Industry Top Trends Update

Telecommunications

Challenges ahead for U.S. telcos

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What's changed?

Proceeds from the C-band spectrum auction were greater than expected. The $95 billion in proceeds pushed up leverage for wireless telcos, resulting in some negative rating actions. Because spectrum deployment will take time, initial returns on investment will be low.

Remote working/learning benefits will subside this year. While we still expect solid broadband revenue growth for the cable providers, the pace could moderate in 2021 as workers return to offices and students go back to schools. Longer-term trends are favorable given the growing demand for bandwidth from both residential and business customers. Incremental competition from fiber to the home (FTTH) deployments and 5G fixed wireless is still a longer-term threat, though we don't expect any material impact on cable providers in 2021.

M&A activity has picked up, but so have asset sales. AT&T announced sales of a 30% stake in its TV distribution business and its Warner Media business. Similarly, Verizon plans to sell its media business. These transactions will enable some leverage reduction and provide incremental financial flexibility. At the same time, low interest rates and high equity prices should drive some M&A activity in cable, fiber, and data centers. Already, Cogeco Communications USA has announced property acquisitions from WideOpenWest for about $1.1 billion.

How is recovery taking shape?

Revenue from business customers is rebounding. As the economy opens up, we expect some improvement in top-line trends from the small/medium business segment, especially for cable providers that have a dominant market share. Similarly, IT projects that enterprise customers delayed during the pandemic should resume. However, the impact on the top line could be muted, as many customers are migrating to cloud-based networking technologies, which carry lower price points than multiprotocol label switching (MPLS).

Credit-metric trends should be mixed. We expect leverage for the wireless operators to be higher than in 2020 due to the C-band auction spending. We also expect leverage for U.S. wireline companies to deteriorate as they deploy FTTH to better compete with cable. For U.S. cable providers, credit-metric improvement will depend on M&A activity and distributions to shareholders.

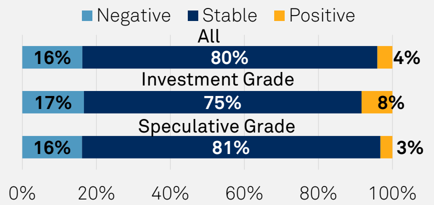
Rating trends should be more balanced. Downgrades outpaced upgrades by more than 2 to 1 in 2020, with most negative actions at the lower end of the rating scale. We expect trends to be more balanced in 2021 as economic conditions improve and low interest rates enable the refinancing of capital structures.

Wireless service revenue trends should improve. While industry service revenue growth was essentially flat in 2020, we expect overall service revenue to grow about 2%-3% in 2021 due to increased roaming revenue as consumers travel again and higher ARPU as carriers migrate their customer bases to higher-rate 5G plans.

What are the key risks around the baseline?

Increasing competition in wireless. Incumbent cable providers are offering wireless service through wholesale agreements. So far, the impact on U.S. wireless providers has been muted. However, with aggressive discounting and bundling, cable companies are taking an increasing share of gross subscriber additions. At the same time, the wireless carriers are offering aggressive promotions to differentiate their 5G network capabilities, which could hurt margins.

Outlook Distribution



Ratings Statistics (YTD)

	IG	SG	All
Ratings	12	62	74
Downgrades	0	3	3
Upgrades	1	3	4

Ratings data as of end-June, 2021

COVID-19 Heat Map

Telecom	
Estimated Recovery To 2019 Credit Metrics	**1H 2021**
Potential Negative Long-Term Industry Disruption	--

2020 v. 2019		
Revenue Decline	**EBITDA Decline**	**Incremental Borrowings**
No decline	**No decline**	**5% to 10%**

2021 Estimates v. 2019	
Revenue Decline	**EBITDA Decline**
≥2019	**≥2019**