Outlook for telecom operators post-COVID-19

Global telecom executives survey

May 2020

DELTA PARTNERS

COVID-19
GLOBAL TELECOM EXECUTIVES SURVEY

Introduction

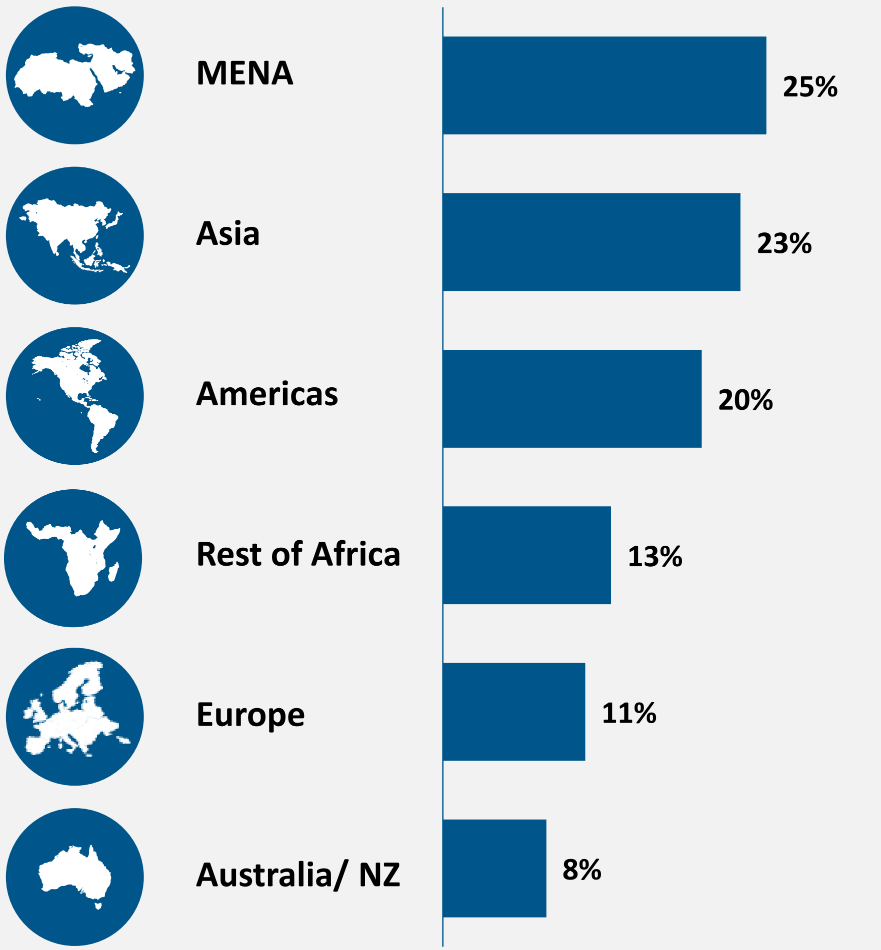
- During the past few weeks, Delta Partners has been closely monitoring the impact of COVID-19 on the telecom industry with a focus on short-term challenges and opportunities [1]
- However, it is also critical to anticipate challenges and opportunities beyond the short-term which telecom operators will need to address to emerge out of this crisis stronger
- In order to be able to better identify and assess these challenges and opportunities, we gathered the expert opinions of ~100 senior telecom executives around the world
- The following slides display the results of this survey, which was undertaken from the 3rd – 14th May
- At the end of the document we have included a summary of select initiatives that telecom operators are beginning to accelerate
- If you have any comments or questions, please do not hesitate to contact us at marketing@deltapartnersgroup.com

(1) See Delta Partners "Managing COVID-19's impact on the telecom industry" report series in www.deltapartnersgroup.com/delta-perspective

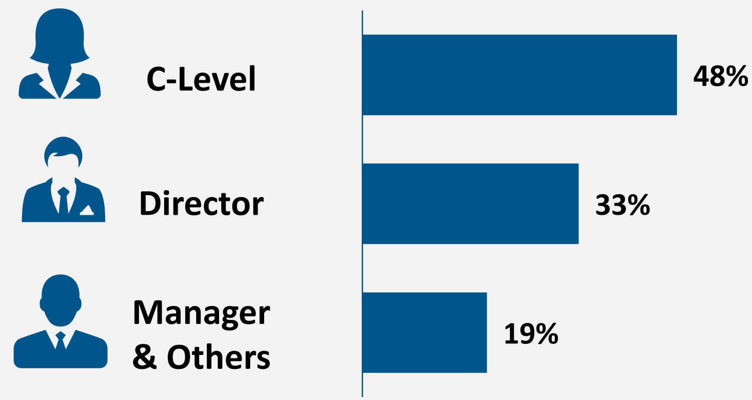
Survey's sample (n=100) description

Profile of the survey respondents

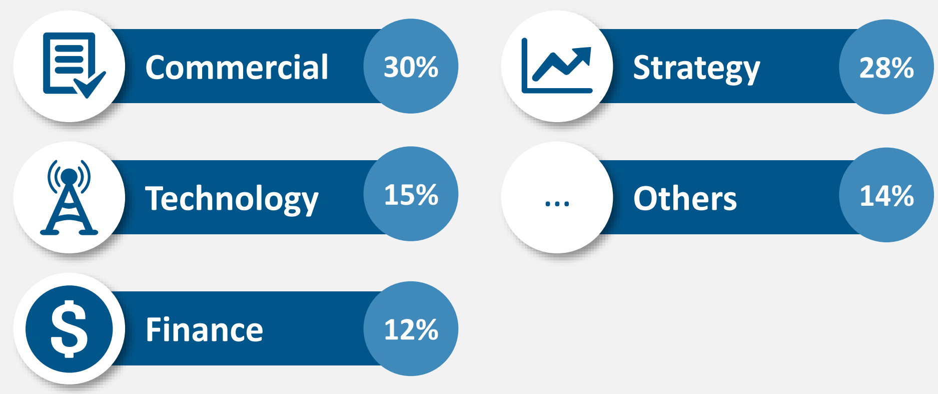
Geographical distribution



Seniority level



Functional areas



Source: Delta Partners Analysis

DELTA PARTNERS

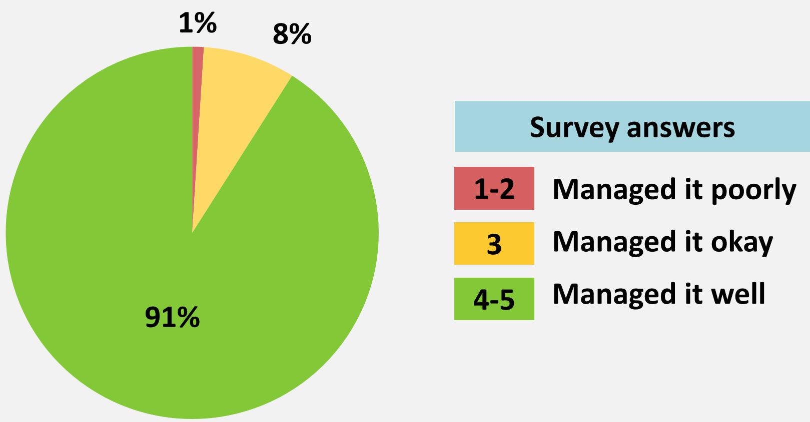
Key headlines

Overall impact	• Telecom executives believe that the crisis caused by COVID-19 has been well managed by the industry so far • Significant structural impacts are expected in the future, particularly on business economics and operating models
Brand	• Overall, this crisis is having/has had a positive impact on telecom operators' brands
Revenue	• Short- to mid-term revenue impact is estimated to be between -5% and -10% • Executives believe it will take 18-24 months for certain legacy services (e.g., international roaming revenue) to return to pre- COVID-19 levels
Capex	• There are mixed views on whether capex will accelerate or slow down in the short-term with only regions severely affected by the pandemic (e.g., Europe) clearly anticipating capex delays • In the mid- to long-term, capex plans are expected to remain mostly unaffected
Operating model	• Executives claim they were not fully prepared to handle customer care demands following the closure of physical channels • Since a structural change is expected in both retail and call center models, operators are looking to digitize channels while retaining WFH models • Positive productivity during the pandemic has indicated potential opportunities to right-size the workforce
Products & services	• Telecom operators are expected to continue prioritizing products that enable mobility and virtual connection (e.g., video conferencing and content/video streaming); cybersecurity will continue to remain a priority for B2B customers
Network & Technology	• The evolution of existing infrastructure models (e.g., carve outs, sharing models) is expected to accelerate - this will be a key driver for optimization of cash, ROIC and shareholder value

Telecom executives believe the industry has managed the crisis well so far; maintaining commercial activity and limiting disruption to customer care processes were identified as the most challenging areas

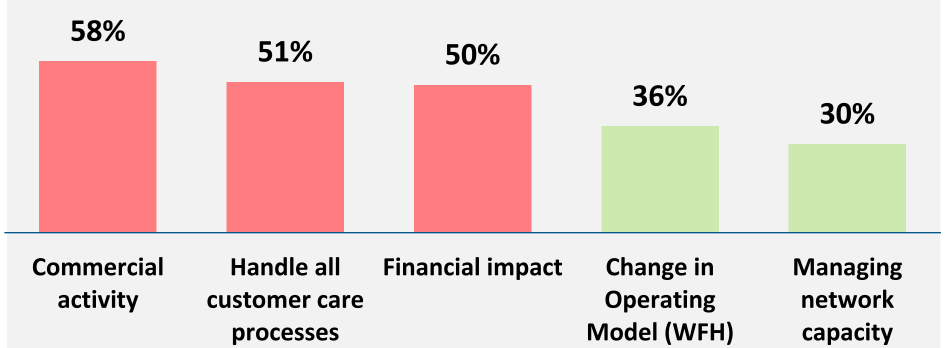
How have telco operators managed COVID-19, as a sector?

(1- managed it poorly, 5- managed it well)



Which impacts proved to be more challenging to manage?

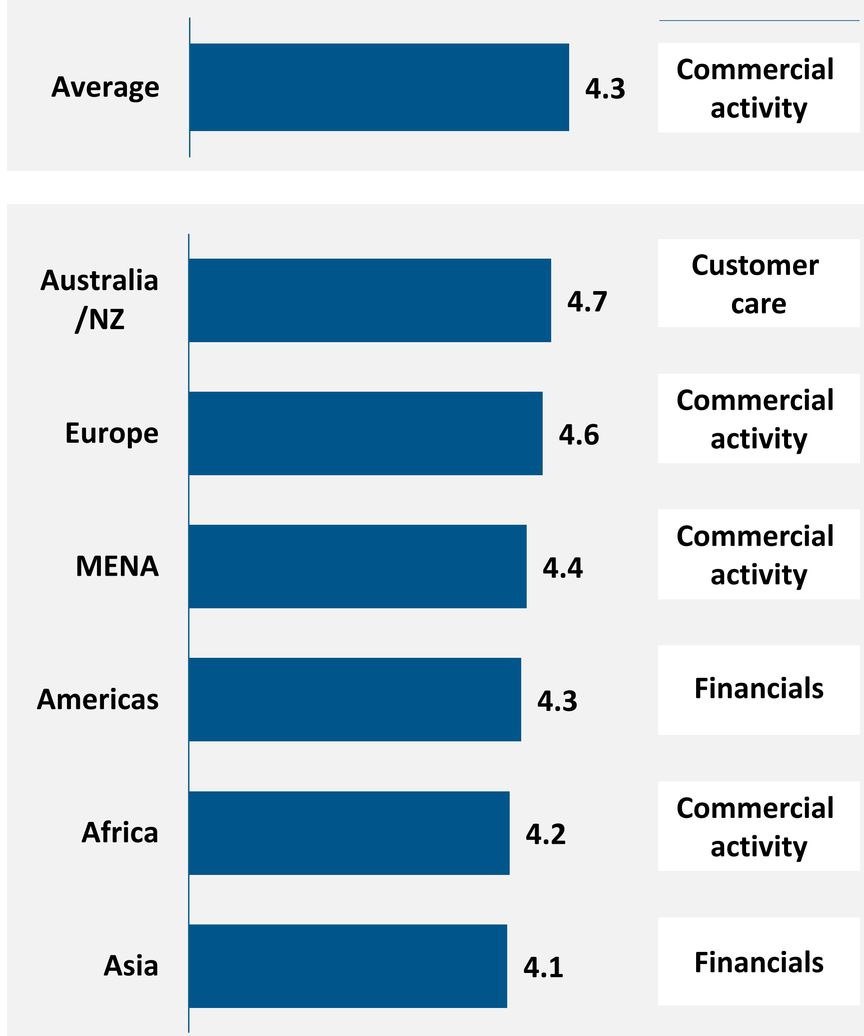
(% of answers 4&5 where 1- Not difficult, 5- Very difficult)



How has each region managed COVID-19?

(1- poorly, 5- positively)

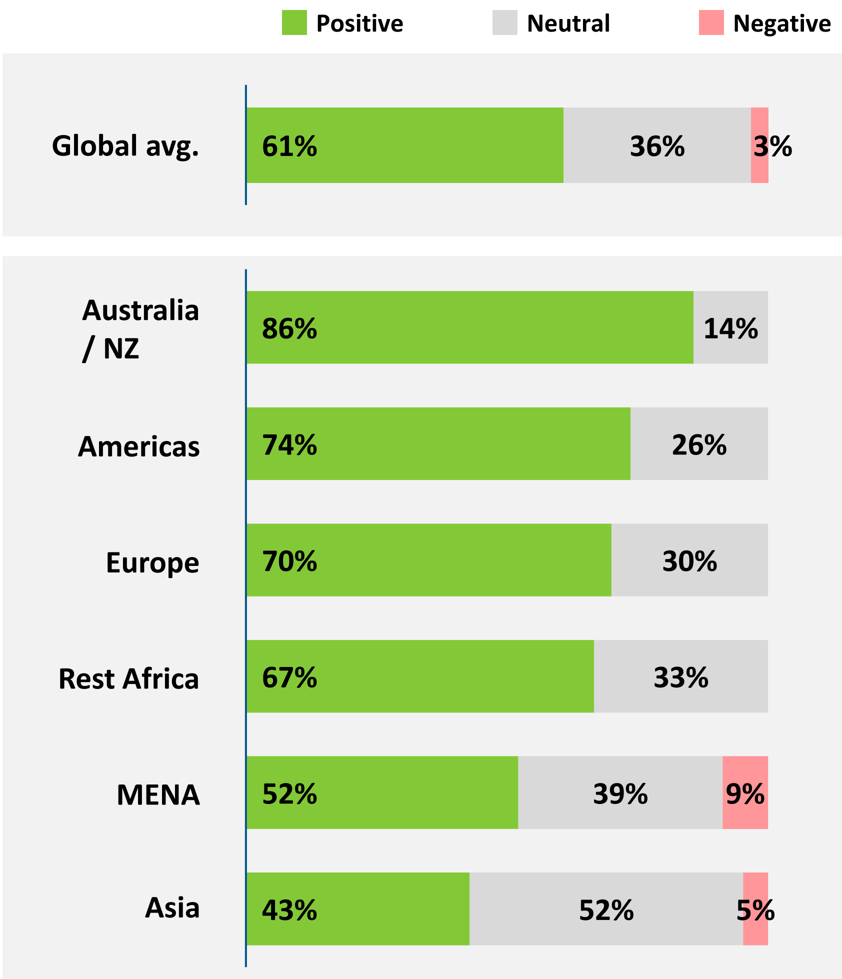
Most challenging area



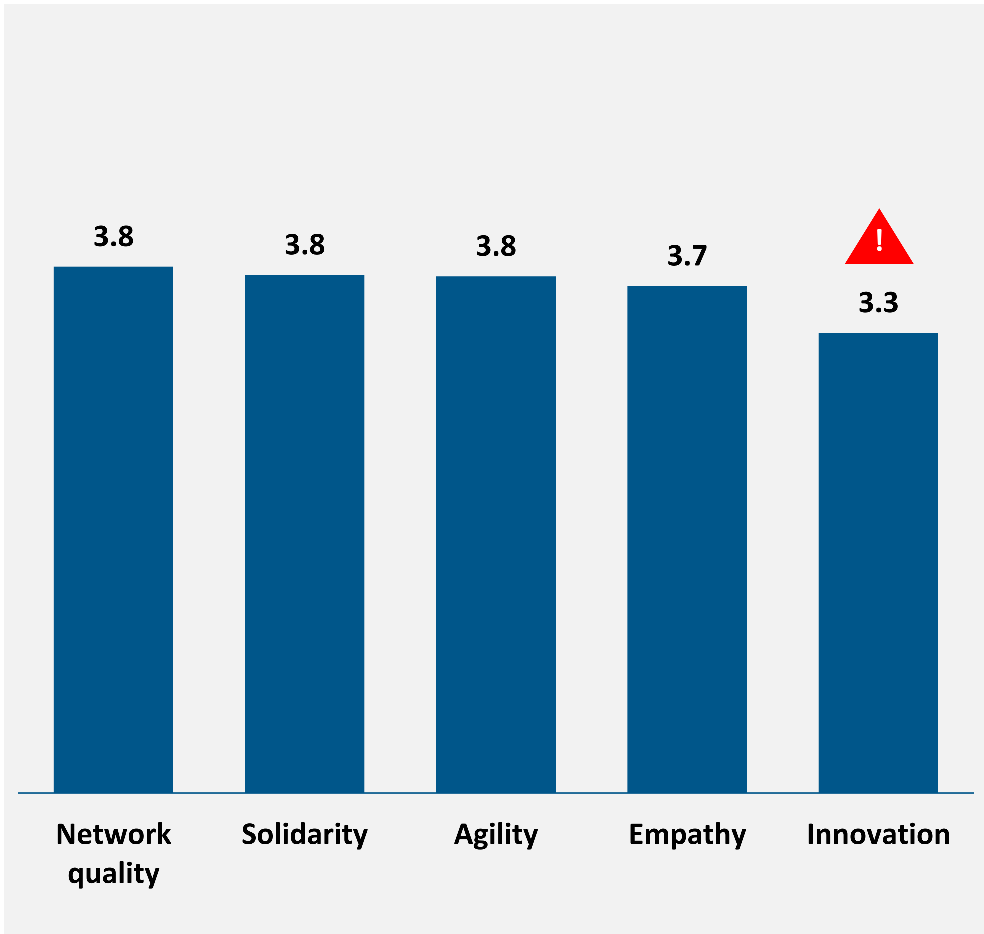
 Source: Delta Partners survey results

A majority believe there has been an overall positive impact on their brand due to quick responses to reduce anxiety and uncertainty and demonstrated ability to cope with higher network traffic

How has COVID-19 affected your brand?
(% of respondents reporting each impact)



How do you think COVID-19 has impacted your telecom operator's brand attributes?
(Translated to a score from 1-5 where: 1-Negatively impacted, 5- Positively impacted)

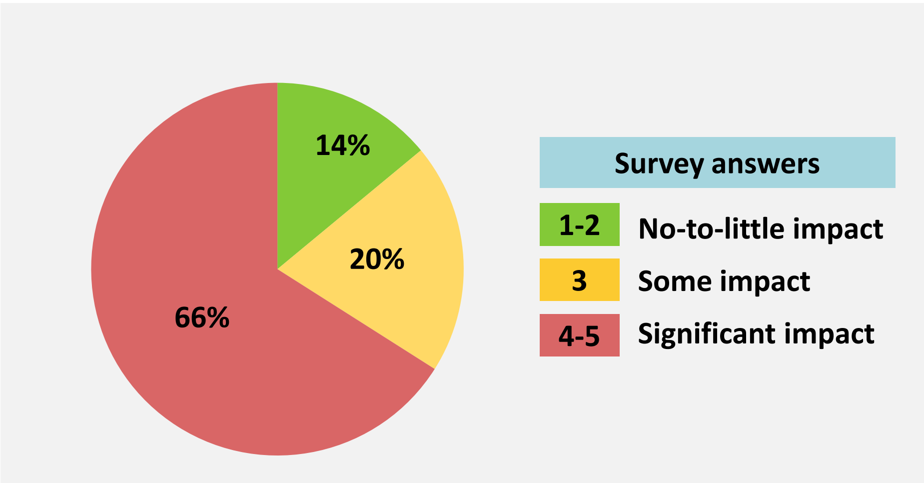


Source: Delta Partners Analysis

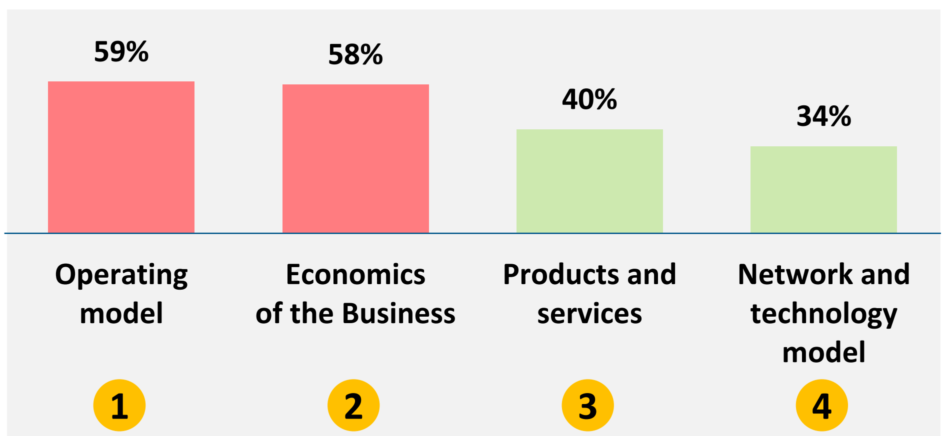
DELTA PARTNERS

Significant disruption is expected in the industry driven by a change in future operating models

Which structural impact is expected in the industry?
(1- No change, 5- Significant impact)

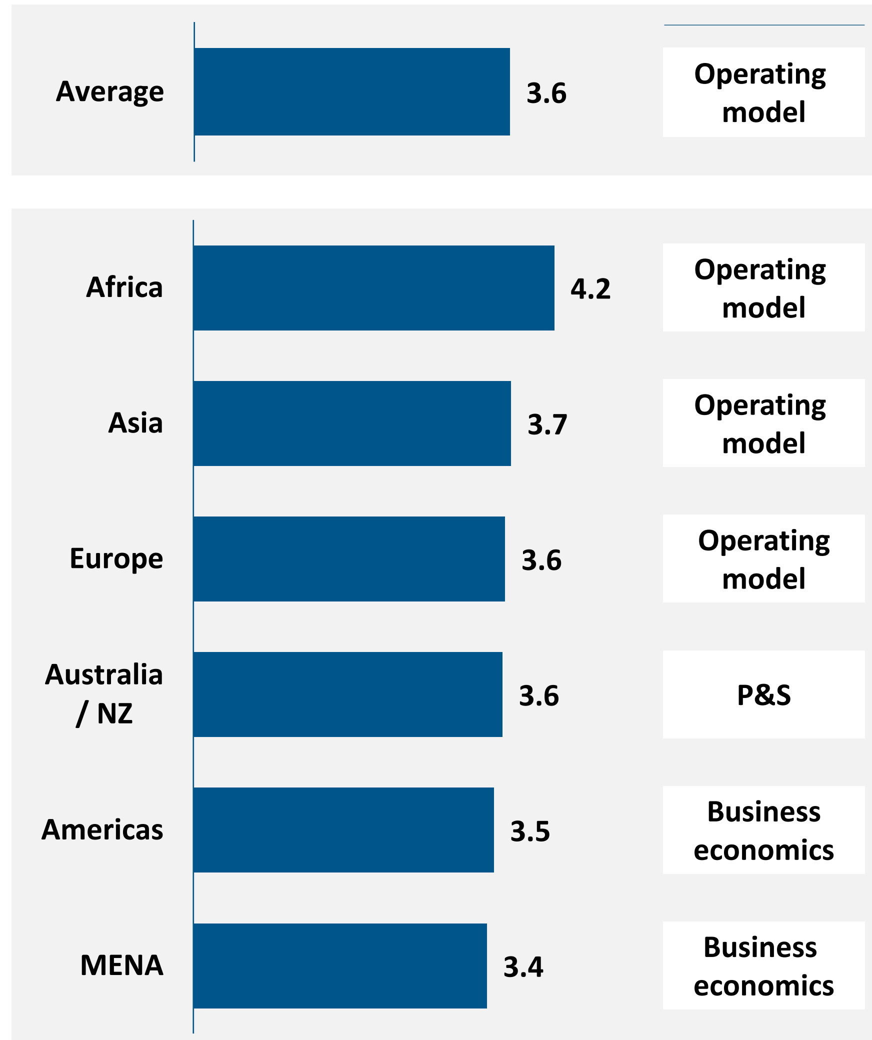


Which business areas are expected to be more affected?
(% of answers 4&5 where 1- No impact, 5- Significant impact)



Structural impact expected by region
(1- No change, 5- Significant impact)

Most affected area

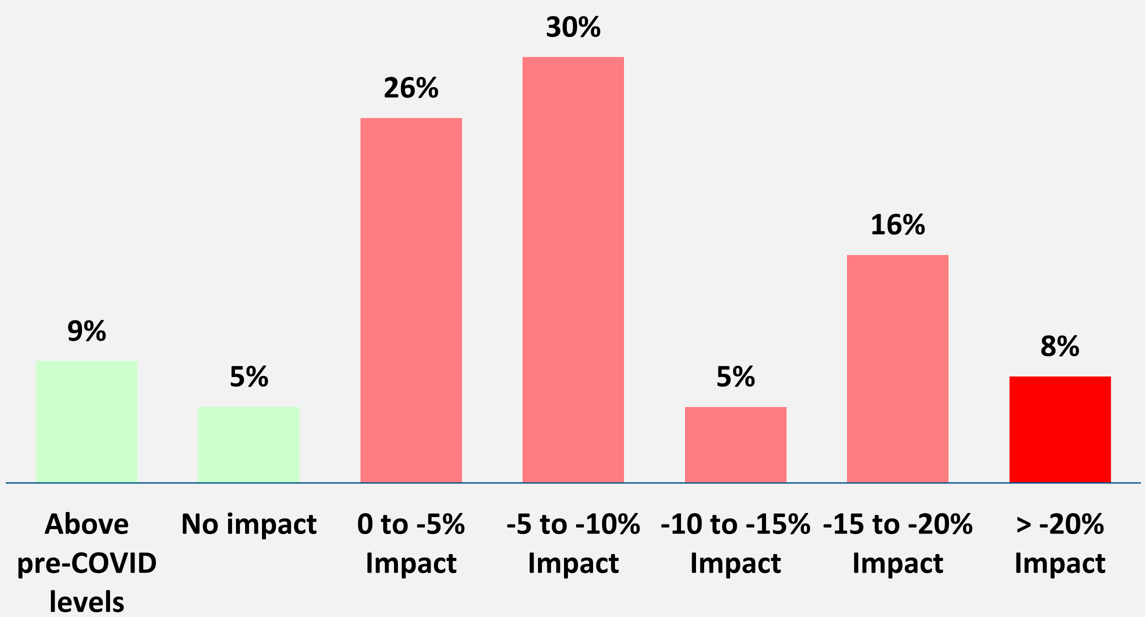


Source: Delta Partners survey results

1 Revenue impact: Despite analysts' forecasts, industry insiders expect significant revenue erosion (-5% to -10%) in the short-to mid-term

Expected revenue adjustment in 6 months time

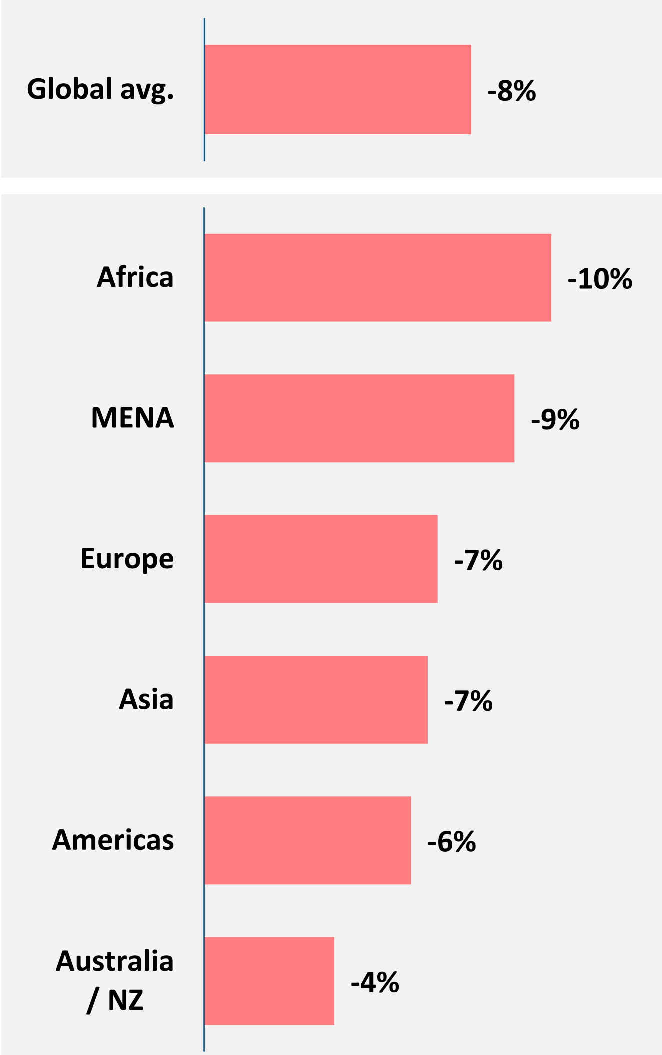
(% of respondents expecting each impact)



- **International roaming** is expected to be the service that takes longest to recover (42% predict 18-24 months)

Average expected revenue adj. by region

(% revenue reduction)



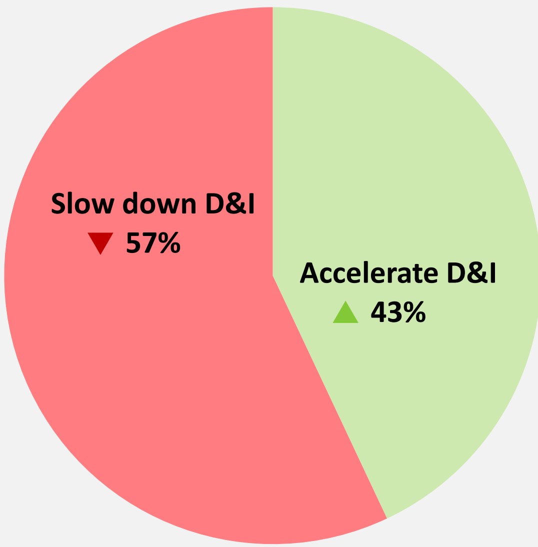
Source: Delta Partners Analysis

1 Capex impact: Mixed views on short-to mid-term impact on capex; only regions that have been severely affected (e.g. Europe) clearly anticipate a slow down of capex

Will COVID-19 accelerate or slow down development and innovation (D&I) in the coming 12 months?

(% of respondents expecting each impact)

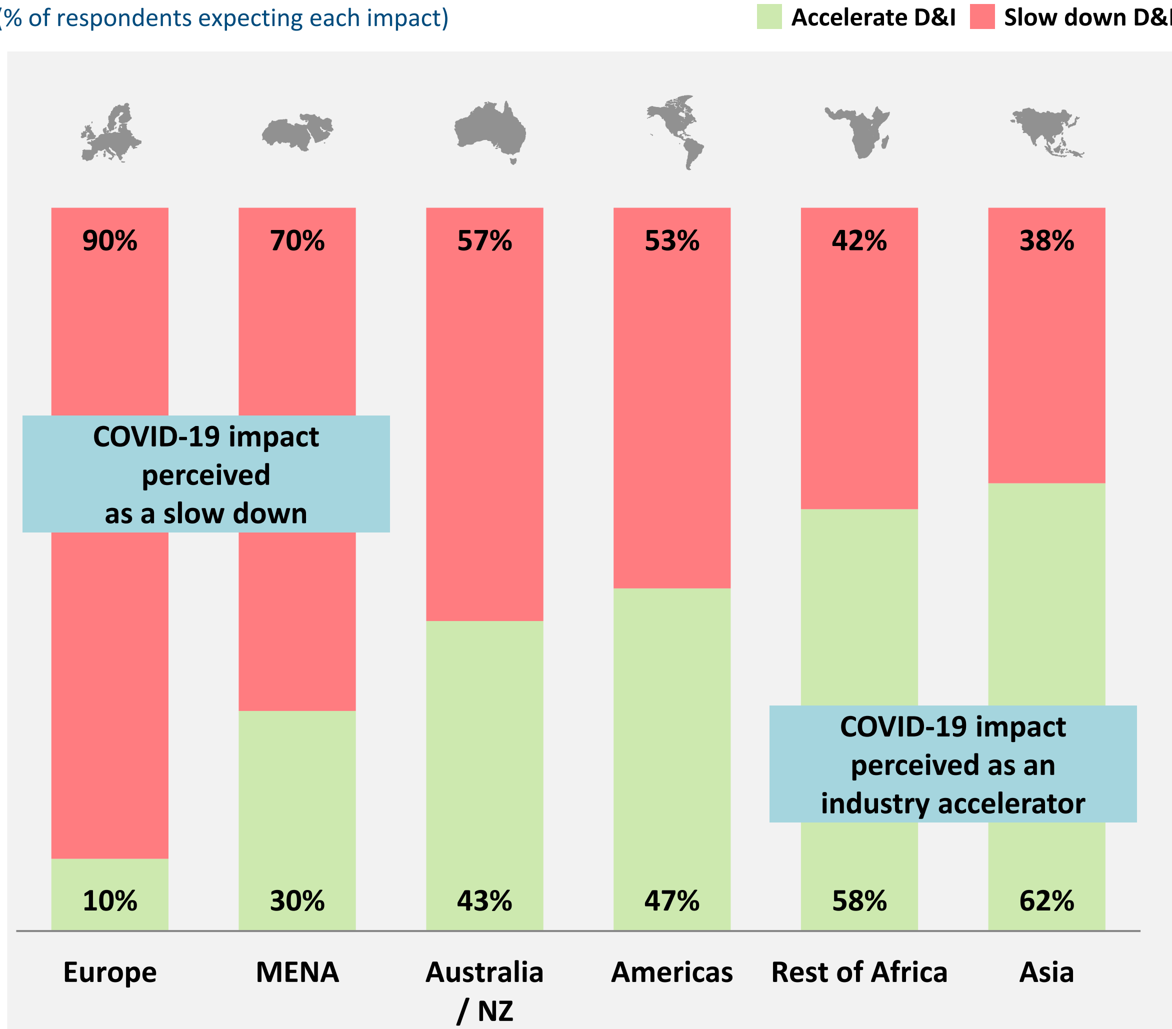
SHORT-TERM IMPACT



MID / LONG-TERM IMPACT

- 70%+ of respondents expect network investments to be **unaffected**

(% of respondents expecting each impact)

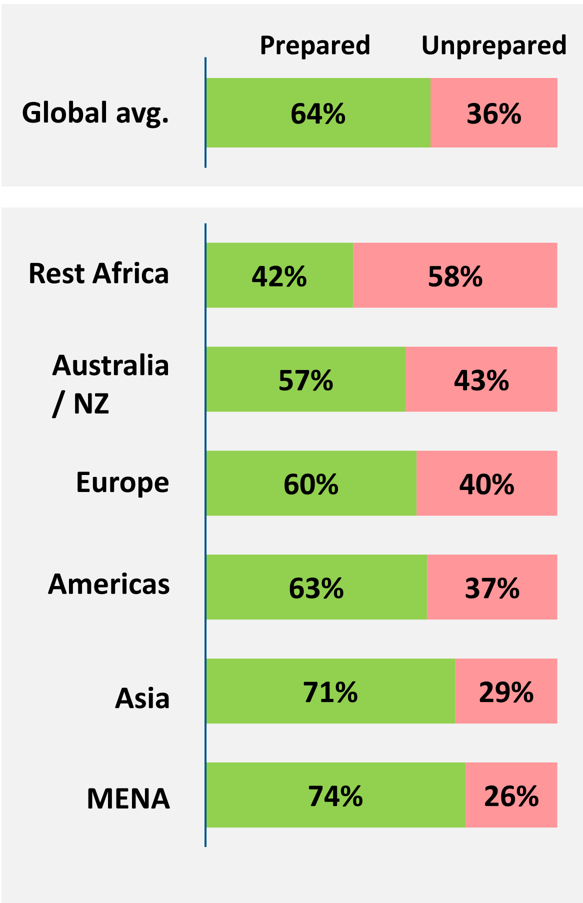


 Source: Delta Partners Analysis

2 Operating model: Disruption and expected structural changes caused by the crisis are expected to accelerate transformation of operating models

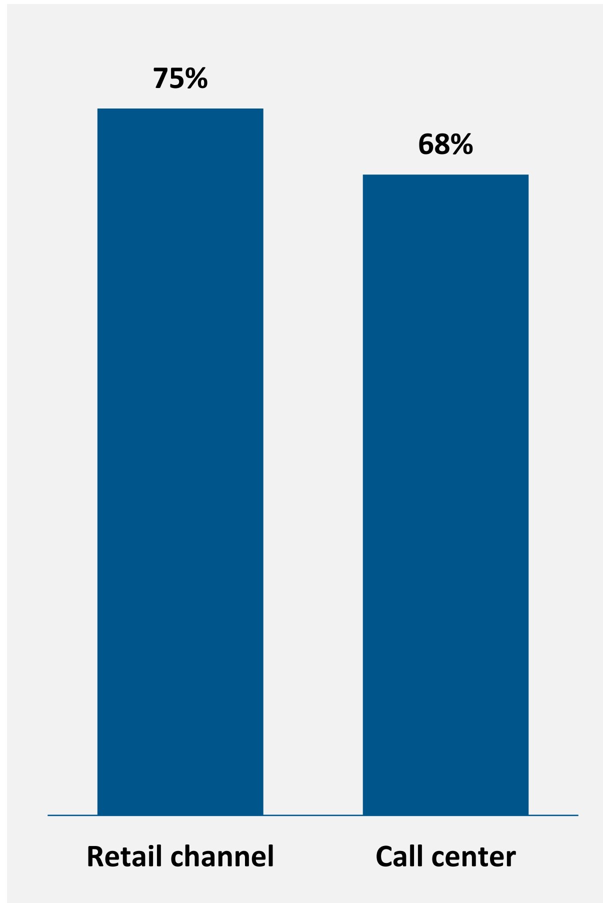
"Was your telecom operator prepared to cater to all customer enquiries and requests?"

(% of respondents prepared / unprepared)



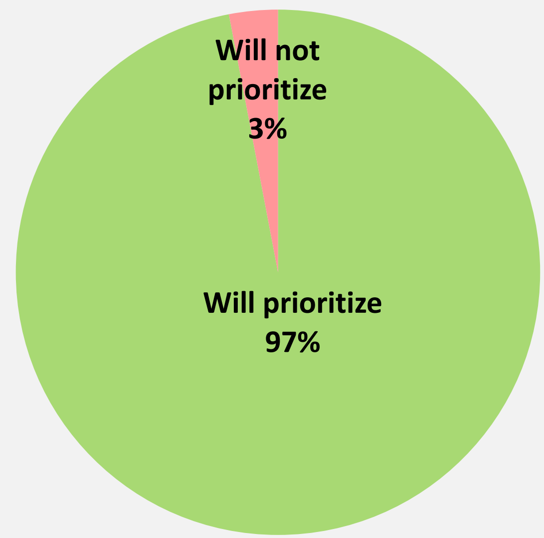
"Are you expecting a change in the customer service model?"

(% of respondents expecting a significant change)



"Do you think your operator will prioritize process digitization and improvement of CX?"

(% of respondents)



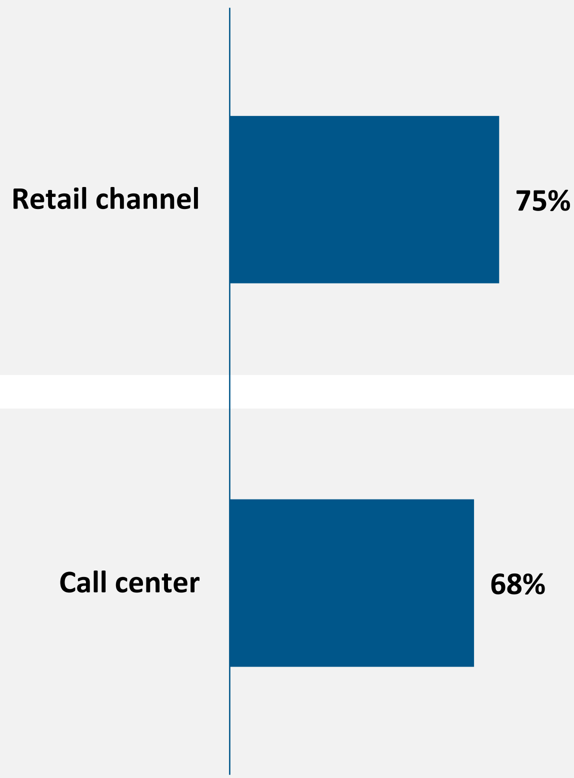
Acceleration of digital transformation is widely perceived to be the **most relevant challenge** for operators going forward

2 Operating model: Customer service is expected to be less dependent on physical channels, instead leveraging digitisation, process automation and continued implementation of WFH

Changes in customer service models… | **…are expected to be supported by some of the following trends**

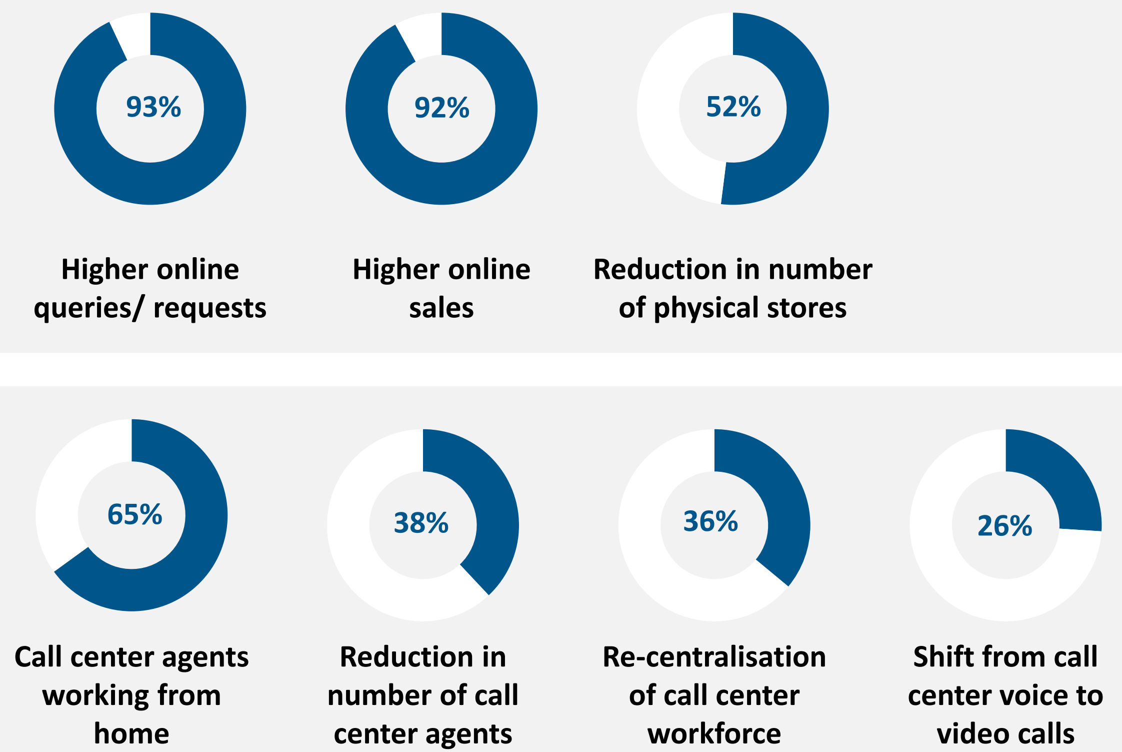
Are you expecting a change in the customer service model?

(% of answers 4&5 where 1- No change, 5- Significant change)



Which customer service trends will get higher adoption, post COVID-19?

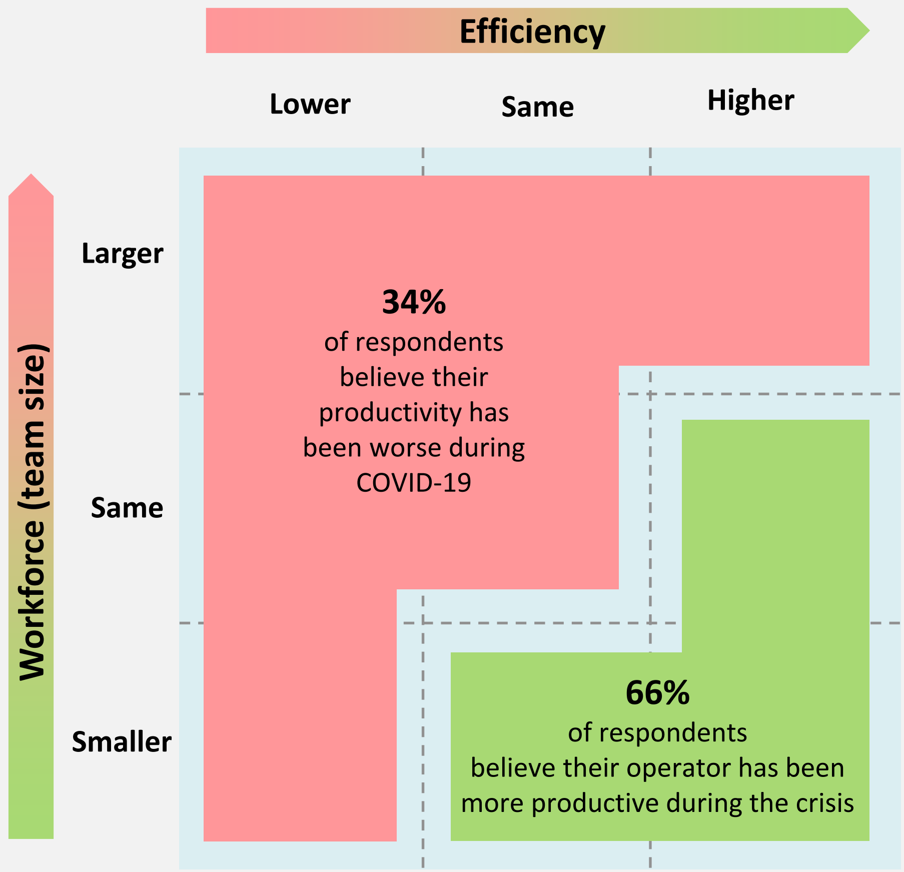
(% of answers 4&5 where 1- Limited adoption, 5- High adoption)



Source: Delta Partners Analysis

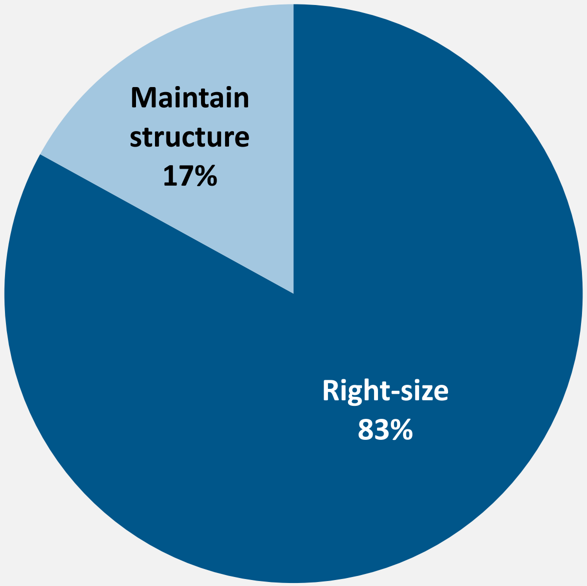
Workforce: Positive productivity during the pandemic has indicated potential optimization opportunities to right-size the workforce

Increase in perceived workforce productivity during the pandemic…



… questions current workforce dimensioning

Will telecom operators right-size their workforce post COVID-19 to make it more efficient?
(%)

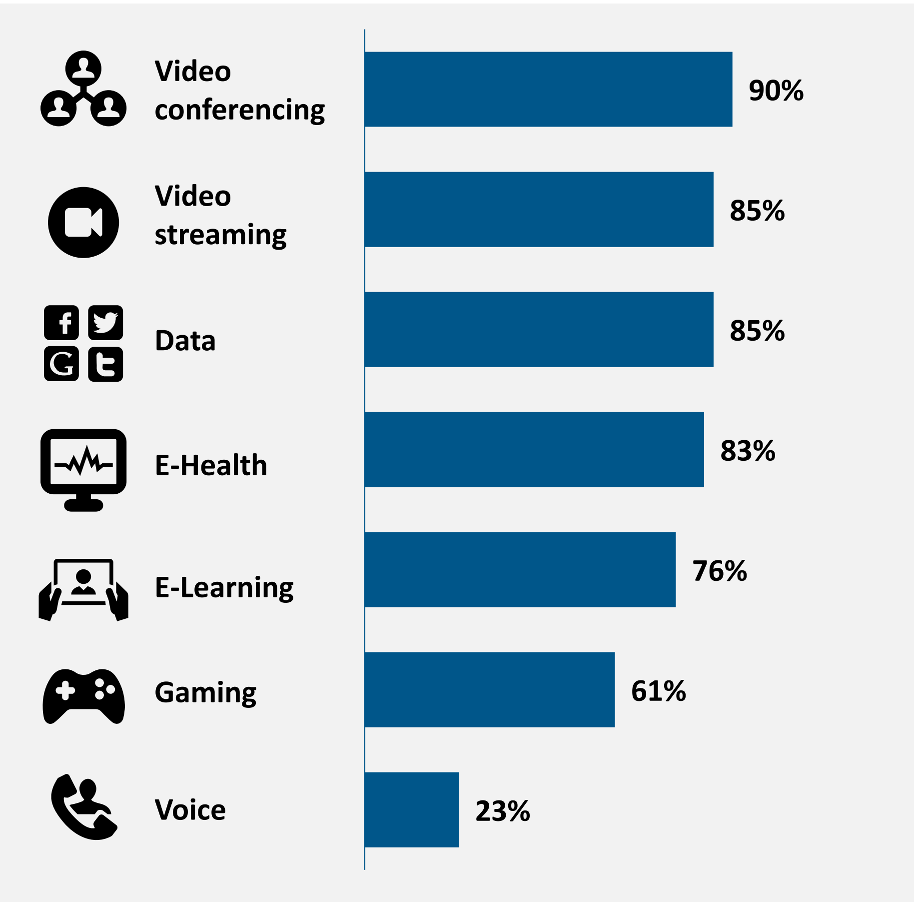


Note: [1]Excluding where same workforce: same efficiency; Source: Delta Partners Analysis

3 Products & Services: Changes in usage behaviour and overall customer needs are reinforcing the structural relevance of value-added P&S over those which are connectivity-centric

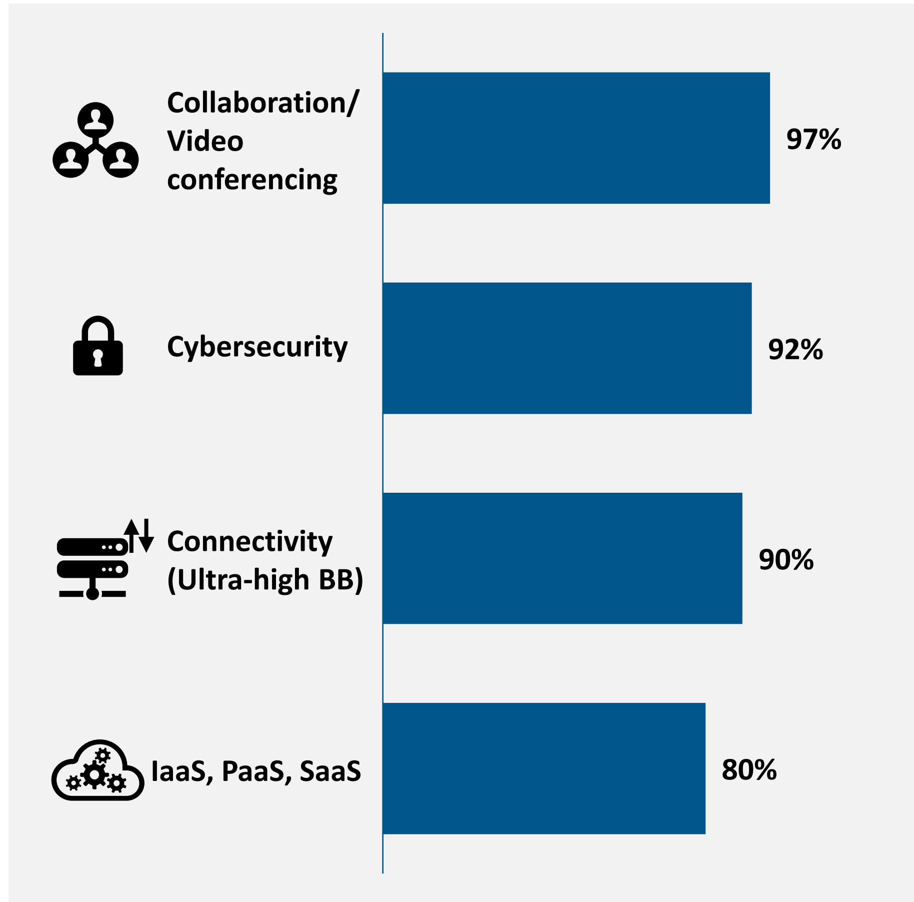
Share of respondents who think this B2C product/service will remain high-priority post COVID-19

(% of answers 4&5 where: 1-No long term priority, 5- Significant priority)



Share of respondents who think this B2B product/service will remain high-priority post COVID-19

(% of answers 4&5 where: 1-No long term priority, 5- Significant priority)

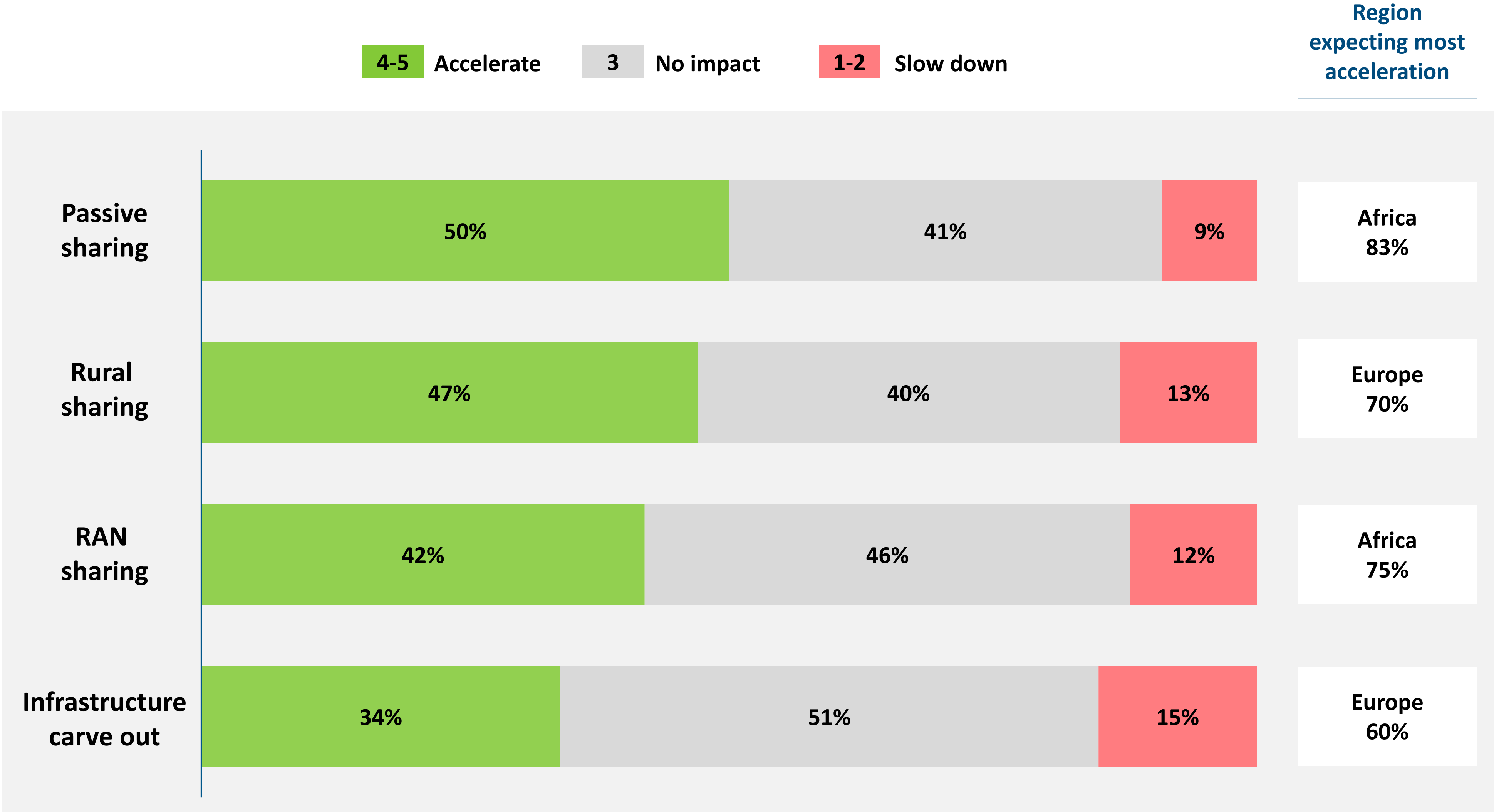


Source: Delta Partners Analysis

4 Network model: New infrastructure models (carve outs and infrastructure sharing agreements) are expected to accelerate and will be a key driver of ROIC improvement

Do you think COVID-19 will accelerate the development of network and infrastructure sharing agreements?

(% of answers 1-5 where: 1- Slow down, 5-accelerate)



 Source: Delta Partners Analysis

Telecom operators need to react to new challenges and opportunities to remain competitive

Outlook	Call to action for operators
Very challenging macro-economic outlook	Telecom operators need to consider accelerating infrastructure carve-outs, adoption of new infrastructure sharing models and exploration of O-RAN alternatives in order to optimize cash, ROIC and shareholder value
	Financial hardship experienced by businesses and consumers will impact bad debt levels - a proactive and analytically-driven approach will be required to minimize write-offs
Clear need to reinvent existing operating and customer service models	Digitization and automation of critical processes will need to be accelerated to reduce operators' dependency on human intervention
	Role of and dependency on retail channels will need to be minimized (i.e., reduced footprint, rationalized workforce and higher levels of digitalization)
	Existing customer journeys and related CX should be reassessed and adapted to the 'new normal' (e.g., automation, personalization, alignment of service levels to customer values etc.)

Telecom operators need to react to new challenges and opportunities to remain competitive

Outlook	Call to action for telecom operators
Embrace workforce efficiencies and maintain WFH model	Talent driving increased productivity should be identified and retained, while opportunities to right-size the workforce will need to be selectively identified (ensuring sustainability and acceptable WLB)
	Adapting to the 'new way of working,' while maintaining the essence of company culture, will require telecom operators to embark on cultural transformation programs
Increasing demand of new P&S	There is a renewed opportunity for telecom operators to push adjacencies and leverage unique customer relationships to increase share of wallet (e.g., collaboration tools, SaaS, cybersecurity, E-health, E-learning, content plays – in particular a unique opportunity to partner with sports organizations and develop new fan home experiences...)

DELTA PARTNERS

TMT Advisory and Investment

www.deltapartnersgroup.com