

# The time for contract renegotiation is upon us and towercos should prepare

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## *We are on the verge of a wave of contract renegotiations between towercos and their MNO customers*

Several contracts regulating the relationship between towercos and their mobile network operator (MNO) customers are expected to expire in the next five years. Analysys Mason’s suggestion to towercos is not to wait for the natural expiration of the contracts but to start preparing for the renegotiations in advance.

The relationship between towercos and MNOs is regulated through master service agreements (MSAs) or master lease agreements (MLAs) that typically have a duration of ten years, although longer contracts have also been noted.

The first sale-and-leaseback (SLB) deals outside the USA took place in the late 2000s and early 2010s (see Figure 1). Co-location agreements with third-party MNOs may have been signed by the towerco shortly after the acquisition of a portfolio.

**Figure 1: A non-comprehensive selection of the initial SLB deals outside the USA [Source: TowerXchange, 2019]**

Region	Country(-ies)	Buyer	Seller	Year
Europe	Netherlands	Open Tower Company (OTC)	KPN	2008, 2010
	Spain	Cellnex	Telefónica	2012
	France	FPS Towers (now ATC Europe)	Bouygues	2012
Latin America	Brazil	ATC	GVT	2002
	Brazil	ATC	Nextel	2003–2008
	Mexico	ATC	Telefónica	2011
	Colombia	BR Towers (now ATC)	Millcom/Tigo	2011
Sub-Saharan Africa	Ghana	Helios Towers	Millicom/Tigo	2010
	Nigeria	IHS	Visafone	2010
	South Africa	ATC	Cell C	2010
Asia	Indonesia	Protelindo	Hutchinson	2008
	India	ATC	XCEL Telecom	2009
	India	QTIL (Viom Networks)	Tata Teleservices	2009

## *Old contracts are unlikely to be able to fulfil the current needs of both MNOs and towercos*

The mobile industry landscape has radically changed in the last 5–10 years. Relevant industry changes that would impact the terms of the contracts between towercos and MNOs would include:

- new technologies/applications (e.g. multi-band antennas, mMIMO antennas, single-RAN, C-RAN, edge computing, IoT/LPWA networks)<sup>1</sup>
- increasing adoption of active RAN sharing
- evolved regulatory frameworks
- demand for non-traditional structures
- presence of new business models.

As a result of the above-mentioned industry changes, the original contracts between towercos and MNOs may no longer be best suited to future needs.

***The contract renegotiation should focus on achieving a ‘win-win’ situation between the towerco and the MNO customer***

The renegotiation between towercos and MNO customers does not have to be ‘win-lose’: a ‘win-win’ situation is possible. A contentious relationship is likely to result in a reduced volume of business for the towerco – either in terms of new sites, tenancies or amendments – and higher network capex for the MNO customer.

To achieve a win-win dynamic, it may be necessary for the towercos to take a more proactive role rather than waiting for MNOs to knock at their doors asking for changes. The negotiation strategy should not centre around defending the status quo but rather on maximising the value of the contract with the MNO. Towercos can take the opportunity to expand into new areas of business outside co-location and upgrade the traditional ‘steel and grass’ business model. This strategic shift is not risk-free and towercos may need to acquire new skills and adopt differentiated business models (including changed pricing and margins) that are more suited to these new areas. However, updating the positioning is likely to make the relationship between MNOs and towercos more future-proof and generate long-term benefits.

***Towercos will need a clear negotiation strategy ...***

The first step for the towerco is to understand its ambitions and the strategic priorities. These should be consistent with the resources that are available and the interest of the shareholders (especially where the towerco is not a public company). The towerco’s strategy should then be developed in a long-term business plan.

The second step is to understand the MNOs’ network strategy. Analysis of MNO strategy provides towercos with a view of MNO priorities and of the range of outcomes the counterparty may seek during the renegotiation (e.g. network expansion, indoor coverage/in-building solutions, additional capacity, antenna upgrades, and urban densification through macro or small cells). This will help the towerco to position itself as the strategic partner that MNOs are looking for to support their future network roll-out and upgrade.

The third step is to develop a list of commercial and technical scenarios and simulate the financial impact of these scenarios through the business plan. The latter must be deliberately designed to compare different outcomes. These scenarios will allow the business plan to be a decision-making tool, which becomes even more powerful when coupled with a tower model that is able to capture the impact of more technical aspects of the tower business (e.g. structural and wind-load constraints).

The fourth step is to design a negotiation strategy that aims to maximise the enterprise value leveraging on the findings of the scenarios analysis.

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<sup>1</sup> C-RAN = Cloud-RAN or centralised RAN; IoT = Internet of Things; LPWA = low-power wide area

***... and should be flexible in adjusting their positions while always trying to maximise the enterprise value of the company***

The range of possible MNO technology and network roll-out strategies that will be adopted depends, to some extent, on what the towercos are able to offer. We expect that, in practice, the negotiation will be iterative, with both parties required to examine new options or propose new terms. The ability to evaluate the impact of the proposed terms on the towerco's valuation in an equally flexible manner will save time and give the towercos assistance during the negotiations, increasing the likelihood of an efficient process and a satisfactory outcome for both parties.

*Analysys Mason has a strong track record of working for towercos and their shareholders, having completed ~100 tower-industry-related assignments in the last five years. This includes work across the five continents, in both developed and emerging markets. Analysys Mason has a 360-degree view of the towerco industry and in-depth knowledge of the commercial, technological, operational and regulatory aspects of the business. This unique positioning makes Analysys Mason the ideal partner for towercos.*