

*Livingstone*

**Newsletter**

*Fixed Infrastructure*

*Spring 2022*

Currently the German broadband infrastructure market is increasing the pace of a nationwide fiberization roll-out driven by essential consumer demands and market requirements as well as governmental initiatives

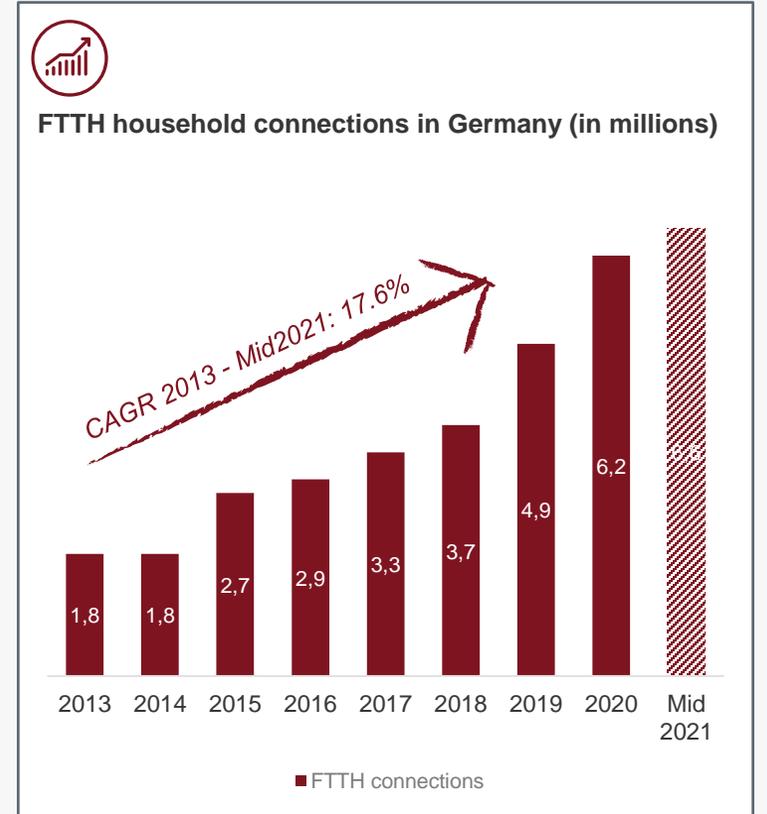
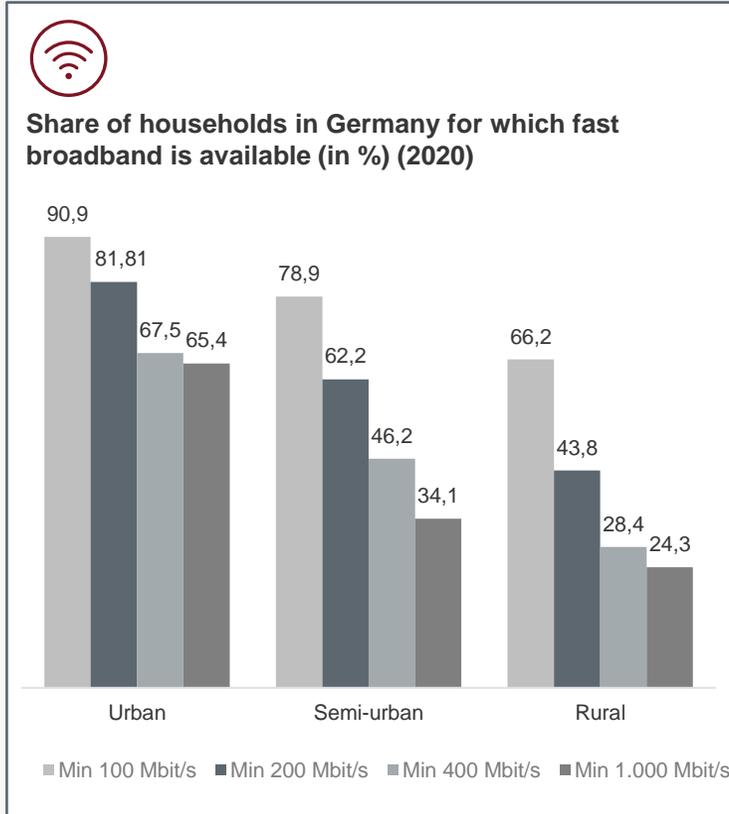
**BROADBAND DEMAND TO ACCELERATE**

Currently, German households (B2C) and businesses (B2B) only have limited access to both fiberized fixed and mobile infrastructure. In 2020, Germany had a fiberization coverage of 15% of the German households. The current German government coalition agreement states that by 2025 rural areas should be connected to the broadband and that every household (theoretically) has access to high-speed internet (10 Mbit/s download rate, 1,7 Mbit/s upload rate and a maximum permissible latency of 150 milliseconds).

The **German fixed infrastructure market** is experiencing tremendous backlog demand due to the fact that only 16% of all German households in 2021 are in the possession of FTTH broadband access. However, it can be observed that the German market is currently increasing its pace and it is expected that additional FTTH accesses to more than 30 million households until approximately 2030 will be implemented. As a result, a greater order income for several operators, with an expected order income peak in 2026, can be assumed. The demand for telecom materials are expected to significantly increase in the near future.

The German Federal Ministry of Digital Affairs and Transport (BMDV) just recently published its future strategy of the gigabit strategy. A cabinet decision is expected before summer break 2022. Main takeaways are the following:

- Full-coverage fiber roll-out by 2030
- Triple the number of fiber optic connections by the end of 2025 and supply at least half of all households and business with FTTB/H
- Simplify and accelerate approval processes via legislative changes
- Digitization of application procedures
- Increased use of new laying technologies
- Prioritization of regions with a high proportion of white spots for funding procedures by involving the federal states
- Better mobile communication coverage on railroad lines



**Excursus: Covid-19 pandemic**

The Corona pandemic has revealed that society depends on digital infrastructures. Businesses, schools, universities and private individuals depend on the bandwidth of their Internet connection. For regions where broadband is not yet available, the urgent need for action is clearer than ever. The German government plans to enshrine the right for high-speed internet in the Telecommunications Act enabling high-speed internet for the citizens by 2025.

The fiberization in Germany offers many players great potential up to 2026 and beyond. Deutsche Telekom still being the dominant player within the fibre market but private market challengers, utilities and smaller regional players also play significant role in the fibre roll-out in Germany

**FIBERIZATION EMBRACES MANIFOLD PLAYERS IN B2C**

The fiberization in Germany is mainly driven by local players, such as Deutsche Glasfaser, NetCologne, M-Net or EWE. Deutsche Telekom is still the leading player in terms of fibre deployment with a historical strong focus on the fibre roll-out in urban and metropolitan centres. The newest Deutsche Telekom JV is however also focussing on connecting 4m rural households until 2028.

The German fibre market can be mainly summarized by four different operator types:

**Nationals:** Renowned and prestigious players in the German telecommunication market. These type of players are increasingly integrating fibre into their network strategy. Furthermore, these players already have nationwide presence with DSL or other cable products.



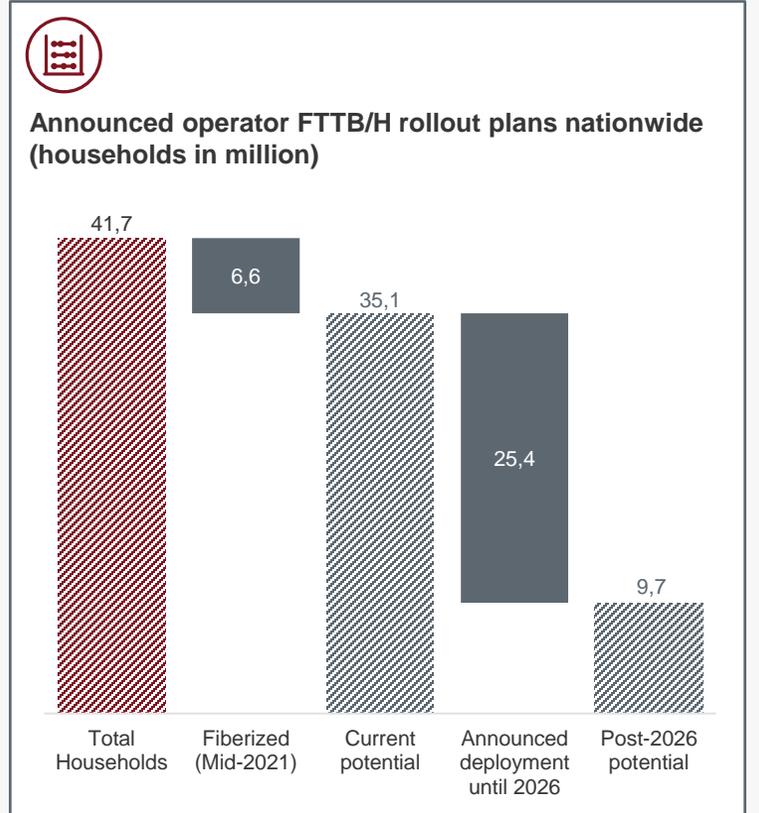
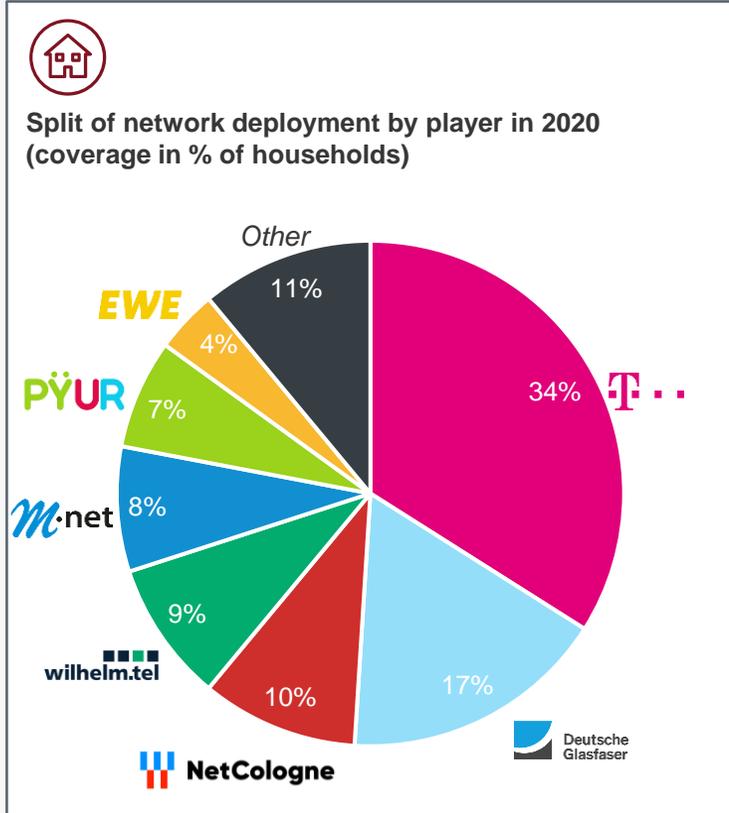
**Challengers:** This type of operator has already established a significant footprint or are entering the German market. The fiberization is mainly conducted via local challengers. Companies are mostly private market financed by large infrastructure funds.



**Utilities:** The size of the underlying utility provider depends on the local population densities. Hence, there are significant differences in size and maturity of utility fiber networks.



**Other small players:** These type of players are in the stage of establishing a regional footprint and they usually do not intend to aggressively expand nationwide.



**Fiberization offers great potential**  
 Market research shows that at the end of 2020, >30m households have not yet been connected to fiber connectivity. Research further shows that additional 25m homes are expected to be connected to fiber connectivity by 2026. It is further expected that post-2026, approximately 10m additional opportunities will represent another potential upside. The NE4 connection in multi-family houses represents another great future potential for operators in Germany.

Germany is lagging behind on a B2B fiberization roll-out in an EU comparison. However, Germany is showing increasing growth rates of fiberization due to the increasing connection speed rate requirements

**FIBERIZATION AS AN ACCEPTED B2B TREND IN GERMANY**

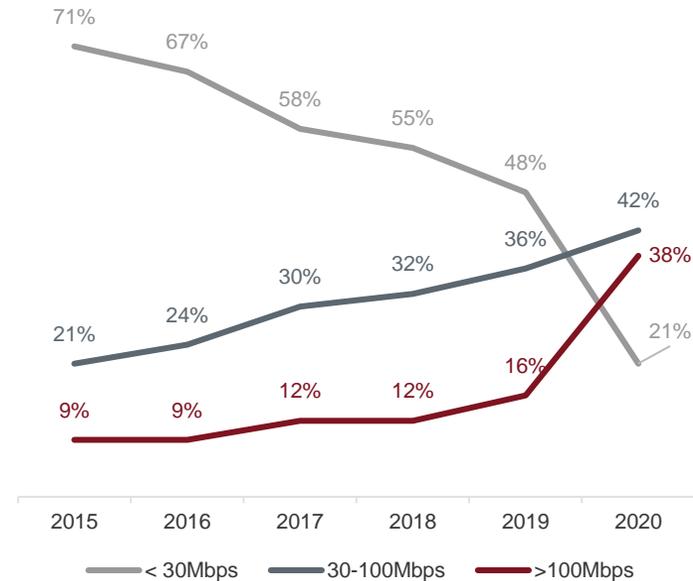
Approximately 97% of all business in Germany refer to Single Offices or Home Offices (SoHo) with zero to nine FTEs or small businesses with up to 49 FTEs. Market research reveals the fact that these companies tend to be connected to B2C FTTH products or simple B2B fiber products. Medium (50-249 FTEs) and large (250+ FTEs) companies tend to be addressed via simple B2B connections or dedicated lines. Only the very large companies (7,000+ FTEs) represent the actual demand drivers for private UP, wavelength and dark fibre products.

All major German metro cities (e.g., Berlin, Hamburg, Frankfurt a.M., Stuttgart, Munich, Cologne, Düsseldorf) are connected by the existing major network operators (Deutsche Telekom, Vodafone or 1&1 Versatel).

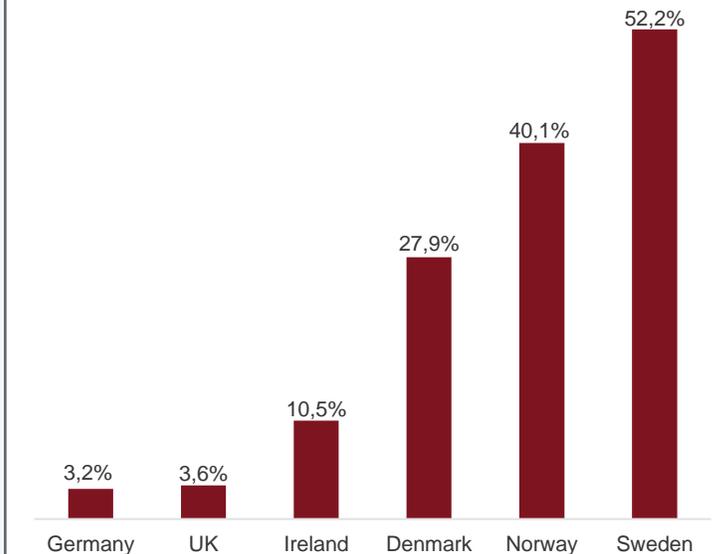
The fixed infrastructure market expects a significant expansion of fiber coverage that conclusively impacts the demand of high-speed B2B connection. FTTC/H connections show stronger growth than all other products and are expected to further drive the number of connections. Connections with >100Mbps have increased from 2015 until 2020 but however still only represent less than 40% of the B2B market.



**Development of internet connection speed rates in Germany (in %)**



**FTTH as share of total enterprise internet access lines in 2020 (in %)**



**Fiberization in the B2B sector is leveling up**

Regardless the fact that Germany is showing the lowest FTTH B2B implementation share in comparison to other European countries, Germany is showing significantly increasing growth rates during the last years and strong preference towards fibre solutions. The German market shows a significantly lower FTTH connection within enterprises. Sweden shows the greatest percentage of enterprises being connected to FTTH (52.2%) while Germany only achieves 3.2%.

Companies in Austria are likely to invest significantly into the fibre roll-out in the near future. The current great data traffic share of mobile technology is expected to be replaced by fixed technologies

### TECHNOLOGY SWITCH TO FTTH IN AUSTRIA EXPECTED

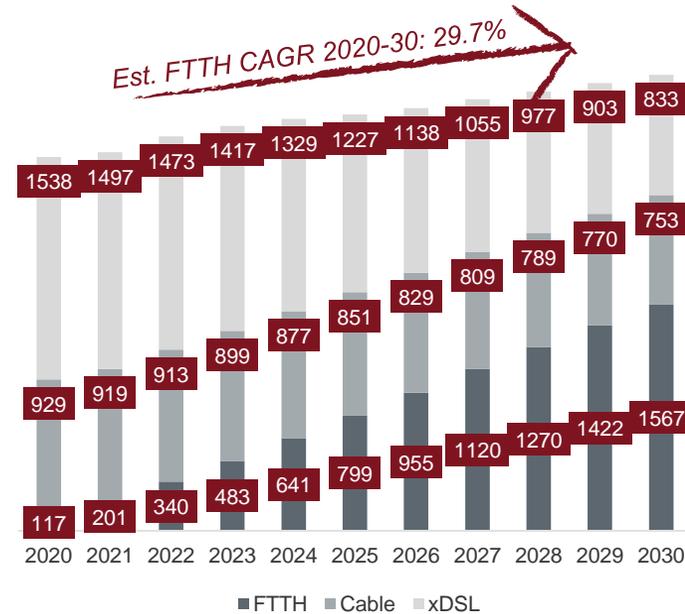
The Austrian market offers great potential for the fiberization process as currently 60% of the Austrian households embrace coverages of <1Gbit/s and another 20% embrace coverages of <100Mbit/s. It can be observed that the Austrian broadband market represents only a low fixed broadband penetration with 65% and very low broadband speed rates. Austria is, comparable to Germany, demonstrating a low FTTH coverage with 24% in 2020. The market however expects approximately 1.4 million FTTH subscribers and a coverage rate of approximately 80% by 2030.

Different from other European countries, is the fact that the data traffic in Austria is significantly being used via mobile technology. That also implies the fact that Austria currently has a rather low FTTH penetration rate in comparison to a strong mobile penetration rate. This situation is expected to change by mobile subscribers switching to FTTH technology in the long-term. Fibre appears more desirable due to mobile network limitations and additionally represents a more scalable technology with no such high continued investments in spectrum or network densifications. Operators see mobile technology rather as a substitute and as a means to add network capacity.

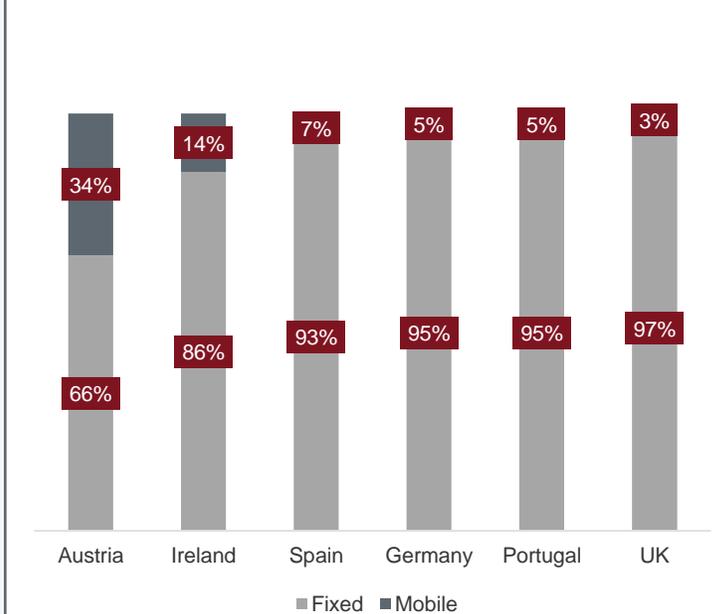
The greatest players within the Austrian market are A1 with approximately 54% subscriptions and Magenta with approximately 25% subscriptions. Magenta, however, has mostly focussed on mobile services in Austria with approximately 5.1m mobile customers and only 655k broadband customers. Other players are local utility / local government FTTH operators or challengers backed by infra money such as noeGIG/ oeGIG. Allianz Capital Partners reported to invest approximately EUR 1bn via its subsidiary Österreichische Glasfaser Infrastrukturgesellschaft (oeGIG) for the fibre roll-out in rural regions.



Development broadband subscribers by technology type (in thousands)



Total data traffic as % of total country data traffic (2019)



### Magenta seeking investments into fiberization process

Market information reveal the fact that Deutsche Telekom's subsidiary Magenta Telekom has launched a search for investors for a major fibre roll-out. It is expected that Magenta will invest approximately EUR 1bn-1.2bn into the fiberization in rural areas and media-sized towns and intends to connect approximately one million homes to FTTH. Another alternative could be to upgrade the network of UPC Austria.

Livingstone advised vitronet Group within the fiber optic industry on the successful closing of 13 acquisitions in 30 months



### Vitronet Group & DBAG

- **vitronet Group** is the leading service provider for fiber optic and energy infrastructure in Germany. As a partner of utility carriers, network providers, industrial companies and the public contracting authority, vitronet offers turnkey network construction including planning activities, civil engineering services, cable pulling, installation and maintenance work and has around 2,300 employees.
- Deutsche Beteiligungs AG is a German listed private equity company that invests in German medium-sized companies.

### TRANSACTION STRATEGY

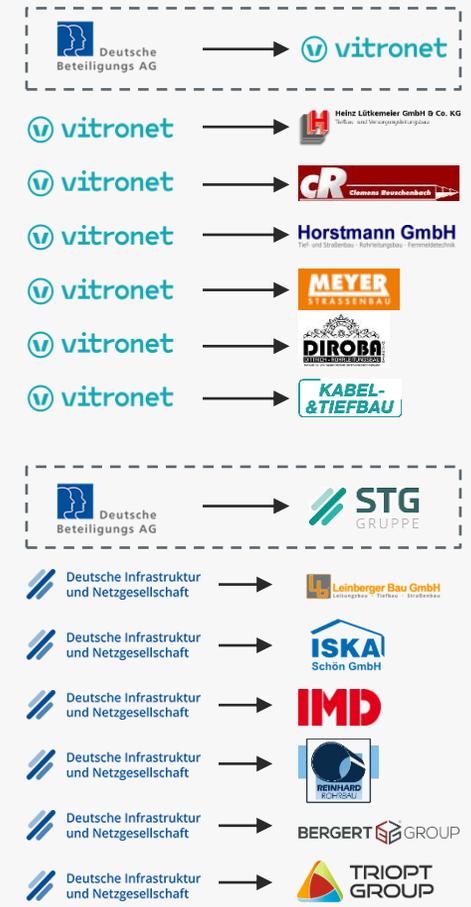
- Following the successful sale of **vitronet** to DBAG, Livingstone conducted intensive market research on behalf of DBAG with the aim of compiling a comprehensive list of potential acquisition opportunities for DBAG - both for further platform investments and for suitable add-on targets.
- Livingstone was able to draw on its valuable network and extensive transaction experience in the areas of broadband expansion and infrastructure services.
- Livingstone was not only responsible for identifying potential targets, but also managed the entire transaction and communication process, performed valuations, drafted NBOs and Lols, organized the due diligence and assisted with SPA negotiations.

### TRANSACTION ADVISORY HISTORY

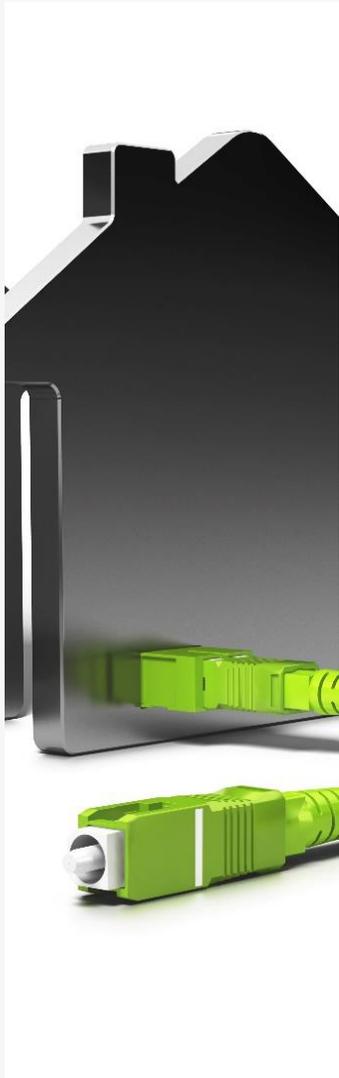
- In 2017, **vitronet** was sold to Deutsche Beteiligungs AG in a sell-side process advised by Livingstone.
- In 2019, DBAG, advised by Livingstone, invested in STG Group as another platform vehicle for further investment and growth in the fiber infrastructure, and shortly thereafter renamed the platform Deutsche Infrastruktur- und Netzgesellschaft (DING).
- In 2021, **vitronet** and DING merged under the umbrella of vitronet Holding.
- Since the start of the investment, Livingstone has advised **vitronet Group** on the successful closing of 13 acquisitions.
- The project was awarded the prestigious "Best of Consulting 2020" award in the field of finance by WirtschaftsWoche (1st place).



### TRANSACTIONS



Livingstone advised Amadys Group within the passive network equipment wholesale industry in terms of 4 add-on transactions in 15 months



### AMADYS GROUP & EQUISTONE

- Belgian **Amadys Group** is a leading systems integrator of end-to-end connectivity solutions with more than 300 employees for the telecommunications, infrastructure, energy and data center markets. Amadys operates in the Benelux, Germany, Denmark, Austria and Slovakia and has annual revenues of more than €275 million.
- Equistone Partners is an independent investment firm with offices in Amsterdam, Birmingham, London, Manchester, Munich and Paris. Equistone focuses on markets such as the Benelux countries, France, Germany, Switzerland or the UK and invests in a wide range of industries. With more than 170 transactions, Equistone Partners Europe is one of the leading and most active European equity investors. In 2019, Equistone Partners Europe successfully invested in the Amadys Group.

### TRANSACTION STRATEGY

- Livingstone conducted an intensive market research in the DACH region on behalf of **Amadys Group** with the aim of creating a comprehensive list of potential add-on acquisition opportunities for **Amadys Group**.
- Livingstone was able to draw on its valuable network and extensive transaction experience in the broadband expansion and infrastructure services sectors during the research.
- Livingstone was not only responsible for identifying potential targets, but also managed the entire transaction and communication process, performed valuations, drafted NBOs and Lols, organized the due diligence and assisted with SPA negotiations.

### TRANSACTION ADVISORY HISTORY

- Equistone has completed four add-on acquisitions for **Amadys Group** in 15 months. Livingstone assisted **Amadys Group** with the add-on acquisitions of tso GmbH, Muth Kommunikationstechnik GmbH and Pro Kunststoff GmbH in Germany, as well as SKG Netzwerktechnik GmbH in Austria and its subsidiary in Slovakia.

### TRANSACTIONS

EQUISTONE → amadys

*Platform investment of Equistone in 2019*



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