TowerCo MNOs: a Win-Win Opportunity?

A Practical Business Case Framework for Tower Price Negotiation

The Tower Deal in a nutshell

A tower deal involves one or more MNOs selling their network infrastructure (usually passive assets) to a TowerCo Investor. Subsequently, MNOs pay investors lease fees for the usage of the infrastructure and management of operations for a predefined contractual period, usually 15-20 years.

The perimeter of tower deals varies according to the MNO's financing and strategic needs. MNOs may decide to sell only a part of their tower assets, such as rural or non-strategic, or select specific assets that enable the investor higher consolidation savings or tenancy ratio.

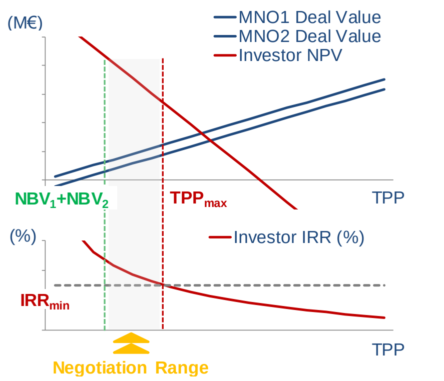
Four fundamental variables shape the resulting deal:

1. The Tower Purchase Price (TPP) that investors pay for the assets
2. The Net Book Value (NBV) of MNOs assets for sale
3. The MNO Deal Value which represents the value created by the deal for the MNO, given as the difference between the Total Cost of Ownership (TCO) in the pre- and post-deal scenarios. The MNO Deal Value is calculated based on a cash flow analysis of the NPV differential between post-deal cash flows from lease fees, and pre-deal cash flows from operating costs (rent, energy, maintenance) and cost of capital (WACC-based).
4. Investor's IRR, which determines the minimum accepted level of profitability.

Negotiating the deal price

The presented use case considers two MNOs selling their assets to the same Investor. The differential in the value of MNOs' portfolios is due to the obsolescence of infrastructure.

Cash flow analysis is used to evaluate the main variables, including terminal value: MNO Deal Value, Investor NPV and IRR, which are represented as a function of TPP (see Figure).



Source: Arthur D. Little analysis

The investor is expected to pay different TPPs for different portfolios; the total maximum TPP_{max} (Investor threshold price) to be paid to MNO_1 and to MNO_2, is set according to the investor's minimum overall IRR profitability objective. On the other hand, each MNO will seek a single TPP greater than its on-sale assets net book value in order to achieve a capital gain. The final deal TPP should be set in the negotiation range, between the sum of MNO net book values (MNO threshold price) and the Investor's threshold price.

Sensitivity analysis has been applied to:

- ✓ Lease fees,
- ✓ Asset amortization years,
- ✓ Cash flows evaluation period,
- ✓ Tower decommissioning.

The outcome is that MNO Deal Value, TPP and Investor NPV vary up to a few percentage points per unit value change of sensitivity parameters.

Considerations about the deal

- A maximum MNO Deal Value is desirable, but even a lower cash injection can enable crucial investments. MNO Deal Value will vary accordingly to the following parameters increase:

Parameter	MNO Value
Post-deal lease fees	⬇
Pre-deal operating costs	⬆
Tower decommissioning	⬆

- Investors will generally request annual post-deal lease fees higher than annual pre-deal operations and interest costs (lease fees mark-up), due to TPP. TPP will vary accordingly to the following parameters increase:

Parameter	TPP
Post-deal lease fees	⬆
Additional services (network evolution, tower roll out)	⬇
Duration of agreement	⬆

- The Investor minimum deal IRR is strongly impacted by the Investor's ability to produce greater asset efficiency than the MNOs, with regard to running costs optimization, tenancy ratio increase ('lease-up'), consolidation and WACC.
- Deal concerns may arise because of national electromagnetic limits and regulation, as well as technical issues.

Setting the deal

Tower assets may be sold in single or multiple lots, through a negotiation or an auction, and involving a Managed Service Provider, if present. A multiple-lot selling procedure is a strong strategic lever in yet unshaped markets: first movers will impact the market depending on whether they sell to one main tower investor or divide their own portfolio among various investors.

Arthur D. Little has thorough global experience with TowerCo deals through more than 15 advisory cases with major global MNOs and infrastructure operators. Our work has created value of over $ 2 billion on individual assignments.

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