

# Wireless telecoms: The end of growth?

## Presentation to the GSMA Leadership Summit

**February 25, 2013**

Coverage view: Neutral

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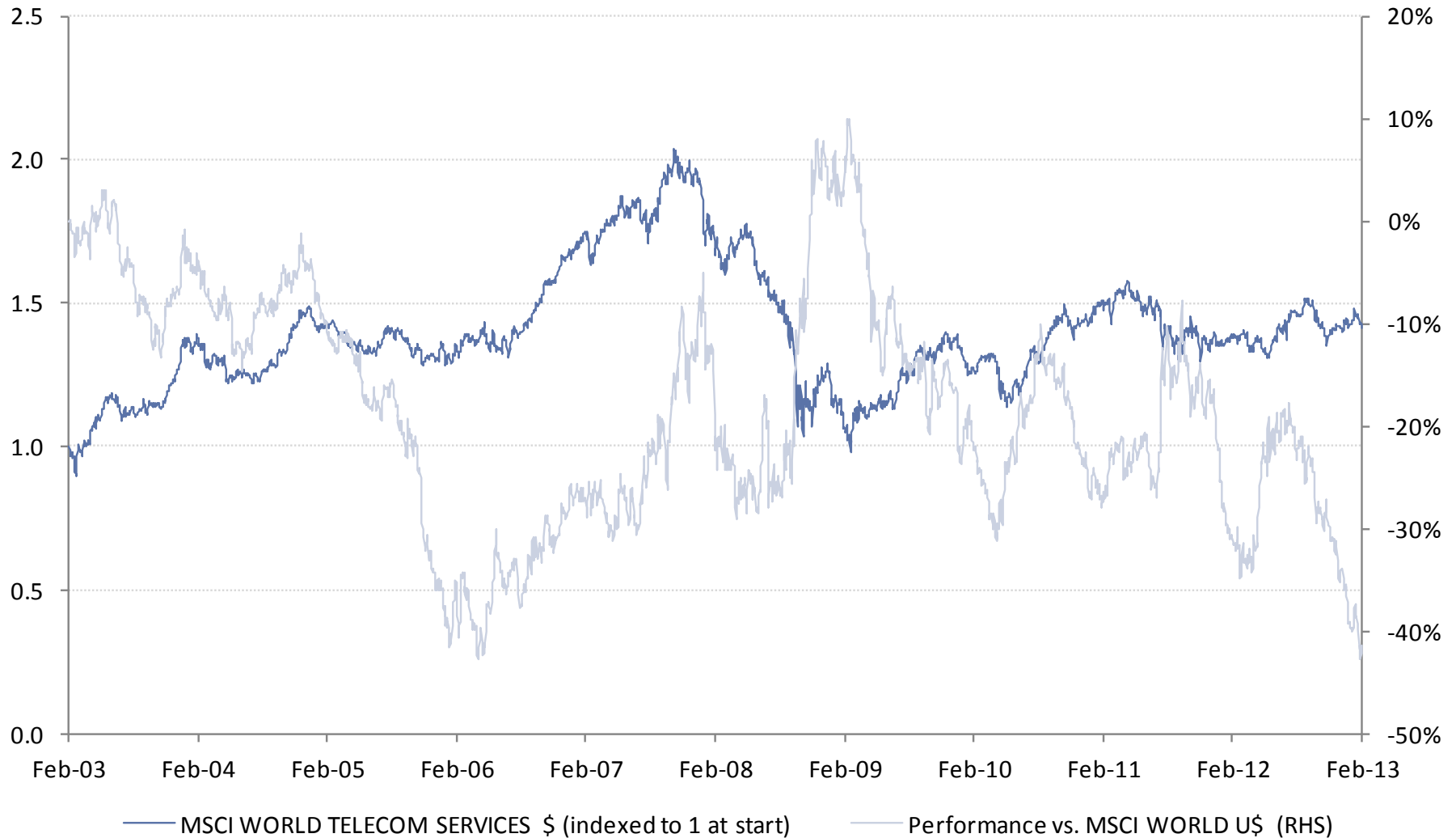
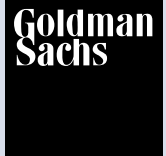
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# Telecoms lost decade

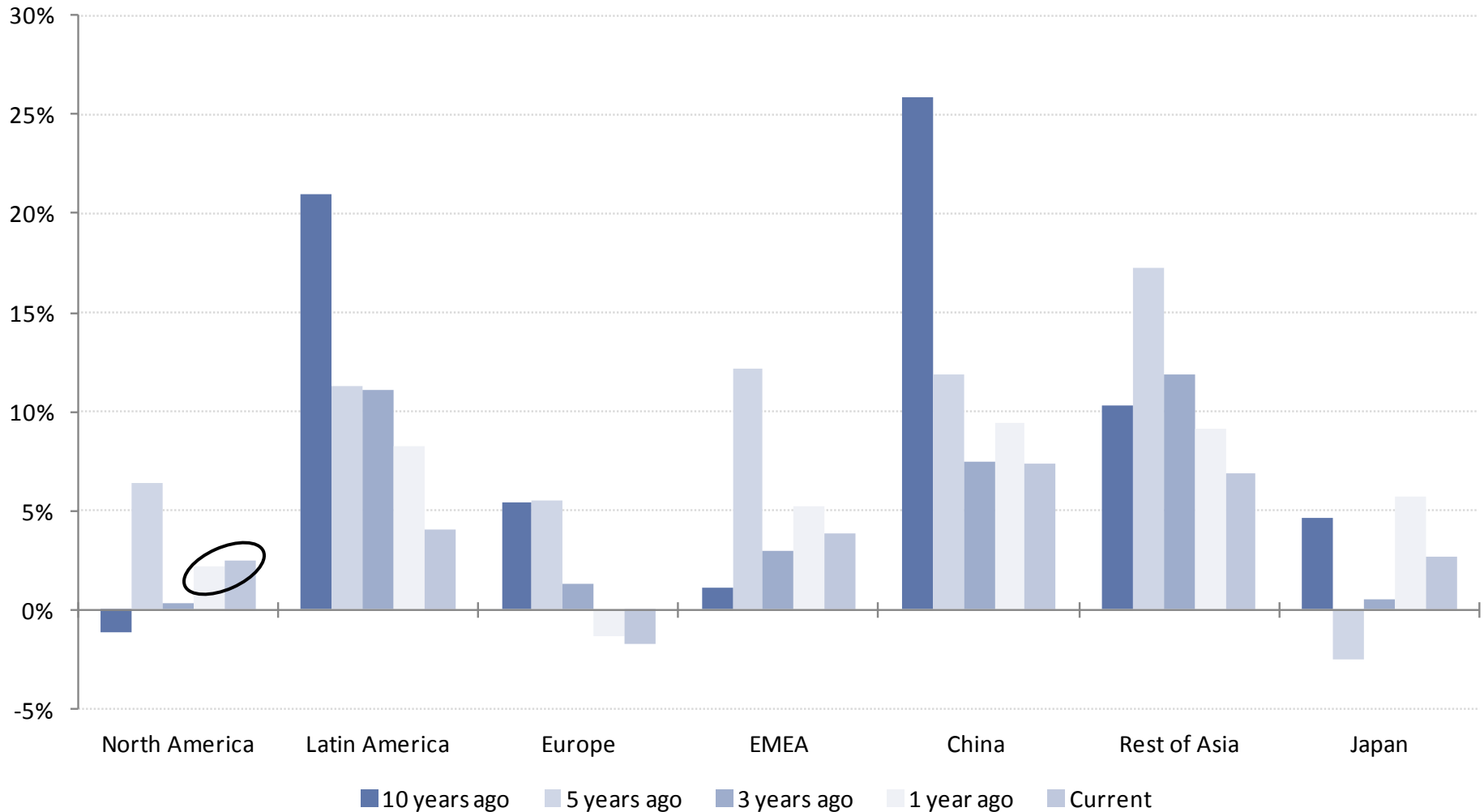
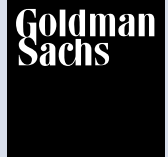
The global telecoms index has underperformed global markets



Source: Datastream

# Growth is slowing in all regions bar the US

YoY reported revenue growth (weighted by market cap.)

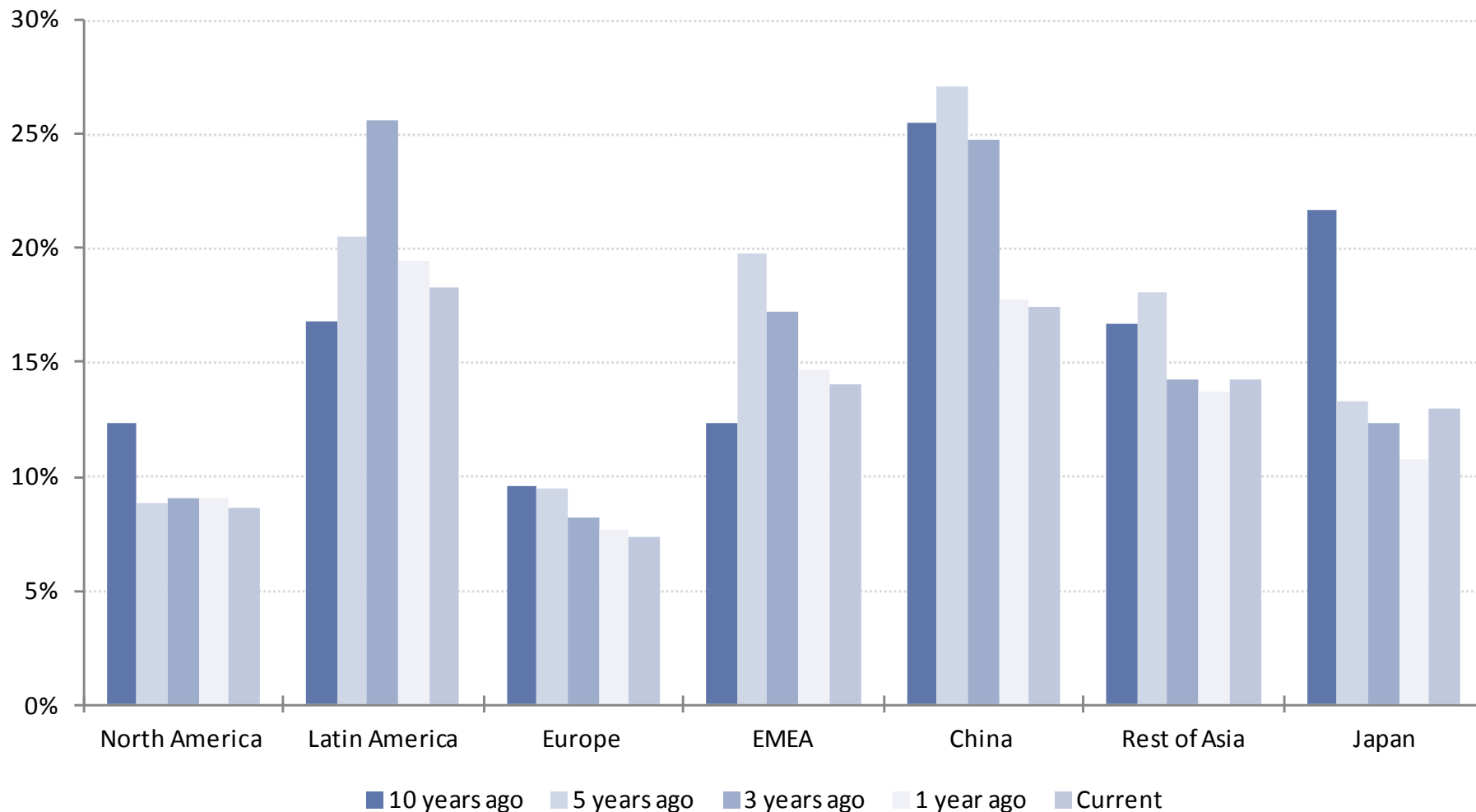


Note: We include wireless-only and integrated operators in each region, but not fixed-line only operators

Source: Goldman Sachs Research Quantum database, company data

# Returns on capital are under pressure

Cash returns on cash invested (weighted by market cap.)

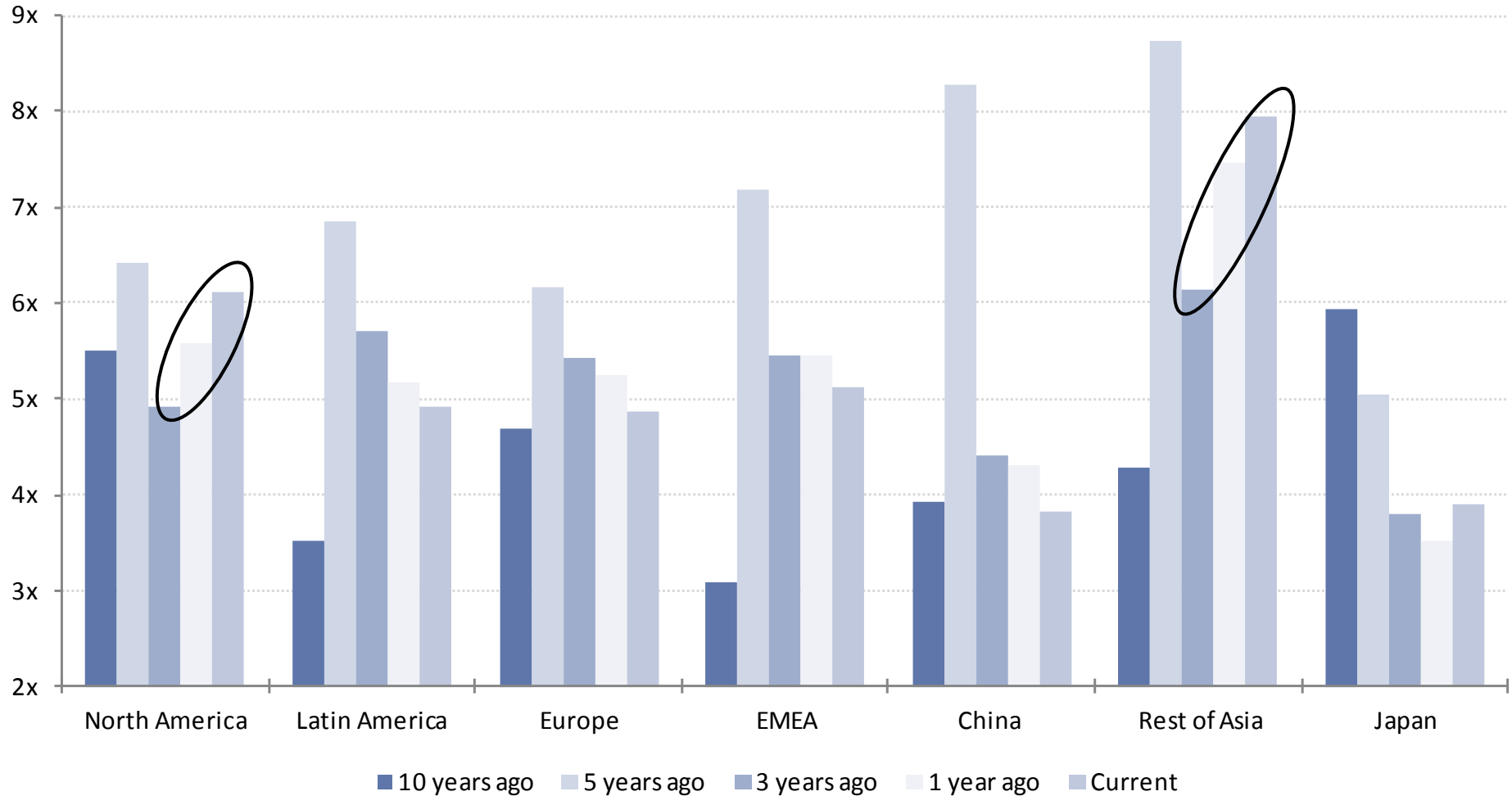
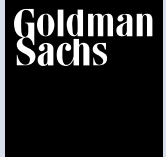


Note: We include wireless-only and integrated operators in each region, but not fixed-line only operators

Source: Goldman Sachs Research Quantum database, company data

# Multiples are falling, except in Asia & the US

EV/EBITDA multiples by region (weighted by market cap.)



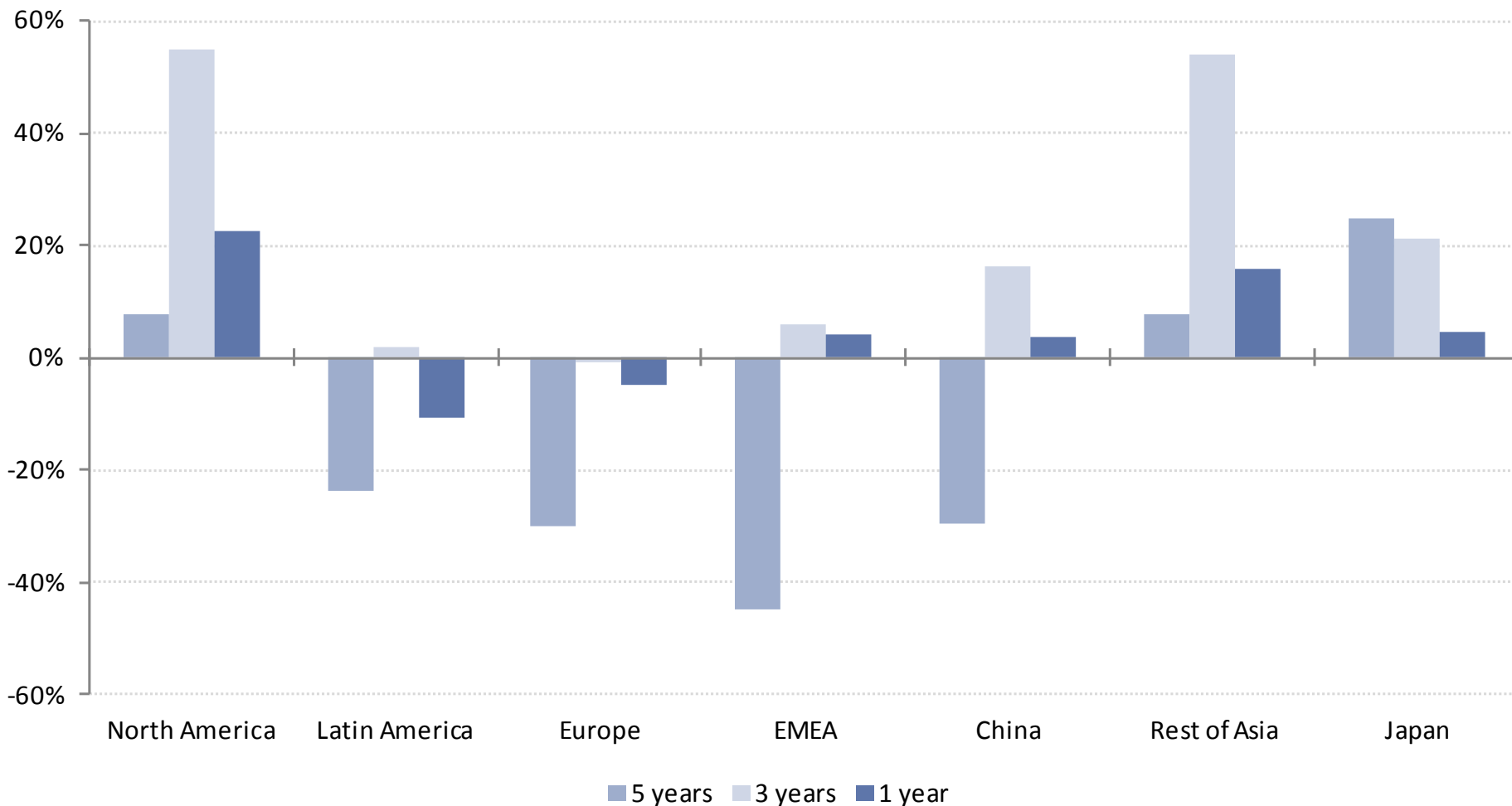
Note: We include wireless-only and integrated operators in each region, but not fixed-line only operators

Source: Goldman Sachs Research Quantum database, company data

# Stock performance reflects growth & returns trajectory, plus a 'search for yield' effect



Share price performance by region (US\$ weighted by market cap.)



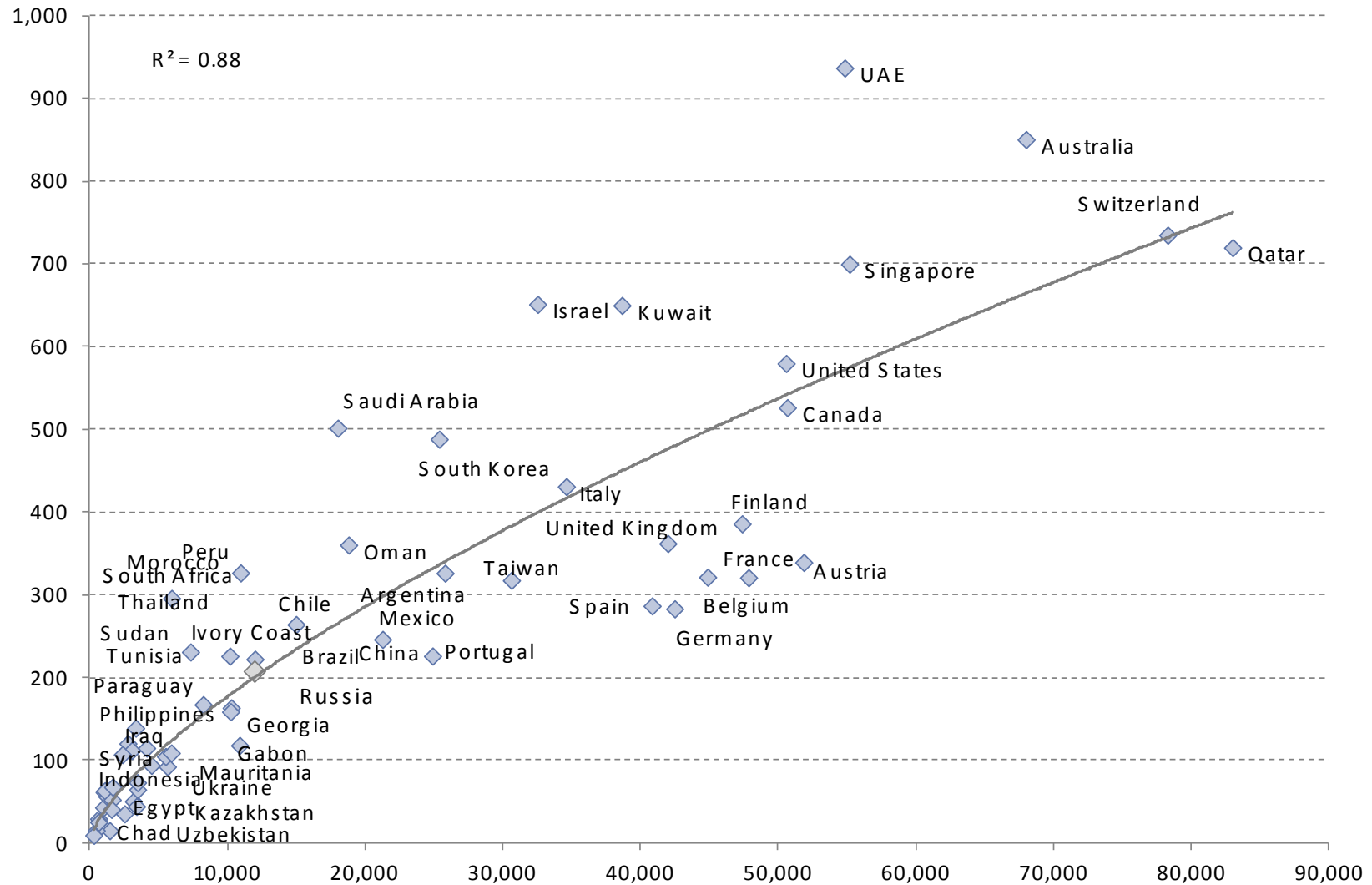
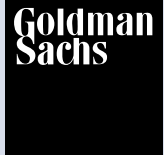
Note: We include wireless-only and integrated operators in each region, but not fixed-line only operators

Source: Goldman Sachs Research Quantum database, company data

# **Why are investors so concerned about growth?**

# Telecoms revenues correlate with GDP

Mobile service revenues/capita (US\$) vs. GDP/capita (US\$)

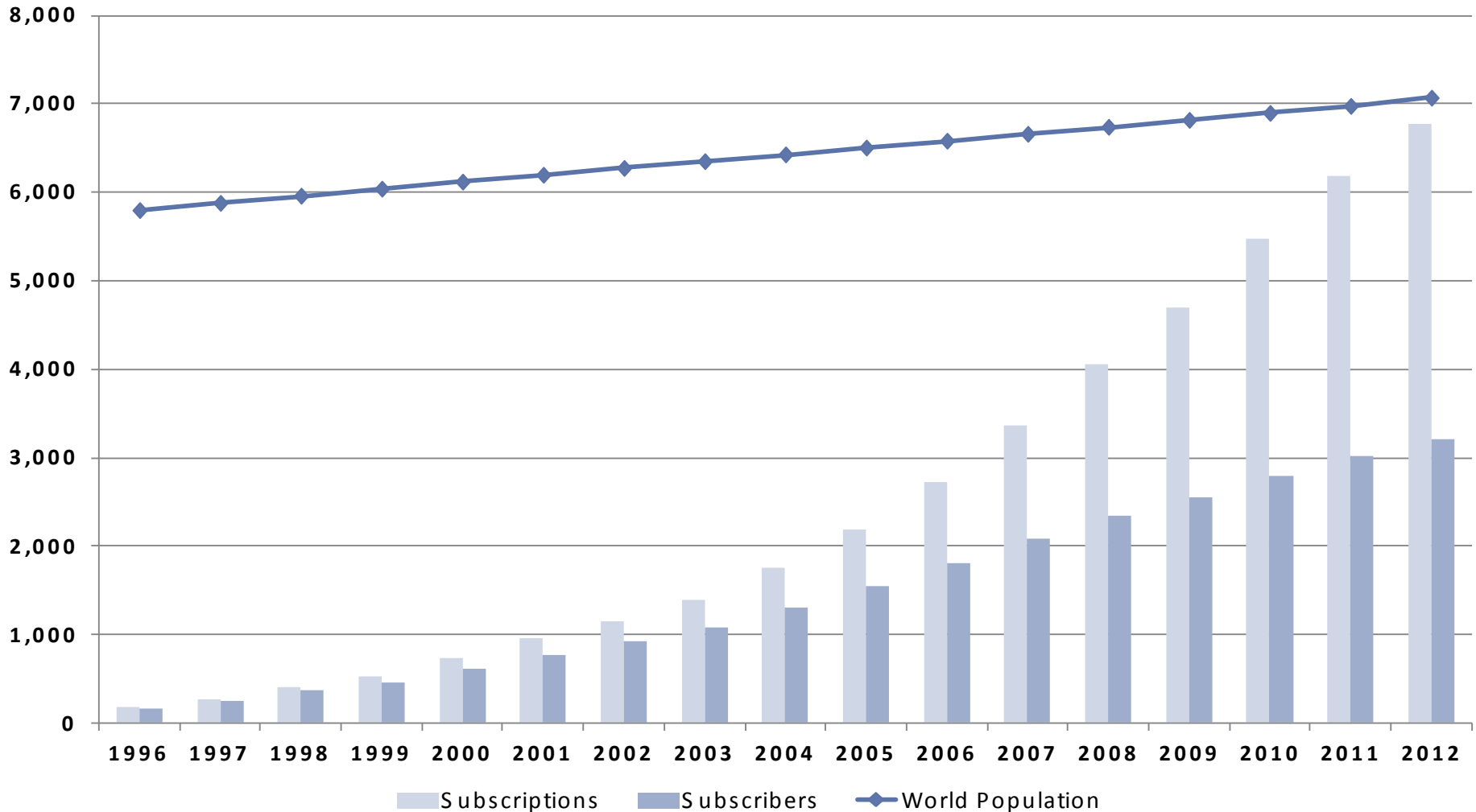
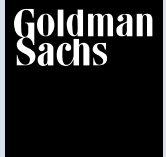


Source: IMF, Goldman Sachs Research estimates, Goldman Sachs Global ECS Research



# Penetration of high ARPU customers is high

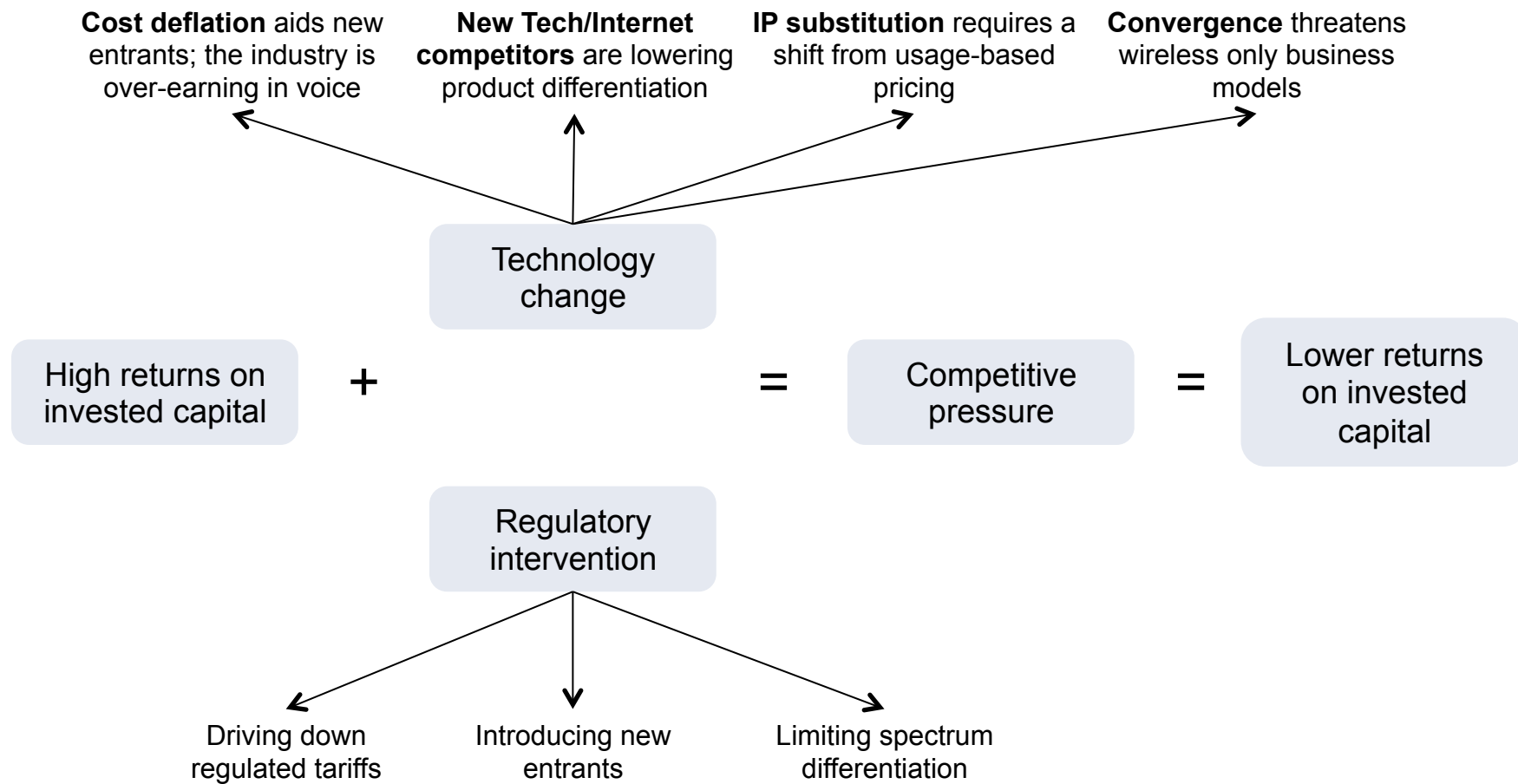
Mobile subscriptions vs. global population, 1996-2012E, mn



Source: GSMA, World Bank

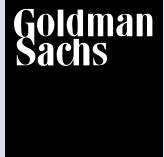
# Technology change & regulation weigh

Key unknown: What is the right business model for data?

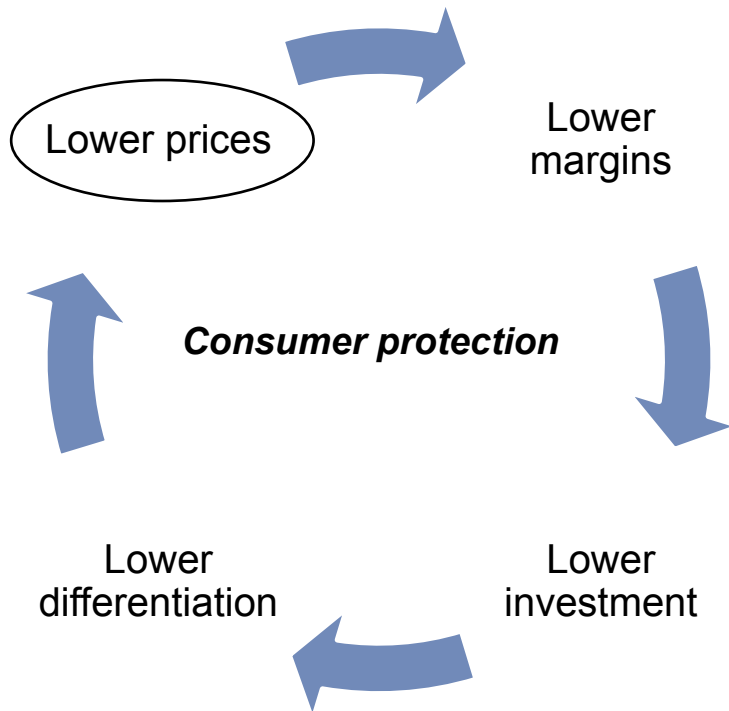


# Regulators seem to be fixated on prices

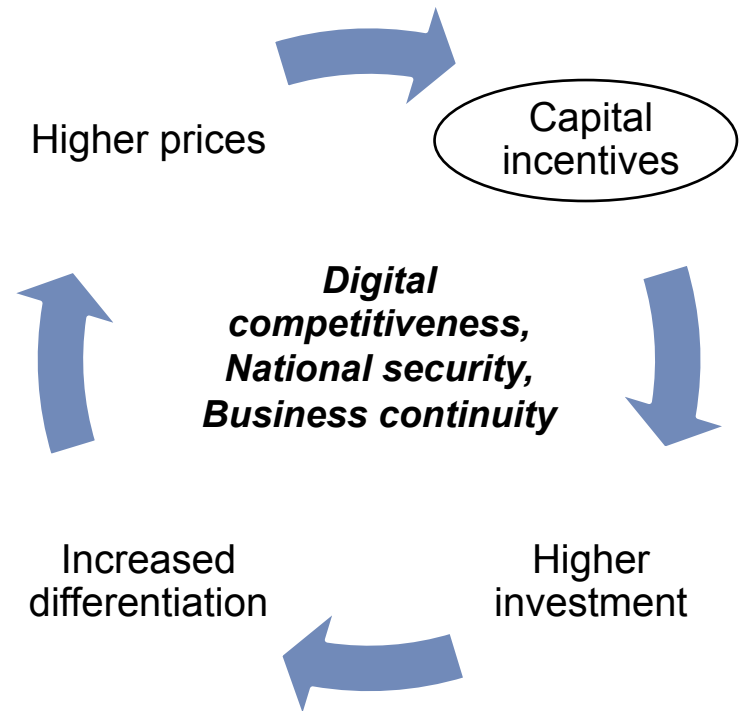
Investors are uncertain whether regulators will support investment



## Historic regulatory focus

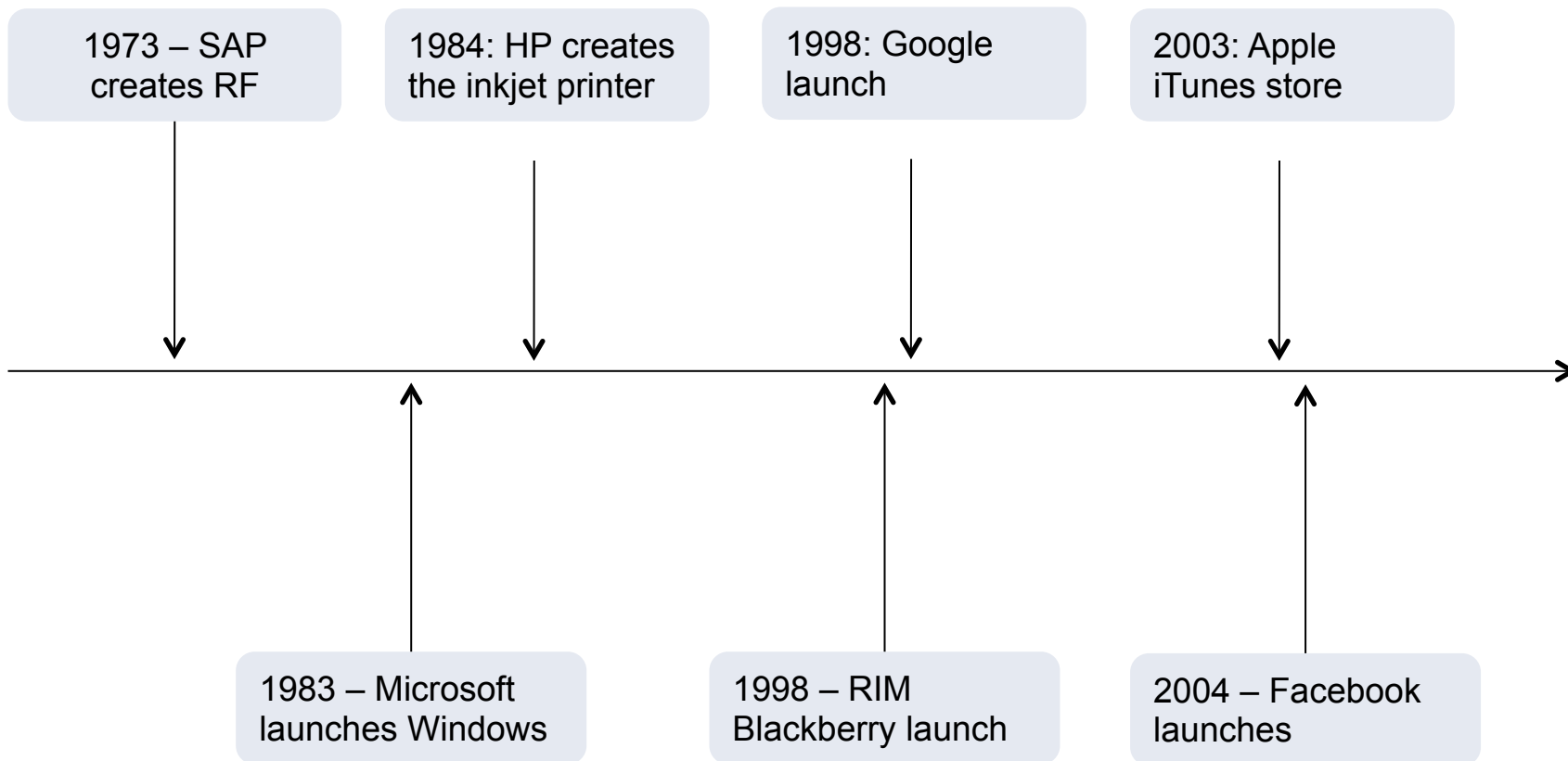


## Future regulatory focus?



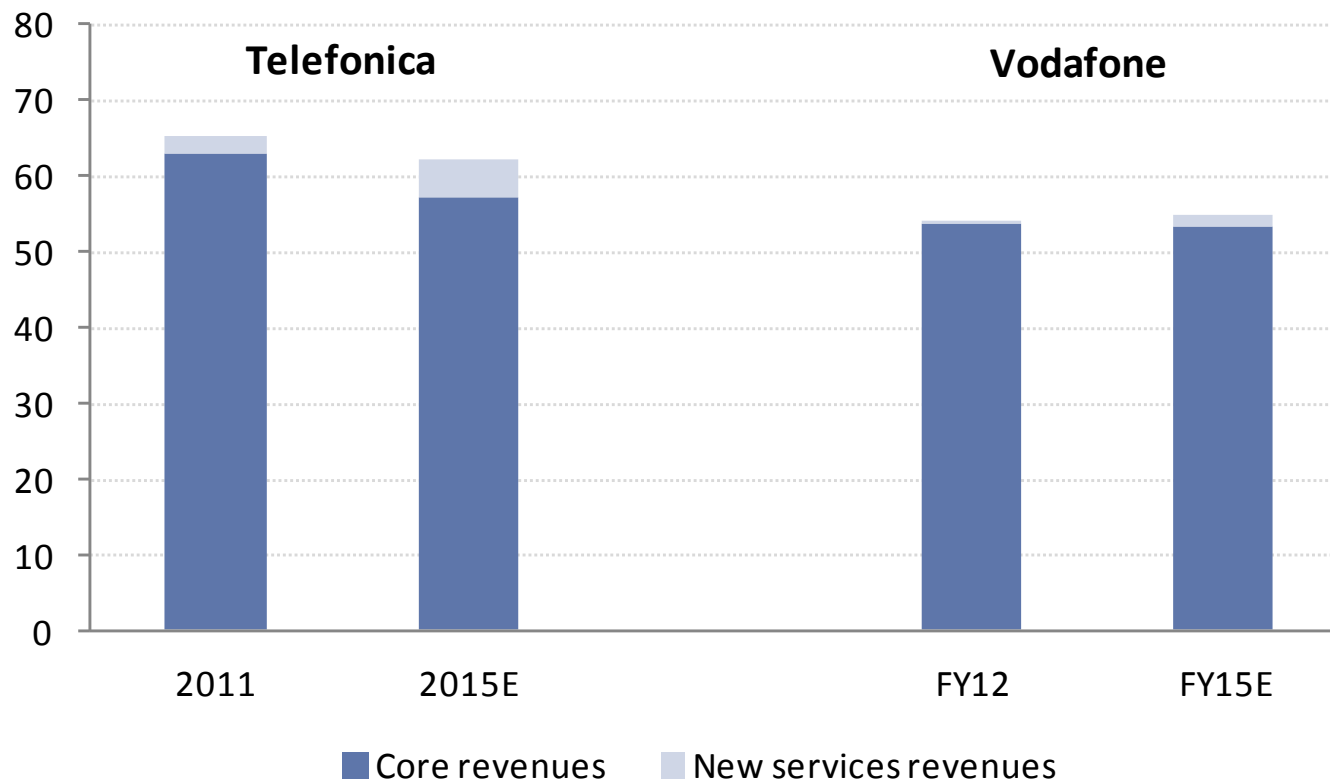
# Ecosystems last a long time

Operators have already lost the ecosystem battle (EMs TBD)



# Future sources of growth are only modest

Telefonica Digital / Vodafone 'New services' revenues (€ bn)

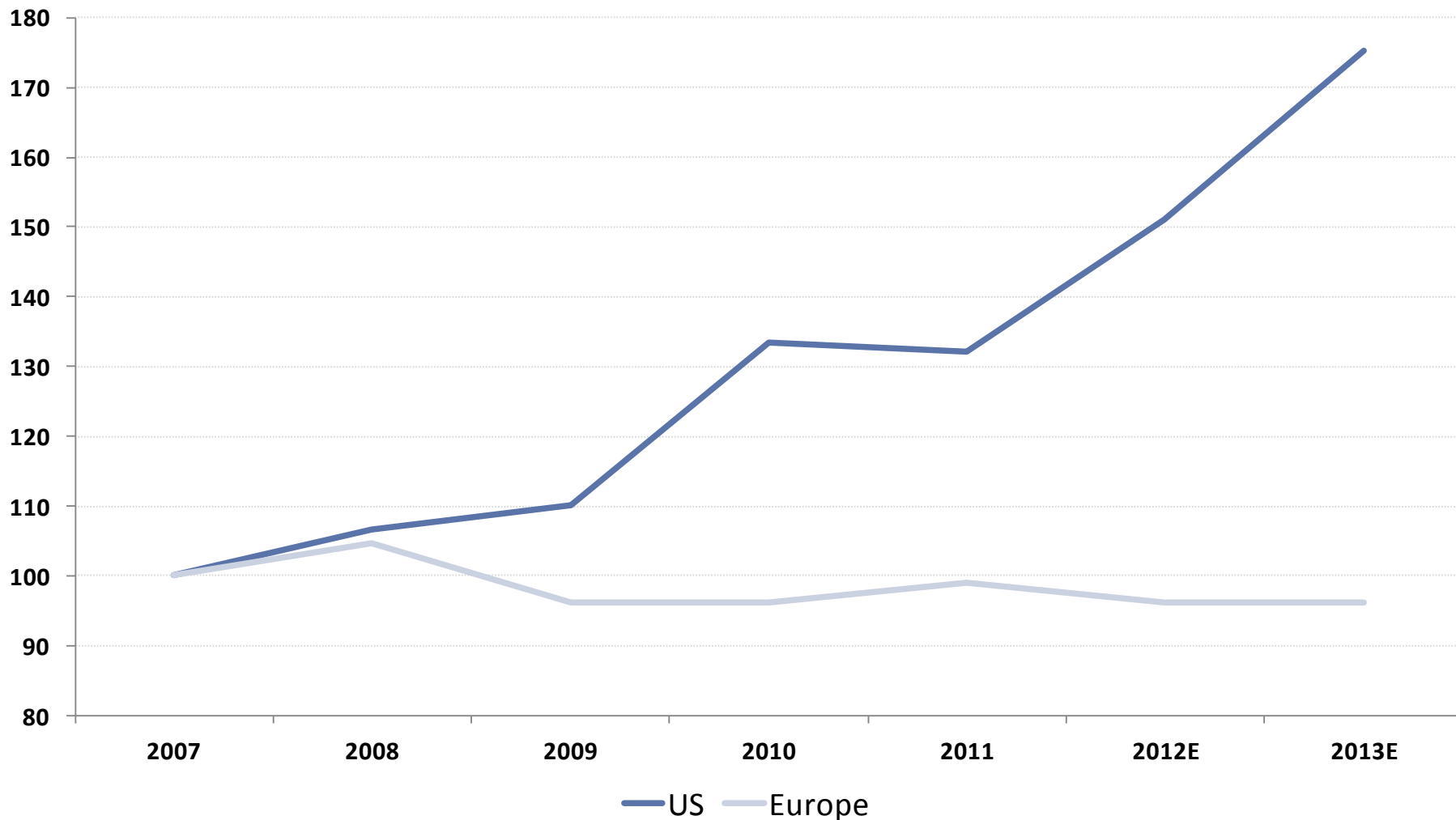


Source: Company data, Goldman Sachs Research estimates

# **Options to improve investor confidence**

# 1. Regulation refocuses on investment

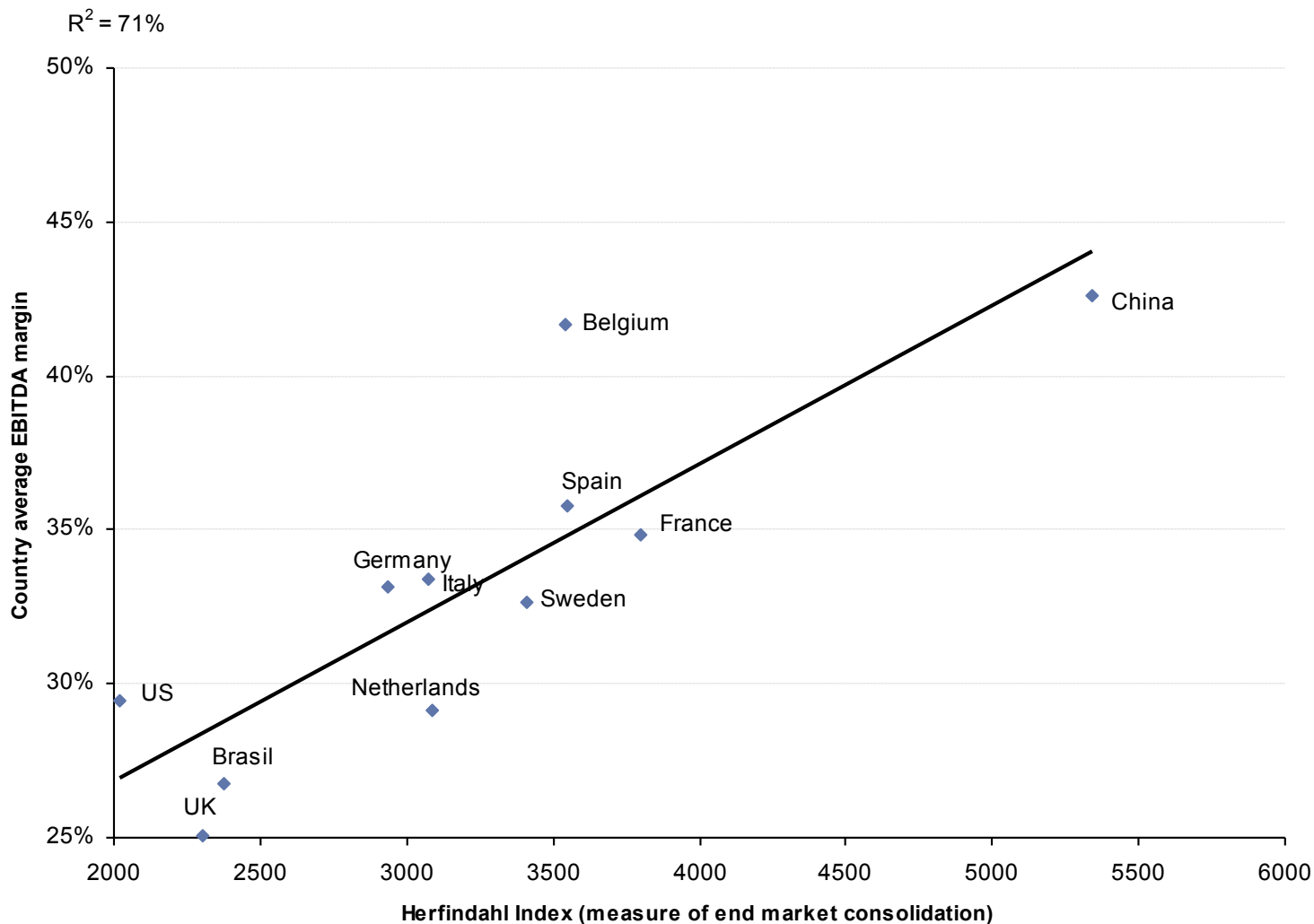
Case study: Wireless capex in the US vs. Europe (indexed to 100)



Source: Company data, compiled by Goldman Sachs Research

## 2. Consolidation picks up

Concentrated market structures increase investment capability



Source: Company data, compiled by Goldman Sachs Research



### 3. Operators invest to differentiate...FCF maximisation has not supported growth

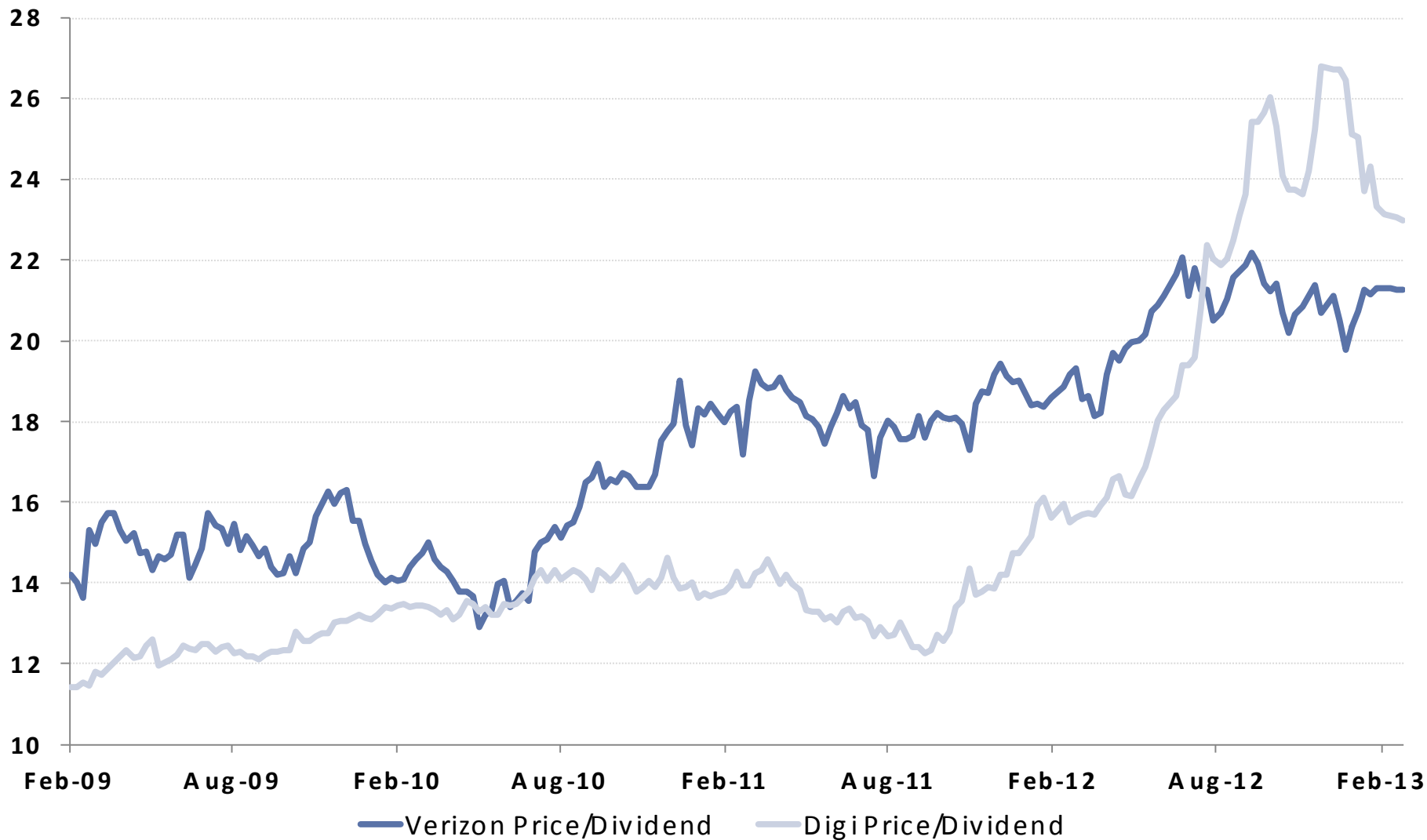


- 'If you don't invest enough in infrastructure, you will turn infrastructure into a commodity' (Swisscom CEO)
- Transform pricing models towards predictable data-centric 'access' based models, away from current voice-centric 'usage' based models

More radical options (with less current investor support) could include:

- Wireless only operators buying fixed-line assets / offering quad-play bundles to retain high value customers
- Investing in cloud/Internet services (e.g., PT, Millicom)
- Investing in unique content

# In a low yield world, investors will pay a premium for modest (but sustainable) growth



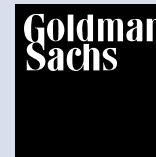
Source: Goldman Sachs Research Quantum database

# Q&A

# **Disclosure Appendix**

**February 22, 2013**

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