Global Telco Infrastructure Update
Spotlight: TowerCo Market
Q4 2020
Executive Summary

In the first edition of Duff & Phelps’ Global Telco Infrastructure Update, we focus on the TowerCo Market.

Compared to other mature TowerCo markets, such as the U.S., Europe remains a developing TowerCo infrastructure market. While the strong M&A momentum seen in recent years has slowed due to the impact of COVID-19, deal flow is expected to rebound, supported by recent tower sale and IPO announcements.

We are seeing mobile network operators highlighting their tower ownership and value by carving out separate tower companies, mergers, IPOs or partial sales to independent TowerCos or PE firms.

The TowerCo industry remains an attractive market, with towers offering compelling top-line growth, low capital intensity and premium valuation trading multiples. We highlight the potential valuation differences in multiples caused by recently changed accounting policies.

Finally, we discuss the increasing complexity on estimating cost of capital inputs in the current environment and provide insights for further consideration.
M&A Transaction Review
Announced Deals

Global M&A Quarterly Trend
Number of Announced Transactions in the Global TowerCo Market

Key Observations

- The average deal volume of the 27 transactions announced between Q1-Q3 2020 was approximately €405 million.

- The TowerCo M&A market has seen reduced momentum in 2020 as a result of the ongoing pandemic.

- Deal activity in Q2 2020 was down 50% on Q2 2019, while Q3 2020 activity was down 30%, respectively.

- However, ongoing trends such as industry consolidation, carve-outs of tower assets from traditional operators and the resilience of the sector will likely help maintain a healthy deal flow in the coming months.

Source: Pitchbook as at September 30, 2020
Note: Screening includes only M&A and PE buyout transactions
M&A Transaction Review
Strong Transaction Activity in Europe…

Selected European TowerCo Transactions

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EV/site (€ k)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Feb</td>
<td>285</td>
<td>353</td>
<td>385</td>
<td>461</td>
</tr>
<tr>
<td>Jun</td>
<td>223</td>
<td>343</td>
<td>266</td>
<td>149</td>
</tr>
<tr>
<td>Jul</td>
<td>283</td>
<td>322</td>
<td>479</td>
<td>183</td>
</tr>
<tr>
<td>Oct</td>
<td>201</td>
<td>318</td>
<td></td>
<td>302</td>
</tr>
<tr>
<td>Sep</td>
<td>231</td>
<td>236</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dec</td>
<td>223</td>
<td>173</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Average: € 285k


Note: Includes telecom infrastructure transactions with publicly available deal statistics, including reference to EV/side numbers. All trademarks, trade names, or logos referred herein are the property of their owners.
M&A Transaction Review

... Expected to Remain Active in the Near Term

Selected Cases - European Tower Sale and IPO Announcements

**Vodafone Spins Off Vantage Towers and Plans IPO in 2021**

“Since the announcement of our intention to separate our European tower infrastructure operations in July 2019, we have been working hard to create Vantage Towers. Since May 2020, the business has been operationally separate, with the full senior management team in place running the day-to-day operations and preparing for monetization. We remain on track for an IPO in early 2021.”

Vodafone press release, July 24, 2020

**Orange Announced TowerCo Formation Plans**

“\To derive higher value from its owned 40,000 towers of its mobile network in Europe, Orange will create TowerCos in most of its European countries. […]\n
Orange will retain control of these entities in all the European countries where they are created. The first projects will start in 2020 in France and Spain."

Orange press release, December 4, 2019

**Cellnex €11 bn Strong M&A Pipeline**

“After two successful capital increases, €11 bn M&A pipeline almost achieved (including deals still to be closed).”

Cellnex January – June 2020 Results, July 20, 2020

Management announced an additional ~€11 bn of identified probability weighted acquisition targets, expecting a mix of accretive in-footprint deals with some new market opportunities.

**Expansión, October 12, 2020**

Cellnex is preparing towers subsidiary in Spain.
Public Trading Analysis
Company Trading Statistics

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Country</th>
<th>Share Price</th>
<th>52 Week (in EUR)</th>
<th>Revenues</th>
<th>EBITDA (2)</th>
<th>EV/EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>in EUR m unless otherwise noted</td>
<td>Sep-2020</td>
<td>Low</td>
<td>High</td>
<td>% of High</td>
</tr>
<tr>
<td><strong>Europe</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cellnex Telecom</td>
<td>ES</td>
<td>€ 52.00</td>
<td>33.40</td>
<td>60.78</td>
<td>86%</td>
<td>25,302</td>
</tr>
<tr>
<td>Infrastrutture Wireless Italiane</td>
<td>IT</td>
<td>€ 9.44</td>
<td>7.14</td>
<td>11.43</td>
<td>83%</td>
<td>9,064</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>North America</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>American Tower</td>
<td>US</td>
<td>€ 241.73</td>
<td>174.32</td>
<td>272.20</td>
<td>89%</td>
<td>91,312</td>
</tr>
<tr>
<td>Crown Castle</td>
<td>US</td>
<td>€ 166.50</td>
<td>114.18</td>
<td>180.00</td>
<td>93%</td>
<td>59,505</td>
</tr>
<tr>
<td>SBA Communications</td>
<td>US</td>
<td>€ 318.48</td>
<td>205.20</td>
<td>328.37</td>
<td>97%</td>
<td>30,360</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Emerging Markets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China Tower</td>
<td>CN</td>
<td>€ 1.34</td>
<td>1.30</td>
<td>2.03</td>
<td>66%</td>
<td>29,577</td>
</tr>
<tr>
<td>Bharti Infratel(4)</td>
<td>IN</td>
<td>€ 175.30</td>
<td>120.05</td>
<td>296.50</td>
<td>59%</td>
<td>3,755</td>
</tr>
<tr>
<td>Helios Towers</td>
<td>GB</td>
<td>€ 1.57</td>
<td>0.82</td>
<td>2.24</td>
<td>70%</td>
<td>1,330</td>
</tr>
<tr>
<td>Tower Bersama</td>
<td>ID</td>
<td>€ 1,335.00</td>
<td>730</td>
<td>1,380</td>
<td>97%</td>
<td>1,654</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: S&P Capital IQ as at September 30 2020, and includes the most actively traded TowerCo companies for respective covered regions

Note: (1) Enterprise Value includes all lease liabilities; (2) EBITDA figures adjusted for consistent presentation of operating lease expense across accounting standards (IFRS 16/ASC 842). EBITDA includes add-back of Rent for US GAAP companies and Depreciation of ROU Assets for non-US GAAP; (3) Adjusted EBITDA (as defined by SBA) estimates; (4) Source: Capital IQ, EBITDA estimates include the proportionate consolidation of the 42% equity stake in Indus Towers Limited.
Public Trading Analysis

Lease Accounting Policies – Mind the Adjustments

Europe (IFRS 16) vs U.S. (ASC 842)

- In the new IFRS 16 accounting environment, companies record the lease expense differently under U.S. GAAP and IFRS, which creates consistency problems with valuation multiples.

- Whilst both accounting policies now capitalize operating leases on the balance sheet, EBITDA for companies reporting under U.S. GAAP and IFRS still differs.

- Under U.S. GAAP, there is no change to how the income statement is reported and therefore EBITDA is the same as before. While under IFRS, EBITDA is higher due to the reclassification of the operating lease expense, which is split into interest and depreciation elements.

- Therefore, if no adjustments are made, European multiples (on an IFRS 16 basis) appear to be lower than U.S. multiples, since reported EBITDA for U.S. companies includes leases (lower EBITDA figure, higher multiple).

*Cross-company analysis should be undertaken with care and consistency*

Source: S&P Capital IQ as at December 31, 2019 and Duff & Phelps analysis

Note: IFRS 16 Impact on multiples for illustrative purposes only, assuming there are no material capital leases for the entities; Inwit = Infrastrutture Wireless Italiane
Public Trading Analysis
One-Year Trading Performance

European Share Price Development\(^{(1)}\)

**Key Observations**

- European TowerCos have shown strong resilience to the effects of COVID-19, outperforming the broader European Equity market STOXX 600.

January - March 2020 saw a period of high volatility in share price due to COVID-19.

Source: S&P Capital IQ as at September 30, 2020

Note: (1) Rebased, October 2, 2019 = 0%, return calculated on an equally weighted share price index (2) Including the most actively traded TowerCo companies in Europe: Cellnex Telecom and Infrastrutture Wireless Italiane
Public Trading Analysis
One-Year Trading Performance

U.S. Share Price Development

Key Observations

- Over the last 12 months, TowerCo share price performance has been highly affected by a surge of volatility, mainly driven by the pandemic.
- Although share prices plummeted in March 2020, they swiftly recovered over the last six months, reaching pre-COVID-19 levels and demonstrating resilience during economic downturns.

Source: S&P Capital IQ as at September 30, 2020
Note: (1) Rebased, October 2, 2019 = 0%, return calculated on an equally weighted share price index (2) Including the most actively traded TowerCo companies in North America: American Tower Corporation, Crown Castle International and SBA Communications
Public Trading Analysis
One-Year Trading Performance

Emerging Market Share Price Development⁽¹⁾

Key Observations

• Emerging Market TowerCo companies share price performance was also negatively affected by the pandemic.

• The peer group has recovered to pre-COVID-19 levels, despite lagging behind the emerging market index.

Source: S&P Capital IQ as at September 30, 2020
Note: (1) Rebased, October 2, 2019 = 0%, return calculated on an equally weighted share price index (2) Including the most actively traded TowerCo companies in Emerging Markets: Bharti Infratel, China Tower, Helios Towers and Tower Bersama
Valuation Considerations in the Current Environment

Cost of Capital

Greater attention to cost of capital inputs is likely required:

• Even though the TowerCo industry has been impacted by COVID-19 to a lesser extent compared with other industries, the calculation of the cost of capital in times of uncertainty may be more challenging

• Interest rates of safe-haven countries are likely to stay low for a prolonged period due to central banks’ actions

• Careful consideration should be given to betas:
  — Equity (levered) betas for some companies and industry segments have become significantly distorted. Care needs to be taken when relying on recent indications as proxy for forward-looking betas
  — Significant equity market declines can lead to greater debt % in the capital structure
  — May significantly distort the calculated unlevered betas
  — Consider using other unlevering methods

• Equity risk premium is cyclical. Historical measures are countercyclical and used without further adjustments may lead to the wrong conclusion:
  — Post-COVID-19 base cost of equity should not be lower than prior to the outbreak

• Country risk changes over time to reflect current economic and market conditions

• Other cost of capital inputs may be distorted

• The discount rate should be consistent with the projections regarding the treatment of lease obligations (pre/post-IFRS 16)
Duff & Phelps acted as lead financial advisor and rendered a fairness opinion to Telefónica Deutschland in connection with the sale of its passive infrastructure to Telxius for a consideration of up to €1.5 billion.

Duff & Phelps acted as financial advisor to Telxius Telecom S.A. and provided valuation advisory services in connection with its passive infrastructure in Spain, Brazil, Chile and Peru.

Duff & Phelps acted as financial advisor and provided valuation advisory services to Cellnex Telecom S.A. on multiple acquisitions including Alticom, Shere, Protelindo, Swiss Tower, Illiad, Salt, Cignal and Omtel.
About Duff & Phelps
Protect, restore and maximize value since 1932

Duff & Phelps is the world’s premier provider of governance, risk and transparency solutions. We work with clients across diverse sectors in the areas of valuation, corporate finance, disputes and investigations, cyber security, claims administration and regulatory compliance.

~4,000
PROFESSIONALS
GLOBALLY

Corporate Finance
Objective guidance to management teams and stakeholders throughout restructuring, financing and M&A transactions, including independent fairness and solvency opinions

Valuation Advisory
Valuation and consulting for financial reporting, tax, investment and risk management purposes

Governance, Risk, Investigations and Disputes
Combined Duff & Phelps and Kroll risk management and mitigation, disputes and other advisory services

Business Services
Leading global provider of complex claims administration and business services through its proprietary software and industry leading management team
Contacts

**EMEA**

Mike Weaver, London
Head of EMEA Valuation Advisory Services
+44 20 7089 4773
michael.weaver@duffandphelps.com

Javier Zoido, Madrid
Head of Iberia Valuation Advisory Services
+34 910 389 010
javier.zoido@duffandphelps.com

Andreas Stoecklin, Frankfurt
Head of EMEA Corporate Finance and Country Head Germany
+49 69 7191 8466
andreas.stoecklin@duffandphelps.com

Dr. Simon von Witzleben, Munich
Director, Corporate Finance
+49 89 388 884 121
simon.vonwitzleben@duffandphelps.com

Jacques Giard, Paris
Head of Transaction Advisory Services France and Country Head France
+33 65 074 6720
jacques.giard@duffandphelps.com

**Americas**

Jeff Schiedemeyer, Chicago
Managing Director, Transaction Opinions
+1 312 697 4655
jeff.schiedemeyer@duffandphelps.com

Karan Kapoor, Los Angeles
Managing Director, Technology M&A Advisory
+1 424 249 1676
KKapoor@pmib.com

Alexandre Pierantoni, Sao Paulo
Managing Director, M&A Advisory
+55 11 3192 8103
alexandre.pierantoni@duffandphelps.com

Glen Kernick, Silicon Valley
Managing Director, Valuation Advisory Services
+1 650 798 5573
glen.kernick@duffandphelps.com

**Asia**

Varun Gupta, Mumbai
Head of Asia Pacific Valuation Advisory Services and Country Head India
+91 22 6623 1001
varun.gupta@duffandphelps.com

David Lu, Shanghai
Head of APAC Corporate Finance
+86 21 6032 0608
david.lu@duffandphelps.com

Ricky Lee, Hong Kong
Managing Director, Valuation Advisory Services
+852 2281 0133
ricky.lee@duffandphelps.com

About Duff & Phelps

Duff & Phelps is the world’s premier provider of governance, risk and transparency solutions. We work with clients across diverse sectors in the areas of valuation, corporate finance, disputes and investigations, cyber security, claims administration and regulatory compliance. With Kroll, the leading global provider of risk solutions, and Prime Clerk, the leader in complex business services and claims administration, our firm has nearly 4,000 professionals in 25 countries around the world. For more information, visit www.duffandphelps.com.

M&A advisory, capital raising and secondary market advisory services in the United States are provided by Duff & Phelps Securities, LLC. Member FINRA/SIPC. Pagemill Partners is a Division of Duff & Phelps Securities. LLC. M&A advisory, capital raising and secondary market advisory services in the United Kingdom are provided by Duff & Phelps Securities Ltd. (DFSL), which is authorized and regulated by the Financial Conduct Authority. M&A advisory and capital raising services in Germany are provided by Duff & Phelps GmbH, which is a Tied Agent of DFSL. Valuation Advisory Services in India are provided by Duff & Phelps India Private Limited under a category 1 merchant banker license issued by the Securities and Exchange Board of India.

The material in this report is for information purposes only and is not intended to be relied upon as financial, accounting, tax, legal or other professional advice. This report does not constitute, and should not be construed as soliciting or offering any investment or other transaction, identifying securities for you to purchase or offer to purchase, or recommending the acquisition or disposition of any investment. Duff & Phelps does not guarantee the accuracy or reliability of any data.