

# ALTNET FIBRE CONSOLIDATION: LESSONS FROM HISTORY



# Introduction

Graeme Millar, who joined WTA Partners after thirty years in the telecoms and technology sector, to lead our Telecoms practice, takes a look at the UK Altnet sector. He sees strong parallels with the growth of the cable TV network and wonders what that experience might mean for the sector.

After eighteen months of rising interest rates the bubble of investment in the UK's Altnet (FTTP) fibre infrastructure sector finally burst around twelve months ago. What can history teach us that helps to predict what will happen next in this market?

## Altnet fibre consolidation: lessons from history

A pivotal reference point is the expansion of Cable TV networks in the late 1980s and 1990s. Back then various operators competed to secure franchises issued by the Thatcher Government to deploy coax cable networks. This activity was set in motion in the early 1980's by the removal of BT's monopoly and subsequent efforts to boost competition against BT. The investment boom that followed led to significant investment, with over 130 organisations collectively spending well over £10 billion, to reach almost half of Britain's homes (c.13 million).

Cable infrastructure companies, however, quickly learnt of the need to become telco and media operators (i.e. trying to sell a mix of phone, broadband and TV services also known as the "triple play"). Many, though, had neither the management nor financial resources to achieve the switch. A vicious circle of poor content and service lead to fewer homes passed being connected which in turn meant less investment to support better service and content. Over time, consolidation ensued and after several years and many rounds today only one company (Virgin Media O2, "VMO2", a merger of Telewest and NTL) remains. In many ways VMO2 provides a good alternative to BT: delivering on the Government's competition imperative that spawned the many cable players back in the 1980s.

While the cable industry's consolidation offers parallels to today's Altnet consolidation - over 100 players each frantically passing homes without connecting many - there are also differences. Most specifically back in the 1980's the U.K. was parcelled up by the Government into franchise areas where the franchisee had just one competitor, BT. With Altnet fibre no such order exists: indeed, Ofcom has been keen to see infrastructure competition. This has been achieved but at the cost of much overbuilding of fibre infrastructure - some U.K. households have a choice of three or even four competing fibre infrastructure choices whilst others have none.

This is not the first time in history this has happened - a historical comparison can be drawn to the railway boom of the mid-nineteenth century in the UK. That era witnessed a flurry of railway construction characterised by competing lines. There were often several railway lines between two cities. Post-boom consolidation gradually reduced the number of railway companies, reminiscent of the shifts we are witnessing in the Altnet sector.

Looking ahead, it's easy to see where this is going (subject, of course, to regulatory approval) - the emergence of two to three major national Altnet players vying with industry giants like BT Openreach and Virgin Media O2 / Nexfibre and ultimately probably the consolidation into one VMO2 entity as the major nationwide competitor to BT's fibre offering.

The question for Altnet investors is now "consolidate or be consolidated". Time will tell but in due course we will see each player take its turn to consolidate until, just as with the final merger of Telewest and NT, there is only one.

If you would like to discuss this article, or any aspect of the market including possible M&A activity, then do make contact with Graeme at [info@wtallp.com](mailto:info@wtallp.com) and he will reply directly to you. Our telecom practice specialises in providing M&A advisory services to the Altnet sector, the smaller national telcos and the IoT sector.

