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*The Silks Issue*

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## OUT OF THE SHADOWS

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# THE APPLE DOESN'T FALL FAR FROM THE TREE – TELECOMS DEALS IN PORTUGAL

*Recent deals in the Portuguese telecoms market follow the sector's global trends*

**T**he opening up of the Portuguese telecoms market saw a proliferation of players and was followed by an inevitable period of consolidation. Adaptability to shifting consumer needs, financial and strategic stamina to bear continued investment and the capability to deal with increasing regulatory intervention has led key players in the market today to be within global groups such as Vodafone and Altice, or domestic conglomerates, such as NOS.

As the push for continuous growth continues, M&A transactions have provided players with the means to continue to create value. Recent deals have proven to be consistent with key trends observed in telecom M&A worldwide.

Altice led the way to what can be seen as a wave of post-consolidation M&A transactions, in September 2018, when it created and sold 75 per cent of Omtel, the first independent tower company in Portugal, to Morgan Stanley Infrastructure Partners (MSI) and Horizon Equity Partners. The transaction valued Omtel at an enterprise value of €660m, based on the existence of a 20-year master agreement with Altice/MEO and the expected growth of the market.

This first-mover transaction brought long-term international institutional investors to the Portuguese telecoms market and, through the retention of Altice's 25 per cent interest, also showed that joint ventures could be viable options to obtain value from existing assets.

## Viability reinforced

Fiber infrastructures also played a critical role when in December 2019 Altice announced the creation of Altice Portugal FTTH (fiber-to-the-home), the first nationwide fiber wholesaler, in a strategic partnership with MSI, who acquired a 49.99 per cent stake, based on an enterprise value of €4.63bn. Partnerships in fiber infrastructure are not new and NOS and Vodafone have been expanding their 2017 agreement in order to upgrade each footprint to more than five million houses.

The Portuguese telecom market's vitality was further reinforced with Cellnex's acquisition of Omtel in January 2020, at an enterprise value of €800m. As Europe's leading operator of telecommunications infrastructures, with approximately 58,000 sites, this transaction made Portugal the eighth European country in which Cellnex is present, incorporating Omtel's portfolio of approximately 3,000 sites and a projected roll out of 400 more sites by 2024.

Established group NOWO/ONI, emerged as a relevant energetic player with the acquisition last year by MásMóvil (a Spanish telecom operator with an interesting business

case, using mainly third-party infrastructure) and is now eager to get a slice of the market.

2020 will be a dynamic year for the telecom market. From a business perspective, the deployment of 5G will create a new ecosystem, spark innovative services and open market opportunities. The Government strategy for 5G was approved on 7 February, with major coverage targets to be reached between 2020 and 2025. Ensuing this approval, ANACOM (the regulator) published on February 10 a draft regulation on the 5G auction.

The rules proposed (e.g. national roaming, MVNO operations and price discounts) intend to foster the entrance of new operators. The auction should start in April and be concluded in June and may generate revenues up to €237m, that should be used to support and promote digital inclusion measures.

## Efficiency enhanced

As with the recent wave of deals, infrastructure assets are under scrutiny for maximum enhancement and strategic partnerships. This was kicked off earlier this year with the announcement of a new partnership by NOS and Vodafone for the sharing of mobile network assets (without spectrum sharing), to enhance the efficiency of investments and achieve larger and faster coverage of the national territory. Following Altice's fiber deal and the appetite shown by international investors, existing players may consider innovative transactions involving parts of their network.

2020 will also be a year of substantial changes in legal framework. The new European Electronic Communications Code should be transposed by the end of the year and a comprehensive review of the legal regime should be expected. Apart from 5G, regulation in broadband markets, definition of access and pricing obligations on infrastructure assets and safety and integrity of networks should be the focus of ANACOM's attention this year.

History proves that the Portuguese telecoms market is one of the most dynamic and challenging sectors for M&A transactions. The recent trend in infrastructure and non-core network asset deals is expected to continue.



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