



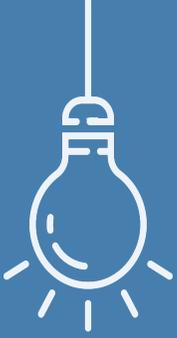
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# Strategies & Trends in Capital Allocation

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**TELECOMMUNICATIONS**





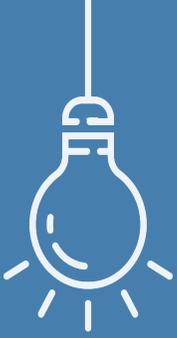
# Strategies & Trends in Capital Allocation

01



## Now Trending

- **Data privacy and security concerns:** Among other factors, with IoT technology adding more devices to their networks, providers are keenly aware of the increased opportunities for security and privacy breaches to occur.
- **Leveraging AI:** Beyond its use for virtual assistants, the technology is essential for the optimization and predictive maintenance of networks, remote monitoring of distributed base stations and data centers, as well as detecting fraudulent activity.
- **Impact of regulations:** As a heavily regulated sector, industry leaders are highly sensitive to uncertainties that may undermine incentives to invest. Spectrum release and auction frameworks are a leading issue.
- **Focus on customer experience:** Operators are prioritizing CX as central to the competitive battlefield, requiring investments in network quality, capabilities and resources.
- **Consolidation and transformational M&A:** Ongoing price deflation driven by competition from OTT providers and adjacent market players creates pressure for operators to seek more rational market structures, including in-market deals to generate scale and widen product scope.
- **Fiber network buildout:** Traditional telecom providers globally continue to shift from copper-based wireline services to fiber-to-the-home service or other technologies that support multi-service bundles at prices lower than services individually. Some telecom players owning wired and wireless communication properties are using fiber to connect wireless towers in remote locations.



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## CAPEX Considerations

- **Agile decision making:** At a time when tariffs, regulations, politics, new technologies, and variability in demand present formidable challenges for telecommunications executives, the ability to pivot quickly, react opportunistically, and make capital decisions that are well-considered, strategic, and based on a holistic view of capital projects in progress or in consideration, can have material impact on financial performance.
- **Impact of pandemic:** Analysts do not believe that capital spending tied to building out 5G networks will be slowed. Although facing revenue pressures, the larger carriers have adequate cash flow and liquidity flexibility.
- **New enterprise apps:** As 5G is further developed, opportunity exists to target enterprises for 5G applications in industries like manufacturing, healthcare, retail, transportation and education. In manufacturing, for instance, a growing number of factories will incorporate automated guided vehicles and computer-vision-enhanced bin picking and quality control made possible by 5G's ultra-low latency.
- **Low Earth orbit satellites:** In providing high-performance broadband anywhere, presents opportunity to serve rural or isolated communities, and become essential infrastructure tools for the energy, mining, transportation, and even finance industries.
- **Legalized sports betting in the U.S.:** 5G supports low-latency and high-volume communications which appeals to real-time sports betting. As such, 5G has been deployed in sports stadiums (Verizon and the NFL have partners in 13 stadiums with Ultra Wideband networks), sports bars and other venues and presents opportunities for other providers as well.



# Strategies & Trends in Capital Allocation

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## Industry Snapshot

- The global telecom services industry is estimated to be \$1.6 trillion in 2019.
- Leading operators/companies worldwide: AT&T (\$151B), Verizon (\$115B), China Mobile (\$97B), NTT (\$93.6B), Comcast (\$83.66B), Deutsche Telekom (\$76B), Softbank (\$76B), China Telecom (\$49B), America Movil (\$49B), Telefonica (\$49B) and Vodafone (\$4B).
- The Asia Pacific region is considered the most valuable telecommunication services market worldwide, accounting for an estimated \$441.5B in revenues.
- 52.65% of the telecom industry companies are based in the United States.
- Verizon, AT&T, T-Mobile and Sprint control 98.2% of the U.S. wireless telecom market.
- In 2018, the global mobile industry Capex amounted to \$161B.
- The industry's long-term Capex to revenue ratio (capital intensity) is in the 16-18% range, on average.
- Capex for 2018 was 16.4% of revenues, in line with 2017; the highest it has been since 2011 (for which there currently is data) was 17.8% when 4G build-outs were still important; analysts believe that, despite the hyped 5G buildup, Capex spending will remain soft in 2020 with only a 2% hike in global telecom spending.
- AT&T is reported to expect to spend around \$20B on Capex in 2020 (down from \$23.7B in 2019) and lower than the \$22B that analysts had forecast. It's believed that investor pressures to control spending and stock buybacks are factoring in spend levels.
- AT&T, Verizon, Sprint and T-Mobile spent a combined \$55.63B on Capex in 2019; \$55.71B in 2018

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