTML5, the open ethos of Firefox OS appeals to operators eager to shore up their position in the device value chain, with low-end smartphones deemed a natural fit for the platform. This was reflected in February’s announcement that 18 carriers — including Deutsche Telekom, Etisalat, Smart, Telefonica and Telenor — would be supporting the platform.

Another open-source project making waves in the smartphone world is the long-awaited Ubuntu mobile OS, which was showcased by Canonical in January. The UK-based software company plans to leverage the Ubuntu OS on devices from smartphones to TVs as part of a far-ranging multi-screen vision. The Linux-based software will allow smartphone users to run desktop apps on their handsets, enabling their devices to double as PCs when linked to monitors.

Like the Firefox OS, Ubuntu is also being positioned as an entry-level smartphone experience, yet some industry watchers question whether end users would want phones repurposed as a consumer PC platform. There are already 45,000 native apps available for the system, and Canonical’s business model pivots on offering support services along with taking a share of sales from online marketplaces offered by handset manufacturers that adopt the software. The singular approach to merging the PC and smartphone worlds is seen as appealing to certain types of users — the mobile professional who wants to scale back on aggregating devices, for example.

Both the Ubuntu and Firefox OS signal a desire for a more balanced smartphone ecosystem. Handset manufacturers as well as operators are keen to reassert some measure of control in the device experience, an attitude that is apparent in Samsung’s partnership with Intel to create the Tizen OS. The likes of NTT DoCoMo and Orange have already announced plans to launch handsets running Tizen, which promises to give operators greater scope to control and customize content delivered to their customers. Meanwhile, Samsung has revealed plans to offer high-end devices running on Tizen.

Newcomers shake up the mobile OS ecosystem

experiences as smart accessories also hit the market. New form factors that are gaining attention include smart watches that combine small size with specific functionalities — for example, health monitoring or music control. These smaller, specialized accessories typically control, or are controlled by, smartphones.

While falling power consumption requirements have opened up the market for these products, interoperability challenges are now making their presence felt. Although technologies such as Wi-Fi and Bluetooth exist to connect devices themselves, there is no standardized route to linking services, meaning that functionalities may be limited to a specific mobile OS. Looking ahead, initiatives such as Qualcomm’s AllJoyn show how specific APIs will be needed to counter the risks of service fragmentation as new types of devices emerge.

5 “Android and iOS Combine for 91.1% of the Worldwide Smartphone OS Market in 4Q12 and 87.6% for the Year,” IDC, 14 February 2013.
Figure 5. Millions of smartphone OSs in use worldwide in 2013

- **Android Phones**: 833
- **iPhones**: 357
- **Blackberry**: 158
- **Symbian**: 137
- **Windows Phones**: 76
- **Other**: 4
- **Linux Phones**: 4

Looking beyond the arrival of a brand-new mobile OS, established players have also pressed ahead with updates to their platforms. In January, Research in Motion unveiled BlackBerry 10 OS, which offers many new features as the rebranded Canadian manufacturer looks to win back market share. Touch-screen capability marks a break with the device manufacturer’s keyboard-only past, while the “Balance” feature, which splits the device into personal and business modes, delineates sensitive information so that IT departments can control the flow of data.

The launch of the new Blackberry OS follows the release of Windows Phone 8 last year, and early signs have been encouraging in terms of shipment volumes for the Microsoft platform. In February, Nokia, the platform’s leading supporter, announced it was extending its Windows-powered Lumia range of handsets into lower-end segments. App support is growing too; in March the BBC announced that it was making its iPlayer app available on the platform.

Looking ahead, the battle between smartphone operating systems is set to enter a new phase. There are clear signs that open-source systems are paving the way for a more cooperative smartphone ecosystem, with both device manufacturers and mobile operators looking to reclaim territory lost to disruptive technology giants. With smartphone penetration standing at just 10% in India, for example, both freshly launched OS and repositioned legacy OS platforms could have much to gain as the smartphone revolution becomes truly global.  

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New EU data protection laws prove contentious

In January, the European Union (EU) announced a review of its data protection laws as part of efforts to help end users maintain control over their personal data. One of the key rules introduced in the new proposals includes “the right to be forgotten,” which forces companies to delete the user data of those who request it, in tandem with an obligation on businesses to report data breaches as soon as possible. Penalties for those who infringe these requirements include fines of up to €1m, or up to 2% of the global annual turnover of a company that contravenes these new stipulations. The reforms represent an overhaul of the EU’s 1995 data protection rules and are designed both to strengthen online privacy rights — giving consumers far more control over their data — and to boost Europe’s digital economy as corporate responsibilities become clearer and end users become more trusting of online personal data. As highlighted in Ernst & Young’s Mobile Maze study, many end users would try new mobile data services sooner if they were more confident of privacy and security credentials.

According to the EU, the streamlining of data protection laws will save businesses about €2.3b a year by simplifying the interaction process with national regulators.7 At the same time, the Commission’s proposals extend the number of ways in which businesses can meet high standards of protection when they transfer personal data beyond EU borders.

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The proposed reforms have been met with a range of responses from industry players and policy makers. The European Telecommunications Network Operators’ Association (ETNO) has broadly welcomed the move, highlighting that the latest proposals strike an effective balance between data protection and innovation. Crucially, the new data protection rules are seen as providing a platform to unlock the potential of new digital services that can make the most of personal online data. Moreover, the overhauled legislation is also viewed as an important move toward creating a level playing field for ICT players in Europe by removing fragmented rules and their inconsistent application.

Nevertheless, individual states remain concerned that some of the amendments in the proposals are too prescriptive, with the UK and US submitting their own notes on the matter. According to reports, a range of criticisms has been leveled at the plans. For one, some businesses believe that requiring explicit consent from individuals regarding use of their data would add to costs and bring new complexities.

Critics have also highlighted a lack of proportionality – the treatment of infringers is the same for all entities, regardless of how end user expectations may vary according to the type of data involved or size of organization involved in its retention. Furthermore, fears exist that efforts to strengthen the data regulation will not be matched by companies taking concurrent steps to improve data protection in-house.

The UK Government believes that the regulation should instead be positioned as a directive, which would give member states greater flexibility when it comes to updating national laws. In addition, the British state would like to see two sets of recommendations: one that deals with data protection as a whole, and another that focuses on police processing of data and judicial cooperation.

Meanwhile, the US Government made waves last year with its opposition to potential reform, arguing that there was insufficient flexibility for different digital business models, while suggesting that compliance with rules in other areas, such as fraud, would prove additionally burdensome.

Already, US-based web giants have opposed the EU’s data privacy recommendations, claiming that the “right to be forgotten” may be unreasonable and unrealistic. Many operators remain skeptical of the new rules. UK incumbent BT Group has sent a note to Brussels warning that so-called “privacy by design” could, in theory, limit the reuse of customer data, while technical standards, if imposed in this area, could substantially add to the costs of compliance.

The range of qualifications issued by governments and corporations concerning data protection suggests that consensus on new reforms to European data privacy laws will take some time to reach. At the heart of the debate is the need to preserve consumer rights within a framework that allows for sufficient levels of innovation in digital services, while also ensuring a manageable compliance burden.

Preserving both simplicity and flexibility as part of a unified regulatory approach to data privacy is proving particularly challenging, as national governments balk at a “one size fits all” approach. A plenary meeting of the European Commission in June is likely to cement the status of new rules, but plenty of debate can be expected before then.
Mexico plans reform of telecoms sector

The Mexican Government has announced bold plans to reform the country’s telecommunications and television sectors, presenting a bill in March that is designed to boost competition by creating an independent regulator that could force dominant players to shed assets while encouraging foreign investment. The prospective reform would also aim to lower prices for end users by enabling a greater range of competing offers in the market. Specific measures also include exploiting the fiber assets currently held by the Federal Electricity Commission to create shared public networks, alongside new digital inclusion policies that target broadband availability for 70% of households and 85% of SMEs.

The bill was approved by Mexico’s lower house of Congress toward the end of March, with proposals detailing that foreign investors can take up to 49% ownership of TV or radio broadcasters while removing existing ownership limits on fixed-line assets. Meanwhile, an independent regulator is to be equipped with the power to impose asymmetric regulation, an important regulatory tool in a market where dominant telcos and media players currently hold market share of greater than 60%.

Broadly speaking, industry watchers have welcomed the reforms. Economists have long flagged poor levels of competition as a hindrance to Mexico’s productivity growth, with high prices hampering the adoption of new services. Mobile penetration has remained near 80% in recent years, in contrast to other Latin American markets such as Argentina and Brazil, where penetration is well above 100%. Last year, the Organisation for Economic Co-operation and Development (OECD) released a report that detailed the loss of consumer surplus resulting from excessive pricing levels for telecommunications services in Mexico.
Views on the proposed reform are also emanating from beyond Mexico’s borders. In April, the US Trade Representative issued the 2013 National Trade Estimate Report on Foreign Trade Barriers, which highlighted weak regulatory oversight and inefficient court process in Mexico without directly referencing the prospective anti-monopoly reforms. 8 Although the peso has strengthened on the latest news of market reform, some Mexican lawmakers remain concerned that new rules will not go far enough in increasing competition levels.

Thus far, the reform package has been proceeding without too many hitches. In April, the Mexican Senate approved the bill, while making an amendment that enables companies to suspend fines or orders issued by competition authorities through an appeals process. For operators themselves, the prospect of reform signals some measure of empowerment, too: going forward, existing players will be able to branch out into new services such as pay-TV or broadband.

Nevertheless, overhaul of legislation also brings new challenges. Local loop unbundling (LLU) has been cited as one way of creating a fairer market structure in instances where players are found to have dominance in retail or wholesale markets. However, imposing such rules at a time when migration to fiber broadband infrastructure is critical could have the unintended effect of hampering infrastructure investment. Moreover, experiences in European markets show that LLU is a complex process, which requires organizational change and high levels of regulatory oversight for compliance.

Looking ahead, reform is likely to introduce a number of new market dynamics beyond the socioeconomic benefits of greater digital inclusion through more competitively priced services. Consolidation between different players in the pay-TV market is one potential outcome, while the prospect of converged triple and quad-play services may see newcomers enter the mobile market as virtual operators.

8 “US Government Puts Pressure On Carlos Slim, Mexico’s Telecom Sector To Open Up To Competition,” Forbes, 1 April 2013.
The first three months of 2013 were another strong quarter for deal activity in telecommunications. Deal value stood at US$53.8b, up a little from the US$47.7b registered in Q4 2012. Meanwhile, the number of deals announced stood at 148, down 20 from the preceding quarter. Competition for attractive assets is increasing, as evident in the three bids for Swedish mobile operator Tele2’s Russian business. Russian state-owned bank VTB Group’s US$3.6b bid trumped a joint US$4.3b offer from Russian players Vimpelcom and MTS, while the Swedish group also rebuffed a hostile bid from A1, the investment arm of Alfa Group Consortium.

In terms of deal activity, the Americas continued to lead the way, accounting for 54% of global deal value by target area. EMEIA registered an uptick compared with the previous quarter, with announced deals standing at 42% of the global total, largely driven by Liberty Global’s acquisition of UK-based Virgin Media. Inbound Asian deals were down from the preceding quarter, as were transactions taking place in Japan.

Operators’ mobile spectrum needs are also driving a number of transactions. In the US, carriers continue to acquire spectrum from each other in the 700MHz and AWS frequency bands. In January, AT&T Inc. agreed to buy spectrum licenses covering 42 million people in 18 states from Verizon Wireless for US$1.9b in cash and some of its own spectrum. January also saw AT&T acquire the US retail operations of Atlantic Tele-Network (ATNI) for US$780m in cash. The firm’s US operations comprise cell sites, licenses and retail stores, as well as 585,000 subscribers. A range of spectrum, in the 700MHz, 850MHz and 1900MHz bands, also features as part of the deal. While ATNI’s small network is CDMA-based – and

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Cable footprint growth makes waves in Europe

The largest deal of Q1 2013 was US-based Liberty Global’s cash-and-stock acquisition of UK cable operator Virgin Media for US$23.3b. Virgin Media is the UK’s number two pay-TV and broadband provider – itself the result of mergers between NTL, Telewest and Virgin Mobile – and the combined entity will be one of the world’s largest cable players in subscriber terms. The acquisition is likely to spur additional competition in the UK market for household bundles, with UK pay-TV market leader BSkyB subsequently acquiring Telefonica’s UK broadband business – marketed under the O2 and BE brands – for £200m in March.

In the same month, Dish Network made a US$4.9b bid for US mobile operator Clearwire, threatening the takeover announced the preceding month by majority owner Sprint. Satellite TV player Dish has accrued wireless spectrum in recent years and recently won regulatory backing to convert some of its satellite spectrum in the AWS-4 band for mobile services. Its proposed takeover of Clearwire would give it yet more wireless spectrum – aiding plans to broaden its service proposition – but the turn of events since then suggests yet more complexities as market consolidation inches forward in the US.

In April, Dish made another ambitious move, offering to buy Sprint itself for US$25.5b (this deal is not included in our Q1 2013 data). A combination of the two companies would pave the way for bundles of in- and out-of-home video, broadband and voice services. A wider service proposition would be available to an existing subscriber base of more than 60m wireless and satellite TV subscribers nationwide.

Meanwhile, in France, Bouygues Telecom received a US$895m cash injection from parent company Bouygues, which in the process increased its stake by a percentage point to 90.53%. This operation had been agreed late last year, partly in order to offset the operator’s US$1.3b investment in two blocks of LTE spectrum.

Thus not immediately compatible with AT&T’s GSM footprint – the US giant has underlined that the technology conversion costs will not dilute earnings or cash flow.

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Quad-play bundle packages featuring combinations of fixed and mobile telephony, broadband and multichannel TV have taken off in a number of markets in recent quarters. Portugal and Spain both stand out as countries where consumers are warming to the discounts and single-bill benefits of taking multiple services from a single supplier.

Such demand scenarios bode well for the quarter’s fifth-largest deal, Portuguese cable operator ZON Multimedia’s US$1.4b swoop for local mobile operator Optimus SGPS. However, the economic recession in this small European market makes the deal rationale that much stronger. Portugal’s economy is set to shrink by 2.3% this year, following an estimated 3.2% decline in 2012, according to the Bank of Portugal.12 In this light, highlighted savings in the range of €350m to €400m (US$533m) will provide a welcome tonic for the entity, to be named Zon Optimus following the merger.

Looking forward, Liberty Global sees strong opportunities to grow revenues through cross-selling mobile services to TV and broadband customers. Mobile already accounts for 14% of Virgin Media’s revenues, compared with 2% at Liberty Global prior to its acquisition of the UK quad-play provider. At the same time, the merger is set to unleash cost synergies to the tune of US$180m per annum, including capex savings of US$70m.11 This spells an additional challenge to incumbent telecoms operators in Western Europe, given that cable incarnations of super-fast broadband infrastructure – known as DOCSIS 3.0 – already reach more homes than operators’ VDSL and fiber networks.

Bundle gains, economic pains drive consolidation in Portugal

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11 “Creation of the world’s leading broadband communications company,” Liberty Global and Virgin Media Investor Call, 6 February 2013.
Optimus remains keen to break into new market segments in mobile. In April, M2M module manufacturer Novatel Wireless announced it had been selected for Optimus’ insurance telematics services, while ZON has been prioritizing new efficiencies as much as new service development, last year outsourcing IT management to Ericsson for its data centers.

Figure 9. Top telecoms M&A by deal value, Q1 2013

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<thead>
<tr>
<th>Buyer/Seller</th>
<th>Deal/Value ($USm)</th>
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<td>Liberty Global/V</td>
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<td>Dish Network/Clearwire</td>
<td>4,834</td>
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<td>Baskindale Ltd./Orascom Telecom</td>
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<td>321</td>
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</tbody>
</table>

Sizing up opportunities in South Asia

The first quarter of 2013 has seen South Asian opportunities return to the spotlight. In January, Singapore’s SingTel announced that it had decided to sell its 30% stake in Pakistan’s Warid Telecom to the Abu Dhabi Group for US$150m. Following a strategic review of its investment, the Singaporean carrier had classified its stake in the loss-making Pakistani business as an “asset held for sale” since the middle of last year. Despite the decision to quit Pakistan, SingTel remains committed to the region, with significant stakes in India’s Bharti Airtel and Pacific Bangladesh Telecom.

Meanwhile, Bahrain’s Batelco was reportedly in talks with India’s Reliance Communications to acquire a stake in the latter’s enterprise business. Having lost its foothold in the Indian mobile market following S Tel’s license loss last year, the Bahraini carrier has been eyeing opportunities to expand abroad, most recently acquiring Cable & Wireless Communications’ Monaco and Islands division in December.

However, Batelco backed out of talks in April to acquire Reliance Globalcom – which owns undersea cable business Flag Telecom – with Reliance reportedly in talks with a consortium of global private equity investors regarding a takeover of the international enterprise unit. Batelco is not the only overseas player eyeing assets in the world’s second-largest mobile market. In March, AT&T was reported to be considering a minority stake in Reliance Jio Infocomm Ltd., which hopes to become the subcontinent’s largest player within three years of launch while aiming to be the first player to launch nationwide 4G.

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More consolidation in Australia

A continuing theme in recent quarters has been consolidation in Australia’s broadband market, and Q1 2013 saw some additional deals announced as the competitive landscape is refined still further. In March, Melbourne-based M2 Telecommunications Group announced it would acquire rival players Dodo Australia Holdings Pty and Eftel Ltd. for a total consideration US$252m via a mixture of cash and shares.

Dodo has 400,000 customers while Eftel has a subscriber base of some 130,000. The deal was announced one year after Primus - which offers Hosted PBX, VoIP and cloud services, as well as operating a fiber network in five major cities - was acquired by M2 Telecommunications.

Going forward, M2 Telecommunications is well-positioned to grow its share of customers in the consumer and SME segments. Both target companies offer strong routes to diversification and cross-selling opportunities, with Dodo active in the electricity and insurance sectors, while Eftel’s business includes business-oriented and low-cost brands.


Figure 10. Top telecoms M&A in Asia-Pacific, Q1 2013.

<table>
<thead>
<tr>
<th>Date</th>
<th>Bidder</th>
<th>Target</th>
<th>Stake (value, US$)</th>
<th>Business nature of target</th>
</tr>
</thead>
<tbody>
<tr>
<td>18 Mar 2013</td>
<td>M2 Telecommunications Group (Australia)</td>
<td>Eftel Limited (Australia)</td>
<td>100% ($39.6m)</td>
<td>ISP and broadband service provider</td>
</tr>
<tr>
<td>17 Mar 2013</td>
<td>M2 Telecommunications Group (Australia)</td>
<td>Dodo Australia Pty (Australia)</td>
<td>100% ($212m)</td>
<td>Broadband and mobile service provider</td>
</tr>
<tr>
<td>5 Feb 2013</td>
<td>Asia Outsourcing Gamma Limited (Philippines)</td>
<td>SPI Global Holdings (Philippines)</td>
<td>80% ($320m)</td>
<td>Voice and non-voice BPO provider</td>
</tr>
<tr>
<td>30 Jan 2013</td>
<td>NTT DoCoMo (Japan)</td>
<td>MagaSeek Corporation (Japan)</td>
<td>75% ($22m)</td>
<td>Online fashion good shopping company</td>
</tr>
<tr>
<td>29 Jan 2013</td>
<td>Abu Dhabi Group (UAE)</td>
<td>Warid Telecom (Pakistan)</td>
<td>30% ($150m)</td>
<td>MNO</td>
</tr>
<tr>
<td>13 Jan 2013</td>
<td>CITIC Telecom International (Hong Kong)</td>
<td>Companhia de Teleunicacoes de Macau</td>
<td>79% ($1.161m)</td>
<td>Integrated operator</td>
</tr>
</tbody>
</table>


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EYG no. EF0121
CSG/GSC 2013/1054416

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