

NTL RAISES ITS BID FOR VIRGIN

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Speaker key

IV Interviewer
AS Aizaz Shaikh
PL Paul Lee

IV Welcome back to our Power Lunch where British cable TV provider NTL is hoping to take on BSkyB by creating a quadruple play media business by buying Richard Branson's Virgin Mobile. If the deal goes ahead, the new business will take the Virgin brand into creating a media giant with some ten million punters offering TV, fixed-line phone, internet and mobile services. Here to discuss the deal further is Aizaz Shaikh - he's Head of High Yield Research at BNP Paribas - and Paul Lee, Director Deloitte Research, Deloitte's. Well, Aizaz, let's kick it off with you simply because you're very close to the deal, you know the ins and outs. Will that be something groundbreaking, do you think, or is that just some of the deals that are, you know, necessary to happen in an industry which just kicks off maybe M&A activity?

AS Sure. I would say I'm close to the deal in the sense that I know what's been announced publicly, and it seems that it is in a way a groundbreaking deal in the sense that they are combining an MBNA with a cable operator, which hasn't been done yet in Europe, and in that sense it is quite an ambitious effort. It has a lot of risk associated with it as well.

IV Like what?

AS Well, the MBNA business is not really one that's been proven in the long term in the UK. They typically have survived through the short term, but in the long term the network operators typically gained control of the subscribers.

IV Okay, so that's something totally new to the UK, it's never been here as such, but that's a big opportunity if you think that a lot of the people in the market actually think this is the way to go forward.

AS Well, I mean I think it's an opportunity for NTL and the cable operators to provide a new service; whether there's going to be a real demand for all this level of service on one platform is... remains to be seen.

IV Okay, quadruple play, Paul – let me take you up on this one. Is there going to be demand? Do you agree that there might be an issue with that?

PL Well, the benefit for the consumer is having one supplier, so the theory is that if something goes wrong with any telecommunications service then you have one point of contact. That provides lots of benefits. But the real benefit is probably for

the supplier. One of the biggest costs for any telecoms company whether it's internet, mobile or fixed telephony, is acquisition cost, and it's worth remembering that in the UK alone there's billions of pounds spent by the mobile operators alone acquiring customers, or even changing customers with each other, so the quadruple play has the opportunity to gain traditional customers, the traditional revenue streams, at relatively low cost. So there're benefits on both ends and if it can be made to work, it'll be very powerful.

IV Okay. Now, obviously it will not stop at quadruple play. It might be that there might be even more services offered to your customers. Will that again make it more cost efficient in order to gain new customers if you, you know, offer more and more?

PL The theory is that it could become more and more efficient if you add in more and more services. Now, the reality is that that hasn't always worked, and it's worth looking back five years, six years, especially as we seem to be on the verge of another round of exuberance from the sector. Five or six years ago, there was also lots of talk around convergence in the sector. Now, what happened was more like divergence, so you had things like Vodafone which focused on mobile, and that seemed to set a trend. Now we're going back to a period of convergence of multiple players and the challenge will always be if you can do it well, and there are some companies which have done it well, other companies which haven't done it as well, and it's good execution, as always, as in any other sector, which will win out.

IV So, Aizaz, do you think NTL is actually up to that, to provide that service and really have a continued red line for the customer?

AS Well, I mean, I think there will be, certainly, apart from those that will be interesting to some subscribers, I think the real value for NTL is the brand that they're acquiring and the ability to re-brand themselves as Virgin. They've had a lot of problems, certainly, in terms of operations and service provision and this lets them, in some sense, erase some of that history.

IV Paul, you just mentioned an intense pick-up of M&A activity, telecoms, in the telecommunications sector. What sort of areas are we looking at?

PL I think there'll be M&A activity which will be quite active throughout the year, and it'll be for various different reasons. I think one of them will be quite defensive; so, if you look at the fixed operators, a lot of them are losing core revenues from price cuts. Price competition remains very, very fierce in all the sectors so there's the need, for example, for fixed operators to look at media, to look at IT services as a means of picking up additional revenue. Also there'll be diversification into other regions, and there'll also be, to an extent, perhaps some boardroom boredom kicking in, so for the last few years there's been lots of focus on cost-cutting and probably some boardmen want to be doing some acquisitive activity, looking to leave a legacy, building an empire rather than just improving the bottom line alone.

IV Aizaz, could you argue that, you know, with a quadruple play kind of offer for your customers, the price could be a bit steeper and a price war in the right kind of

business model would actually not be necessarily an issue for an individual company if they have got the product right?

AS Well, I mean I think if you are offering multiple services you clearly have more flexibility in pricing. I think what we've seen though is, as we move along, we have more and more competition at the lower end of the spectrum in terms of the services that are offered, partly because you have things like Freeview and other service providers at the lower end of the spectrum that are offering much more competitively priced products. So in that sense I think there will be some ability to improve their pricing packages and avert what is right now, I think, very clearly in certain segments, a price war. But ultimately you have a situation that is really, in a sense, commoditisation of a product in telecoms and in broadband and in some levels of the TV offering as well, so I think in that sense it is a race in one direction. With the re-branding and with the better service provision potentially that comes of this, really, three-way merger, because Telewest is getting merged as well with NTL, you may have an opportunity...

IV Okay, we'll continue that as it develops. Thanks very much indeed for your time, Aizaz. Aizaz Shaikh joining us here from BNP Paribas, and also a big thank you to Paul Lee joining us from Deloitte Research today. And a big thank you to you too...