

Vodafone: large and sclerotic and ripe for takeover?

A regular column on the information industries

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There are only five mobile network operators in the world that have an equity stake (irrespective of size) in 20 or more networks. These are, in diminishing order of network numbers, France Télécom/Orange (36), América Móvil (29), Vodafone (25), Singapore Telecom (24), Etisalat (21) and MTN (21). It may be noted, first, that Singapore Telecom's total is greatly boosted through its stake in Bharti Airtel (19), whereas Vodafone's total is boosted by the six African networks controlled by its majority-owned subsidiary Vodacom.

Second, it should be noted that the networks owned by the above operators are widely dispersed from a regional viewpoint. Orange, for example, has a stake in 20 African networks compared with only eight in Europe. Surprisingly, Africa is the dominant region overall, with Singapore Telecom (14 compared with eight in Asia), Etisalat (15) and MTN (17). América Móvil is the odd one out because it has 16 of its networks in Latin America, but even Vodafone is only slightly Europe-centric with ten networks based there.

Given its global reach, Vodafone unsurprisingly serves a very large number of subscribers. However, the fact that Vodafone is not the sole

owner of the great majority of its non-European networks means that the number of revenue yielding (net) subscribers must be downgraded accordingly. In practice, the number derived from Europe has remained remarkably constant at just over 100 million annually during the period since end-2015, but that is readily explained by the fact that these markets are heavily saturated. But even on a worldwide basis, the number has tended to fluctuate only between 350 million and 400 million (nearly achieved in 2018). The problem, if such it is, is the steady decline to 346 million at the end of 2020 – these totals should not be confused incidentally with consolidated subscribers – and associated events.

To a very minor extent, this is due to the (surprisingly) few disposals that have taken place – Qatar in 2018, New Zealand in 2019 and Malta in 2020. During this period, no acquisitions took place and clearly, there is no urge to spend huge sums on corporate assets at a time when license fees and roll-out costs are so high.

The first of the significant associated events relates to the situation in India where, at its peak, Vodafone had a

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net 170 million subscribers – albeit yielding a very low average revenue per subscriber (ARPU). The unhappy tale of how Vodafone became subject to unaffordable license costs, back taxes and fines has already been recounted in detail in *Digital Policy, Regulation and Governance* (Vol. 22 (2) 2020, pp. 153–55) and hence need not be repeated here. What matters is that in January 2022, Vodafone was forced to cede part of its stake in its network (branded as Vi) to the government. Vodafone was left with a 28.5% direct stake which was smaller than that of the government. Furthermore, this stake sale only wiped out part of Vi's debts, so further sales are probable.

The second was the transfer of Vodafone's 55% stake in its Egyptian network, yielding roughly 25 million net subscribers, to Vodacom. However, Vodafone did retain a reduced indirect stake via its subsidiary, so this was not of that much significance.

Of more significance, despite initial appearances, is the apparent stability of the mostly wholly owned networks in Europe, where Germany dominates, followed, predictably by Italy, the UK and Spain. The problem here is that these markets are fiercely competitive, partly because the European Union has been very reluctant in the past to permit the number of networks to be reduced. Furthermore, there is a need to pay out massive sums in obtaining the licenses for, and the rolling out of, 5G at a time when 4G is not yet fully developed.

It follows that the above should be reflected in the share price history of Vodafone – bearing in mind that substantial dividends have also been paid out, although they were cut right back in 2019 to save cash. By October 2007, Vodafone had recovered from the melt-down of 2002 and traded at 200p, and by January 2014, it had reached 245p. But this

flattered to deceive, as the price was 237p at a subsequent peak in February 2017 only to fall back fairly catastrophically to 100p by March 2020. In October 2021, it was still only 108p, and although a recent revival for reasons discussed below has achieved a rise to 137p, the overall performance over the past decade can reasonably be described as wholly unsatisfactory.

Although it was historically set up as a mobile-only operator and preferred to dispose of fixed-wire assets acquired via mergers, this is no longer the case, and Vodafone has recently acquired some substantial fixed-wire networks in Europe, although the bottom line is that there is always the need to take on one or more well-established incumbents. It is accordingly of particular note that a wholly disproportionate amount of group revenue in 2021 – 29% – was generated in Germany, where there are extensive fixed-wire assets, whereas Vodacom – despite its appearance as a success story – was only equivalent in total to the UK or Italy due to the low ARPU where it operates.

Whether a move into fixed-wire is a game-changer is somewhat doubtful. The acquisition of part of Liberty Global's portfolio in Germany, Hungary, Romania and the Czech Republic in August 2019 came with a price tag of €18.4 billion (\$21.3 billion) and has been heavily criticized as over-valued.

One surprising bright spot has been supplied by the towers subsidiary – see *Digital Policy, Regulation and Governance*, (Vol. 22 (4) 2020, pp. 385–87) for an analysis of why the sector has become so fashionable. The creation of Vintage Towers and its listing in Frankfurt has still left Vodafone with an 80+% stake in a business valued at roughly \$17 billion. However, it is alleged that Vintage Towers will be merged with the TowerCos of Deutsche Telekom and

Orange, so some loss of control is on the boards.

Which is not to say that consolidation is an inadvisable strategy for Vodafone and it certainly seems to be on the minds of its board as the best way to revive the unsatisfactory return on capital employed (ROCE) of 4.5%. According to the CEO, Mike Read, joint ventures, raising stakes to provide control, switching to minority control or even disposals are all under consideration.

And it is not as though Vodafone is the odd one out in Europe – that is Deutsche Telekom which is thriving in the USA where it competes with only two other incumbents. The likes of Telecom Italia and Telefónica, and to a lesser extent Orange, have all underperformed in recent years as a result of competitive pressures in Europe. It may be that this will stimulate a less aggressive attitude toward restructuring by the European Commission, but that has to be set against the fact that telecoms as a sector have done relatively well during the pandemic – all that working from home – and that if consolidation does indeed result in rising prices – the evidence is less than crystal clear – then this should be discouraged at a time of rampant inflation.

Nevertheless, Vodafone certainly appears to be eyeing up consolidation opportunities in Europe. For example, it was rumored in late 2021 that Vodafone proposed to take over Hutchison's "3" network in the UK, although negotiations appear to no longer be active. In February, it became public knowledge that the owners of MásMóvil in Spain – KKR, Cinven and Providence – were attempting to take over the Vodafone network. The intention was to exchange shares – thereby allowing Vodafone to retain an interest in Spain – but with MásMóvil left firmly in charge. Interestingly, the original idea mooted in 2019 was for Vodafone to take over MásMóvil. It is also of

interest that a tie-up between MásMóvil and Orange is also being discussed.

A final proposal under discussion relates to Italy, where the relative newcomer Iliad, which has severely disrupted the market at the expense of the incumbents, is keen on taking over Vodafone. The merged company would be the largest in the market, with Telecom Italia left as the smallest, although none of the three survivors would have market dominance. The position at present is that Vodafone has rejected an offer of €11.25bn (\$12.9 bn) for its combined fixed-wire and mobile assets, so it is evident that despite its problems, Vodafone does not intend to succumb to unacceptably low offers.

One remaining possibility – somewhat extraordinary at first sight given Vodafone's extensive assets but easily explained by its depressed

market value of £36.6bn (\$49bn) – is for the operator to be acquired in its entirety as a going concern. If so, the likeliest candidates would appear to be a US incumbent or a private equity firm. But both AT&T and Verizon have themselves proved to be rather inept when it comes down to making a success of takeovers in the past – \$85bn plus \$25bn debt taken on in 2016 by AT&T now makes Time Warner look more than a little overpriced.

Ultimately, it is undeniable that there are simply too many networks across Europe. Unfortunately, it is proving very difficult to persuade the European Commission – which tends to become fixated on a single market, in this case, mobile – that this is the case even though the telecoms industry is changing rapidly with the likes of Google and Meta seeking to play an increasing role. In any event,

M&A activity can drag on for years. But if you take away India – which may happen anyway – and allow for the transfer of the Egyptian assets to Vodacom, which has limited revenue growth potential – the largest individual remaining market outside Europe is Turkey.

It is widely agreed that Vodafone is valued at considerably less than the sum of its parts. This suggests that disposals should occur, possibly of the Australian assets, but there still has to be a willing buyer at an acceptable price. But will it break itself up, or will it be acquired and broken up? Or will there be an ultimately happier ending?

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