

# Altnet Buyer & Seller: **Be Aware**

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Currently, UK altnets still control only a fraction of the retail market - an estimated 4.8% in 2022. With over £17bn committed to altnets by 2025 by investment funds, the pressure is on to increase penetration at pace while building to scale. By December 2022, only 14 of over 100 altnets have reached over 100,000 subs. Consolidation is inevitable and possibly imminent.

But not all UK altnets are created equal. Some networks were built correctly. *Others not.* Some are strong bolt-on candidates. *Others not.* Some have commercial capability and brand strength or partnerships. *Most not.*

As an investor, how will you make these determinations? As an altnet with a high-quality network seeking capital, how will you differentiate yourself to potential investors? In either case, a comprehensive due diligence evaluation across all commercial and technical areas, plus a perspective on post-merger integration, if applicable, is key.

In terms of commercial considerations, potential and current investors as well as service providers need to pay close attention to each of these areas:

- **The shrinking addressable market** – altnets have defined the size of their target market, but this changes weekly. It is 'show time' with peak build happening in the next 12-24 months.
- **The race goes to the swiftest** – rollout plan, pace, capacity, and scale varies by altnets. Having an effective 'build factory' where Ready for Service (RFS) means what it says is key. The race will go to those building cost effective networks that are really ready to commercialise and built to last.
- **Competition comes in many forms** – overbuild risk by other infrastructure providers clearly needs to be understood. Retail competition also has a massive impact on take up and therefore the presence of an open access full fibre network with multiple or even a single national brand is a threat to penetration goals.
- **Don't forget the customer** – take-up rate to date in earlier cohorts must show steady and continued progress. This is not just a build exercise. Offers, positioning, marketing, and sales strategy – and an assessment of go-to-market plan, including capitalised and distribution is key.

- **Pricing and inflation** – altnets need to be prudent and practical in their assumptions. Many are pricing to penetrate now but will have to adjust over time or risk compromising their long-term pricing strategy. OPEX especially energy, labour, and SG&A are under pressure. Altnets who can tightly manage their cash burn and keep fixed costs reasonable will be able to adjust faster if conditions require.
- **Wholesale readiness** – many altnets have plans but few are ready for wholesale (e.g., network architecture, IT systems, dimensioning and capacity, interoperability). This may not be a short-term priority, but it is necessary to have a plan.
- **Sweat the assets** – historical and forecasted CAPEX especially cost per premise passed/RFS, cost per premise connected and backhaul as well capitalised labour costs need to be scrutinized.

Beyond “sweating the assets,” what other network factors need to be evaluated? The current quality and future readiness of the asset are key. An experienced technical professional should take a good hard look at each of these areas:

- Planning, design & architecture
- Construction
- Management & performance
- OSS/BSS
- Networks operations centre
- Technical service

Problems can surface in each of these areas. To see some of the issues we’ve seen first-hand, refer to [Telecom Technical Due Diligence Discoveries](#), TMT Finance.

In addition, a comparative review of how an altnet has performed relative to some other altnets in build pace, CPPP and penetration is helpful to show how they distinguish themselves.

While each of these value drivers will impact the business, they may not always be balanced as priorities. Whether you’re an altnet buyer or seller, you need to understand the value drivers and ensuring that they all are addressed in unison. Buyers and sellers need to be aware.

#### *ABOUT US:*

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