



Building a better working world

Telecommunications Global Capital Confidence Barometer



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A note from Axel Majert, EY Global Telecommunications Sector Leader

The 18th *Capital Confidence Barometer* reveals an elevated M&A appetite amid telecom sector consolidation and convergence.

Telecom executives are looking to drive dealmaking in the coming year. In fact, their deal appetite has registered a sustained high for more than a year, overtaking trends in other sectors of the global economy and rising 14% above their own historical average.

By the numbers, 59% of telecom execs intend to pursue M&A in the next 12 months, versus a 45% long-term average and a 52% intention in other sectors. Additional findings in the *Capital Confidence Barometer* reinforce this drive: 60% of telecom execs expect to complete more deals this year than last, for example, and 65% see sector-wide M&A on the rise. Already in 2017, the number of announced telecom deals over \$50 million increased in each consecutive quarter, to a total of 117.¹

Portfolio transformation

Consolidation and convergence are ongoing telecom deal drivers, as 70% of survey respondents report that portfolio transformation currently dominates the boardroom agenda. Thirty percent expect an increase in cross-border dealmaking, and 19% expect more cross-sector M&A. But portfolio reviews are also triggering divestments. Forty-seven percent of telecom execs see shareholder activists pressuring telecom boards to divest assets in the next 12 months, with data centers and cell phone towers as frequent targets.

Twenty-one percent say that portfolio reviews are accelerating, with divestments helping to focus on digital transformation and fund the response to digital competition. The momentum in both dealmaking and divestment have heated up the M&A market: 77% see competition for targets increasing, especially from private equity funds pursuing smaller fiber infrastructure companies and other high-growth assets.

Political factors in focus

Despite high confidence in the global economy, by 63% of respondents, and rising expectations in corporate earnings (59%), equity valuations (46%) and other financial indicators, execs cite regulation and government intervention (38%) and acute political uncertainty (47%) as the biggest potential risks to dealmaking and growth. On the other hand, 75% of telecom execs expect their governments to increase infrastructure spending, with 84% saying such public investments are important if not critical to their growth. In the US, tax reform has persuaded 22% of telecom execs to reconsider deals they had previously dismissed.

Digital imperative

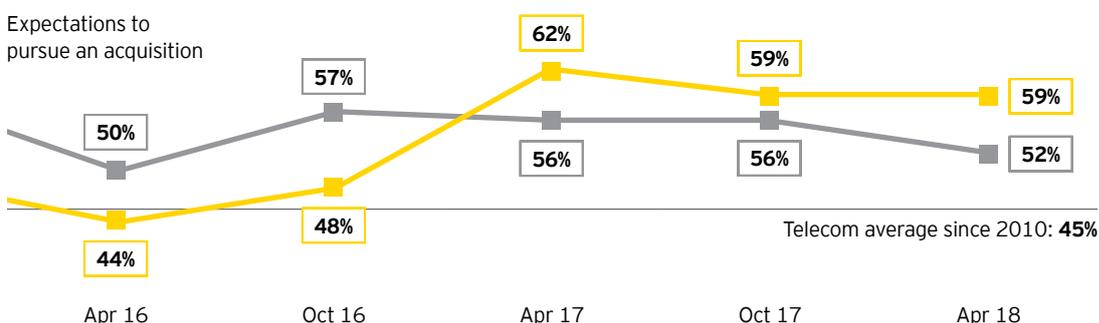
Fifty-seven percent indicate that the abiding mandate for digital transformation has propelled artificial intelligence and robotic process automation to the top of boards' technology agendas – even ahead of cloud computing and big data analytics (35%). Digital workforce issues are also evident in the survey, as 67% of respondents highlight difficulties in determining how to use contingent workers, while nearly the same number (63%) say they have trouble hiring people with the right skills.

1. Can your inorganic growth strategy adapt to the convergence era?
© 2018 EYGM Limited (deal drivers refer to telecoms M&A with announced values of US\$50m+).

Q:

Do you expect your company to actively pursue mergers and acquisitions in the next 12 months?

- Global
- Telecom



Telecommunications highlights

Macroeconomic and M&A outlook

Broad-based synchronized growth underpins buoyant economic outlook, with dealmaking intentions remaining at near-record levels.

63%

see the **global economy** as improving.

65%

see the **M&A market** improving.

59%

intend to **pursue acquisitions** in the next 12 months.

Growth and portfolio strategy

Executives are looking to transform their portfolios. They will be using divestments to raise funds to acquire technology and talent.

70%

say that **portfolio transformation** is top of the boardroom agenda.

67%

identified an at-risk or underperforming asset to divest during their most recent **portfolio review**.

57%

see AI and robotic process automation as the **most prominent technologies** on their boardroom agenda.

Government and policy in focus

Executives are sensitive to political risks to growth and are conscious of the critical role of government infrastructure spending.

84%

say that increased **government infrastructure spending** is important or critical to their growth plans.

47%

see political uncertainty as the **greatest near-term risk** to the growth of their business.

38%

see regulation or government intervention as the **biggest risk to dealmaking**.

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ED None

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