

BRIEF: TPG/Vocus deal improves returns to Australian telecommunications investment

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Abstract: TPG Telecom has entered a binding Share Purchase Agreement to sell its fibre network infrastructure and Enterprise, Government, and Wholesale (EGW) fixed business, including Vision Network, to Vocus Group for \$5.25 billion.

Following the Optus/TPG mobile deal, this transaction reflects a network consolidation trend. This is in response to low returns on invested capital in Australia's telecommunications industry. The industry is moving towards improved capital efficiency by separating assets with different risk/return profiles, and restructuring of ownership to improve efficiency. This deal will position Vocus as a more significant player in enterprise connectivity, while TPG will focus on mobile operations.

Terms of the TPG/Vocus deal

TPG Telecom has announced a binding Share Purchase Agreement to sell its fibre network infrastructure assets and its Enterprise, Government, and Wholesale (EGW) fixed business, including Vision Network, to Vocus Group for an enterprise value of \$5.25 billion. This transaction includes a potential \$250 million Contingent Value Payment (dependent on Vision Networks achieving certain targets).

TPG will retain its mobile radio network infrastructure, Consumer and EGW mobile business, and its consumer fixed retail business, including fixed wireless. Approximately 560 employees will move to Vocus.

Vocus will provide fixed network services back to TPG. The transaction includes a Transmission and Wholesale Fibre Access Agreement (TAWFA) under which Vocus will provide network services to TPG for an annual fee of \$130 million. The TAWFA has an initial 15-year term with two 10-year extensions at TPG's discretion. The agreement is structured to maintain "owner economics" for TPG, with pricing adjustments only for indexed and capped inflation and network expansion.

The transaction is expected to be completed in the second half of 2025, subject to regulatory approvals and other conditions. Upon completion, TPG anticipates net cash proceeds of \$4.65 to \$4.75 billion, which it plans to use for future capital management and business investment initiatives. Details of these initiatives will be provided closer to the transaction's completion.

TPG Telecom CEO Iñaki Berroeta expressed satisfaction with the transaction, highlighting its role in unlocking the value of TPG's fixed infrastructure assets and strengthening the company's financial position. The transaction is expected to create a more streamlined business model for TPG, focussed on leveraging its mobile assets and its mobile infrastructure-sharing deal with Optus.

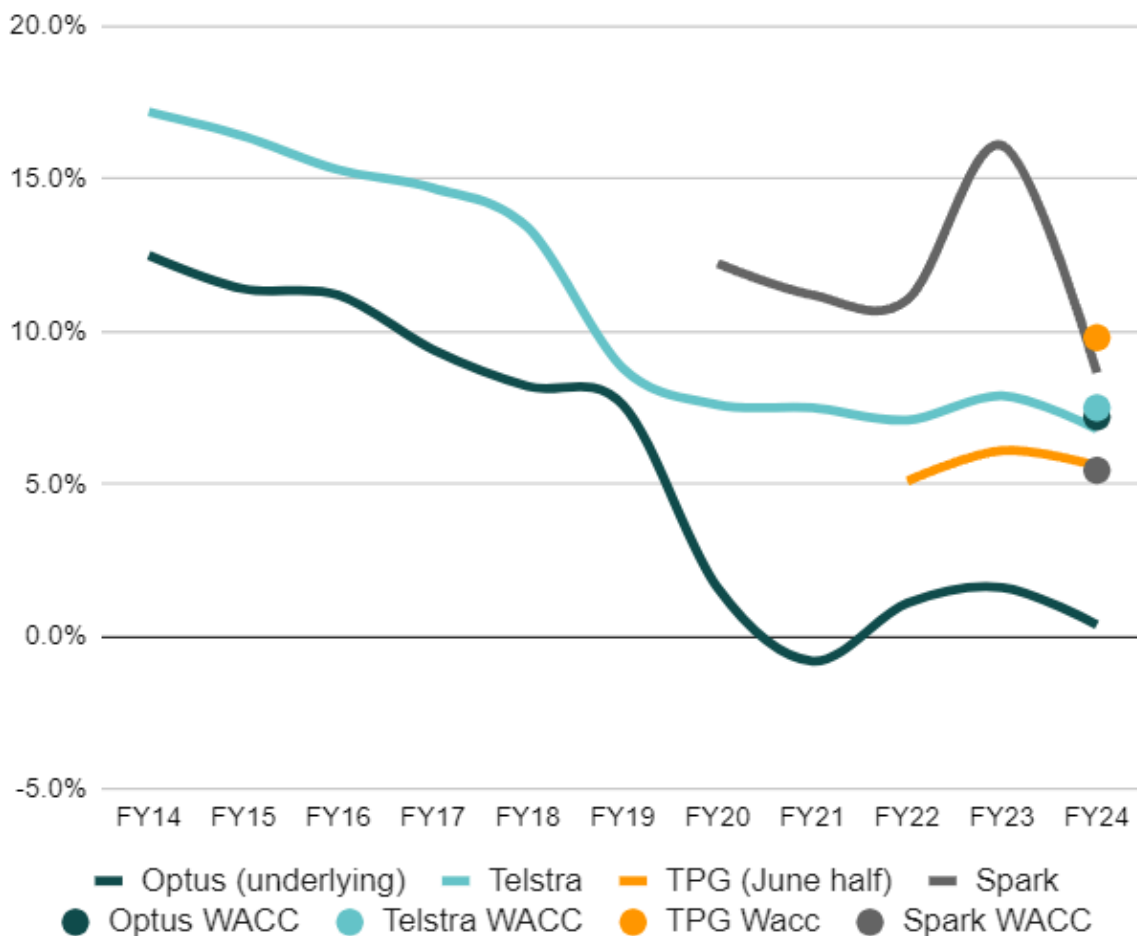
The deal will also make Vocus a more significant operator in the enterprise fixed connectivity sector. It will enhance Vocus' offerings in international, inter-capital, regional, and metropolitan connectivity. The acquisition of TPG's enterprise access fibre means that Vocus will now be able to offer end-to-end fibre connectivity.

Why does this matter?

Coming hard on the heels of the Optus/TPG mobile deal, this transaction continues a trend of network consolidation and sharing. The underlying drivers of the two deals are the same. The telecommunications industry in Australia is challenged by low rates of return on invested capital (ROIC). Of Telstra, Optus and TPG, only Telstra comes close (barely) to meeting its cost of capital (for more details, see our report "[Five-Year Telecommunications Industry Outlook 2024](#)").

In summary, there are too many assets chasing too few returns. This was sustainable in the quantitative easing period after the 2008 GFC when interest rates were zero and capital was effectively free. Rising interest rates have refocused attention on the issue.

Figure 1. Historic return on invested capital by operator, Australia and New Zealand



The industry is responding by improving capital efficiency. This began with separating capital assets with different risk/return profiles to improve transparency and the quality of capital management. The main candidates for this treatment have been towers, other passive infrastructure, and wholesale networks. In this phase, we saw tower spinoffs, the creation of Telstra InfraCo, and the spinoff of Vision Networks. Some of these have been sold to release capital for higher-return activities.

This latest TPG/Vocus deal is also a step towards this more consolidated industry. Once it goes through, the big 3 fixed infrastructure players will be NBN Co, Telstra InfraCo and Vocus. Vocus can now exploit new economies of scale and scope by combining its existing national and international assets with TPG's national, metropolitan and access fibre. TPG will be able to operationalise its fixed network capital costs and focus its capital resources on mobile where higher returns are possible.

The industry endgame is a shift to a more consolidated, commoditised infrastructure sector with fewer assets (see our report "[Is telecommunications approaching its end-game?](#)"). Service-level players will get access to these assets through wholesale markets, improving utilisation and returns. The Optus/TPG MOCN deal showed us what to expect.

This endgame arrangement has similarities to transmission and distribution in the electricity utility sector. As LEO satellite and NBN expansion eliminate accessibility challenges, the regulatory focus on the industry will shift to wholesale access, retail affordability and reliability.

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