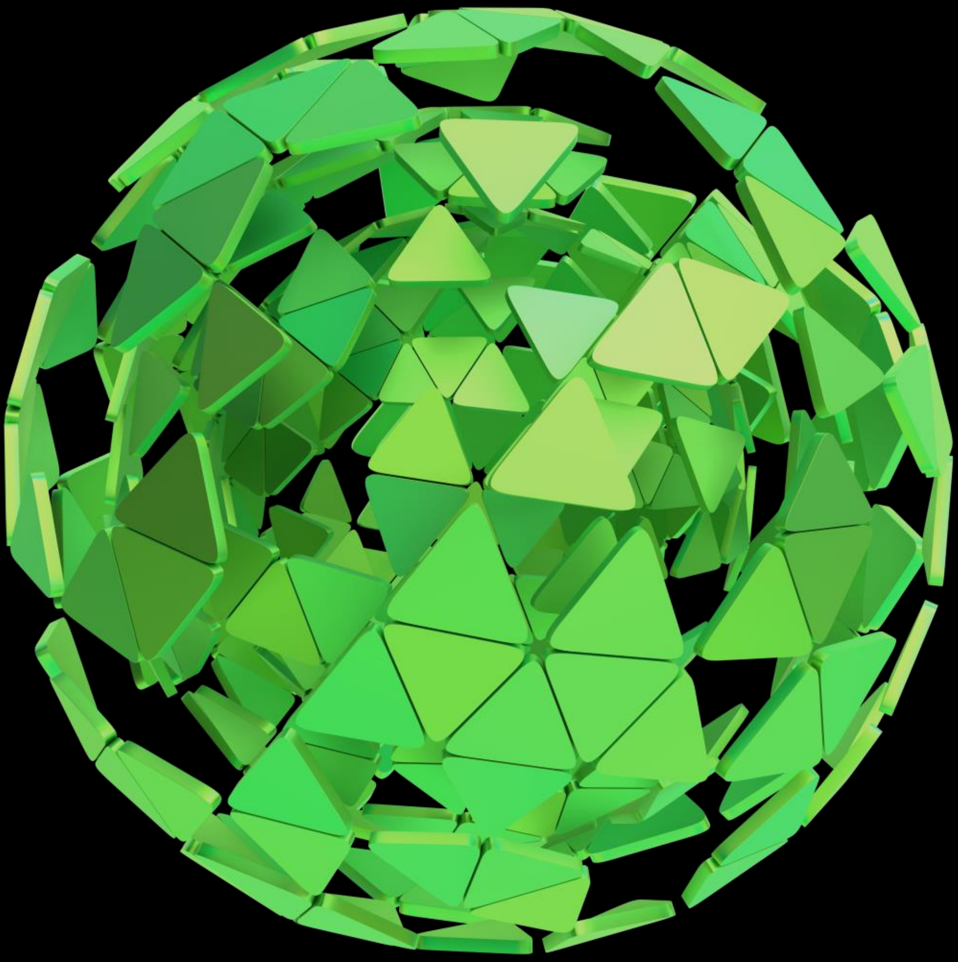


Capital Allocation

Driving Value in the European Telecom Industry

Deloitte Valuation & Modeling

1. Why capital allocation matters today

In today's volatile economy, it is more critical than ever where and how companies invest their money. Capital allocation, the art of raising, investing, and returning capital, is the most consequential decision for senior executives. It's the key to creating long-term value and establishing a competitive edge. Yet, many firms struggle to get it right.

In 2024, **fewer than a third of companies globally created real economic value**, proving that the difference between success and failure often comes down to where leaders choose to invest.

29%
Of companies globally create value[1]

46%
Of profitable companies[2] globally create value[1]

For the European Telecom industry, this imperative is particularly acute. Telecommunication is fundamental to the EU's economy and society. Telecommunications infrastructure enables digital connectivity for 450m+ citizens and businesses; EU's information and communication services sector employs 7.2m people (in 2022). Yet despite this economic importance, the sector faces a perfect storm of structural challenges that threaten its ability to invest in future capabilities.

Over the past decade (2016-September 2025), companies have navigated a fundamental industry transformation: the ongoing shift from traditional voice services to data-heavy IP traffic, the rise of over-the-top ("OTT") providers disrupting legacy business models, and the relentless capital demands of 5G and fiber-to-the-home ("FTTH") deployment. Simultaneously, regulatory fragmentation across Europe, spectrum auction costs and ESG mandates (green capex, renewable energy targets, carbon reduction commitments) adding to compliance costs, have constrained financial flexibility.

The result is a paradox: despite generating substantial operating cash flows (€1.1 trillion over the decade), European Telecom companies have struggled to translate capital deployment into superior returns. Return on invested capital ("ROIC") has remained flat at 6-7% across the industry, while the Weighted Average Cost of Capital ("WACC") equals 8.5%. Our data shows that 55.4% of companies are destroying value. This is not a cyclical challenge; it reflects a fundamental misalignment between capital allocation decisions and the industry's evolving competitive dynamics.

In this context, capital allocation transcends financial management. It becomes the strategic lever through which companies either position themselves to win in a transformed industry or cede ground to more disciplined competitors. The companies that will lead the next decade are those that align every euro of capital deployment with clear strategic imperatives: building network superiority, capturing emerging opportunities in AI and digital services, consolidating fragmented markets, and separating (and sharing) infrastructure assets from (retail) operations to optimize capital efficiency.

This paper examines how European Telecom companies have deployed capital over the past decade, measures their success through rigorous financial analysis, and identifies the strategic patterns that distinguish value creators from value destroyers. The findings are clear: disciplined capital allocation, grounded in strategic clarity and executed with precision, is the difference between thriving and merely surviving in an industry undergoing profound transformation.

Methodology

This paper examines capital allocation trends over the past decade, leveraging proprietary data and industry insights. We examine how European Telecom companies have raised capital and deployed it, and we measure their success (through return on invested capital decomposition and economic profit). By mapping ten years of data, breaking down profit-and-asset efficiency and linking economic profit to market performance, our analysis shows that only those firms that pair clear, disciplined decision frameworks with regular reassessment of their portfolios can break free from flat returns, strengthen their market positions and deliver superior shareholder value.

In the sections that follow, we will:

1. Map the scale of capital allocation decisions by looking at 10-year data.
2. Dissect funding sources (internal vs. external) and deployment priorities (M&A, debt repayment, capex, dividends).
3. Decompose ROIC into its strategic drivers (NOPAT[3] margin and invested capital turnover) highlighting cost-leadership and differentiation models.
4. Link economic profit/value creation to market valuations and total shareholder return outperformance.

[1] Based on Damodaran's 2024 dataset of 47.810 global listed companies. From a theoretical standpoint, financial value is generated when the return on capital invested in a business surpasses the cost of that capital.

[2] Companies with positive operating income in 2024.

[3] Net operating profit after taxes (or EBIT minus taxes).

2. Navigating Capital Allocation Trends in the European Telecom Industry

Understanding Capital Intensity Ratio

The Capital Intensity Ratio ("CIR") measures a company's investment and financing activities against its market value. It represents the amount of capital a company utilises to generate its sales.

What It Tells You

A high CIR may signal an aggressive approach, either to pursue growth through acquisitions and capital expenditures or to undergo major restructuring. A low CIR, in contrast, may suggest a more conservative, disciplined strategy, often due to limited opportunities or a focus on operational efficiency. In essence, the CIR is a single, powerful metric that captures the scale of a company's strategic decisions, grand capital investments and their potential to impact future value and risk.

2.1. Investing and Financing Decisions: Adapting to Cyclical Pressures

Technological changes, regulatory frameworks, and talent availability strongly influence capital allocation in the European Telecom industry. The CIR - the ratio of annual investing and financing cash flows to year-end market capitalization - has ranged between 63-97% over the past decade. This means that every one to one and a half years, the industry's financing and investing activities equals its entire market value, highlighting the significant impact of capital decisions.

This extraordinary capital intensity reflects the fundamental nature of the industry: building and maintaining network infrastructure is capital-intensive, and competitive positioning depends on continuous investment in technology and coverage.

However, the cyclical pattern of CIR reveals deeper strategic shifts:

2016-2021: Network Expansion

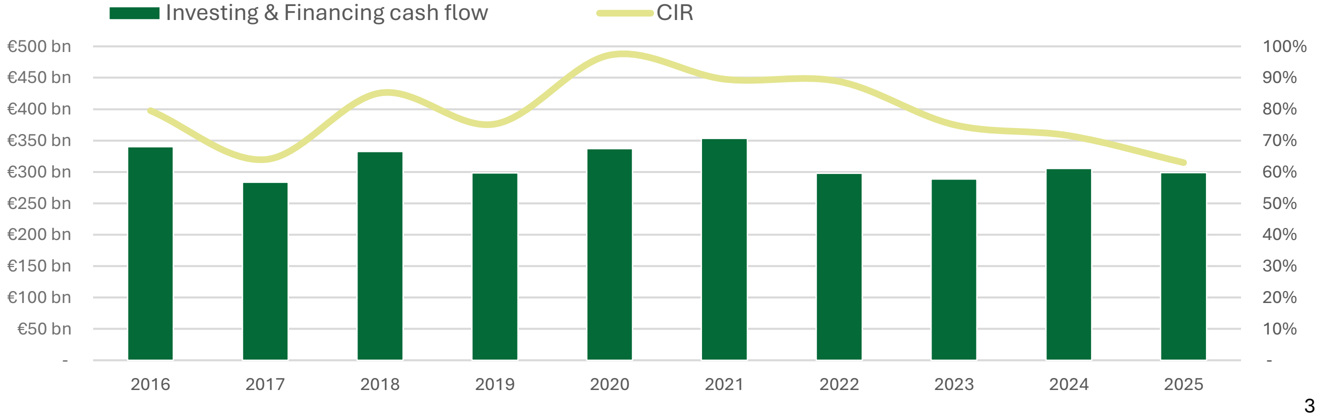
During this period, telecom operators pursued aggressive capital expenditure to build 4G capacity and early 5G infrastructure while simultaneously investing in FTTH deployment. The industry transitioned from rapid network expansion toward strategic convergence, blending telecom infrastructure with media and digital services. This was a period of strategic optionality: operators were simultaneously defending legacy voice/SMS revenues, investing in data services, and exploring digital platforms and content partnerships. Capital allocation reflected this complexity, with operators balancing infrastructure investment against shareholder returns and debt management.

2022: The Inflection Point

In 2022, the industry faced a sharp downturn driven by macroeconomic headwinds: rising inflation, surging energy costs, ECB interest rate hikes, and geopolitical instability from the invasion in Ukraine. More importantly, this period marked a strategic inflection. Operators recognized that 5G and FTTH deployment cycles were maturing, and that further capital expenditure increases would not generate proportional returns. Operators shifted from growth-oriented capital expenditure to efficiency-focused capital allocation: prioritizing debt reduction, optimizing network operations, and divesting non-core assets (towers, fiber stakes, data centers) to specialized investors.

Investing and financing cash flows remain relatively constant over the last decade

Absolute investing & financing cash flow decisions (compared to market cap), over the last decade in €bn



2023-2025: Structural Rebalancing

The period from 2023 onward reflects a fundamental rebalancing of capital allocation priorities. Telecom capital expenditure declined for the first time in five years, signaling that operators have largely completed their 5G and FTTH rollouts and are now focused on capital efficiency rather than capacity expansion. Operators are pursuing the “puretone telco” model: separating infrastructure assets (fiber, towers, data centers) from (retail) operations and/or sharing infrastructure costs with competitors through joint ventures or partnerships, to optimize capital returns and attract specialized investors. This shift reflects a strategic recognition that vertically integrated conglomerates are no longer optimal in a fragmented European market; instead, asset-light, partnership-driven models offer better capital efficiency and flexibility.

2.2. Capital Sourcing: The EU Telecom Playbook

In the European Telecom industry, companies primarily rely on operational cash flow to fund their activities, supplemented by significant gross debt issuance to support their operations. Over the last decade, they collectively produced about €1,085bn in operating cash flow (i.e., 28.9% of sales), a testament to the sector’s ability to convert revenues into cash despite margin pressures.

However, this operational cash generation has been insufficient to fund the industry’s capital ambitions, necessitating external financing. The industry issued €714bn in gross debt (19.0% of sales) over the decade, yet net debt issuance was negative, indicating that companies prioritized debt repayment over net leverage expansion. This indicates a shift toward balance sheet strengthening, particularly post-pandemic, rather than a sustained reliance on leverage for growth funding.

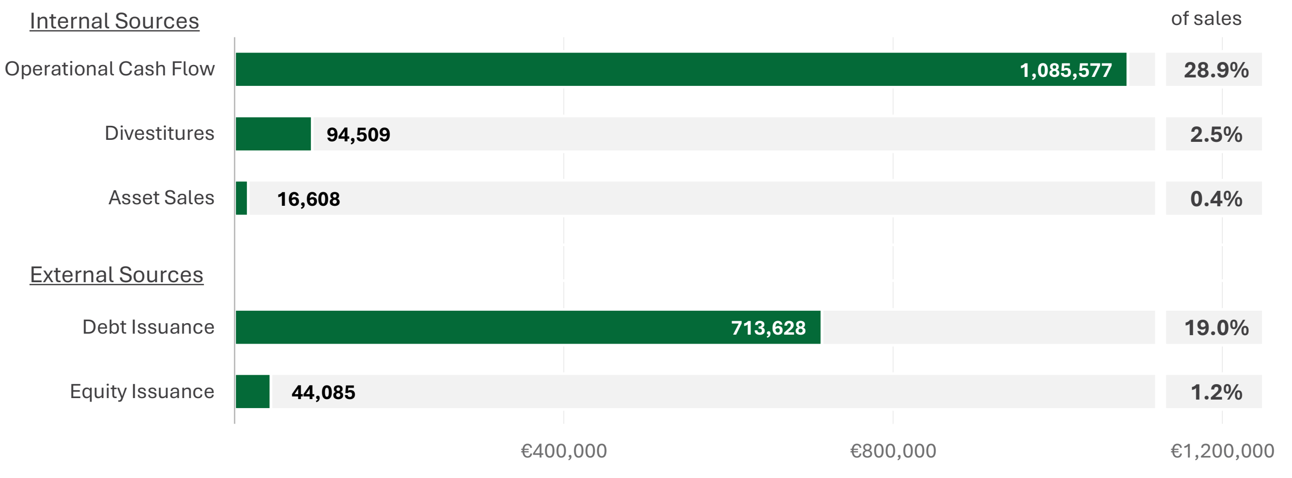
This funding structure reveals a critical strategic challenge: the industry has exhausted its capacity for debt-funded growth. Rising borrowing costs (ECB rate hikes 2022-2023) have increased the cost of capital, making further debt issuance less attractive. Simultaneously, equity markets have penalized the sector, making equity financing prohibitively expensive. The result is a funding constraint that forces operators to prioritize capital allocation more rigorously: every euro must be deployed toward investments that generate returns exceeding WACC.

This constraint has driven the strategic shift towards asset divestments and infrastructure separation. By unlocking capital from infrastructure assets and focusing on higher-return retail and services businesses, operators can improve capital efficiency and reduce leverage. For many operators, this shift from vertically integrated to partnership-driven models is not a strategic preference but a necessity driven by funding constraints and the imperative to improve capital efficiency.

For companies that can access capital markets at favorable rates (large, investment-grade operators like Deutsche Telekom, Orange, Vodafone), debt remains a viable funding source. However, for smaller, lower-rated operators, the funding constraint is more acute, forcing more aggressive asset divestments and partnerships to fund capital expenditure and shareholder returns.

The European Telecom industry is primarily funded by operational cash flow while issuing significant gross debt (although net debt issuance is negative over the last decile)

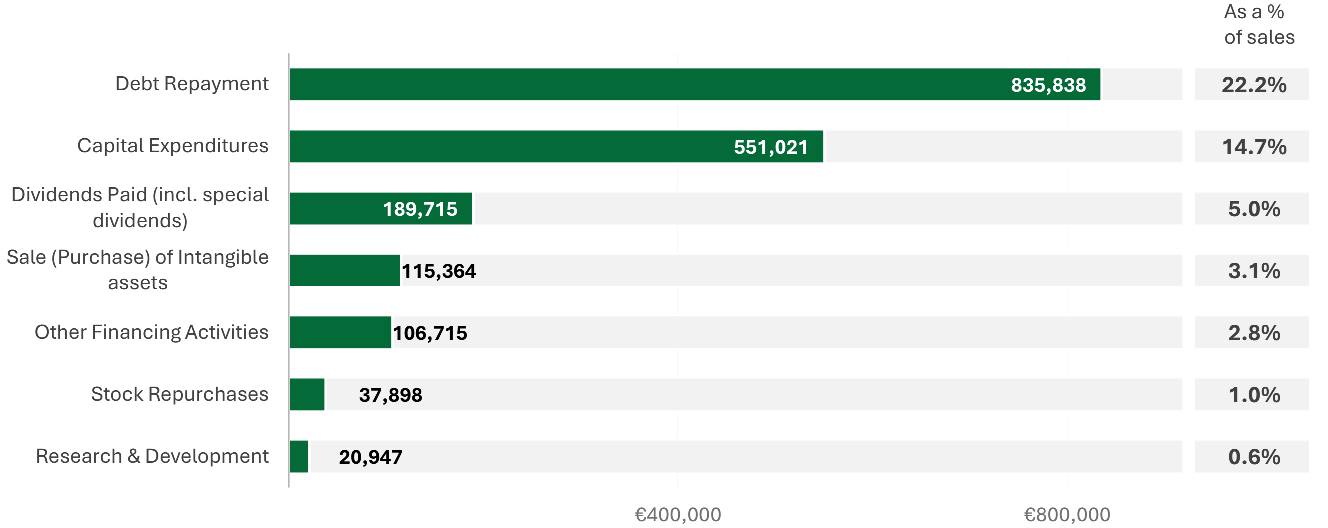
Cash sourcing in the Telecom industry, over the last 10 years in €m



**Note : R&D and change in net working capital is added back in the operational cash flow*

Operational cash flow is channeled to debtholders, growth (Capex, R&D & acquisitions) and shareholders

Cash deployment in the European Telecom industry, over the last 10 years in €m



2.3. Cash Deployment Priorities

Over the last decade, the European Telecom industry prioritized debt repayment (22.2% of sales) and capital expenditures (14.7% of sales).

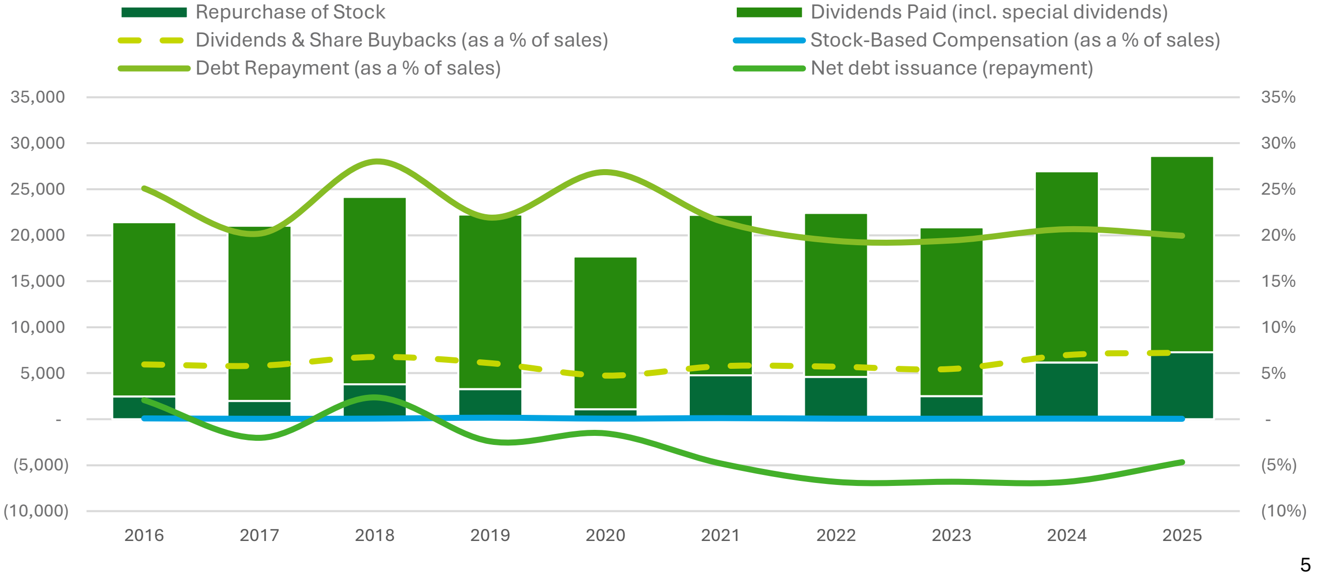
While debt reduction may provide companies the opportunity to manage lower interest costs (unless refinancing increases borrowing expenses), it may limit funds for other growth initiatives through capital expenditures, acquisitions and investments in R&D. This trade-off is a critical consideration in capital allocation, as companies must weigh immediate financial stability against the pursuit of long-term competitiveness and value creation.

Dividends, purchases of intangible assets, stock repurchases, investments in R&D and other financing activities each accounted for smaller shares. This hierarchy underlines a dual-focus strategy prioritizing both financial stability (through debt reduction) and long-term competitiveness (thought capital expenditures).

However, the R&D investment gap is likely understated. Operators have historically outsourced large parts of innovation to vendors and hyperscalers, the reported figure reflects therefore only a portion of the effort. The strategic implication is not simply to increase R&D, but to build strategic partnerships and complementing them with selective in-house capabilities.

Capital returns to shareholders have remained stable, while net debt issuance has declined over the past five years.

Cash flow uses to share and debt holders and employees, over the last decade in €m (left axis) and % of sales (right axis)



2.4. Shareholder Returns vs. Debt Repayment

European Telecom firms have consistently increased shareholder distributions while strategically managing debt repayments.

Shareholder payouts (dividends and buybacks) ranged from c. €21-29bn between 2016 and September 2025 (except for a dip to €18bn in 2020), representing 5-7% of sales. Stock-based compensation remained stable at a modest 0.0-0.1% of sales.

Debt repayments followed a cyclical trend, rising from c.19% to c.28% of sales over the last decade. Net debt issuance, which was near 0% of sales until 2020, shifted to net repayment (c.5-7% of sales) from 2021. This change indicates companies utilised pandemic-era refinancing opportunities to reinforce their balance sheets and reduce leverage.

These patterns highlight a dual capital allocation strategy in the European Telecom sector: stable shareholder distributions complemented by flexible debt repayment strategies that adapt to financing conditions, macroeconomic trends, and investment requirements.

2.5. Flat Returns on Capital

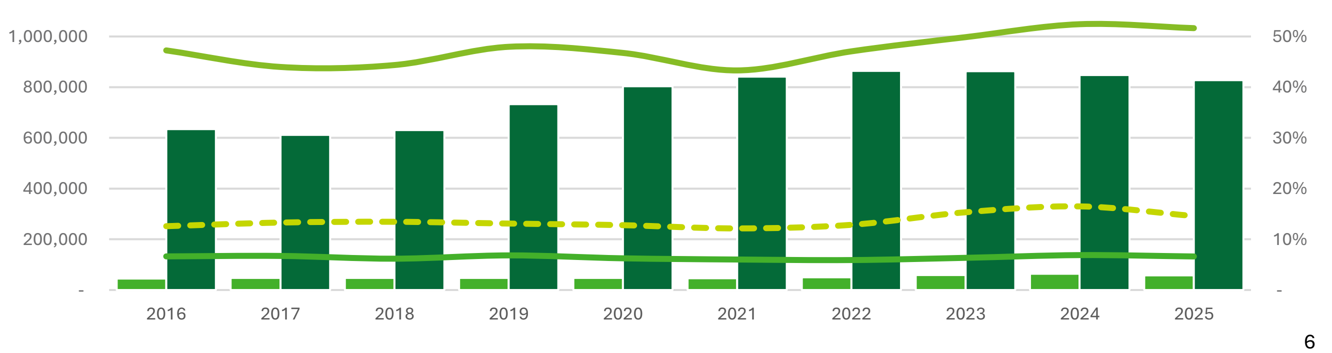
Over the past decade, the European Telecom industry has faced a paradox: despite generating substantial operating cash flows and maintaining stable Earnings Before Interest and Taxes (“EBIT”) margins (12-17%), ROIC has stagnated at 6-7%. This stagnation, while the industry’s invested capital base has grown steadily, reveals a fundamental strategic challenge: capital deployment has not generated proportional returns.

Several factors explain the ROIC stagnation:

1. **Capital expenditure deployed to mature businesses**: The industry invested heavily in 5G and FTTH infrastructure, which are necessary for competitive positioning but generate modest returns in mature, saturated markets. European operators face intense price competition and limited pricing power, constraining the returns on network investments.
2. **OTT disruption eroding returns**: The rise of OTT providers has disrupted traditional telecom business models. Operators have been forced to invest in network capacity to support OTT traffic, but they do not benefit from the value created by OTT platforms. This dynamic has compressed returns on network capital expenditure.
3. **Regulatory fragmentation limiting scale**: Europe’s fragmented market prevents operators from achieving the scale necessary to generate superior returns. Capital expenditure is spread across operators, each with limited scale, resulting in higher per-unit costs and lower returns.
4. **Underinvestment in high-return opportunities**: While capital expenditure has been allocated to infrastructure, R&D investment has been minimal. This has limited the industry’s ability to develop high-return businesses in AI, cloud services, cybersecurity, and enterprise solutions-areas where hyperscalers and pure-play tech companies are generating higher returns.
5. **Capital allocation discipline gap:** Despite issuing significant gross debt over the decade, the industry repaid more debt than it issued on a net basis. This defensive posture (prioritizing debt repayment over growth investments) occurred while median ROIC remained below WACC. This suggests that a large part of the industry is destroying value by deploying capital at returns below its cost of capital, while simultaneously constraining investment in high-return opportunities.

In the mature Telecom industry with stable margins, capital must be invested efficiently to create value

EBIT (margins) and (return on) invested capital of the European Telecom industry over the last 10 years in €m (left axis) or % (right axis)



3. Strategic Capital Allocation for Competitive Edge

Understanding Return on Invested Capital

ROIC is the ultimate measure of a company's efficiency, showing how effectively each euro invested translates into after-tax profit.

- A high ROIC signals operational excellence and strategic discipline, particularly in capital-intensive sectors like Telecom, where heavy investment in network infrastructure, technology upgrades, and data centers is necessary.
- A low ROIC, conversely, points to inefficiency and a need for a more rigorous capital allocation framework. For an acquisition to create value, its projected ROIC must exceed the firm's WACC. This disciplined approach helps companies avoid value-destroying investments.

Creating long-term value requires more than just a return above the cost of capital; it demands a sustainable competitive advantage. In the Telecom sector, this means delivering value in a way that is difficult for rivals to replicate. Advantages as extensive network infrastructure, exclusive content rights, or strong brand recognition, are not built by accident. They are the direct result of strategic capital allocation decisions.

Some firms invest to build a differentiation advantage, allocating capital to brand-building and R&D. Others target cost leadership, directing resources toward large-scale infrastructure and operational efficiency. The connection between these strategies and long-term performance becomes clear when we analyze ROIC and its two core components.

$$ROIC = \frac{Net\ Operating\ Profit\ After\ Taxes\ (\text{"NOPAT"})}{Invested\ Capital\ (i.e., Equity + Debt)}$$

$$= \frac{\text{NOPAT}}{Sales}\ x\ \frac{\text{Sales}}{Invested\ Capital}$$

To achieve a higher ROIC, a company can pull two key levers: NOPAT margin and invested capital turnover.

- NOPAT margin shows a company's ability to turn sales into profit, reflecting its operational efficiency and pricing power.
- Invested capital turnover measures how efficiently a company uses its capital to generate sales. For example, an asset-light business model like SaaS can achieve high turnover by generating significant revenue from minimal physical assets.

These two components explain the "why" behind a company's performance. A firm with high margins and low turnover is likely a differentiator, relying on its brand, product quality and innovation. Conversely, a firm with lower margins but high turnover is typically a cost leader, leveraging scale and efficiency to deliver strong returns.

Understanding this decomposition is crucial for senior management and investors. It allows them to analyze whether returns are being driven by a sustainable competitive advantage and to ensure that capital allocation decisions, from R&D to M&A, directly support and reinforce the company's strategic position.

3.1. ROIC Drivers: Margin Expansion and Asset Efficiency

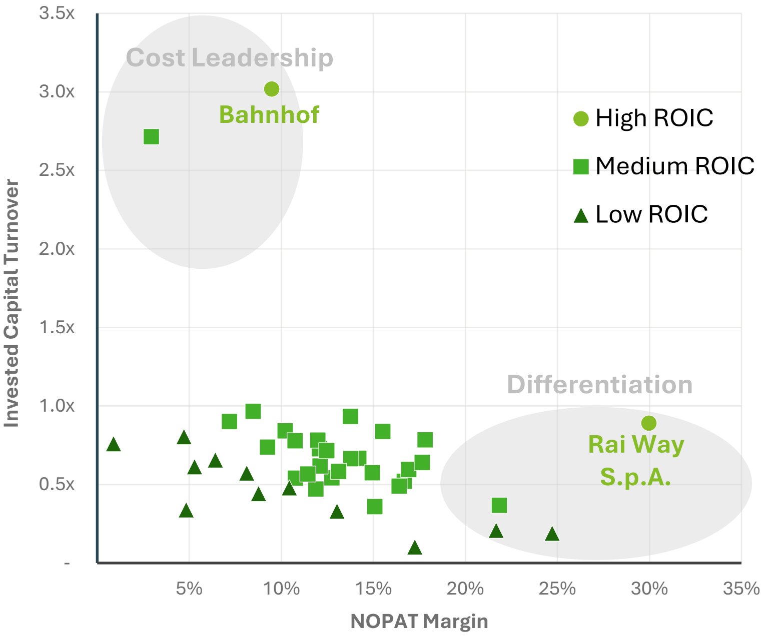
Cost Leadership: Driving Efficiency Through High Capital Turnover

Cost leaders build their advantage on operational scale and efficiency. They operate on thinner margins but achieve a strong ROIC by generating high sales volumes from a modest capital base.

A relevant example is Bahnhof. While Bahnhof is known for its high-performance regional connectivity and broadband services in the Swedish Telecom sector, the company's competitive advantage is built on owning and operating its modern core infrastructure, including a nationwide fiber network and secure data centers. Bahnhof differentiates itself through high-density urban focus and the efficient monetization of these assets. By leveraging a scalable, subscription-based model, the company offers multiple services including broadband, secure connectivity and data center solutions, over a high utilization network. This maximizes the revenue generated per asset and allows Bahnhof to serve a growing customer base and achieve high sales volumes. Bahnhof demonstrates that superior ROIC (29.4%) in the capital-intensive Telecom sector can be achieved through cost leadership.

Companies in the European Telecom industry pursue both cost leadership and differentiation strategies

Drivers of ROIC of European Telecom companies, cumulative over the last 10 years



ROIC segmentation

- Low ROIC (0-5%) firms are mostly "stuck in the middle," struggling with both low margins and inefficient capital use. Their primary goal should be to build a clear competitive advantage by focusing on either differentiation or cost leadership and aligning capital allocation accordingly.
- Medium ROIC (5-15%) firms have potential for improvement. They should use ROIC decomposition as a diagnostic tool to identify and enhance their stronger component, either margin or turnover, and prioritize investments that boost it.
- High ROIC (>15%) firms demonstrate strategic excellence. Their success comes from a clear strategy paired with disciplined execution, where capital allocation consistently reinforces their competitive advantage.

Differentiation: Earning a Price Premium Through High Margins

Differentiators create value by offering products that stand out due to their brand, user experience, or innovation. They achieve materially higher margins by commanding price premiums, even if their capital turnover is lower due to a more specialized business model.

For example, Rai Way S.p.A is a leading Italian operator providing infrastructure and integrated digital solutions, playing a central role in Italy's communications ecosystem and supporting the country's technological progress. The company offers a diversified service portfolio, from broadcasting Rai and local channels, managing telecom and public sector equipment, to distributing multimedia content and advanced data solutions. This integrated and technological advanced approach allows Rai Way to differentiate its services and command price premiums, rather than competing on volume alone. Exclusive access to broadcasting infrastructure ensures stable, predictable revenues and strengthen its brand reputation.

3.2. Industry-wide Positioning: Cost leaders vs. Differentiators

Two clear clusters emerge when plotting European Telecom companies by their ROIC drivers.

- Cost Leaders operate with slim margins but relatively high capital turnover. They succeed by using a modest capital base to generate high sales volumes.
- Differentiators achieve strong margins on more modest turnover. They command price premiums through unique network infrastructure, content rights, and/or a powerful brand.

The Strategic Imperative: Choose a Path

The data reveals a critical insight: many firms fall in the middle (neither cost leaders nor differentiators) and achieve mediocre ROIC (5-15%). These "stuck in the middle" companies struggle to build a clear competitive advantage and to consistently generate returns above WACC. In the European Telecom sector, regulation and market dynamics can structurally push operators toward hybrid models. However, recognising the finite nature of capital, companies frequently benefit from a clear strategic priority to optimise capital allocation amidst these structural limitations. This is because achieving superior ROIC is often challenging without a distinct strategic focus on either cost leadership or differentiation.

This has profound implications for capital allocation. Companies must choose a strategic path and align every capital allocation decision to reinforce that path:

- Cost leaders must invest in automation, process efficiency and scalable technology platforms to drive capital turnover and maintain competitive advantage.
- Differentiators must invest in content, R&D, and brand-building to maintain pricing power and margin advantage.

Within the European telecom sector, the vast majority of operators remain "stuck in the middle" without a clear strategic choice. However, among those operators that have made a deliberate strategic choice, the data shows a preference for differentiation over cost leadership.

European telecom operators have invested heavily in advanced infrastructure (5G, FTTH) and technology to offer unique, high-quality services. This strategy requires significant capital investment, resulting in lower capital turnover but enabling higher profit margins through pricing power and customer loyalty.

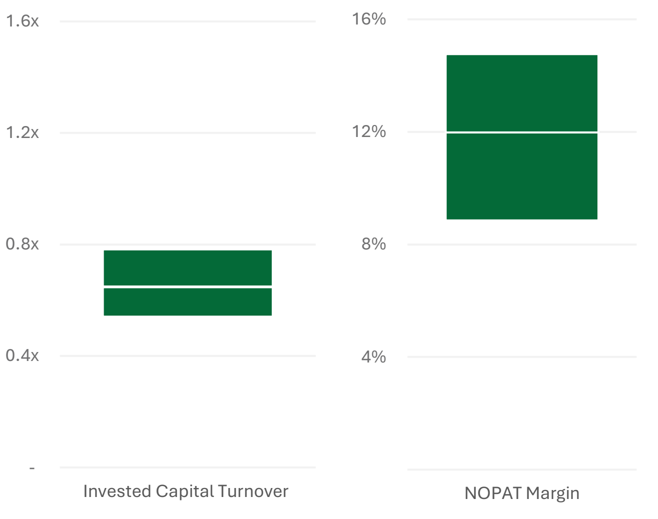
However, this strategy creates a challenge: the returns on network capital expenditure are constrained by regulatory fragmentation, price competition and OTT disruption. Operators like Deutsche Telekom (6.9% ROIC), Orange (5.9% ROIC), and Telefónica (5.0% ROIC) are generating returns below WACC, indicating that their differentiation strategy is no longer generating adequate returns on invested capital.

The strategic imperative for telecom operators is to enhance their differentiation advantage by: (1) Investing in AI-native networks and edge computing to offer superior services, (2) Developing high-margin enterprise services (cloud, cybersecurity, IoT) to complement connectivity, (3) Pursuing consolidation to achieve scale and cost synergies, improving returns on the capital base, and (4) Separating infrastructure assets (fiber, towers) from (retail) operations to optimize capital efficiency, (5) forming joint ventures and strategic partnerships to accelerate innovation, share risk, costs and investments.

3.3. ROIC Leaders in the European Telecom industry

Examining the top-performing European Telecom firms reveals there's no single formula for success.

Invested capital turnover (left) & NOPAT margin (right) dispersion for the Telecom industry (1st quartile - median - 3rd quartile)



Companies with the highest ROIC come in all sizes and business models .Telenor and Swisscom are among the large-cap companies with the highest ROIC but underperform compared to mid- and small-cap peers due to the capital-intensive business models in mature, regulated markets. In contrast, smaller firms with higher ROIC operate as specialized network operators or niche service providers, leveraging scalable infrastructure and operational efficiency with controlled capital bases to achieve superior returns. Large companies face unique challenges in sustaining a high ROIC due to their scale and complexity. This is why many are actively restructuring, selling off business units and carving out operations to focus on core competencies and remain attractive to investors.

Top long-term return on capital performers per market cap category[1]

	Large caps		Mid caps		Small caps[2]	
Rank	**Company**	**ROIC**	**Company**	**ROIC**	**Company**	**ROIC**
1	Telenor	10.1%	Elisa	14.0%	Bahnhof	28.6%
2	BT Group	9.5%	Hellenic Telecommunications Organ	12.9%	Rai Way S.p.A.	26.7%
3	Koninklijke KPN	8.7%	Digi Communications	9.4%	Telia Lietuva,	13.0%
4	Swisscom	8.6%	Magyar Telekom Távközlési Nyilván	9.2%	Cyber_Folks	11.3%
5	Deutsche Telekom	6.9%	1&1	8.9%	GO	8.4%
6	Orange	5.8%	Telekom Austria	8.8%	ecotel communication	8.0%
7	Telia Company	5.6%	Proximus	8.6%	Síminn hf.	6.5%
8	Telefónica,	4.7%	freenet	8.2%	Orange Belgium	6.5%
9	Telecom Italia S.p.A.	4.3%	Tele2	8.0%	Sýn hf.	3.8%
10	Cellnex Telecom	1.8%	Hrvatski Telekom d.d.	7.6%		

[1] For companies with at least 10 years of positive EBIT, based on 10-year cumulative NOPAT and invested capital.
[2] For small caps above € 20 million in market cap as at Dec '24.

4. Value Creation: Maximizing Shareholder Returns

Value creation, the ultimate goal of capital allocation, occurs when companies generate returns exceeding their cost of capital, driving economic profit and shareholder returns through strategic capital allocation. Below, we explore how economic profit translates into market valuations and shareholder returns, demonstrating that disciplined allocators outperform over the long term.

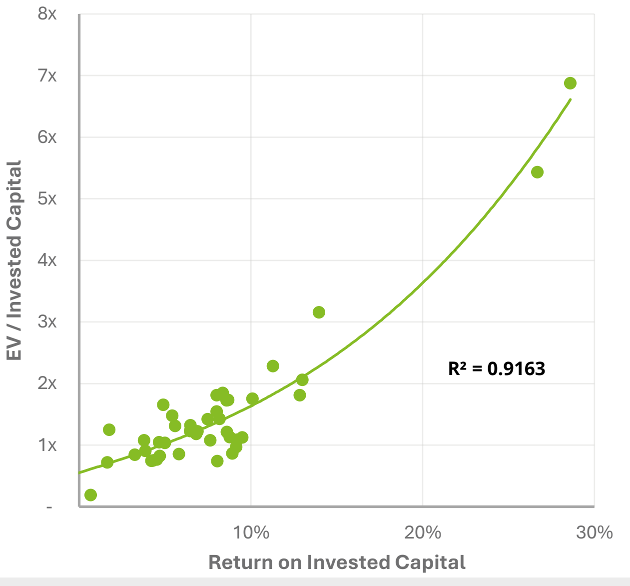
4.1. Valuation Dynamics: How Markets Price Economic Profit

Financial markets value companies based on their future cash flows and the quality of those cash flows. Our analysis shows a **positive correlation of $R^2 \approx 0.92$ between ROIC and market valuation** (EV/Invested Capital), meaning companies that efficiently use capital are rewarded with higher valuations. This principle holds across the complete Telecom industry.

High ROIC strongly boosts valuations ($R^2 \approx 0.92$)

Returns and valuations: correlation between efficiencies in capital deployment and enterprise values

Enterprise values and NOPAT compared to invested capital for European Telecom companies, cumulative over the last 10 years

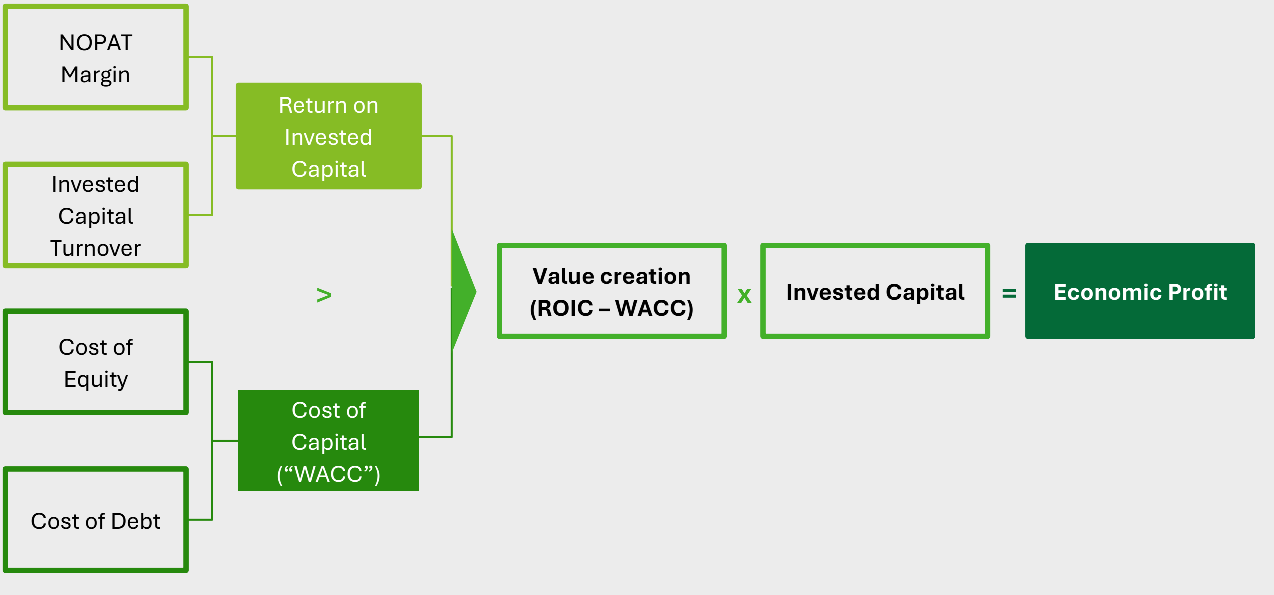


Economic Profit as a Measure of Value Creation

The significance of ROIC lies in its relationship with the WACC.

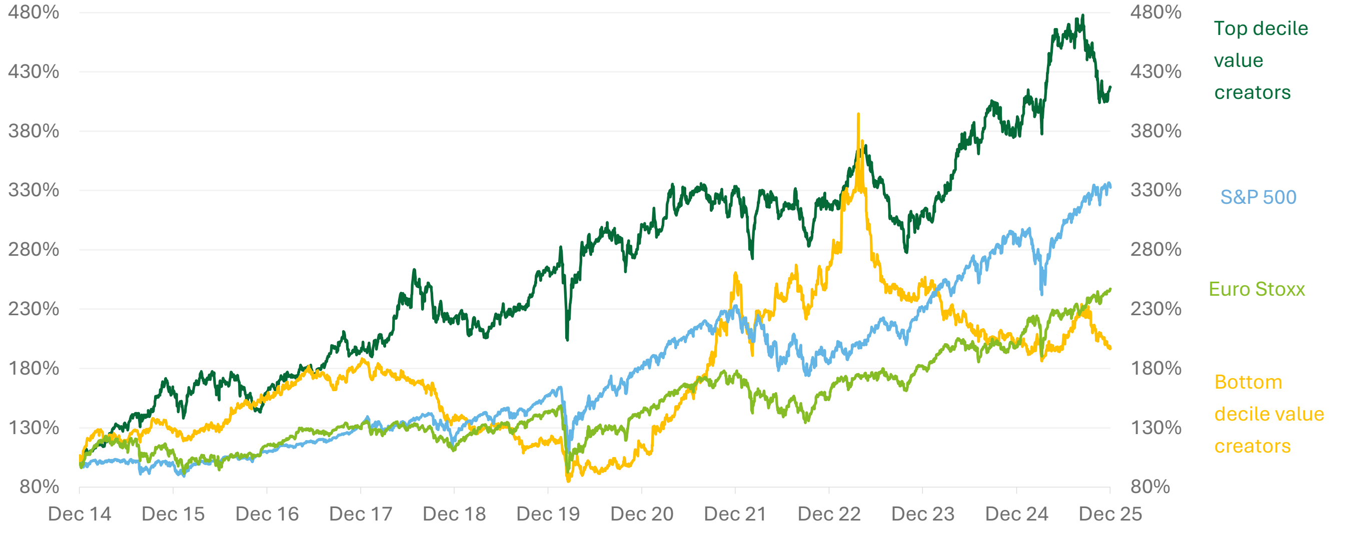
When ROIC exceeds WACC, a company creates economic profit or an “excess return”. This positive spread shows that every euro invested is generating more value than its cost to raise. It proves that a company is not just profitable on paper but is actively creating wealth for its shareholders.

Growth only builds value when invested returns are higher than the cost of capital. A firm that consistently reinvests at returns above its WACC will see its value rise, while one that invests below its WACC will erode value. Therefore, by focusing on economic profit, management can ensure capital allocation drives sustainable growth and shareholder value, as simply adding capital without an adequate return ultimately dilutes it.



Top capital allocators consistently outperform the market over the long term

Daily total shareholder returns for top and bottom European Telecom companies (equally weighted) vs. European and American markets, in %



4.2. Market Winners: How the Market Rewards Value Creators

The top decile of long-term value creators in the industry significantly outperformed major market indices. Over the last decade, these companies delivered a remarkable 13.9% annualized Total Shareholder Return ("TSR"), exceeding the S&P 500's 11.5% and far surpassing the bottom performers.

Conversely, a portfolio composed of value destroying companies delivered a modest annualized TSR of 6.3% over 10 years, underperforming the S&P 500 and the EURO STOXX. The temporary spike in late 2022 and early 2023 is explained by the exceptional TSR surge of ecotel communication AG, driven by one-off gains and an unusually large dividend payout.

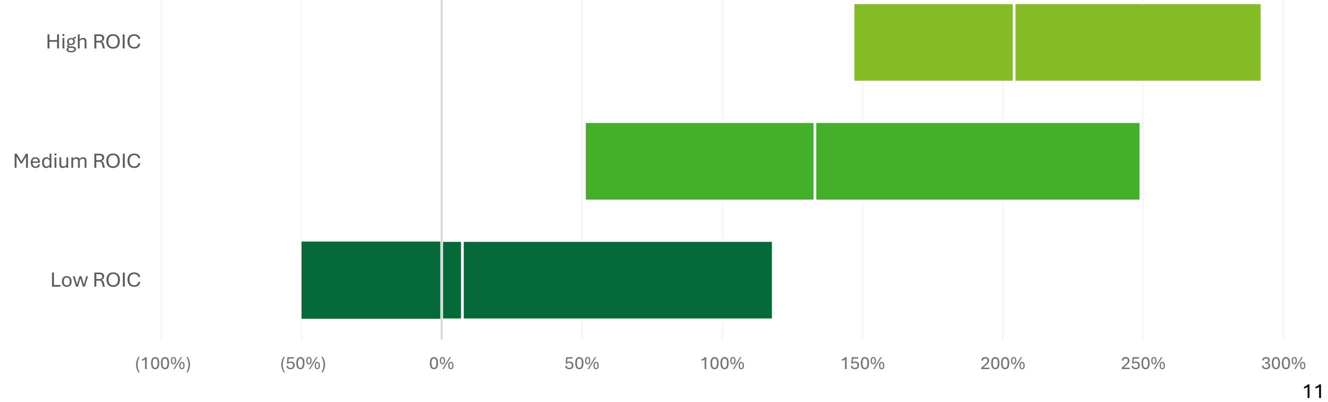
We categorised European Telecom firms into ROIC groups to explore in more detail the relationship between capital efficiency and shareholder returns.

- High ROIC firms exhibit considerable value creation potential, with a median TSR of 204%. The distribution across quartiles ranges from 147% in the first quartile to over 292% in the top quartile. This suggests a positive correlation between high ROIC and sustained shareholder returns.

- Low ROIC firms exhibit varied performance. The median TSR is 7%, indicating that the typical company in this category delivers only modest value creation over the decade. The quartile distribution reveals significant dispersion: the first quartile achieves a negative TSR of -50%, and the third quartile reaches 111%. The presence of positive returns in the third quartile suggests that some low ROIC firms can still create shareholder value, though substantially less than their high ROIC counterparts.

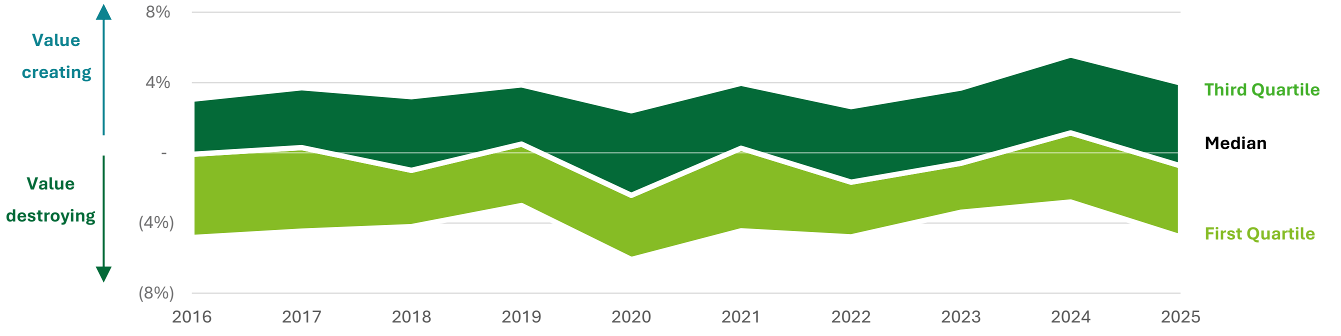
Efficient capital strategies drive higher long-term shareholder returns

Total shareholder return (%) per ROIC category over the last decade, 1st quartile (left bound) – median (middle line) – 3rd quartile (right bound)



55.4% of European Telecom companies did not create value

Value creation in the European Telecom industry over the last 10 years, 1st quartile - median - 3rd quartile



4.3. Value Creation: An Industry Reality Check

55.4% of European Telecom companies did not manage to create any long-term value, with negative median ROIC-WACC spreads. Value destruction is not inevitable; it reflects strategic choices that can be changed. The 45% of companies that did create value have broken this pattern by pursuing different capital allocation strategies:

- **Asset-light models**: Focusing on scalable, software-driven businesses rather than capital-intensive infrastructure. OpCo/AssetCo split: The OpCo focuses on customer-facing services and generates high margins; the AssetCo owns infrastructure and generates stable, lower-margin returns. This split can support value creation, but it effectiveness depends on execution complexity and governance, and it may be less suitable for smaller or less leveraged operators.
- **Differentiation**: Building competitive advantages through exclusive content, proprietary platforms, or superior customer experience.
- **Portfolio optimization**: Divesting low-return assets, partnerships/joint ventures, carve-outs and reinvesting in high-return opportunities.
- **Operational efficiency**: Improving margins through automation, AI, and process optimization.
- **Consolidation**: Pursuing in-market M&A to achieve scale and cost synergies.

For the 55% of companies currently destroying value, the path forward begins with an honest assessment: acknowledging that current capital allocation strategies are not generating adequate returns and that fundamental strategic repositioning is necessary. As detailed on the next page, this requires choosing a clear competitive path and aligning all capital allocation decisions to reinforce that strategy, with capital discipline to deploy resources only to investments generating returns above WACC.

5. Conclusion

The Decade of Transformation: 2016 - 2025 in Retrospect

Over the past decade (2016 - September 2025), the European Telecom industry has undergone a profound transformation. The sector shifted from traditional voice services to data-centric IP traffic, confronted aggressive competition from OTT providers, and managed massive capital expenditure demands for 5G and FTTH deployment.

The result is a paradox: despite generating €1.1tn in operating cash flow and issuing €714bn in debt, the industry has struggled to translate capital deployment into superior returns. ROIC has stagnated at 6-7%, while the cost of capital averages 8.5%, meaning on average 55% of companies are destroying value.

The Strategic Imperatives for the Next Decade

Based on the analysis of capital allocation patterns, competitive positioning and industry dynamics, five strategic imperatives emerge for European Telecom companies:

1. **Pursue Disciplined Capital Allocation Aligned with Strategic Positioning**

Companies that achieve high ROIC often do so by pursuing a clear strategic path (cost leadership or differentiation) and aligning every capital allocation decision (capital expenditure, R&D, M&A, and divestments) to reinforce that strategy while deploying capital to cost-of-capital-beating investments.

For large, capital-intensive telecom operators, this likely means pursuing the puretone model: separating infrastructure assets from (retail) operations, allowing each to optimize for its own return profile.

2. **Consolidate to Achieve Scale and Cost Synergies**

Europe's fragmented market limits operators from achieving the scale necessary to generate superior returns. In-market consolidation could generate synergies, but regulatory constraints increasingly limit traditional consolidation opportunities. Operators must pursue a broader portfolio of scale and efficiency strategies. Companies can:

- Pursue selective in-market M&A where regulatory environment permits and clear synergies exist.
- Achieve scale to improve returns on capital expenditure and reduce per-unit costs.
- Leverage consolidation, infrastructure partnerships and carve-outs to fund digital transformation and innovation.
- Engage with regulators to demonstrate that consolidation improves network resilience and innovation.

3. **Invest in AI, Cloud and Enterprise Services to Develop High-Return Businesses**

While capital expenditure has been allocated to infrastructure, R&D investment has been minimal. This has limited the industry's ability to develop high-return businesses in AI, cloud services, cybersecurity and enterprise solutions. Companies can:

- Increase R&D investment in AI-native networks, edge computing and emerging technologies.
- Develop enterprise services (cloud, cybersecurity, IoT, managed services) to complement connectivity.
- Invest in data analytics and AI-driven personalization to improve customer experience and pricing power.
- Partner with hyperscalers and technology firms to accelerate digital transformation.

4. **Optimize Operational Efficiency Through Digital Transformation and Automation**

The industry's profitability is constrained by high operational costs and legacy processes. Companies can:

- Invest in AI and automation to improve operational efficiency and reduce costs.
- Modernize IT infrastructure and migrate to cloud-based systems.
- Streamline organizational structures and eliminate redundancy.
- Implement data-driven decision-making and real-time performance management.

5. **Strengthen Balance Sheets and Improve Capital Efficiency**

High leverage constrains strategic flexibility and limits capacity for future investments. Companies can:

- Divest non-core assets (towers, fiber, data centers and operational activities) to unlock capital and reduce leverage.
- Improve capital efficiency by focusing on high-return investments.
- Optimize capital structure to reduce cost of capital.
- Balance shareholder returns with strategic investment to improve long-term value creation.

5. Conclusion

How Deloitte can help:

Deloitte's deep sector expertise and integrated advisory capabilities position us uniquely to support Telecom companies in refining their capital allocation strategies. We can assist by:

- Strategic Capital Allocation Advisory: Helping clients identify and prioritise investments aligned with their competitive advantage and growth ambitions to create value.
- Operational and Financial Efficiency: Leveraging advanced analytics and AI to optimise cost structures, capital utilisation, and operational workflows.
- Digital Transformation Enablement: Guiding the adoption of AI, cloud, and digital platforms to build scalable, asset-light business models.
- Risk and Regulatory Advisory: Supporting compliance and risk management in complex regulatory environments to protect and enhance enterprise value.
- Balance Sheet and Financing Strategy: Advising on capital structure optimisation, refinancing opportunities, and sustainable debt management.

By partnering with Deloitte, European Telecom firms can navigate the complexities of capital allocation in a rapidly evolving landscape, unlocking sustainable growth and long-term value creation.

Get in touch with us to learn more

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