



Global Telecoms Daily

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Please join New Street Research **FRIDAY, JUNE 8TH AT 10AM ET** for a client call with US Cable analyst Jonathan Chaplin, European Cable analyst James Ratzer, and US TMT Regulatory analyst Blair Levin for a review of **CMCSA/FOX and DIS/FOX, including key regulatory considerations ahead of the pending AT&T/TWX ruling on June 12th.**

- **NSR Policy: Your Pre-Game Guide to Comcast vs. Disney Over FOX** ([LINK](#))
- **CMCSA Preparing a Cash Offer for Fox** ([LINK](#))

WHEN: FRIDAY, JUNE 8TH, 10AM ET

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WHY: With the anti-trust "Trial of the Century" about to end next Tuesday, we will address our expectations on T/TWX, and the derivative implications for DIS/FOX and CMCSA/FOX, as well as SKY, by trying to address a number of fundamental and regulatory questions including:

- **T/TWX OUTCOMES:** Most likely trial outcome, and next steps assuming T/TWX wins and T/TWX loses.
- **DERIVATIVE TMT M&A IMPACTS:** We will review the ramifications for other potential TMT M&A based on varying T/TWX outcomes. If the DOJ wins the AT&T/TWX antitrust litigation, does that mean that Comcast's FOX offer is effectively dead? If the DOJ loses the AT&T/TWX antitrust litigation, does that mean that Comcast's FOX offer is effectively in the clear?
- **DIS/FOX:** We will discuss the regulatory prospects for potential DIS/FOXA deal approval. Would the DOJ preemptively and publicly say that it would allow the Disney offer to proceed but would block the Comcast offer?
- **CMCSA/FOX DEAL/REGULATORY SCENARIOS:** We will review the regulatory prospects for CMCSA/FOX approval, and potential deal structures. Can Comcast offer to structure the deal in a way—such as by separating content and distribution or selling off other assets— that makes it impossible for the government to object to its buying the 21st Century Fox assets? Does the Comcast offer have a bigger regulatory problem than the Disney offer? Does the Comcast offer have a bigger antitrust problem than the Disney offer?
- **SKY OUTCOMES:** UK Sec of State gave approval pending the sale of Sky News which should be formalized to Disney in the next 2 weeks. Fox is then free to counterbid for SKY. Key question is: will Comcast counter-bid back, and if so at what level? If Comcast feels they can win Fox, then they might not want to pay up more for Sky minorities, but if they can't win Fox, will Comcast want to leave this whole process empty-handed?

Global telco headlines -8th June 2018

BT (Neutral): Gavin Patterson steps down

BT/ Sky (Neutral): Final Premier League rights packages confirmed

Ofcom proposes increases in UK ALF

Bouygues approach for SFR - according to Le Figaro - ATC the most geared into French M&A

Key takeaways from TMUS IR meeting

Full Details:

BT (Neutral): Gavin Patterson steps down

- BT has announced that Gavin Patterson will be stepping down as CEO in the second half of this year, and that BT will now start a replacement process looking at both internal and external candidates.
- Given the recent share price reaction to the presentation of the latest restructuring plan, in addition to the poor run in the shares over the past 2 years, this does not come as a huge surprise, although it certainly represents a volte-face for the new Chairman, Jan du Plessis, who publicly backed Gavin Patterson in May, after having had 6 months to make his decision since he became chairman of BT in November 2017.
- Initially Gavin Patterson's tenure started well with the purchase of EE, which we believe has been a great deal for BT and a relatively successful navigation of the DCR (which was when BT's share price peaked at £5/ share), but since then BT has been affected by weaker pricing trends in Business & Consumer; tougher than expected regulatory outcomes at Openreach; the discovery of fraudulent behaviour in Italy and Ofcom fines over Ethernet provisioning. One could argue that a number of these issues could have affected any CEO of BT, so it was unlucky they happened on Gavin's watch.
- However, we believe the real issue that hasn't been properly addressed has been the transition from FTTC to FTTH and this is where we would look for altered direction under a new CEO, and is an area of huge uncertainty for existing shareholders. Although we recognise this is a long-term game and BT doesn't want to be rushed into anything, BT's relationship with Ofcom and the Government has appeared to be strained over this issue, and BT seems to have lost the upper-hand in trying to reach any settlement, and we have been worried that BT could be bounced into an unprofitable commercial rollout of FTTH, as per their recent move to extend coverage to 3m homes without any settlement in place.
- Speculation will begin over the name of the new CEO, and on the internal list a candidate like Marc Allera (former head of EE and now head of BT Consumer/ EE) is mentioned, and Simon Louth (CFO) could be considered. However, given we believe the next phase of BT's life will revolve around the delivery of FTTH, we wouldn't be surprised to see BT appoint an external candidate, and someone with Governmental/ regulatory experience. An obvious candidate could be Liv Garfield, who used to be the former CEO of Openreach and has since gone on to be the CEO of Severn Trent.
- From a share price perspective, there could be a near-term bounce as shareholders hope for change, but thereafter, we could be in an extended state of limbo as any new CEO would then probably take some time to set out their new strategy and

decide what they need to change, especially with regard to resetting any FTTH discussions with Ofcom/ Government.

BT/ Sky (Neutral): Final Premier League rights packages confirmed

- As first reported on Monday, the Premier League did announce yesterday the sale of the final two packages to BT and also to Amazon. This comes after the failure of these 2 smaller packages of games to meet the expected reserve price earlier this year, as these packages are for overlapping matches concentrated on a limited number of days, rather than being spread over the whole season.
- BT will be paying an extra £30m/ annum in addition to the £295m it had already committed to for 32 games per season, and for an additional 20 games per season, this represents only £1.5m per game compared to £9m per game for the previous packages it bought. BT will also be sharing these matches with Sky under the new sports content sharing deal.
- Although the media is having a field day about the entry of Amazon into the distribution of Premier League games for the first time (and this comes after they have also bought tennis rights too), we are not convinced this will have a material impact on the market, or Amazon's future thinking about EPL, although it is an interesting foray for them. We believe that Amazon's package could well have cost less than £30m/ annum. Amazon's package represents 10 matches being broadcast on one mid week evening in December, and 10 matches on Boxing Day. Hence, this package has overlapping matches and will only be broadcast for 2 days over the entire year.
- Overall, this means that the entire cost of EPL has come down over the next cycle by 10% to c.£1.55bn/ annum from £1.71bn/ annum despite the number of matches being broadcast increasing 19% from 168 to 200.

Ofcom proposes an 11% increase in UK Annual Licence Fees for 1800MHz, and 2% for 900MHz

- A range of adjustments to its 2015 ALF calculations produces a suggested 11.4% increase in ALFs for 1800MHz and +2.0% for 900MHz.
- The revised ALFs are equivalent to \$0.41 per MHz pop for 900MHz (a little lower than our view of 'fair value' in Europe), and \$0.32 for 1800MHz (broadly in line with our view of 'fair value' in a European context).
- BT currently pays GBP73m and faces an 11.4% step up, Vodafone and TEF O2 pay GBP49m each, and face a 3.8% increase. Hutchison pays GBP25m and faces an 11.4% step up.

Bouygues approach for SFR - according to Le Figaro - ATC the most geared into French M&A

- Le Figaro is reporting that Bouygues Telecom contacted investors to put together an offer to purchase Altice's operator SFR in April 2018. The article claims that:
 - Investors contacted included CVC Partners.
 - SFR said to be worth €9bn with €15bn in debt - i.e. EV of €24bn (compares to our estimate of €26bn).
 - Deal fell through in part due to personalities/refusal to sell.
- We have recently written a fair bit on French M&A -see [LINK](#) and [LINK](#) and [LINK](#).

- Our view is that recent comments by Altice (“we will always answer the telephone”), ARCEP (President Sébastien Soriano stated that he is now pro consolidation) and Bouygues offer rumours seems to suggest that we are edging towards another attempt at consolidation.
- The logic of a deal is overwhelming (we would see the NPV of synergies as €10bn (which compares to the €25bn in the article, which we assume must be a typo)), but it has been overwhelming for a while, and deal terms have failed to be agreed. To align the politics, economics, egos and personalities will not be easy, but the upside is potentially very significant.
- Altice, remains the best way to play M&A given its leverage and exposure to France (potential +140% to +280% upside on hard synergies alone, with 50% to 100% synergy pay-away to them from Bouygues), and ability to benefit directly from the hard synergies. We recently lifted our target on Altice to €6.1, the highest on the Street - [LINK](#). Orange and Iliad could benefit from soft synergies if there is repair, but these are far less certain in our view. In terms of scale of those synergies:
- Every 5% increase in the value of the French fixed business (retail only, ex wholesale) is equal to a:
 - 5% increase in the Iliad share price;
 - 10% increase in the ATC share price;
 - 3% increase in the Orange share price.
- Every 5% increase in the value of the French mobile business is equal to a:
 - 2% increase in the Iliad share price
 - 15% increase in the ATC share price
 - 2% increase in the Orange share price

Key takeaways from TMUS IR meeting

- **Early regulatory read is neutral to positive:** The deal has been met with an “open door” in early conversations with regulators and lawmakers, though this could well be boilerplate niceties at the outset of the deal process. There hasn’t been much surprising opposition, and if anything, some support for the company’s rural fixed wireless plans has come from unexpected quarters. The regulatory process will see more data points in the coming month, with the public interest statement expected to be filed in the next few weeks and a Senate hearing on June 27th.
- **Unlikely to divest spectrum, or seek to give cable an MVNO; perhaps an opening for DISH?** Of all the potential conditions that TMUS could offer up to pass the regulatory hurdles for the deal, we suspect that TMUS is unlikely to divest spectrum, as much of the 5G benefits that the companies are speaking to rely on the entire magnitude of Sprint’s 2.5GHz being available. In addition, given DT’s experience in Europe of fixed entry into mobile with regulated MVNO rates (think Iliad in France), we think they would likely prefer to avoid a cable-MVNO concession. As such, we believe there may be an opening for DISH to reap some value from a deal concession in the form of a network-sharing deal.
- **Standalone business steady as she goes:** TMUS emphasized that 2Q remains a low volume quarter. We suspect that gross add y/y declines won’t be as bad as in 1Q (which saw a ~10% decline) and churn improvement should continue, though perhaps not as much as the 11bps y/y reduction in 1Q. The company is seeing good early progress in their greenfield markets (+1% penetration / quarter in greenfield markets), and believes there is a LT operating leverage opportunity in both COS and SG&A (though unlikely to see benefit in 2018). Finally, the company remains committed to deploying its significant repurchase capacity if the deal does break.

FORTHCOMING EVENTS

June 7th & 8th: Oi (OIBR3) CFO marketing (London)

June 11th: Blair Levin - Policy - Marketing (SF) Blair Levin, former chief of staff at the FCC will be in San Fran for marketing and discussions around key topics such as TWX/T, S/TMUS, e-SIMs and more

June 11th & June 25th weeks: James Ratzer & Jonathan Chaplin US Marketing Trip - US & European Communications

June 13th-14th: Taiwan Mobile Roadshow (London) Marketing with Taiwan Mobile in London on June 13th/14th

June 14th: Tesla Gigafactory Tour (Nevada)

June 20th: Samsung Marketing (London)

June 20-21st: New Street Tower Conference (Boca Raton) Meeting with SBAC, Vertical Bridge, Phoenix Tower & Grupo Torresur

June 22nd: Virtual Reality World Tour & Speaker (NYC)

June 23rd-25th: ERI Conference (SF)

12 month historical recommendation changes are available on request

This report was produced by New Street Research LLP. 11 Ausin Friars, London, EC2N 2HG Tel: +44 20 7375 9111

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