



BDO'S 2018
Telecommunications Risk Factor Survey
Is Telecoms Companies' Proactive Approach Paying Off?

BDO's 2018 Telecommunications Risk Factor Survey: Is Telecom Companies' Proactive Approach Paying Off?

While some risks seem diminishing, others still loom large. At the same time, dramatic changes in the political, business and economic environment means new risks are appearing on the horizon, as the telecoms industry must adapt to rapidly changing market demands and the accelerating pace of technological innovation. The mix of short-term, unexpected risks and long-term pressures felt by the industry as a whole means that winners in the telecoms sector are those companies which proactively find ways of updating and expanding their value proposition and managing the risks facing the industry.

These are some of the conclusions of the 2018 BDO Telecommunications Risk Factor Survey. The report analyses risks identified by around sixty telecoms companies across the globe, covering key markets in the Americas, EMEA and Asia-Pacific regions.

The fourth edition of the survey also pinpoints and analyses recurring trends and on-going developments in the telecoms space. Many of which continue to present both new challenges and new opportunities.

TOP FIVE RISKS IDENTIFIED

The 2017 edition of our survey highlighted business risks relating to digital transformation, regulatory burdens, growth of cyber warfare, macroeconomic and political volatility as well challenges relating to investment in infrastructure. These risks remain a concern for many telecoms in 2018.

However, the risk landscape is continually changing and evolving. In 2018, the most significant risks facing telecoms can be grouped under the following five headings:

1. Exchange rate/foreign currency changes
2. Increased competition
3. The fast arrival of new technologies
4. Access to finance
5. Interest rate pressures

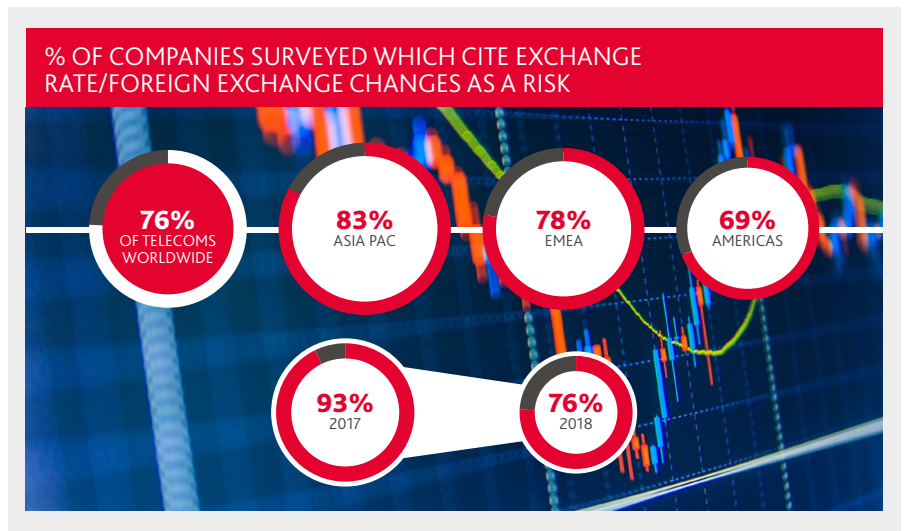
Adjacent is a brief description of each. A detailed analysis of the risks can be found on the [BDO Global website](#).



1: EXCHANGES RATE/ FOREIGN CURRENCY CHANGES

2018 exchange markets continue to suffer from the uncertainty that defined a tumultuous 2017, as well as new developments. Brexit, Trump, North Korea, regulatory agendas, trade pressures and looming trade wars are but a few of the risks that influence exchange rates.

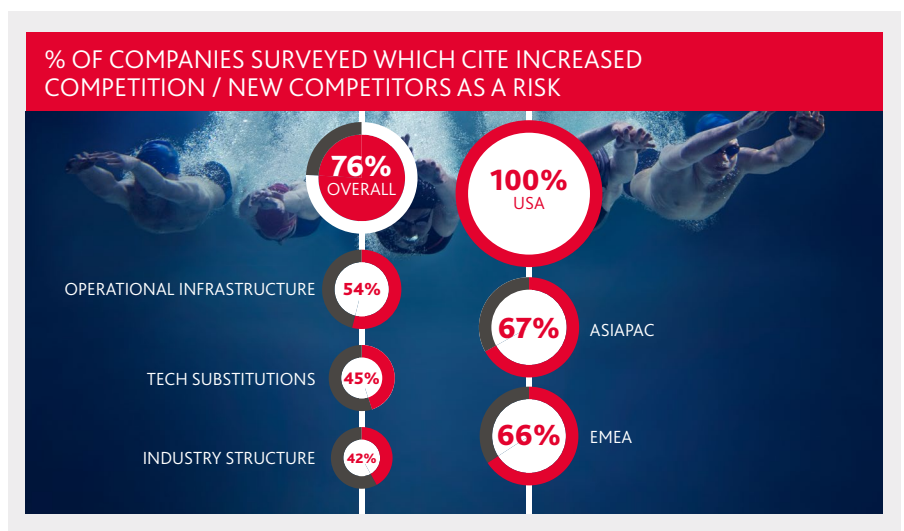
For telecoms, which are generally defined by substantial cash flow, international customer bases and engage in large M&A deals, the potential impact of fluctuations can be especially significant.



2: INCREASED COMPETITION

The telecoms industry is going through a period of continued consolidation with regional and national competition for market dominance. Increased competition is one of the growing risks identified in the 2018 BDO Risk Factor Survey, continuing a trend from both 2016 and 2017.

Competition is not contained to the telecoms industry, as new entrants, often from the technology sphere, continue to challenge existing business operations and solutions putting even more pressure on prices and earning potential.

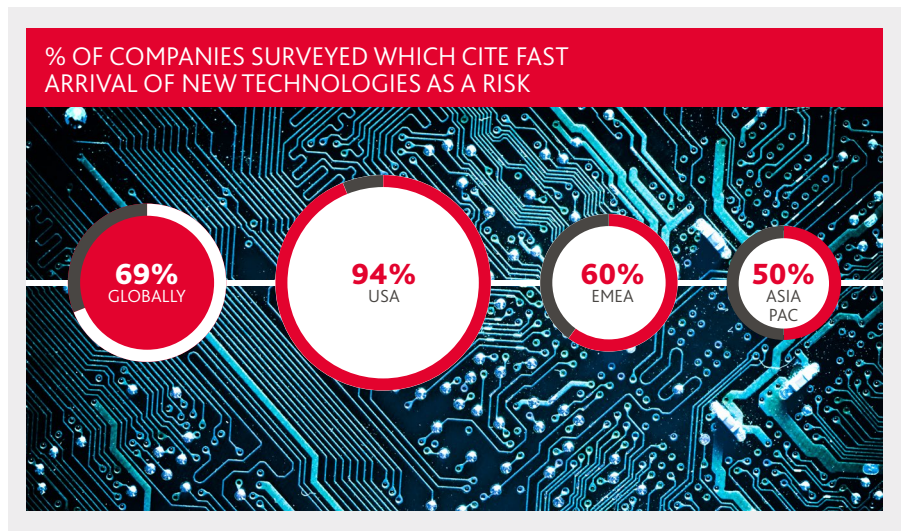


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3: FAST ARRIVAL OF NEW TECHNOLOGIES

Services like Skype, WhatsApp and Viber have all taken substantial chunks out of the telecoms market. Put bluntly most customers would today consider an offer of 'unlimited texts' as a poor joke. Changing customer demands are tied to the arrival of new solutions and technology, making it imperative for telecommunication companies to react to the risk they pose to existing services and revenue streams.

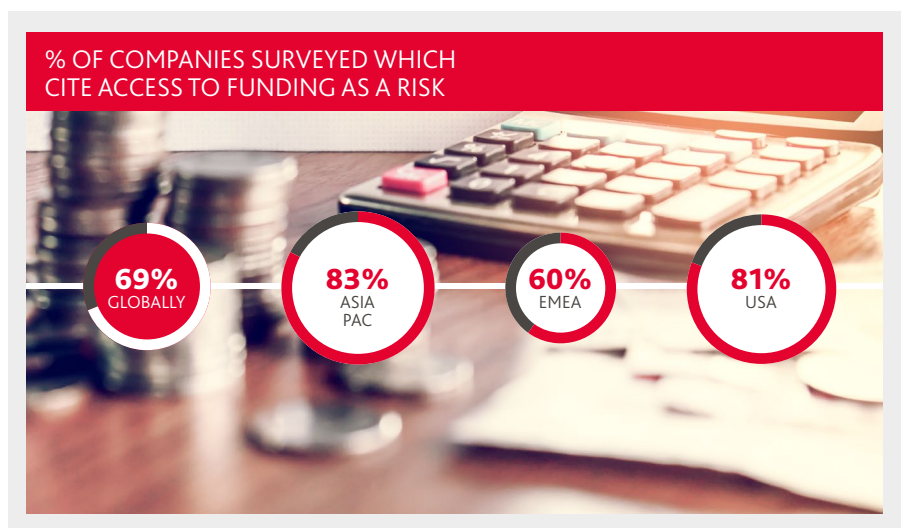
As the tempo of technological innovation shows no sign of slowing, risks arising from new technologies will likely also continue to increase.



4: ACCESS TO FINANCE

Telecoms is a land of megadeals (deals with a value of more than \$1 billion) and large-scale infrastructure projects. The future roll-out of 5G networks being an example of the latter. The desire to expand business operations, improve service delivery and roll out new products all require access to finances.

Credit ratings in the industry are not at the levels they used to be, and profit per customer seems to be falling, meaning that access to funding presents a significant risk.



5: INTEREST RATES

Telecoms is traditionally more vulnerable to changes in interest rates than many other industries. In part due to the long-term nature of investments and large scale of many mergers and acquisitions. Often regarded as blue-chip dividend stocks, both rises and falls in interest rates can lead to financial risks; something that remains true in 2018.



TELCOMS FINDING WAYS OF MITIGATING RISKS?

A clear trend from our 2018 survey is that telecoms are generally reporting lower risks than previously. The general trend applies to especially financial and regulatory risks.

A reason could be that the industry as a whole is taking an increasingly proactive approach to the risks they face and busy diversifying their business portfolios. As traditional industry borders and silos continue to fall, telecoms are entering new markets and targeting especially the technology space. One could perhaps coin the trend as telecoms companies moving towards becoming 'unified-coms companies', targeting all aspects and types of communications.

Inside the industry, quad-play bundling of mobile, landline, internet and tv continues to gather momentum. In both cases, the strategy seems to be bolstering older services, showing declining revenue numbers, with new services and solutions.

Perhaps the accelerating pace of new technologies has been forcing telecoms' hand in the matter, but the result could be that big, traditionally slow-moving, telecoms companies are adapting their organisational and strategic setups to accommodate for and mitigate the effect of such risks.

NEW RISKS ON THE HORIZON

Dropping risks is not the case across the whole spectre, though. Especially when breaking the survey's findings down by region.

For example, operational risks are up in Asia, while dropping in America and EMEA. Asian telecoms also report higher financial risks than other regions. It could be an indication of growing cross-border competition in the region; a move that is always associated with uncertainty and risks.

In Europe, one of the major storylines of 2018 – and likely beyond – is the new EU General Data Protection Regulation, GDPR. It is one of the key factors for European telecoms reporting high risks associated with data outsourcing.

Regulatory risks remain particularly pertinent for telecoms in the Americas. The same goes for risks associated with increased competition and fast arrival of new technologies. The proximity to Silicon Valley could be a significant factor for this, as American telecoms will often be the first 'in harm's way' when technology companies create disruption.

As change remains the order of the day within telecoms, the future is still looking uncertain in many aspects. Perhaps this is one of the reasons why risks associated with assumptions regarding future profitability has seen a 200% increase. Risks associated with gaining market share is up by 100% while risks from saturation/decline of the telecoms market is up by 80%.

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