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Review of the Year: Gaining Weight
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2012 featured some major acquisitions, partnerships and alliances as telecoms operators looked to bulk up their businesses. The start of a new year more often than not brings with it a desire for self improvement, andin the developed world, at leastthat often manifests itself in the form of a diet, as people either look to completely overhaul their lifestyles or simply shed a few extra pounds gained during the festive season.

If youre a telecoms operator though, the story is slightly different. The telcos are no stranger to shedding flab, something they have been working hard to do in the past year through extensive cost-cutting programmes. But many have been actively seeking to gain weight, with various mergers, acquisitions and alliances being the major headline-hitters of 2012. And with the operating environment likely to continue to be challenging, the trend of bulking up will prevail as we move into 2013.

The past year was relatively quiet in terms of telco M&A until October, when a number of deals were announced that will change the landscape of the industry if and when they close next year.The biggest of the bunch was Softbanks $20.1 billion agreement to acquire a 70% stake in US operator Sprint Nextel, the largest ever foreign acquisition by a Japanese company. Just weeks earlier Softbank had made its growth ambitions known, announcing a $2.3 billion stock swap deal for smaller domestic rival eAccess.

The Softbank announcement came just days before Sprint revealed plans to increase its stake in wireless broadband operator Clearwirewhich boasts significant spectrum holdings in the US, albeit in the 2.5-GHz bandand in December Sprint confirmed that it will take sole control of Clearwire in a deal that will cost it around $2.1 billion in cash. And in November Sprint agreed to pay $480 million for 585,000 customers and spectrum licences in certain US markets from seventh-largest operator US Cellular.

Pending the usual regulatory and other approvals, the Softbank/Sprint deal is slated to close in mid-2013. Market leader AT&T voiced its opinion, even before the extent of Sprints desire to control Clearwire was known, but chose its words carefully.Softbanks acquisition of Sprint and the control it gains over Clearwire will give one of Japans largest wireless companies control of significantly more US wireless spectrum than any other company, said AT&T vice president Brad Burns. AT&T expects regulators to examine the deal fully, in the context of the dynamic and competitive US mobile market, he added, leading industry-watchers to draw various conclusions as to the telcos real intentions.

AT&T might simply be seeking to block the tie-up, since it will boost number three US mobile operator Sprints competitive position in the market. Equally, AT&T could be making a point to the regulator about its need for more spectrum. The telco in August agreed a $600 million deal for Nextwave Wireless, ostensibly to get hold of the latters 2.3-GHz spectrum; the FCC in October approved new rules that will enable it to use that spectrum for LTE. Finally, AT&Ts reminder to the regulators to take into account the dynamic and competitive nature of the US market could indicate that it is not actually objecting to the deal at all. After its failed bid to take over fourth-placed rival T-Mobile USAthe deal was blocked by the FCC in late 2011it is conceivable that the telco is still considering ways to put on some additional weight itself.

T-Mobile USA, meanwhile, added to its own waistline this year, announcing a $1.5 billion merger with smaller rival MetroPCS. If the deal goes ahead, T-Mobile parent Deutsche Telekom will own 74% of the merged entity, which will be led by new T-Mobile USA CEO John Legere (see People p.20). Amongst other things, MetroPCS will bring T-Mobile USA additional spectrum to boost its LTE rollout.

There could be more consolidation in the US next year.

Changing landscapeEuropean operators also made moves to build scale in 2012. As the year drew to a close, Hutchison 3G Austria finally received EU approval for its 1.3 billion takeover over of Oranges Austrian unit, a deal it announced back in February. The telco faced an uphill battle to get the go-ahead for the acquisition, with EU Competition Commissioner Joaquin Almunia repeatedly questioning the impact it would have on competition in the market. Hutch made a number of pledges to the EU, including agreeing to sell some of Oranges spectrum, but what eventually swung it was its commitment to allow MVNOs to use up to 30% of its network capacity at favourable rates and subsequent deal with UPC.

The merger reduces the number of mobile network operators in Austria to three from four, creating a stronger competitor from the two smallest players. The fact that regulators passed such a deal could encourage similar consolidation moves in other markets.

We could also see the Spanish mobile market reduced to three players if TeliaSonera sells its Yoigo business. The Nordic telco insists it is in no rush to exit Spain and will only sell at the right price. Spains three biggest mobile operators are the most likely buyers, with Orange top of the list as the third-largest player in the market; the company admitted it is interested in the asset, and that it is monitoring other major European markets for potential acquisitions.

Although it has denied having an immediate interest, America Movil was naturally named as a potential acquirer of Yoigo, in light of its foray into Europe in 2012. The Mexican operator bought stakes of 27.7% in Dutch incumbent KPN and 22.76% in Telekom Austria, and was linked with potential wider European expansion. The complementary European footprints of KPN and Telekom Austria gave rise to some merger talk, although national interests would doubtless put paid to such a move, but their common shareholder will see the pair explore synergies between their businesses.

Consolidation also looms in Russia, where Tele2 has found itself in an untenable position as the fourth player in the mobile market and has been linked with a number of suitors. It is an obvious fit for Rostelecom, which has a small mobile presence alongside its fixed-line business. There have been reports of talks between the two throughout 2012. Meanwhile, mobile operator MegaFon,which raised $1.7 billion from its London IPO in November, is also reported to be considering a bid for parts of Tele2 Russia.

2012 saw Vodafone bulk up via a couple of key deals.In July it closed the GBP 1.04 billion acquisition of Cable & Wireless Worldwide, adding C&Ws UK fibre network, global fixed networks assets and business customers to its portfolio. Vodafone also brokered a similar deal in New Zealand. It became the countrys second largest telco in October when it completed the NZ$840 million (535 million) acquisition of TelstraClear, again gaining network assets and corporate clients.

Meanwhile, in Canada BCE sought to beef up its operations by acquiring Astral Media for C$3 billion. The broadcast regulator blocked the deal in October on competition grounds but BCE has since submitted a new deal for its scrutiny. Also in October BCE and a group of investors completed the C$1.1 billion acquisition of data centre operator Q9 Networks.

Sharing the wealthM&A is not the only option for telcos who need to reduce costs to maintain profitability, something that has been particularly prevalent in Europe over the past 12 months as the sector struggles against declining revenues.

The European mobile industry could save 20 billion-40 billion annually over the next five years, with big telcos saving as much as 2 billion each per year, by establishing network-sharing deals,Booz & Company claimed in November. Network-sharing was high on the agenda for Vodafone in 2012. The UK units of Vodafone and Telefonica in June announced plans to combine their mobile infrastructure to create a single 2G and 3G network, with a view to adding LTE in future. They got regulatory approval in October and said they will set up a 50/50 joint venture, Cornerstone Telecomm-unications Infrastructure. Ovum predicts they will save over GBP 1 billion by 2015. Vodafone also teamed up with 3 Ireland in July, creating another 50/50 JV to manage 2,000 shared cell sites and transmission networks.

Network-sharing deals also extended to other markets. In June Telefonica and Iusacell said they will share mobile infrastructure in Mexico in a bid to compete more effectively with America Movil. And in March TeliaSonera and Telenor received approval to merge their radio access networks in Denmark.

There is more to come. In November KPN revealed that it is considering a network-sharing deal with Telefonica in Germany in a bid to cut costs. And the EU is keen for telecoms operators to partner up. In September digital agenda commissioner Neelie Kroes urged regulatory regimes to foster more efficient use of mobile spectrum and clarify regulatory frameworks to enable mobile operators to share that scarce resource.

Fixed network operators also came together in 2012 to share the cost of deploying next-generation network infrastructure. To name a few,Orange in January agreed to let Bouygues Telecom share its fibre-to-the-home (FTTH) network in France; Telecom Italia and Fastweb signed an agreement to cooperate on the rollout of fibre; and BT introduced the concept of fibre-to-the-premises (FTTP) On Demand, through which its Openreach unit will enable service provider customers to assist with the cost of deployment. Progress was also made in the development of non-fibre technologies, such as vectoring, that enable telcos to get the most out of their existing copper.

An announcement from Deutsche Telekom in mid-December summed up the situation for much of the industry. The telco said it will invest 30 billion in networks in Germany and the US over three years, including rolling out fibre-to-the-cabinet (FTTC), vectoring, and LTE. But as always, its a balancing act. In order to finance the investment, Deutsche Telekom cut dividends for the next two years, a move Fitch estimates will save it 850 million per year.New Kids on the Block

2012 was not all about established market players seeking to strengthen their existing businesses. There were also some newcomers in certain markets.

The new entrant that made its presence felt the most this year was Free Mobile, the new low-cost mobile subsidiary of Frances Iliad, which came to market in January. Free triggered a price war among Frances established players, leaving them seeking new ways to cut cost out of their businesses.

China Telecom had less of an impact when it launched its MVNO in the UK in May under the brand name CTExcelbiz. It is targeting the 600,000 Chinese ex-pats based in the UK, as well as tourists to the country and students. The telco plans to replicate this model in France next year and extend it to other European markets before the end of 2014. One company, although not strictly a newcomer, did make a big splash in the UK this year though. Everything Everywhere renamed itself as EE in September and in late October launched the countrys first LTE service. Or rather, its first LTE service based on the FDD variant of the technology. PCCW-owned UK Broadband switched on its TD-LTE infrastructure in London in February; initially it said it would offer wholesale services only, but added a retail service, under the brand name Now Broadband, in October.

Other new launches saw Virgin Mobile take its successful MVNO service to Poland, where it runs on the networks of Orange and Play, and commit to expanding elsewhere in Eastern Europe. Mozambique welcomed its third mobile operator in the shape of Movitel, a joint venture between Vietnams Viettel and the countrys ruling Frelimo party. And Argentina laid the groundwork for the arrival of a new state-owned operator into the mobile market, by handing 3G spectrum to Arsat, which is now seeking partners to build out and operate its network. The company is also likely to have 4G spectrum reserved for it.