



THE TELECOMMUNICATIONS SECTOR BEFORE AND DURING THE PANDEMIC

TELCOs RESILIENT TO IMPACT OF COVID-19

BOOM IN DATA TRAFFIC DURING LOCKDOWN, BUT REVENUE TREND STILL NEGATIVE

TIM IN 17TH POSITION WORLDWIDE BY REVENUES BUT ONE OF THE LEADING OPERATORS BY INVESTMENT

Milan, 22 October 2020

The **Mediobanca Research Area** has today presented its annual survey of **the world's thirty largest companies operating in the telecommunications sector** with turnover of above €10bn in the years from 2015 to 2019. The report also contains a focus on the effects of Covid-19 on the companies for the first six months of 2020.

Of these companies, ten are based in Europe (three in the United Kingdom and one each in Italy, France, Germany, the Netherlands, Switzerland, Spain and Norway), nine in the Far East (three each in China and Japan, two in South Korea and one in Singapore), seven in the Americas (five in the United States, one in Mexico and one in Canada), two in the Middle East (Saudi Arabia and the United Arab Emirates), one in India and one in Australia.

The presentation is available for download from the company's website at www.mbres.it.

Impact of Covid-19 on telecommunications sector, globally ...

The pandemic and subsequent restrictions on physical movement of persons has highlighted the role played by telecommunications worldwide and have served as a genuine stress test for the industry as a whole. In general the Telcos have responded well to the emergency in terms of services offered, holding up to scrutiny despite an exponential increase in data traffic. However, the price has been paid at the level of the sector operators' earnings, which were impacted by the increase in costs on flatter revenues due to the now widespread bundled offering model.

In 1H 2020, the **aggregate revenues** posted by the **thirty leading global operators** totalled €540.8bn, down 2% on 1H 2019, with the impact being felt less in Asia (where revenues were 0.4% lower at €220.7bn) and more so in the Americas (where revenues were down 4.8% at €172.3bn). In Europe aggregate revenues totalled €147.8bn, a reduction of 1% on last year.

Deutsche Telekom dominated the European rankings, reporting a top line of €47.0bn in 1H 2020 (up 1.5% on 1H 2019 like-for-like), followed by Vodafone Group with €21.8bn (up 1.5%), Telefonica with €21.7bn (down 10%), Orange with €20.8bn (up 1%), BT Group with €11.9bn (down 5.3%), and TIM with €7.8bn (up 13.7%).

... and in Italy

In **1H 2020** the leading operators' **aggregate revenues** decreased by 8%, with the mobile network suffering less in general (down 6.5%). Turnover generated from mobile services by the



top three players (TIM, Wind Tre and Vodafone) was around €500m lower. The top-line performance by other players was uneven: Iliad reflected quick growth (up €132m, an increase of 74.6%), Fastweb too posted an improvement (up 5.3%), while reductions were recorded by Wind Tre (down 3.1%), Vodafone (down 5.1%) and TIM (down 13.7%).

Although connectivity reached unprecedented levels during lockdown, the sector authority in Italy Agcom sees the industry's revenues for FY shrinking by between 6% and 10%.

The telecommunications sector in Europe and the world pre-Covid

At global level, as at end-2019 **the United States was the world's largest market**, with aggregate revenues of €294bn from voice services, followed by Europe (€215bn) and China (€189bn). China, however, delivered the highest growth in the 2015-19 five-year period (21%).

The leading market in Europe is in Germany with €57.4bn (up 0.1% on 2015), followed by the United Kingdom (€37.3bn), France (€35.2bn; down 3.4%) and Spain (€30.1bn, up 13%), which in 2019 overtook Italy (€29.8bn, down 6.2%).

Again in the last year, the **aggregate revenues** of the world's thirty largest telcos were up 0.8% on 2018 and up 7.6% on 2015: a result that appears modest compared with the 84.8% increase reported by the software and internet giants (excluding retail). The top ten European telecoms players underperformed relative to the global figures, with revenues stuck at 2015 levels. AT&T was again the world leader by turnover, with revenues of €161bn in 2019. The top seventeen positions in the rankings include seven Asian and six European groups (with TIM of Italy coming in 17th). AT&T was followed in the rankings by Verizon (€117bn) and by Japan-based NTT (€98bn), while Deutsche Telekom was the leading European operator (€80.5bn).

Industrial profitability was flat between 2015 and 2019, at 15%. For the European companies the Ebit margin reflect a 100 bps improvement but was still only 11.7%, due to the strong competition witnessed in recent years leading to the prices of the main services continually dropping, especially in Italy. In Europe the top three places by profitability in 2019 were: Telenor (Ebit margin 22.6%), TIM (16.9%) and Swisscom (16.6%). Of the largest international operators, Verizon has the highest industrial margins (Ebit margin 23.4%), followed by KDDI of Japan (19.8%). By capitalization, Swisscom has the most solid financial structure (debt/equity ratio 106.9%), with TIM at 142.7% and Telenor at the opposite end of the spectrum (323%), followed by Telefonica (234%) and Liberty G. (213.5%).

TIM had the best **average capex/net sales ratio** in the 2017-19 three-year period with 28.6%, in part due to its acquisition of 5G frequencies in 2018.

Scenario in Italy pre-Covid

According to Agcom, in 2019 the telecommunications sector accounted for 1.67% of GDP and for 2.42% of household spending. The downward trend in **total revenues** continued, falling to €29.8bn in 2019 (from €42.2bn in 2010), 4.4% lower than in 2018. Fixed telephony managed to limit the slump, with a top line of €16.2bn (down 1.7% on 2018), whereas mobile had a tougher time, with revenues down 7.3% to €13.7bn.

TIM (Italian operations) ranked first by total revenues, with €13.1bn (down 5.5% on 2018), ahead of Vodafone with €5.7bn (down 5.2%) and Wind Tre with €5.1bn (6.5%). Excluding start-ups such as Iliad and Open Fiber, and the smaller firms Eolo and Linkem, over the five years Fastweb is the only player to report growth (revenues up 27.8%), with capex higher than the Italian average.



Wind Tre is the operator with the highest profitability (Ebit margin 17.4%), followed by TIM (16.5%), both of which returned to profit in 2019 being no longer burdened by writedowns and one-off charges.

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