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News release

Date	25 April 2012
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Cracking the telecoms Capex code

Telecom operators misallocate US$65 billion annually

New York, 25 April 2012 - The global telecom industry misallocates 20 per cent of its capital expenditures -- about US$65 billion each year -- says a new report from PwC.

The report *'We need to talk about Cap*ex' found that the industry's capex bill is now at US$320 billion per year, but about 20 percent of capital projects provide little return on their investment. In the past 10 years, the average return on capex investment for the industry has been about 6 percent, the report, said, while the cost of the capital itself has been 9 percent.

Gary Taylor, PwC director and author of the report said:

> "Weaknesses in allocations are leading companies to waste about 20 percent of their capital expenditures, totalling about US$65 million per year.
>
> "This isn't consistent across the industry, however. Companies individual performance depends on a small number of decisive differences in how they plan capital spending, organise for accountability, and report results."

The report studied the financial performance of 78 fixed-line, mobile and cable telecoms operators with collective annual capital expenditures of some US$200 billion. PwC also conducted in-depth interviews with 22 telecoms executives to understand what lies behind their capex performance.

The report notes that capex has been rising annually in the industry for decades, along with revenues, profits and operating cash flows. But just as growth is stalling - and turning negative in some major markets - operators face another round of expenditures for mobile broadband and fibre.

Pierre-Alain Sur, Global Communications Industry Leader, PwC, said:

> "This issue has been a long-standing struggle for companies in the communications space. The capital operating model which has emerged over the decades is no longer right for the industry. Many executives admit that the process of allocating and managing capital is flawed and frustrating, often driven as much by technological demands as by business objectives.
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> "But things are starting to change and a small but growing number of operators are now trying to tackle this issue as they look for cash to fund future growth."

Cracking the capex code

PwC's research shows that a small number of high performers in the telecom industry are tackling the capex issue with some success, and allocating capital most efficiently. The report identifies 12 shared attributes of a well-designed capital management programme and is applicable to any type of organisation: fixed, mobile or cable, whether a new entrant to the market or an established major telecoms operator.

Added Taylor:

> "Our research shows that operators who crack the capex code will be rewarded with higher ROI, faster growth and superior enterprise value.
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> "Most operators are doing many of the right things; they are just doing them in the wrong order. It won't be easy, but by making changes in their procedures, companies will invest resources where they're most needed, prepare for the future more effectively and position themselves to win in an intensely competitive marketplace."

ENDS

Notes to Editor:

1. For media copies of the report contact, Mike Ascolese (mike.ascolese@us.pwc.com)

2. PwC firms help organisations and individuals create the value they're looking for. We're a network of firms in 158 countries with close to 169,000 people who are committed to delivering quality in assurance, tax and advisory services. Tell us what matters to you and find out more by visiting us at www.pwc.com

3. The 12 attributes of capital excellence
(Source: PwC)

		Underperformance	Emerging best practice
Plan	Performance metrics	Decision making is dominated by impact on subscriber numbers, revenue, EBITDA & cash	Decision making is dominated by impact on post-capital returns
	Capex levels	Capex levels are set with reference to last year's spend or capex/sales benchmarks	Baseline capex is set with reference to post-capital profitability of services, segments, tariffs & territories
Organise	Budget owners	Capex budgets are justified merely if they are within a department's budget caption	Capex projects are all justified & aggregated under approved programmes
	Responsibility	Engineering & Operations take responsibility for spending within the annual capex budget. Marketing takes responsibility for revenues	Business unit leaders are responsible for post-capital outcomes
	Scope & options	Capex proposals are justified with engineering metrics like utilisation or marketing metrics like 'revenue protection'	Capex proposals are justified on the basis of improving performance metrics from underlying services or territories
Build	Projects	Capex projects are broken down into technical components to avoid scrutiny	Capex projects are grouped into programmes to enable a more well rounded level of scrutiny
	Proposals & variations	Capex proposals come with a single recommendation, leaving key assumptions unstated	Proposals come with a clear explanation of the options & evidence to support underlying assumptions
Operate	Procurement & supply chain	Procurement decisions are made on the basis of the lowest unit cost	Procurement decisions are based on maximising the intended business outcomes (e.g., run for cash, interim measure, gold-plated solution)
	Fixed asset register (FAR)	FAR operates as a depreciation engine	FAR captures information on how fixed assets relate to services & territories to populate post-capital reporting
Respond	Post-investment appraisal	The success of a project is defined solely in terms of whether it's completed on time & within budget	The business has a formalised post-investment appraisal process to share best practice
	Reporting	Key management reports focus on 'pre-capex' performance indicators like subscriber numbers, revenue & EBITDA	Key management reports focus primarily on 'post-capex' performance indicators like residual value, ROI & economic value added (EVA)
	Rewards	Business unit leaders, engineers & finance staff are rewarded on the basis of measures like EBITDA, cash & network performance	Senior managers are all rewarded on value-based objectives like increase in residual value, ROI & EVA