

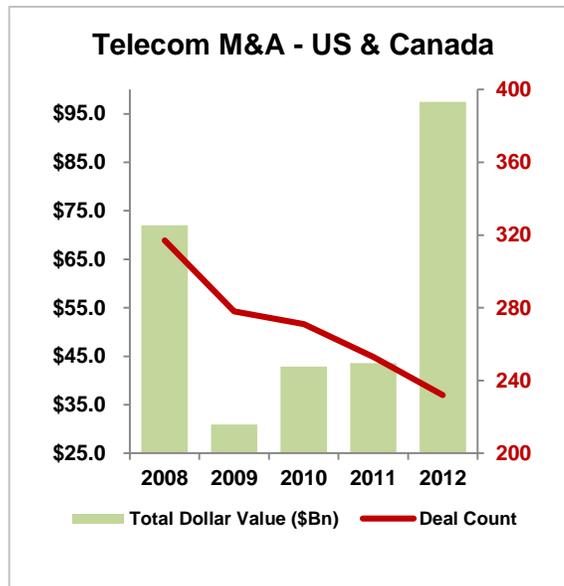
Trends in Telecom M&A

A resurgence in transaction multiples and a return of mega-deals

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Merger and acquisition activity in the telecomm sector has experienced heavy fluctuations in the last five years. Following a seemingly high deal count and value in 2008 and steep declines in 2009 in the wake of the financial crisis, the industry has seen divergent data trends in recent M&A activity. While deal count continues to decline, average deal value has risen given a return of the mega-deals.

Valuations in telecom M&A have risen in the last 18 months. Having declined to 4x or 5x EBITDA by the middle of 2012, valuations have generally reflected a range of 7x to 8x EBITDA recently. While part of this increase appears related to a higher mix of strategic versus financial buyers, the impact is likely minimal compared to normal cyclical patterns and an increase in competitively motivated deals by the larger telecom companies. Nevertheless, the resurgence of higher transaction multiples has opened up a window for well-positioned sellers.



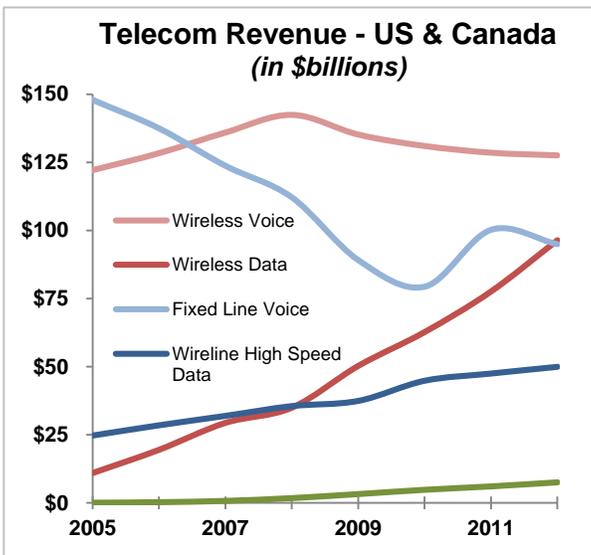
Source: Bloomberg

In the US and Canada, the long term market for telecom M&A activity has seen a steady decline in deal count but an increase in overall dollar value as the industry's consolidation continues. For deals under \$1 billion, the total dollar value of transactions has remained relatively stable since 2009. The mega-deals, those valued above \$10.0 billion, have skewed the overall dollar value of M&A. These industry-changing transactions have occurred in the last few years as Verizon, AT&T, Sprint, and T-Mobile have further entrenched themselves as the "Big 4" in US telecom. From 2009 through the third quarter of 2012 there were only 6 mega-deals, however, in the last 12 months alone, 7 new mega-deals have been announced.

An important driver of M&A activity is that 2011 marked the first time that the number of wireless subscribers surpassed population in the US and Canada as consumers increasingly sign contracts in support of multiple connected devices. Limited growth opportunity in the traditional voice market has stimulated consolidation, and large telecoms have sought to increase their wireless subscriber base to improve growth trajectories.

The recently announced acquisition of Leap Wireless by AT&T for \$1.2 billion (8.5x 2013 EBITDA) is the latest example in this trend. If the transaction closes, AT&T will absorb Leap's 5.3 million subscribers and gain access to PCS and AWS spectrum licenses covering 137 million POPs that AT&T badly needs. (Strategically, LEAP is likely to become the near-term nucleus of AT&T's go-to-market strategy in the prepaid segment.) However, the feasibility of significant deals for the Big 4 may become more limited as transactions are more likely to hit antitrust roadblocks as did AT&T's proposed acquisition of T-Mobile in 2011. However, unless the FCC clearly defines spectrum caps, the Big 4 may prioritize M&A spending to acquire spectrum assets.

Unsurprisingly, the greatest increase in revenue for the telecom industry has come from wireless data. It continues to be where the biggest growth prospects lie for the industry.



As the wireless subscriber base consolidates within the Big 4 and revenue opportunities evolve with increased consumer demand for data, expect to see increased M&A activity in the near term while borrowing costs remain low. While deal volume may prove erratic, it's quite possible M&A momentum will outweigh fundamentals over the next several quarters.

Companies will have to invest in infrastructure and participate in spectrum auctions to meet increasing demand for wireless data. The wireless landscape also continues to change at the handset, with non-traditional players entering the market as reflected by Microsoft's recent acquisition of Nokia's Devices & Services group and Google's 2011 acquisition of Motorola Mobility.

The M&A landscape for telecom is shaping up to reflect the underlying structural changes in the industry.

As the wireless subscriber base

About the Authors



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