

## TMT deal trends in Mexico

As in the U.S. and other European countries, the Mexican telecommunications and broadcasting market has been very active in M&A deals. Just over two years ago, a major constitutional reform in telecommunications entered into force and the new law is reaching its first anniversary. This new regulatory framework has lifted many entry barriers and granted more certainty to large and small local and international companies to invest in Mexico.

Eutelsat announced the acquisition of 100% of Satélites Mexicanos (Satmex) in the amount of U.S.\$831m dollars a few days after the publication of the constitutional reform (which removed the restriction of 49% of foreign investment in all telecommunications services, including satellite). Satmex operated three Mexican satellites covering 90% of the population of the Americas and in March this year launched a new satellite for the region.

So far, AT&T is the largest new player entering Mexico. AT&T sold its 8.3% shareholding in América Móvil (which owns Telcel and Telmex) for U.S.\$5.5bn dollars to help finance its expansion. First, through the acquisition of DirecTV (U.S.\$48.5bn dollars), AT&T indirectly acquired 41% of Sky Mexico, which is controlled by Grupo Televisa and has a market share in pay TV of around 36%. In November 2014, the transaction was approved by the new Federal Institute of Telecommunications (IFETEL), which holds all powers regarding antitrust matters in the sector.

That same month, AT&T notified the acquisition of the third mobile operator in Mexico, Iusacell, who was in the process of terminating a brief 50/50 joint venture with Grupo Televisa. In less than 6 weeks, IFETEL approved the termination of the joint venture between Iusacell and Grupo Televisa, and the purchase by AT&T of 100% of the share capital of Iusacell for U.S.\$2.5bn dollars.

In January 2015, AT&T announced it was buying another Mexican mobile operator, Nextel Mexico, for U.S.\$1.875bn dollars from NII Holdings, which filed for U.S. Chapter 11 bankruptcy in the third quarter of 2014. IFETEL approved the acquisition at the end of April, imposing on AT&T certain conditions to avoid coordination between competitors. The remedies are not public due to confidentiality reasons.



Now, AT&T is: (i) the third largest mobile operator in terms of users with 11.4 million (Iusacell and Nextel Mexico), whereas Telcel and Telefonica have 70.4 and 20.5 million users, respectively; (ii) the second largest in terms of income, and (iii) the largest in terms of spectrum with 42% of the spectrum allocated for mobile services. AT&T also holds a minority interest in Sky Mexico. AT&T intends to grow its mobile market share over the next five years and therefore has already announced heavy investments. Also, AT&T must compete with Telcel, whose market share in the whole telecommunications sector continues at similar levels to those that existed when it was declared a preponderant agent in March 2014 (around 61%). In its capacity as preponderant agent, Telcel remains subject to specific obligations, including the obligation to share its passive infrastructure, such as its tower sites, with its competitors.

Additionally, the Mexican mobile market has attracted the interest of local and international MVNO's; Virgin Mobile being the most relevant example, who initiated operations in June 2014. Virgin Mobile is using Telefonica's network under a commercial arrangement. Unlike Telcel, Telefonica does not have a regulatory obligation to share infrastructure.

Not only international investors have been increasing operations in Mexico. Grupo Televisa, the preponderant agent in the broadcasting sector, has taken advantage of a criticized transitory article of the new law that permits the acquisition of telecommunications and broadcasting concessionaires without being subject to the antitrust concentration procedure as long as there continues the existence of preponderant agents. In the past few months, Grupo Televisa has acquired two major cable companies with presence in four out of the five most important regions in the country, and these acquisitions have not undergone antitrust scrutiny.

However, Grupo Televisa is currently under investigation and has been determined on a preliminary basis to hold substantial market power in pay TV services (cable and satellite) with a market share of more than 60%. The finding of substantial market power in the pay TV market would lead to additional obligations being placed on Grupo Televisa. IFETEL is also evaluating Grupo Televisa's market power in the market for triple play services. If IFETEL finds substantial market power on that market, Grupo Televisa could be subject to additional regulatory obligations.

América Móvil and its subsidiary Telcel continue to be banned under Telmex's license from providing pay TV and broadcasting services in Mexico. IFETEL recently finalized an auction of spectrum for two national TV channels, and only one Mexican group was awarded the concession. There was no real interest from international companies probably in part due to the 49% restriction in foreign investment. Moreover, América Móvil could not participate in the auction due to its license prohibition of entering the broadcasting market.

We envisage additional consolidation mainly towards increasing market participation of smaller players and the possibility of providing triple and quadruple play services, including the participation of fixed operators. In addition, the development of the 700 MHz wholesale network, the extension of the Federal Electricity Commission's telecommunications network, the implementation of the energy reform and other infrastructure projects may stimulate the market. Other international technology and media transactions could also impact Mexico.

There is no doubt that the reform in the sector has improved the environment and has fostered the convergence of businesses. The mobile market has been particularly dynamic since we moved from four to three operators, one of them being a new player (AT&T) with resources, including ample spectrum, to compete in a highly concentrated market. IFETEL did not consider that such consolidation would affect competition, but authorities in other countries are currently facing that debate. However, pay TV and triple play markets are under scrutiny and should be carefully reviewed by the Mexican authority.

As IFETEL implements the new regulatory framework, the conditions for entry into the market will become clearer, which could foster market entry and bring more competition for the benefit of final users.



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