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Vodafone acquires Ono in a €7.2bn deal to strengthen its quad-play capabilities

Vodafone Group Plc. Market Cap (as of 21/03/14): £59.96bn

Ono Market Cap (as of 21/03/14): N/A

After having submitted several non-binding offers under €7bn, world's second-largest wireless carrier Vodafone Group Plc. has confirmed the acquisition of Ono, a private-equity owned Spanish cable TV and internet provider, in a transaction worth €7.2bn of both cash (55%) and debt (45%).

The London-headquartered telecommunications conglomerate has recently performed several acquisitions in the sector following its strategy to add fixed-line networks to its mobile services infrastructure. Current deal is the second remarkable acquisition of the British operator in the last 6 months. Previously Vodafone acquired a controlling stake in Kabel Deutschland Holding AG, a German cable operator, for €7.7bn. Ono acquisition works not only for the benefit of Vodafone strategy, but it also follows the agreement with French-based operator Orange to build fiber networks in Spain. The €43bn cash windfall originated from the sale of the 45% stake in Verizon Wireless (<http://www.bsic.it/follow-up-vodafone-pockets-130bn-from-sale-of-verizon-wireless-stake/>) enabled Vodafone to finance the deal with cash and undrawn bank facilities. The €7.2bn price tag is inclusive of €3.3bn of debt. Vodafone's share price rose 1.7% following news of the acquisition.

Ono is the second-largest provider of broadband internet, pay television and fixed line telephone services. The company is well positioned in Spain's telecommunications market accounting for 70% coverage, 1.5 million broadband customers and around 1 million mobile users. However, the real competitive advantage of the Spanish operator lies in its fiber-optic network, which is at the cutting edge of innovation in the industry. Leveraging on a later entry in the sector compared to its competitors, Ono can offer as much as 200Mbps, which is 20 times the average speed of the other players on the market.

Ono was acquired by a consortium of private equity investors in 2005 in a €4.5bn deal with a €1bn increase in capital. Ono's ownership structure was split among New-York based private equity groups Providence Equity Partners, CCMP Capital Advisors, Quadrangle Capital and Thomas H. Lee Partners. Private equity owners holding 54.4% of Ono shares used to plan to list Ono in

Madrid and were waiting for the right time and good price but were persuaded to abandon these plans in favor of Vodafone. Given the PE entry took place as early as 2005, the funds were likely well into their grace periods and therefore very eager to dispose of their investment.

In 2013 Ono's EBITDA has decreased by 8.8% to €686m and the operator reported an Operating FCF decreased by 6.8% from the FY2012 figure (€453m) to €422m.

The price paid is a 10.4x multiple of Ono's 2013 EBITDA, in line with industry recent valuation levels: Jazztel, a smaller player that provides the same services, has an EV equal to 10.3x its EBITDA (EV=€1.9bn, EBITDA=€184m) and Kabel Deutschland, recently acquired by Vodafone, was paid €7.7bn, or 8.3x 2013 EV / Adjusted EBITDA (€862m).

Following the acquisition Vodafone expects to achieve cost and capital expenditures synergies of about €240m annually by the fourth year before the integration costs, which is equivalent to €2bn after the integration costs. Revenue synergies are estimated to be about €1bn due to the increase in the offering of various services and products by combining distribution, marketing and cross-selling.

The acquisition is expected to strengthen the competitive position of Vodafone with respect to other European players (i.e. Telefónica of Spain and Germany's Deutsche Telekom) in offering high-speed broadband internet in addition to its mobile services. According to Bloomberg, Vodafone had a 25% market share in the mobile market before this latest deal, which is expected to contribute an additional two percentage points thanks to Ono's 1.1mln mobile customers. The company is expanding its footprint in fixed line infrastructures which, as Mr Vittorio Colao – CEO of the Vodafone Group - said, will allow Vodafone to compete with Spanish' Telefonica SA (TEF) and stand ready to face the ongoing developments in the French telecommunications landscape (<http://www.bsic.it/vivendi-clings-telecom-bouygues-numericable-potential-partners/>).

Moreover, the deployment of funds by Vodafone to strengthen its European quad-play offering does not only improve its competitive positioning vis-à-vis other major European players, but also it makes more unlikely that a much rumored and anticipated bid by AT&T will take place. The key objective of the American telecom' mammoth was in fact to gain access to a financially strong platform from which to expand AT&T's foothold in the Old Continent. However, the more Vodafone uses its cash reserves to pursue its quad-play plans, the less flexible it becomes to be used as an "instrument" by the American company. It will be very interesting to follow the developments of this story, which is yet to write its final chapter.

Vodafone was advised by Morgan Stanley, while Robertson Robey Associates served as co-advisors. The lead advisor for Ono was Deutsche Bank, while Bank of America Merrill Lynch, UBS AG and JPMorgan Chase & Co. served as co-advisors for its shareholders.

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