



Global Telco Infrastructure Update Spotlight: TowerCo Market

Q4 2020

Executive Summary

In the first edition of Duff & Phelps' Global Telco Infrastructure Update, we focus on the TowerCo Market.

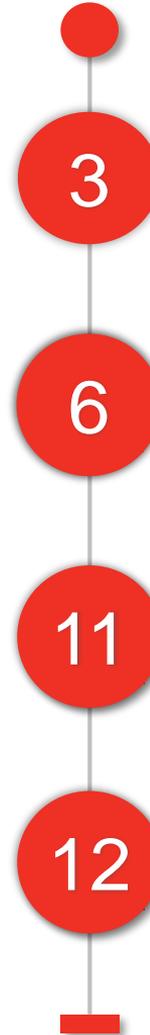
Compared to other mature TowerCo markets, such as the U.S., Europe remains a developing TowerCo infrastructure market. While the strong M&A momentum seen in recent years has slowed due to the impact of COVID-19, deal flow is expected to rebound, supported by recent tower sale and IPO announcements.

We are seeing mobile network operators highlighting their tower ownership and value by carving out separate tower companies, mergers, IPOs or partial sales to independent TowerCos or PE firms.

The TowerCo industry remains an attractive market, with towers offering compelling top-line growth, low capital intensity and premium valuation trading multiples. We highlight the potential valuation differences in multiples caused by recently changed accounting policies.

Finally, we discuss the increasing complexity on estimating cost of capital inputs in the current environment and provide insights for further consideration.

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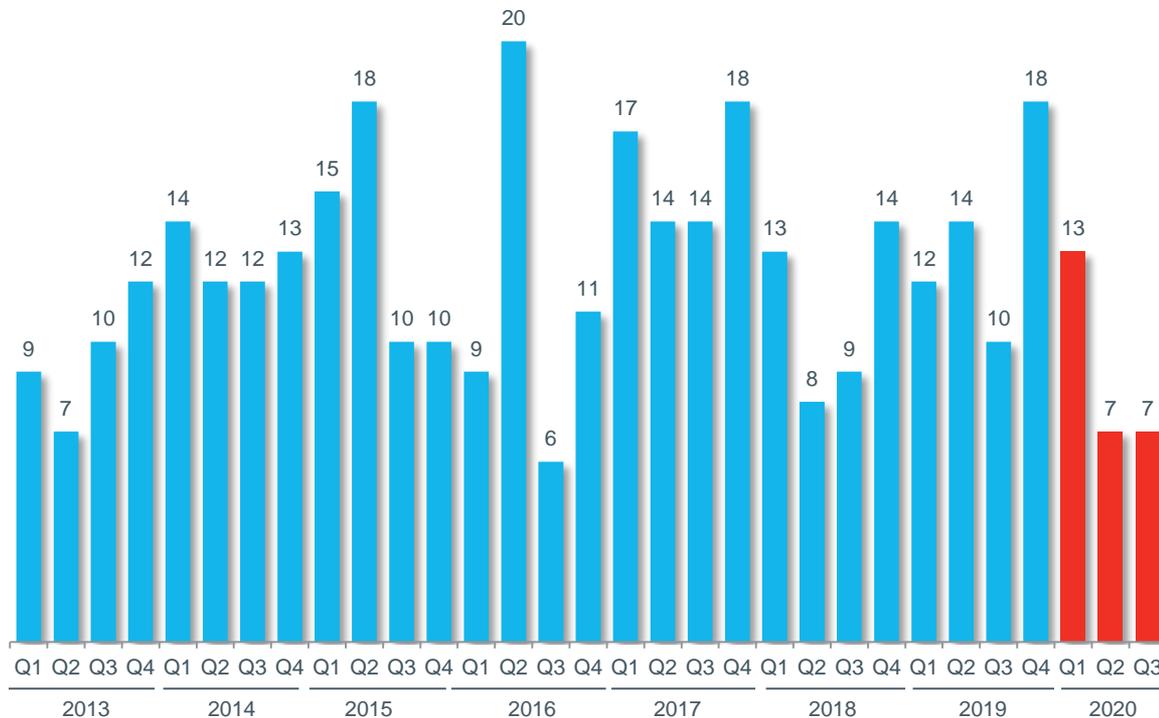
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M&A Transaction Review

Announced Deals

Global M&A Quarterly Trend

Number of Announced Transactions in the Global TowerCo Market



Source: Pitchbook as at September 30, 2020

Note: Screening includes only M&A and PE buyout transactions

Key Observations

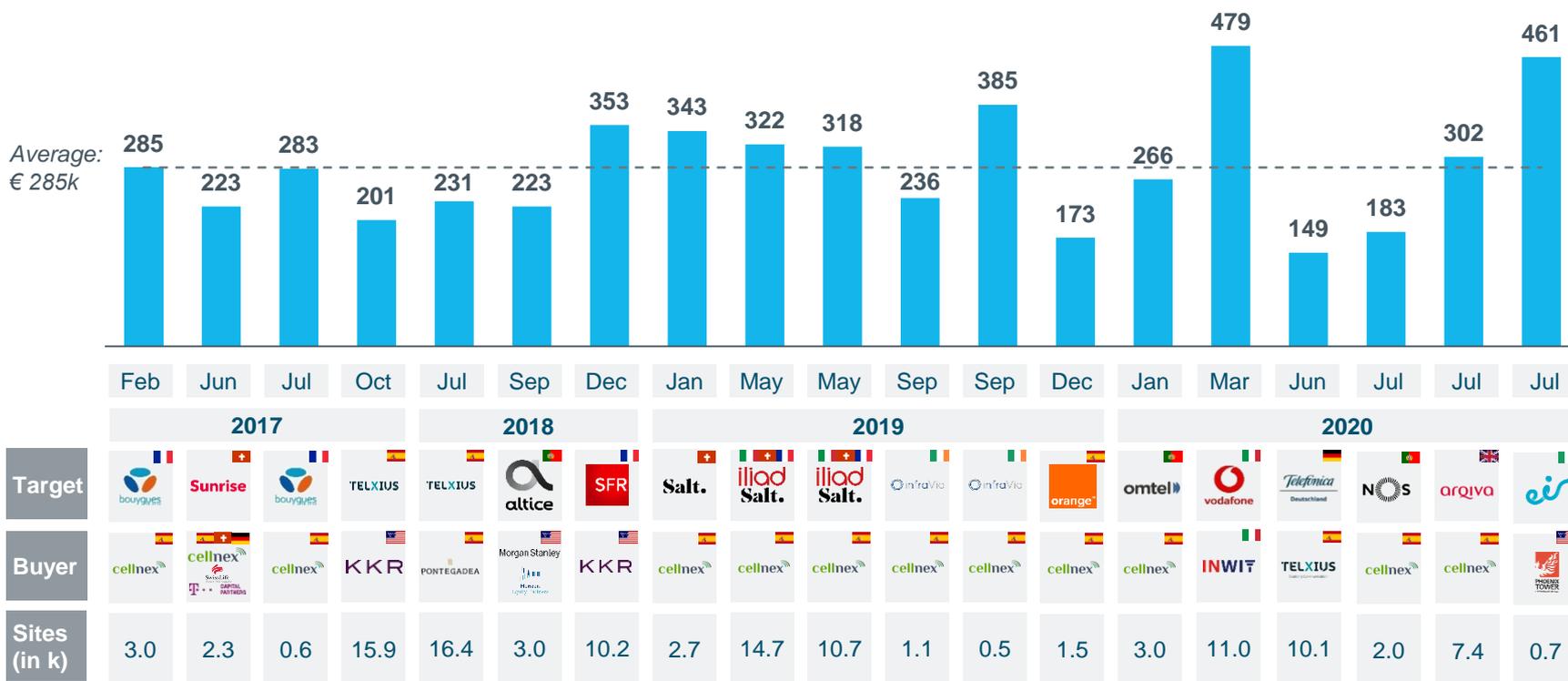
- The average deal volume of the 27 transactions announced between Q1-Q3 2020 was approximately € 405 million.
- The TowerCo M&A market has seen reduced momentum in 2020 as a result of the ongoing pandemic.
- Deal activity in Q2 2020 was down 50% on Q2 2019, while Q3 2020 activity was down 30%, respectively.
- However, ongoing trends such as industry consolidation, carve-outs of tower assets from traditional operators and the resilience of the sector will likely help maintain a healthy deal flow in the coming months.

M&A Transaction Review

Strong Transaction Activity in Europe...

Selected European TowerCo Transactions

EV/site
(€ k)



Source: Company information, S&P Capital IQ as at September 30, 2020, Mergermarket as at September 30, 2020.

Note: Includes telecom infrastructure transactions with publicly available deal statistics, including reference to EV/site numbers. All trademarks, trade names, or logos referred herein are the property of their owners.

M&A Transaction Review

... Expected to Remain Active in the Near Term

Selected Cases - European Tower Sale and IPO Announcements

Vodafone Spins Off Vantage Towers and Plans IPO in 2021



“ Since the announcement of our intention to separate our European tower infrastructure operations in July 2019, we have been working hard to create Vantage Towers. Since May 2020, the business has been operationally separate, with the full senior management team in place running the day-to-day operations and preparing for monetization. We remain on track for an IPO in early 2021. ”

Vodafone press release, July 24, 2020

Cellnex €11 bn Strong M&A Pipeline



“ After two successful capital increases, €11 bn M&A pipeline almost achieved (including deals still to be closed). ”

Cellnex January – June 2020 Results, July 20, 2020

Management announced an additional ~€11 bn of identified probability weighted acquisition targets, expecting a mix of accretive in-footprint deals with some new market opportunities.

Orange Announced TowerCo Formation Plans



“ To derive higher value from its owned 40,000 towers of its mobile network in Europe, Orange will create TowerCos in most of its European countries. [...] ”

Orange will retain control of these entities in all the European countries where they are created. The first projects will start in 2020 in France and Spain. ”

Orange press release, December 4, 2019



“ Orange is preparing towers subsidiary in Spain. ”

Expansión, October 12, 2020

Public Trading Analysis

Company Trading Statistics

Company Name	Country	Share Price	52 Week (in EUR)				Market Cap	Enterprise Value ⁽¹⁾	Revenues			EBITDA ⁽²⁾			EV/EBITDA		
			<i>in EUR m unless otherwise noted</i>	Sep-2020	Low	High			% of High	LTM	FY2020	FY2021	FY2022	FY2020	FY2021	FY2022	
Europe																	
Cellnex Telecom	ES	€ 52.00	33.40	60.78	86%	25,302	30,851	1,396	1,157	1,382	1,485	26.7x	22.3x	20.8x			
Infrastrutture Wireless Italiane	IT	€ 9.44	7.14	11.43	83%	9,064	13,042	577	574	626	701	22.7x	20.8x	18.6x			
Average												24.7x	21.6x	19.7x			
North America																	
American Tower	US	€ 241.73	174.32	272.20	89%	91,312	117,490	6,610	5,315	5,640	5,900	22.1x	20.8x	19.9x			
Crown Castle	US	€ 166.50	114.18	180.00	93%	59,505	80,387	4,486	3,608	3,828	4,022	22.3x	21.0x	20.0x			
SBA Communications	US	€ 318.48	205.20	328.37	97%	30,360	41,435	1,654	1,525 ⁽³⁾	1,624 ⁽³⁾	1,721 ⁽³⁾	27.2x	25.5x	24.1x			
Average												23.9x	22.4x	21.3x			
Emerging Markets																	
China Tower	CN	€ 1.34	1.30	2.03	66%	29,577	43,207	9,983	7,432	7,955	8,454	5.8x	5.4x	5.1x			
Bharti Infratel ⁽⁴⁾	IN	€ 175.30	120.05	296.50	59%	3,755	3,821	1,700	856	873	896	4.5x	4.4x	4.3x			
Helios Towers	GB	€ 1.57	0.82	2.24	70%	1,330	1,888	342	198	233	268	9.5x	8.1x	7.0x			
Tower Bersama	ID	€ 1,335.00	730	1,380	97%	1,654	3,026	296	253	276	294	11.9x	11.0x	10.3x			
Average												7.9x	7.2x	6.7x			

Source: S&P Capital IQ as at September 30 2020, and includes the most actively traded TowerCo companies for respective covered regions

Note: (1) Enterprise Value includes all lease liabilities; (2) EBITDA figures adjusted for consistent presentation of operating lease expense across accounting standards (IFRS 16/ASC 842). EBITDA includes add-back of Rent for US GAAP companies and Depreciation of ROU Assets for non-US GAAP; (3) Adjusted EBITDA (as defined by SBA) estimates; (4) Source: Capital IQ, EBITDA estimates include the proportionate consolidation of the 42% equity stake in Indus Towers Limited.

Public Trading Analysis

Lease Accounting Policies – Mind the Adjustments

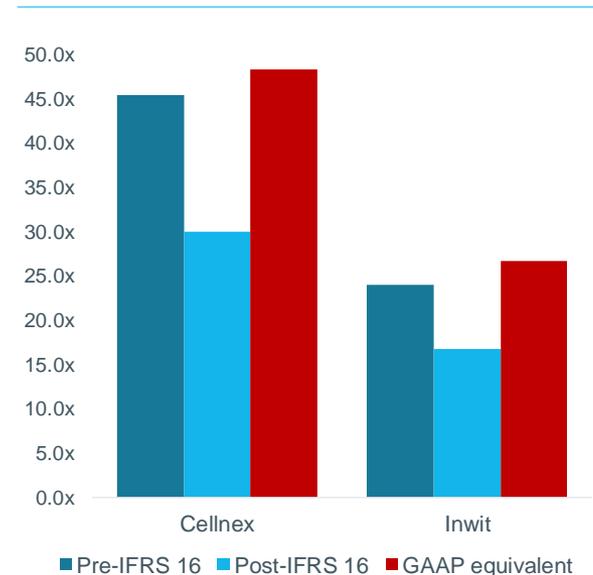
Europe (IFRS 16) vs U.S. (ASC 842)

- In the new IFRS 16 accounting environment, companies record the lease expense differently under U.S. GAAP and IFRS, which creates consistency problems with valuation multiples.
- Whilst both accounting policies now capitalize operating leases on the balance sheet, EBITDA for companies reporting under U.S. GAAP and IFRS still differs.
- Under U.S. GAAP, there is no change to how the income statement is reported and therefore EBITDA is the same as before. While under IFRS, EBITDA is higher due to the reclassification of the operating lease expense, which is split into interest and depreciation elements.
- Therefore, if no adjustments are made, European multiples (on an IFRS 16 basis) appear to be lower than U.S. multiples, since reported EBITDA for U.S. companies includes leases (lower EBITDA figure, higher multiple).

Cross-company analysis should be undertaken with care and consistency

IFRS 16 Impact on Multiples

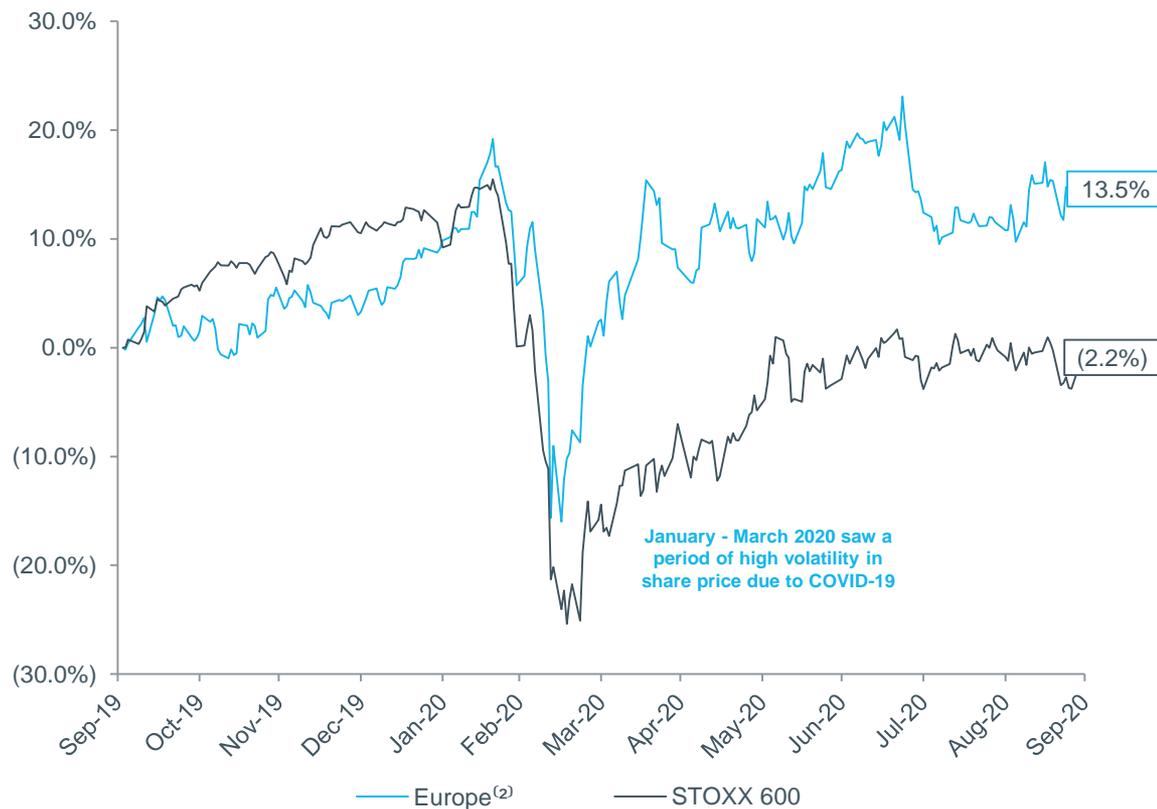
Cellnex/Inwit FY 2019 EV/EBITDA Multiples



Public Trading Analysis

One-Year Trading Performance

European Share Price Development⁽¹⁾



Key Observations

- European TowerCos have shown strong resilience to the effects of COVID-19, outperforming the broader European Equity market STOXX 600.

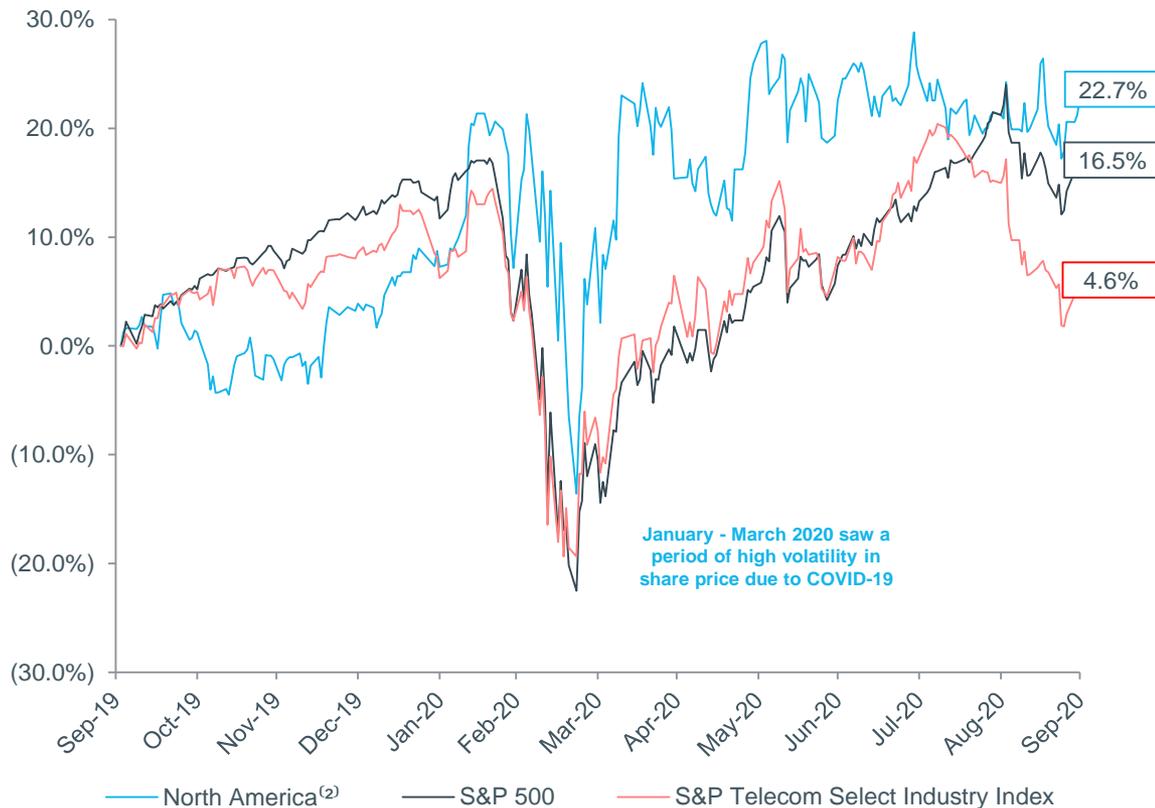
Source: S&P Capital IQ as at September 30, 2020

Note: (1) Rebased, October 2, 2019 = 0%, return calculated on an equally weighted share price index (2) Including the most actively traded TowerCo companies in Europe: Cellnex Telecom and Infrastrutture Wireless Italiane

Public Trading Analysis

One-Year Trading Performance

U.S. Share Price Development⁽¹⁾



Key Observations

- Over the last 12 months, TowerCo share price performance has been highly affected by a surge of volatility, mainly driven by the pandemic.
- Although share prices plummeted in March 2020, they swiftly recovered over the last six months, reaching pre-COVID-19 levels and demonstrating resilience during economic downturns.

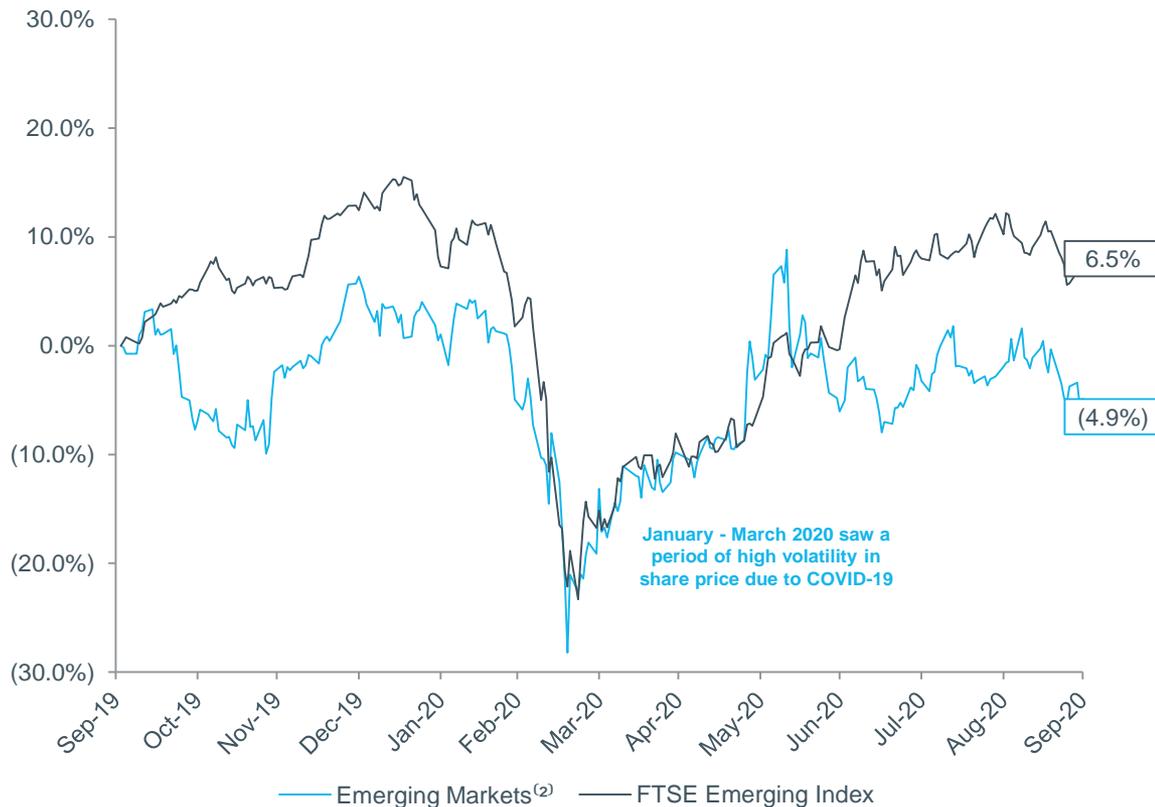
Source: S&P Capital IQ as at September 30, 2020

Note: (1) Rebased, October 2, 2019 = 0%, return calculated on an equally weighted share price index (2) Including the most actively traded TowerCo companies in North America: American Tower Corporation, Crown Castle International and SBA Communications

Public Trading Analysis

One-Year Trading Performance

Emerging Market Share Price Development⁽¹⁾



Key Observations

- Emerging Market TowerCo companies share price performance was also negatively affected by the pandemic.
- The peer group has recovered to pre-COVID-19 levels, despite lagging behind the emerging market index.

Source: S&P Capital IQ as at September 30, 2020

Note: (1) Rebased, October 2, 2019 = 0%, return calculated on an equally weighted share price index (2) Including the most actively traded TowerCo companies in Emerging Markets: Bharti Infratel, China Tower, Helios Towers and Tower Bersama

Valuation Considerations in the Current Environment

Cost of Capital

Greater attention to cost of capital inputs is likely required:

- Even though the TowerCo industry has been impacted by COVID-19 to a lesser extent compared with other industries, the calculation of the cost of capital in times of uncertainty may be more challenging
- Interest rates of safe-haven countries are likely to stay low for a prolonged period due to central banks' actions
- Careful consideration should be given to betas:
 - Equity (levered) betas for some companies and industry segments have become significantly distorted. Care needs to be taken when relying on recent indications as proxy for forward-looking betas
 - Significant equity market declines can lead to greater debt % in the capital structure
 - May significantly distort the calculated unlevered betas
 - Consider using other unlevering methods
- Equity risk premium is cyclical. Historical measures are countercyclical and used without further adjustments may lead to the wrong conclusion:
 - Post-COVID-19 base cost of equity should not be lower than prior to the outbreak
- Country risk changes over time to reflect current economic and market conditions
- Other cost of capital inputs may be distorted
- The discount rate should be consistent with the projections regarding the treatment of lease obligations (pre/post-IFRS 16)

Duff & Phelps Sector Experience

Recent and Notable European TowerCo Assignments



FINANCIAL ADVISOR

Duff & Phelps acted as lead financial advisor and rendered a fairness opinion to **Telefónica Deutschland** in connection with the sale of its passive infrastructure to **Telxius** for a consideration of up to €1.5 billion

DUFF & PHELPS



FINANCIAL ADVISOR

Duff & Phelps acted as financial advisor to **Telxius Telecom S.A.** and provided valuation advisory services in connection with its passive infrastructure in Spain, Brazil, Chile and Peru

DUFF & PHELPS



FINANCIAL ADVISOR

Duff & Phelps acted as financial advisor and provided valuation advisory services to **Cellnex Telecom S.A.** on multiple acquisitions including **Alticom, Shere, Protelindo, Swiss Tower, Iliad, Salt, Cignal** and **Omtel**

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~4,000
PROFESSIONALS
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