

O2, Virgin Media to merge into £38-bn UK telco giant

May 7 2020, by Emmanuelle Michel



Rivals no more

Telefonica and Liberty Global on Thursday said they would merge their UK units O2 and Virgin Media to create a £38-billion telecoms giant that could shake up the British market.

The mega-deal is the biggest tie-up to be unveiled since the coronavirus pandemic hit home in March, sending most of the planet into lockdown and dealing a major blow to the global economy.

Until now, O2, which is owned by Spain's Telefonica, and Virgin Media, which is owned by US cable giant Liberty Global, have been rivals.

The merger values O2 at £12.7 billion and Virgin Media at £18.7 billion, and is expected to deliver synergies worth £6.2 billion, pushing the total value of the operation close to £38 billion (43 billion euros, \$46.6 billion).

The deal will pile pressure on BT, the highly-indebted British operator that owns the EE mobile network.

Telefonica chief executive Jose Maria Alvarez-Pallete said the merger would create "the leading operator in the United Kingdom" that would be "a game-changer" in the British telecoms sector.

"We are creating a strong competitor with significant scale and financial strength to invest in UK digital infrastructure and give millions of consumers, business and public sector customers more choice and value."

O2 is one of the few operators to have its own wireless network in the UK where it has 34 million mobile customers and access to several million via virtual operators like Tesco Mobile that use the O2 network.

Virgin Media, which was purchased in 2013 by Liberty Global, the Colorado-based cable giant controlled by US tycoon John Malone, counts six million cable subscribers and 3.3 million mobile customers.

Alvarez-Pallete said it was Telefonica's "biggest-ever deal".

He said it had "not yet been decided" who would head the new company with the management to be chose by the time the deal closes in mid-2021.

'Strong competitor for BT'

"The operation makes strategic sense," Bankinter analysts said in a note.

"O2.. only offers mobile services while Liberty offers broadband internet, fixed-line telephony and television. So their tie-up will create an integrated telecoms offering that will be a strong competitor for BT, which has led the sector until now,"

The merger will see the new company taking the number one spot in the British telecoms sector "with a 34 percent market share compared with BT's 32 percent", it said.

The tie-up could also have repercussions for Vodafone, another telecoms heavyweight, which at the start of 2019 inked a 5G network sharing agreement with O2.

For Telefonica, the deal offers an alternative solution for O2 whose planned flotation on the London Stock Exchange was shelved in late 2018 until after Britain's departure from the EU.

"Liberty Global will make a cash payment to Telefonica of £2.5 billion," Telefonica said in a statement to analysts, adding that deal would allow the group to reduce its mountain of financial debt by between £5.5 billion and £5.8 billion.

By the end of March, the heavily-indebted telecoms giant had a debt pile of around 38.2 billion euros.

The merger announcement comes six months after Telefonica announced a restructuring to focus on its key markets in Spain, Britain, Germany and Brazil while spinning off its Latin American operations through a separate unit.

The change in strategy came after a year in which the company posted a 66-percent slide in net profit.

Telefonica also announced its first-quarter results on Thursday, saying net profit fell 56 percent to 406 million euros compared with the same period last year when it benefited from exceptional items.

Revenue dipped by 5 percent, notably due to depreciation of the Brazilian real against the euro.

Looking ahead to the rest of 2020, the company said the virus crisis would only have "a limited impact" on the year and its dividend would not be affected.

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