

THE IDEAL TELCO

Re-rating
the telco
business



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INTRODUCTION

Dear reader

Many perspectives on the telco industry focus on the disconnect between volume and value growth, the inability to profit from the spectacular value created by digital ecosystems that use telco networks, and overall, of the lackluster future of the sector. These perspectives often overlook the growing realization of the innate strategic value of systemically critical, high-capacity telecommunications networks in any given country, and the real progress some players have made to create sustainable growth.

Drivers for a rerating of telecom operators and the industry at large are present already. It is now a question on how well these can be expressed, depending on local market characteristics, regulation, and the ability to change of the leaders of the industry.

What are the main drivers for rerating of telcos? How can a better understanding lead to rational competition and a better comprehension of regulators? How can telcos create strategies that permit sustainable growth, and sustain multi-decade franchises with attractive financial characteristics?

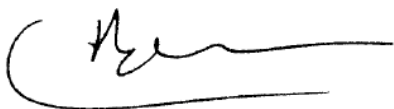
These are the questions we address in our perspective on “The Ideal Telco”. It is shaped by our strategy work with the leading operators across the globe. We hope you find it an interesting read.

Sincerely yours

Laurent Bensoussan

Global Industry Head

Communications, Media and Technology

A handwritten signature in black ink, appearing to read 'Laurent', with a long horizontal flourish extending to the right.

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TELCO PERFORMANCE OVER TIME



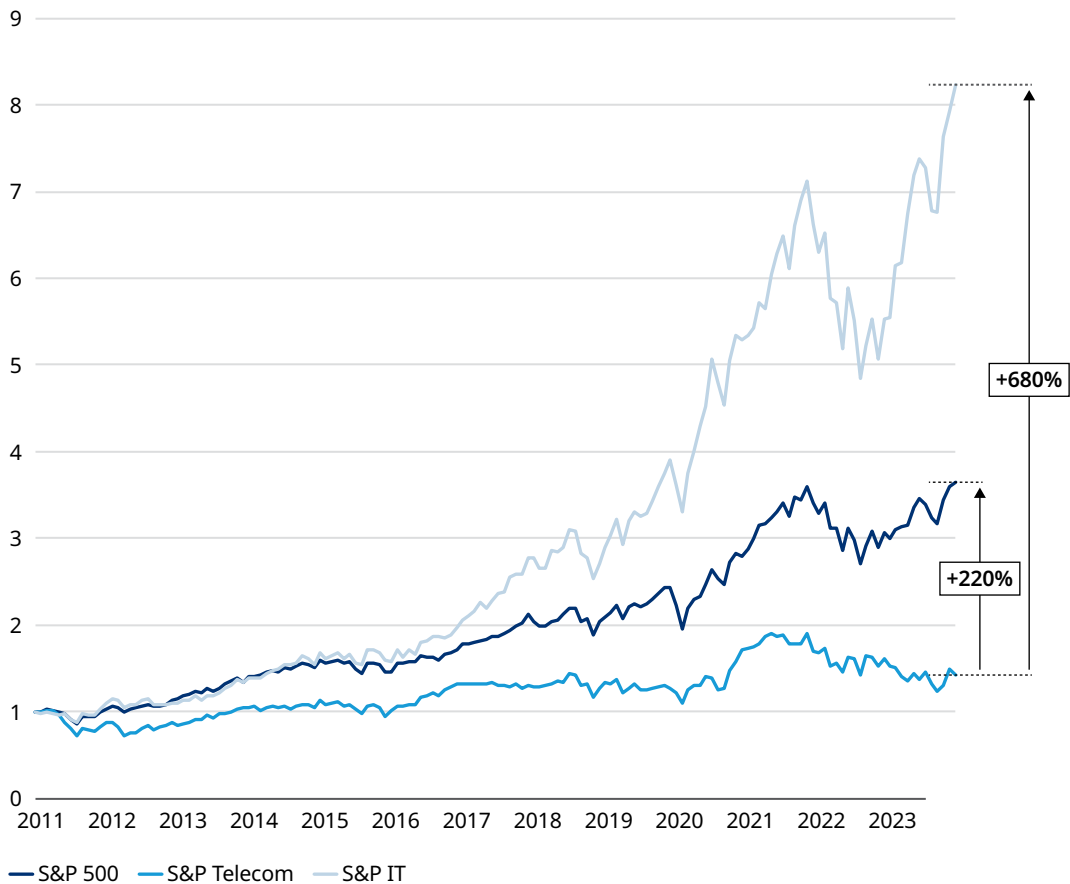
Telecommunication services underpin the workings of modern commerce, with telecom companies (telcos) providing a key component of digital competitiveness and serving as a cornerstone of national security and the economy. Given the need of businesses and consumers for transmission capacity and telecom services, one would expect the telecom industry to be generating outsized returns.

But despite the near-limitless appetite for bandwidth over the past decades, the telecom sector has seen little of that demand translate into higher valuations. Instead, over the past decade, revenue and profit growth have become decoupled from underlying growth, resulting paradoxically in telecom valuations being depressed in the face of soaring demand for its services (see Exhibit 1).

Exhibit 1: Telco performance has lagged the returns of the broader market and IT sector

Stock market performance

Selected indexes, USA, 2011-2023



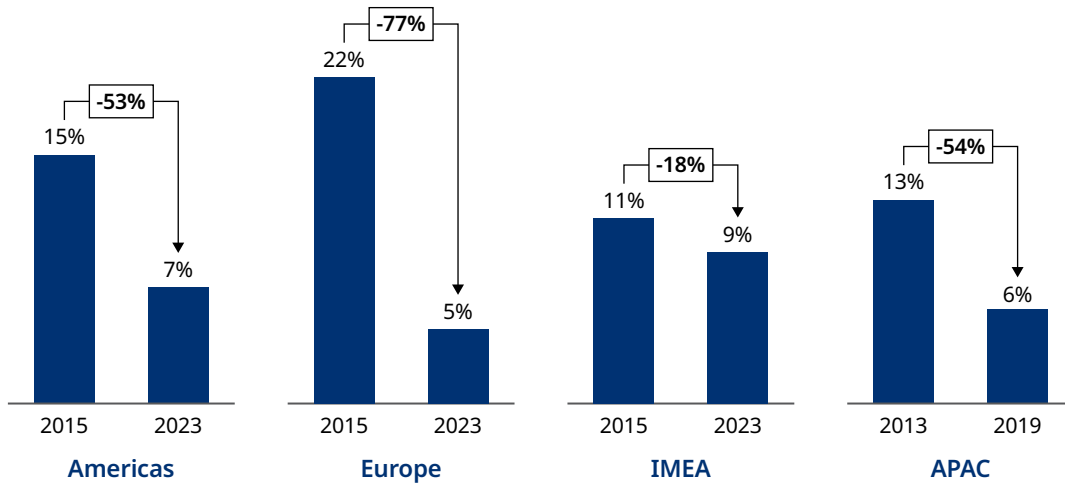
Source: SNL, Oliver Wyman

This underperformance stems from multiple causes. One factor is high investment intensity, with telecoms continuing to plow investment into fixed assets. But the more persistent source for their poor returns has been the inability to exercise pricing power. This is the outcome of market structure: too many players with too much infrastructure are pushing prices down — in some cases below the cost of capital — and depressing operators’ return on capital expenditure to a point where future investment becomes uncertain (see Exhibit 2).

Exhibit 2: Return on capital has dipped sharply among some telecom operators

Return on Capital

Selected Telecom operators



Source: Capital IQ, Oliver Wyman

Telcos have it within their power to change this equation. By improving “top line permission” — actions telecoms can take to expand longer-term market structure improvements — and enhancing cash conversion efficiency, telcos can rerate upwards. Reratings won’t happen overnight and some operators will outshine others, but the potential is there for an “ideal telco”. Moreover, the components and pathway to that ideal are within reach.

THE CHALLENGES OF TELCO VALUATION



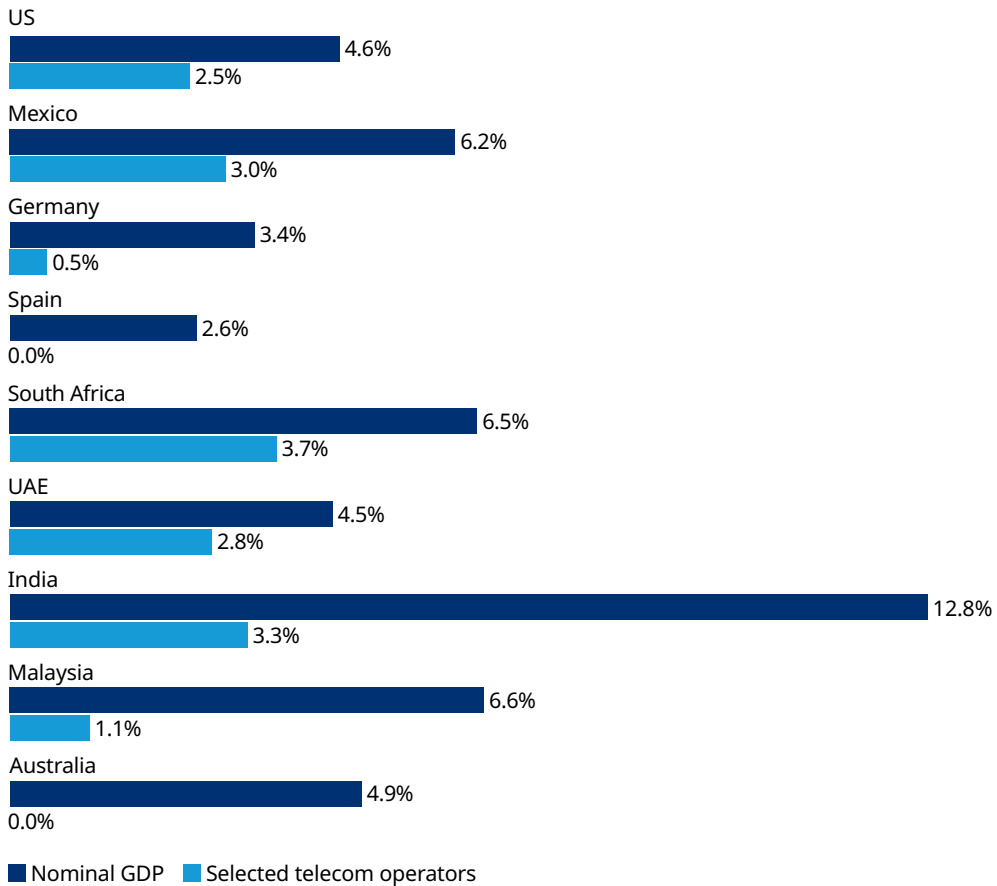
Historically, telcos and their networks have been regarded by nations as strategic assets, essential for economic development and national security. During the 2000s, the industry’s future looked bright: There was the advent of new network technologies that would power the Third Industrial Revolution and good prospects of greater penetration, additional services, and increased revenues. Meanwhile, the high capital expenditures (capex) required to build these new networks were seen as barriers to entry, creating economic moats for companies.

Telcos, however, failed to maintain positive momentum. So while the 2010s saw demand for data explode, telcos have not profited from the revolution. On the contrary, competition intensified, with new players entering the market (in retail and infrastructure) and eroding pricing power, while continued high capex requirements ate into the bottom line. As a consequence, telco revenue growth trailed GDP growth across the globe, illustrating the sector’s diminished stature (see Exhibit 3).

Exhibit 3: Revenue growth by telcos has failed to keep pace with economic growth

Economic growth vs telecom revenue growth

2010-2022, nominal annual GDP, average growth of selected Telecom operators’ in-market revenue (excluding inorganic growth)



Source: World Bank, Capital IQ, Oliver Wyman

The inability to exert pricing power prevented operators from translating growing demand into improved revenues. Three factors underlie this failure:

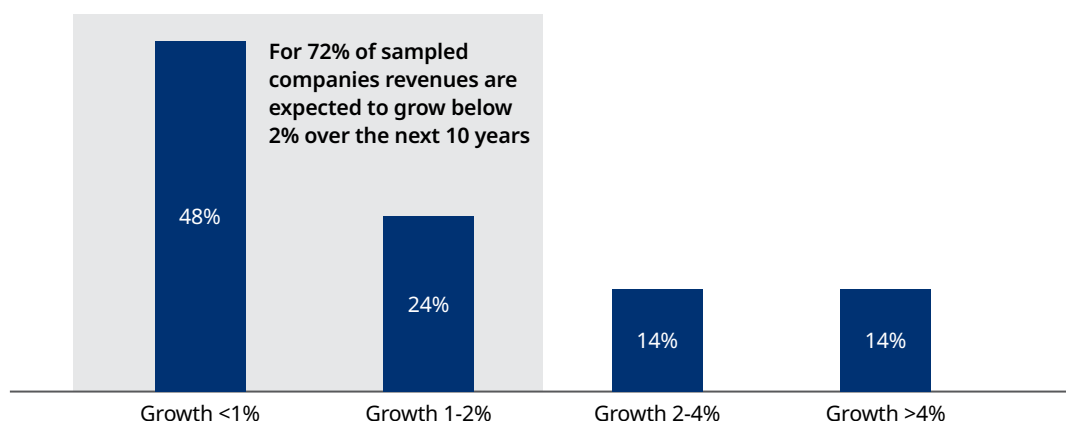
- **Regulators have focused predominantly on price competition.** Over the past decades, regulators have taken aim at the monopolistic market structures from the 1980s, favoring market structures that maximize retail competition and create the lowest prices. As telecom service was seen as a high-margin market, network investment was taken as a given and did not require the attention of regulators.
- **Inability of telcos to resist market pressure and think long term.** Telcos and their senior management have repeatedly chosen to pursue short-term profits over longer-term market health and returns. Near-term market share and volume growth objectives have routinely trumped longer-term value growth, creating a negative feedback loop.
- **Unsuccessful innovation.** The telco business mix looks much the same as it did 15 years ago, with core telecom services continuing to generate the bulk of revenues and margin. Growth outside of the core has been intermittent at best, and industry-defining opportunities in OTT have passed by. Many telcos have been unable to leverage their strengths in network or customer data to occupy a profitable space in these growth areas.

Consequently, investors project weak revenue growth of 2% for most telecoms, accompanied by continued cost and inflation pressures, and high capex (see Exhibit 4). Even in those instances where the near-term outlook is positive, investors assume a long-term reversion to the mean in building their valuation models.

Exhibit 4: Investors project the telecom industry to grow by less than 2% annually in the coming decade

Telecom revenue growth forecast

% of companies, N=29, selected operators in Americas, Europe, IMEA and APAC, 10-year growth projection (2023-2033)



■ 10-year revenue growth expectations

Note: When we observe high 10-year growth it is in high growth markets in terms of inflation, subscribers or ARPU (or a combination of these). And these Operators are based in countries with non-G7 currencies (long-term correlated with higher inflation)

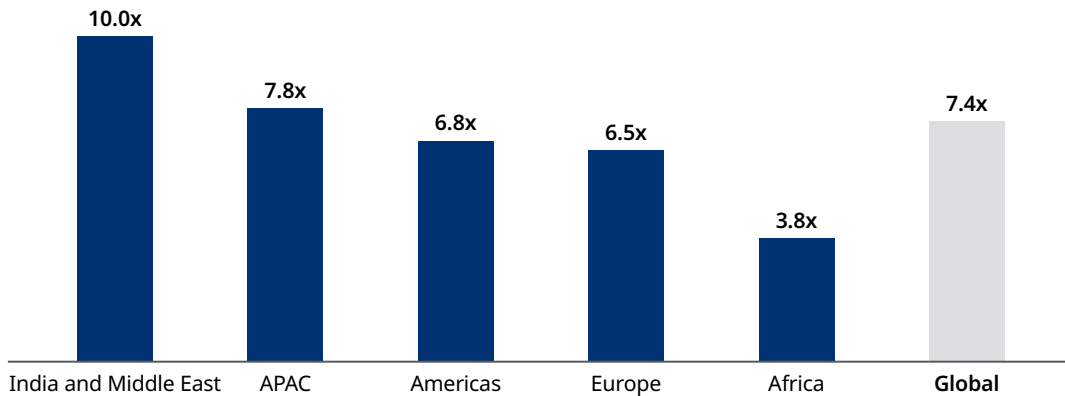
Source: Investment Banks, Equity Research reports, Oliver Wyman

Low revenue growth expectations are driving low valuations, evident in telcos' enterprise value to earnings before interest, taxes, depreciation, amortization (EV/EBITDA) ratios across different regions (see Exhibit 5). Indeed, average valuation multiples in Europe and the Americas are currently less than 7 times EV/EBITDA.

Exhibit 5: Telco valuations remain depressed

EV/EBITDA¹

Selected Telecom Operators, latest available, Q1 2024



■ Weighted EV/EBITDA²

1. LTM EBITDA; 2. Weight by EV

Source: Capital IQ, Oliver Wyman

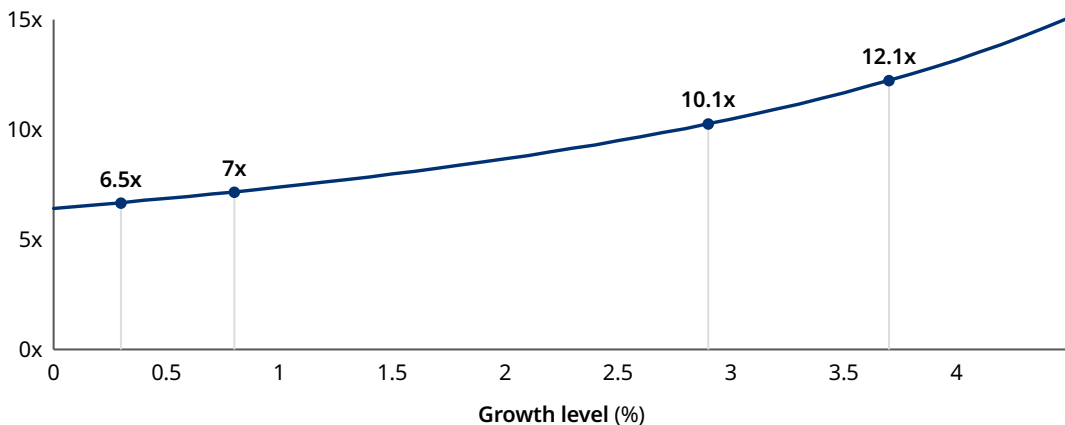
Valuation multiples are propelled by growth expectations (see Exhibit 6). By improving free cash growth, telcos can reverse investors' long-term growth expectations and achieve higher valuations.

Exhibit 6: Long-term growth expectations and valuation multiples can be correlated

Link between growth and valuation multiples

Illustrative exercise, WACC = 8%, FCF/EBITDA = 50%, constant parameters, simplified DCF model

EV/EBITDA



Source: Oliver Wyman

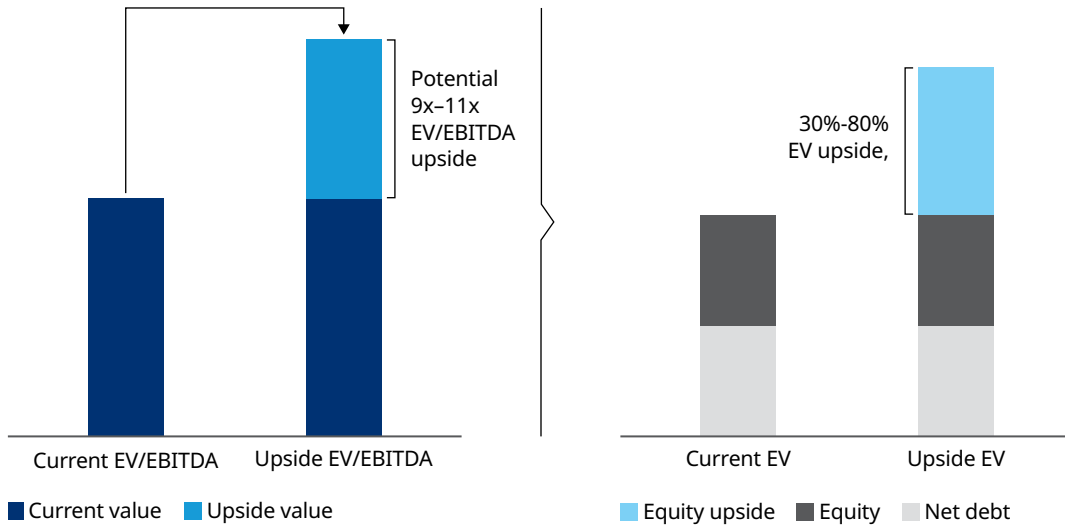
THE OPPORTUNITY FOR RERATING UPWARDS



Exhibit 7: The upside to telecom operator valuations

Telco upside re-rating potential

x EV/EBITDA, upside, illustrative



Source: Oliver Wyman

There is a roadmap for telcos to improve their valuations and rerate into the range of 9 times to 11 times EV/EBITDA, depending on region and market conditions (see Exhibit 7). The following five catalysts support the rerating of the industry.

Telecom networks are critical to national security

There is a growing realization of the strategic importance of telecom networks to economic and national security, given recent concerns and interventions over their ownership. Not only does ownership of these assets need to be carefully assessed, but the assets themselves need to be protected. As such, the market structure must produce low-cost access to asset services and simultaneously protect, maintain, upgrade, and improve those assets.

Regulators are starting to realize that current market structures may not produce the desirable level of investment and quality in a national asset

Market structures that are designed to produce returns at or below cost of capital may not support the investment intensity needed by a modern digital infrastructure and national asset. Regulators are realizing they may need to rethink their policy frameworks around consolidation and overall market control. For example, in Europe there is evidence that policymakers are starting to shift their mindset.

Next technology upgrade wave will likely be incremental

The next wave of technology upgrades will be longer, more predictable, and incremental. Indeed, it is likely to be a while before the telco industry is dragged into a major capex cycle without clear topline benefits such as 5G, the current global wireless standard. In mobile, the upcoming 6G upgrade is expected to augment existing mobile network footprints. Meanwhile, it will be some time before the additional capacity of fiber-optic networks is exhausted in telecom fixed networks; upgrades will be on active network equipment and will not require expensive changes.

Certain subsets of the telco value chain have been rerated

Assets within the telco value chain have already been priced at higher multiples. Tower companies (“TowerCos), which own and maintain cellular towers, have seen deals transact at average multiples of 18 times EV/EBITDA, while “FiberCos” — companies that build and maintain fiber-optic networks — have transacted at multiples of 14. Typically, these assets enjoy strong downside protections, and their predictable cash flows are prized by investors. To be sure, such assets also enjoy specific and attractive yield/risk combinations that are not comparable with a telco fully subject to market forces, but they do provide an indication of the upside potential of telco assets when markets become more predictable.

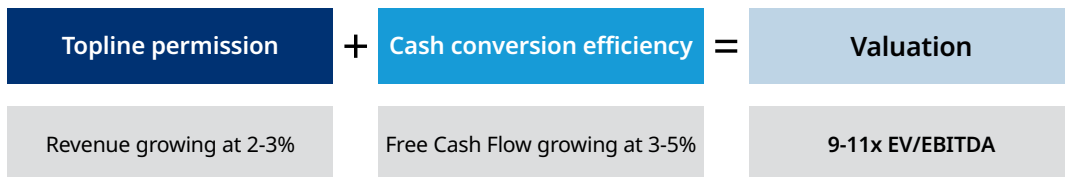
Operators in mature markets are slowly realizing that growing the market is a superior value-creating strategy, compared to growing market share

There is a growing realization that market dynamics that promote long-term market health are critical for growth. Moreover, market forces that balance price and investment also encourage healthy market structures. As operators realize that aggressive market actions to grow share help no one, they may change behavior to promote actions and reactions that accelerate investment and value.

To be sure, these catalysts alone are not sufficient to rerate the sector. Operators must embrace change, too. It is possible to create a telco that can take maximum advantage of the tailwinds cited. But that will require building a refocused commercial and operating model, one that generates 2% to 3% annual revenue growth and efficiencies that result in 3% to 5% free-cash-flow growth (see Exhibit 8).

Exhibit 8: Creating a focused telco operating model

Financial profile and valuation
Key elements



Source: Oliver Wyman

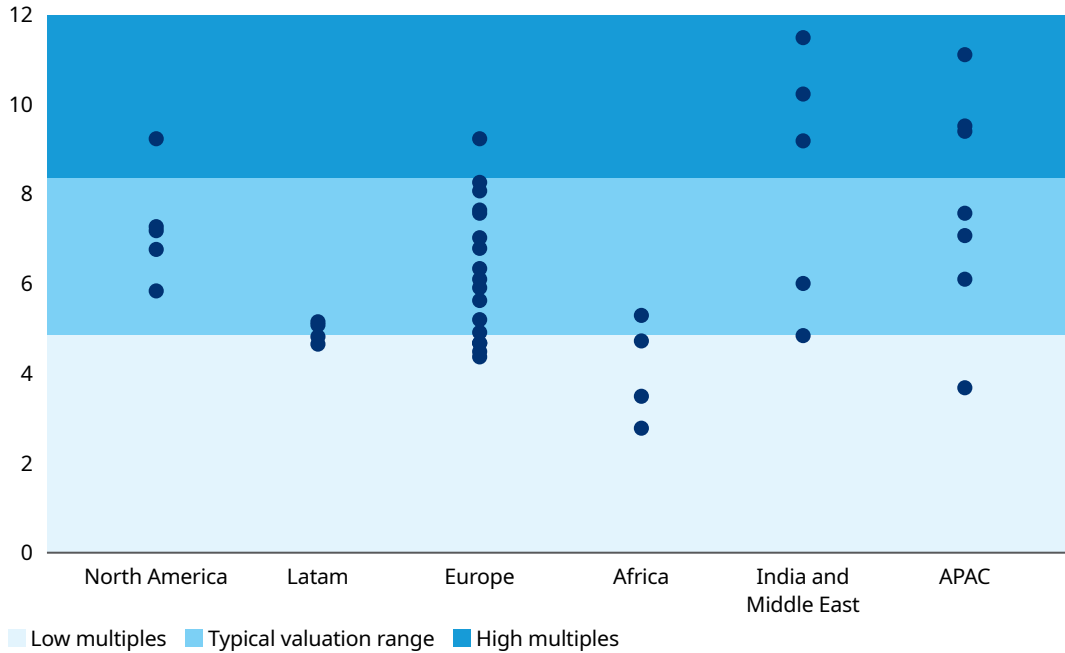
Some telcos have begun the transformation and are seeing higher than 8 times EV/EBITDA valuations. The challenge now is to sustain these higher assessments (see Exhibit 9).

Exhibit 9: Some telecoms have lifted themselves out of the doldrums

Telco trading multiples

EV/EBITDA, latest available, Q1 2024

EV/EBITDA



Source: Capital IQ, Oliver Wyman

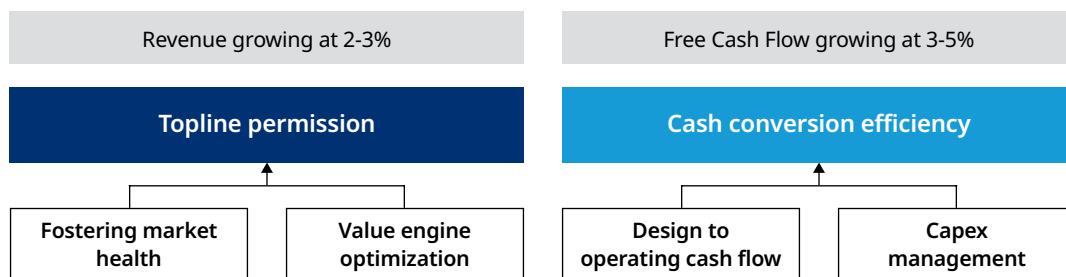
THE EQUATION FOR THE IDEAL TELCO



Telcos can produce growth by increasing “top-line permission” in concert with strong cash conversion efficiency. Top-line permission refers to actions telecoms can undertake to advance longer-term market structure improvements and capture value. “Cash conversion efficiency” denotes actions that develop cost and investment efficiencies, so that top-line improvements are turned into cash (see Exhibit 10).

Exhibit 10: How to support a telco growth profile

Core pillars to support a growth profile



Source: Oliver Wyman

TOPLINE PERMISSION: FOSTERING MARKET HEALTH

An ideal market structure enables production of efficient and low-cost telecom services and encourages a digital infrastructure that fosters economic opportunity and national security. This requires an optimal balance between consolidation and fragmentation both in retail and wholesale markets to reach the dual objective of creating a competitive environment whilst guaranteeing incentives to continuously invest in the underlying assets and innovation.

An ideal market structure includes these characteristics:

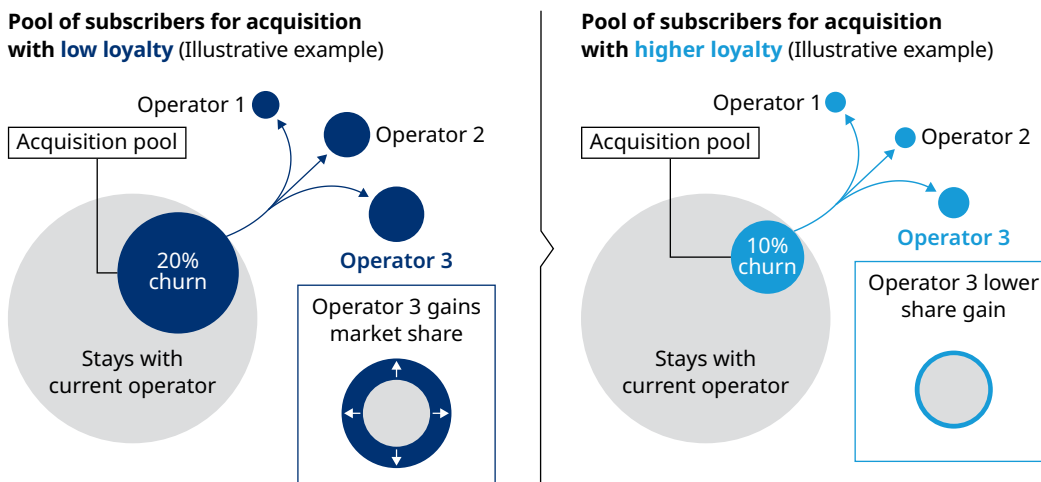
- **Shared vision between market players and policymakers.** Telco market structures are the outcome of discretionary government policy. However, most policy debates tend to focus on encouraging competition, taking the sustainability of the infrastructure landscape for granted. But given the role of digital infrastructure in economic and national security, this debate needs to take into account infrastructure availability, quality, and innovation. One consequence is that investment in infrastructure requires a return on capital, limiting how much infrastructure competition is desirable. That said, each market has a range of optimal outcomes.

Regulatory bodies appear to be changing their view with regard to competition in the industry. For example, the European Commission (EC) has signaled support of in-country telco mergers to sustain investment. Additional support comes from the recent report by former Italian Prime Minister Enrico Letta advising the EC to accommodate consolidation.

- **Rational market dynamics.** To produce optimal valuation outcomes, market participants need to have a sizeable share in the market to avoid value-destructive behaviors (such as handset subsidy bidding wars or irrational wholesale deals).

- Sustainable premium vs low-cost separation.** Well-designed marketing strategies segment markets into various levels of service at different prices. In telco markets, this means that a low-cost brand provides no-frills services to budget-minded customers, while large network operators and premium brands offer better levels of service to more affluent customers. Done well, segmenting can increase the overall value of the market. Telcos, however, have struggled with market segmentation. Many low-cost providers offer the same services as premium brands but at a 20% to 30% discount. This undermines the logic of segmentation and creates a downward pull. In many markets, the dependency of network operators on wholesale to sustain network utilizations and profitability is the main culprit. Telco wholesale revenue in these markets often depends on three to five individual deals, conferring immense leverage to the wholesale buyer to obtain comparable terms to the premium brands. Resisting the pressure to improve short-term results through aggressive wholesale deals is critical to a successful market. Thus, working towards well differentiated low-cost and premium segments is crucial to sustaining pricing power.
- Structuring the market to increase loyalty and lower churn.** Buying multiple services from operators, reduces churn. Telcos that provide entire households with mobile and broadband services enjoy greater customer loyalty and lesser churn (see Exhibit 11). This in turn disincentivizes price-driven growth among telecom operators. Rather than looking to new customer acquisition for growth, telcos look instead at their own customer base for opportunities to generate deep-sell, up-sell, and cross-sell of services.

Exhibit 11: Loyal and satisfied customers help to sustain growth



Source: Oliver Wyman

TOPLINE PERMISSION: VALUE ENGINE OPTIMIZATION

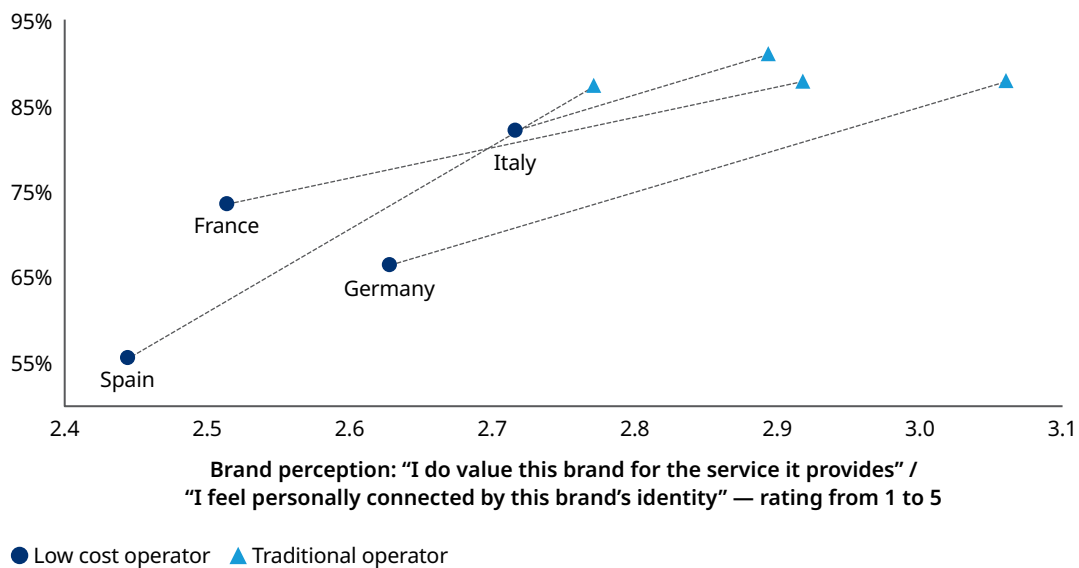
There are stark differences in comparable telco performance. In B2C, successful competitors employ a differentiated multi-brand strategy to serve market segments, including a strong premium brand, balanced distribution, and skilled base management. The ability to profitably orchestrate multiple brands across retail and wholesale and advanced personalization and contextualization capabilities are fundamental to telco B2C success. In B2B, successful strategy may depend on market context and circumstances. Telco operators need to choose their sweet spot and decide how far beyond core do they want to go.

The main dimensions of a value engine optimization program include: **A well-defined multi-brand and commercial strategy.** Ensuring value maximization from each market segment requires clear brand and portfolio differentiation. It must be clear to the consumer that the premium brand offers features and elements that the low-cost brands lack (such as 5G, high speeds, roaming, service levels, and distribution). Maintaining this differentiation is fundamental to avoid moving the premium brand down-market to sustain volumes, thereby compressing prices and crowding out the telecom’s own low-cost brand and wholesalers.

Similarly, the premium brand requires constant investment to command a premium price, particularly in terms of customer service, connectivity, and ease-of-doing-business. Premium brands must aim for an emotional connection with their clients; hence, the need for substantial investment and regular refreshes.

Exhibit 12: Traditional telcos retain higher levels of brand power across markets

Brand awareness “I do have a formed opinion on this brand”



Source: Oliver Wyman Telco Consumer Survey 2024

Growing the customer base

The customer base is the telco’s most important asset. Over the past decades, telcos have invested in improving customer value management and direct marketing to increase returns on this asset. However, marketing technology has evolved in the past seven years, leaving the industry behind. The ability of telcos to personalize and contextualize offers and communications remains in the Stone Age (see Exhibit 13). Applying AI-driven targeting techniques and exploiting operator apps provide new cross-, deep-, and upsell opportunities. In effect, telco marketing capabilities are rapidly evolving from a basic next best offer (NBO) capability to full core and non-core next best action (NBA) and even to fully contextualized next best experience (NBX).

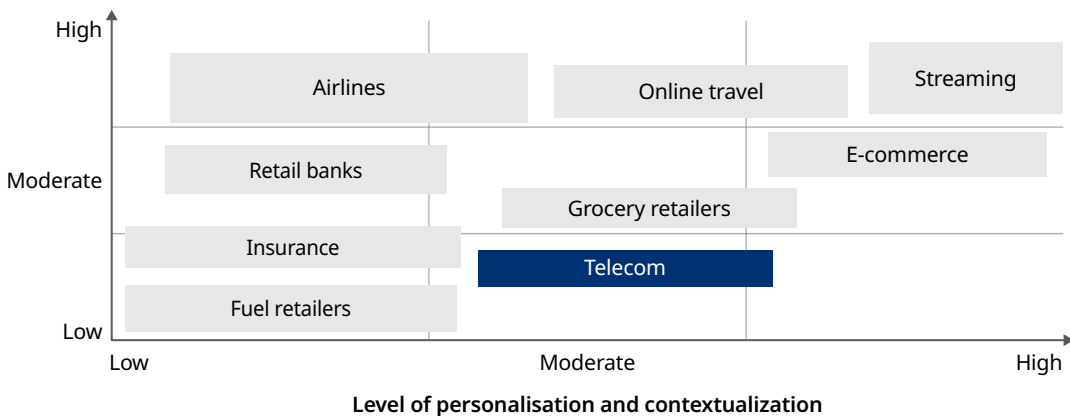
Top notch base management is also a key capability to make the eternal promise of growth beyond core a reality. Without advanced personalization and contextualization capabilities there is little chance for a telco to earn brand permission to sell non-telco services. It is a cornerstone of the value engine that enables further monetization of the customer base. We believe that if telcos get this right, it will unlock substantial value creation opportunities in their base.

Exhibit 13: Telecom industry lacks personalization and contextualization capabilities

Personalisation and centralisation by industry

Directional guide based on selected companies

Level of centralisation



Source: Oliver Wyman

Growth beyond the core

Telcos have sought to grow beyond their core for many years. But their attempts at diversification have met with middling success. The most common efforts have been in financial services, health and wellness, and security and identity. Growth into financial services is a well-traveled path in Europe and Asia, with several players successfully building and growing their financial services businesses. Common success factors include maximizing use of the telco assets without being encumbered by large-scale telco process and IT, commercial bundling and integration with core services, and independent service profitability.

Optimal B2B setup

Telco B2B is the most challenging part of value optimization. That said, telcos have an opportunity to provide integrated connectivity, communication, and security services to small and medium enterprises (SMEs). The combination of a strong SME brand — in concert with broad distribution, powerful telecom and IT services, and modular design enabling customization without complexity — constitutes a powerful business model.

However, this is not the case for large enterprises where the value chain is split up and procured separately in a best-of-breed manner. Here, telco service integration occurs at the level of IT and digital business enablement, which is the territory of the large IT services providers. Here, telcos need to focus on developing powerful APIs that are easy to integrate and maintain. There may be opportunities in becoming a digital ecosystem orchestrator implementing network and IT solutions for key verticals. That, however, would require a move from a telco-first mindset into a techno-first model (see “The Future of B2B Telco”).

CASH CONVERSION EFFICIENCY: COST EFFICIENCY

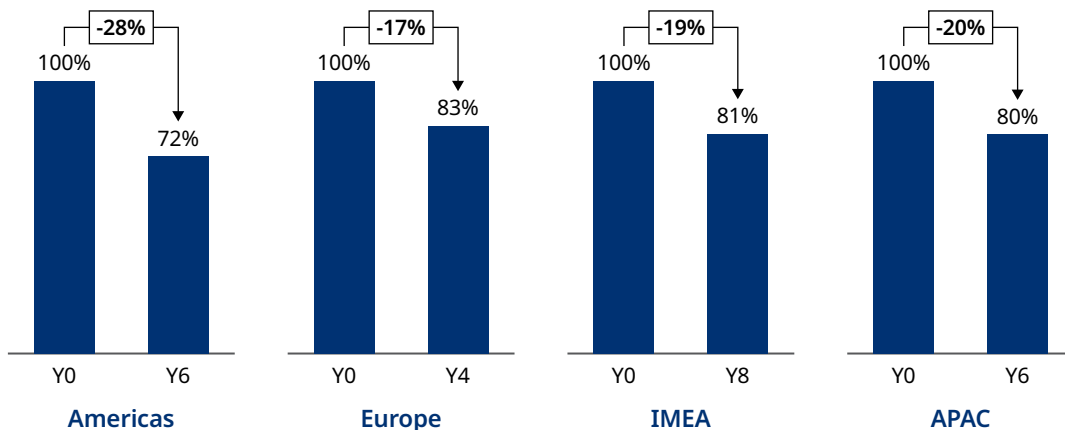
Improved topline performance is a fundamental requirement for operator rerating. This means improving the ability to convert revenue into steadily growing free-cash flow.

Before delving into capex considerations, let us examine the broader efficiency question. Most large European telcos underwent downward revenue pressure in 2007, an inflection point for the industry and the start of a cost-efficiency effort. Much work has gone into operational simplification, digitalization of back- and front-end processes and interactions, and into top-down headcount reduction programs, Exhibit 14 summarizes the real impact that this has generated. All of which begs the question, now what?

Exhibit 14: Some operators are succeeding in cutting costs

Cost removal programs

Selected cases, total costs, 100 basis



Source: Capital IQ, Oliver Wyman

However, there is room for further improvement in telcos' cash-conversion effectiveness, thanks to two macro trends:

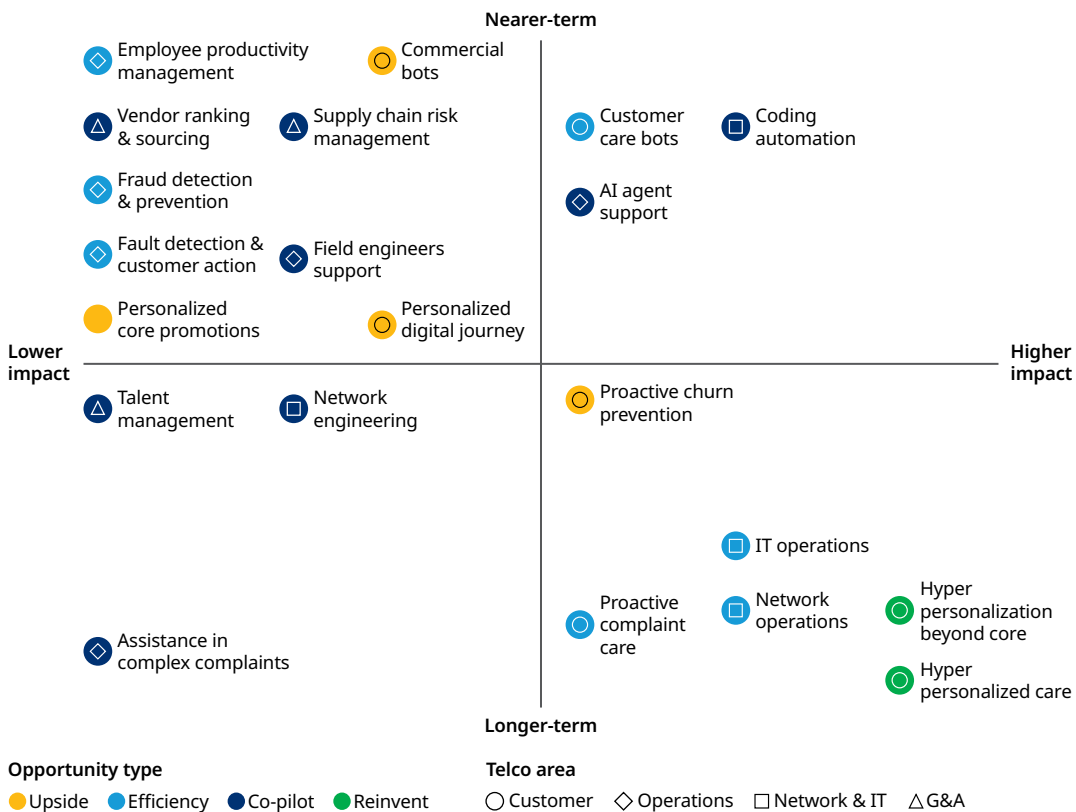
Firstly, **technology** creates deflationary effects on costs, notably labor demand. Fiber and 5G, for example, are more efficient to maintain and operate than previous technologies. Software-defined networks make it easier to run telco systems, mutualize elements, and use inexpensive, less-bespoke equipment. Cloud-based architectures are simpler, more flexible, faster to market, and command lower licensing fees and operating costs.

Here, artificial intelligence (AI) will be an enabler and accelerator of change. AI should allow for automation in network engineering, operation and maintenance, front- and back-office customer processes, operating and maintaining platforms, and more (see Exhibit 15).

Exhibit 15: AI will have a huge impact on the telecom value chain

AI impact on Telcos

Selected use cases, illustrative mapping, expected impact



Source: Oliver Wyman

While some of these changes are underway at operators, their potential is far from exhausted. A first step towards re-rating, however, will be telcos' ability to be innovative on smart technology deployment and industrial operations.

Secondly, the sector is evolving towards greater **simplification**, which is both an advantage and a handicap. In the consumer market, core products and services are increasingly simpler. At the same time, though, the multiple value-added offers operators add to their core service have little impact on gross margins, when compared to the market health and value engine drivers noted above. Telco operators, therefore, may be able to radically simplify their offer portfolios and drive operations.

This does not mean that telcos should never venture into new consumer market growth areas, but that they should avoid adding complexity to the core business when doing so. Separating the core business yielding maximum free-cash flow and growth area investments and running them independently may make sense for some operators.

In the business market, an alternative path is emerging in delivering solutions including telecom and IT services such as cybersecurity, cloud computing, and software as a service. While this may initially result in increased complexity and lower margins, it also creates opportunity by running tech service delivery as a margin-maximizing activity (similar to business services firms) while telecom service delivery is run as an asset-sweating activity (as industrial enterprises do).

This second rerating driver involves accepting the nature of today's telecom business and ruthlessly simplifying consumer products and services, and their delivery, while adopting a business services mentality in B2B.

The impact of these two drivers on improved cash conversion pales in comparison with telcos' key cash-efficiency differentiator: the ability to modify the **legacy** and to free the P&L from excess headcount and rigid contractual commitments.

Why is that so? It is because telcos are not growth businesses (or are growing very slightly). They are coming under cost pressures. Innovation is mainly driven by technology providers, rather than by telcos themselves, which should allow most of them to reduce complexity. The simplicity and efficiency benefits of modern technologies in the main are equally available to most operators. And, within their regional boundaries, most operate in environments that are comparable in terms of regulation, competition policy, and competitive dynamics. In this sea of homogeneity, it follows that telcos with the best cash conversion are the ones most able and active in removing legacy and headcount.

While this might seem obvious, it is certainly not observed with equal intensity among players. For example, we observe significant differences in headcount reduction at telcos operating in the same market, subject to similar workforce representation and negotiation power, comparable rules, and equivalent technology and staffing challenges. Where the best differ from the rest includes:

- Shifting their cultures from a "growing, innovative corporation" attitude towards a "technology-enabled lean utility" mindset, at least in the core business which creates the lion's share of cash flow;
- Running any "non-utility" ventures, if any, in ways specific to their economic characteristics, and not allowing them to creep into the core business and create complexity;

- Adopting a financial discipline able to turn a share of “structural, permanent costs” into “discretionary costs”, allowing a degree of “design to operating cash flow” freedom in how they plan, spend, and invest.

Once the core principles of cash conversion efficiency have been defined, a strong framework is needed to organize the resulting initiatives (see Exhibit 16).

Exhibit 16: Embedding core cash-flow principles in telco operations

Key principles for Design to Operating Cash Flow

Define the Operating cash flow endgame	Have a clear and aligned view on overall company’s OpCF long-term view, with capital allocation aligned with the endgame. And trade-offs between margin and growth must be carefully considered (e.g. Tech vs connectivity)
Business modularization	The financial profiles across businesses varies significantly (e.g. Tech vs Connectivity), and hence there is a need to create a P&L slicing logic with traceable, clean and fair allocation for each business line
Truthfulness and reliability	Service reliability must not be compromised just for the sake of cost cutting as this creates risks that outweigh any benefit (e.g. network outages). Also, there Telcos should be careful in cutting costs that may undermine e.g. brand or NPS
Invest in innovation with cash discipline	R&D and innovation is an investment if aligned with the Telco’s endgame, and if it can convert into cash. Don’t innovate to improve the topline if it burns profits

Source: Oliver Wyman

One outcome of the design-to-operating cash-flow approach is the ability to identify of initiatives that can drive material operational cash-flow improvement in cost categories such as network, customer invest, channels, service, and IT.

For example, one telco decided to re-examine its entire market investment in mobile and made significant changes to the subscriber acquisition cost (SAC) and subscriber retention cost (SRC) equilibrium. The initiative had both a revenue and a cost component with significant cash flow implications, sparking a renewed and reinvigorated cost efficiency drive.

CASH CONVERSION EFFICIENCY: CAPEX MANAGEMENT

A defining characteristic of the telco industry is the need to invest resources in infrastructure maintenance and improvement, including major technology upgrade cycles almost every decade. A telco must balance its constant capex investment against all the other cashflow commitments. To succeed, smart capex management is necessary. First, invest only in those capabilities or assets that sustain a competitive differentiation. Second, invest smartly to reduce total cash cost but generate similar or better outcomes, meaning that where there is no competitive advantage generated by capex, the telco should rent or share it. Here are some guiding principles for capex and balance-sheet management.

Maximize asset sharing that does not drive competitive differentiation

A significant portion of an operator’s capex is basic, “keep the lights on” expenditures. It makes little economic sense to keep investing in capex that does not provide a competitive advantage. Find ways to share and collaborate with other telcos to shift the capex mix from mostly “lights on” to a healthier mix that includes more growth capex.

Don’t gold-plate the network

Historically, telco networks have been managed by engineers with a focus on quality of services (QoS) metrics, leading to an arms race in spending on “vanity” metrics (such as the highest speed or the best 5G coverage). Those metrics are often disconnected from the actual customer quality of experience (QoE). By focusing on QoE, and not just QoS, operators can invest in the things that matter most to customers (such as consistent reliability over top speed) — and improve their return on investment on network investments.

Find other owners for “lights on” assets that can use the infrastructure in better ways

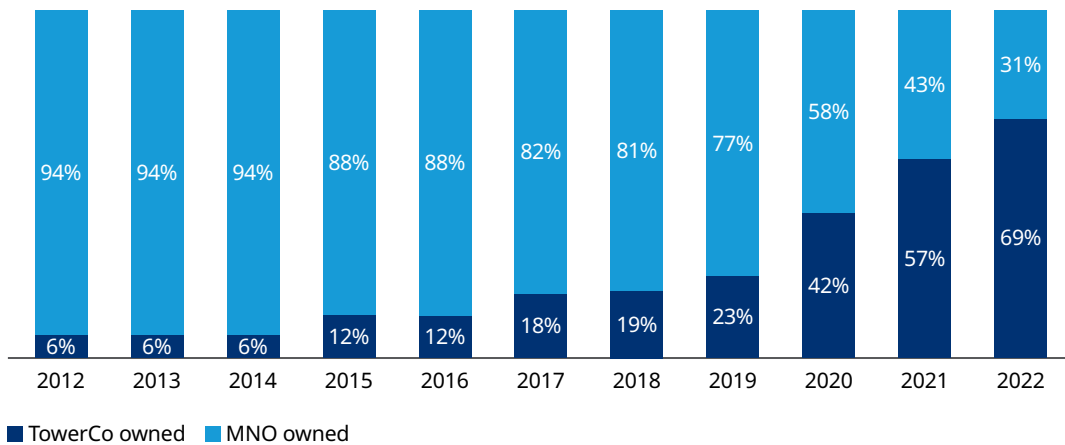
A case in point is the growth of tower companies (TowerCos) that generate net value by increasing tower tenancy rates and using greater financial leverage. Over the past decade, TowerCo ownership has increased significantly without major impact on telcos’ competitiveness (see Exhibit 17).

Control the urge to capitalize internal labor

Many telcos over-capitalize internal labor to improve EBITDA outcomes and hide inefficiencies. A rigorous market test on internal costing of activities will help to control this.

Exhibit 17: European mobile operators have disposed of tower assets at valuation premiums

Tower ownership
Europe, 2012-2022



Source: JP Morgan, Oliver Wyman

CONCLUSION

Telecom operators have the opportunity to take advantage of structural changes in their markets. But for these macro trends to materialize, telcos will need to advocate on behalf of these shifts. While these changes may not be dependent on the individual telecom, they nonetheless require a long-term commitment from all the actors. Developing an optimal market structure is a goal shared by both telecom operators and policymakers, a goal that can be achieved by companies through continuous signaling, commitment to healthier market dynamics, and prioritizing the long-term perspective over short-term gain.

Coupling this long-term commitment with actions that are under their own control, telcos can deliver significant upside value. An improvement from 6x-7x EV/EBITDA to 9x-11x EV/EBITDA has the potential to triple the equity value of a telco and guarantee years of reinvigorated investment in technology, national digital ecosystems, and innovation.

To seize the opportunity, telcos need to consider these three axes of value creation:

B2C CORE

Telcos must strengthen their consumer core, looking at building a top-notch customization and personalization engine

BEYOND THE B2C CORE

Leveraging their core, operators can seek expansion into industries, verticals, and categories where a national brand with consumer recognition and data trust is advantageous

WINNING B2B

Telecoms build a strong SME B2B and hyper-efficient local exchange core propositions together with smart overlay services that combine smartly with the underlay to provide differentiation and pricing power.

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