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For the attention of the Business and Trade Committee Chair,

Following on from the Business and Trade Committee non-inquiry session of 17th October, on the proposed merger of Vodafone UK and Three UK, Unite would like to address some of the arguments raised by the companies in the course of the session:

1. **Analysts have cast serious doubt on the cost synergies the merger can be expected to generate**

In their evidence to the Business and Trade Committee session, Vodafone and Three placed a large emphasis on the £700 million per annum of cost synergies they expect the deal to generate.

This is important, because a) according to statements made by representatives of Three at the evidence session, these synergies will be the *primary source* of the funds for the investment programme which Vodafone and Three have promised, should the deal go ahead; and b) cost synergies are crucial to the argument that the deal will allow the companies to improve returns without raising prices.[i]

However, analysts have cast doubt on the amount of synergies the deal can realistically be expected to generate:

a. Barclays note that the £700 million in annual cost synergies figure is significantly higher than their estimate of £350 million to £650 million. They note that the companies have provided no commentary about unwinding the complex network joint venture structures that existing in the UK. They also note that very few European telecommunications mergers and acquisitions result in the combined company delivering on net synergies. Moreover, substantial pro-competitive remedies applied by competition authorities – as the CMA may apply if the deal is approved – "typically [erode] all cost synergies".[ii]
b. Morningstar are "sceptical" of the £700 million figure as Vodafone predict that 50% of the total will come from network and IT optimisation. Both Vodafone and Three have different network setups – Vodafone shares its active and passive network with O2 through Cornerstone, while Three's passive infrastructure is owned by Cellnex – and tower firms like Cellnex and Cornerstone usually have mechanisms in place to prevent their financials being hurt if there is consolidation in a certain market.[iii]

2. **Vodafone's and Three's reassurances around post-merger pricing are predicated on maintaining a "pricing strategy" which already involves RPI+ price increases**

During the evidence session, in response to concerns about prices going up if the merger is approved, Three said they were "not planning any increases in prices".[iv]

Vodafone, on the other hand, said there would be no change in "pricing strategy" post-merger.

Firstly, promising to maintain the existing pricing strategy is not the same as promising to maintain existing prices. The public and politicians have no access to what the companies' existing pricing strategies are as this is private information which the companies have not shared.

Secondly, these claims stand in contradiction with one another, as the companies' existing pricing strategies involve huge, above-inflation price increases. For example, last year both Three and

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Vodafone raised prices on monthly plans by over 14%, and Three increased prices for pay-as-you-go customers by up to 250%.[v]

3. **Vodafone's supposedly 'sub-scale' status is at least partly a result of years of mismanagement**

In their evidence to the Business and Trade Committee session, Vodafone claimed that the company's struggles were a due to the structure of the UK telecoms market. However there is plentiful evidence that the company's struggles are in fact due to mismanagement and poor business decisions:

a. Vodafone Group's operating profitability has been hit by continuous restructuring costs, impairments and depreciation.[vi] Despite this, Vodafone Group have maintained a relatively consistent level of dividend payments and share buybacks. Between 2016 and 2023, the company paid out an astonishing €25.4 billion in dividends and €7.1 billion in share buybacks.[vii]
b. In effect, Vodafone Group has been paying out dividends per share that have often been in excess of its adjusted basic earnings per share. The cash to do so has in large part come from borrowings. As a result, Vodafone Group's net debts have grown substantially – from €-28.8 billion in 2016 to €-41.6 billion in 2022 – putting pressure on the company's sustainability.
c. Vodafone itself acknowledges that it has had insufficient customer focus, poor customer satisfaction, and has made poor capital allocation decisions.[viii] Indicators of this include impairment losses of €5.8 billion, restructuring costs of €3.3 billion, and depreciation and amortisation losses of €98.7 billion since 2016.[ix]
d. Ben Marlow, The Telegraph's Chief City Commentator wrote earlier this year that Vodafone has been "Dogged by numerous IT failures, endless executive changes, and uncompetitive pricing, the Vodafone brand has been allowed to wither and it has slipped from leader to challenger." The company is on its third CEO in five years, all handsomely rewarded for failure. Former CEO Nick Read was paid almost £3.9 million for his last nine months in charge even as Vodafone's share price fell over 40% during his tenure.[x]

Such a track record is particularly concerning considering Vodafone's comment, during the evidence session, that carrying out a merger of this nature is "like open-heart surgery". There is very little precedent to indicate the company is up to the task.

4. **Vodafone and Three's claims about the companies being 'sub-scale' do not hold up across a range of metrics**

In their evidence to the Business and Trade Committee session, both Vodafone and Three claimed to be sub-scale and unable to compete. However, across multiple metrics, such claims do not stand up to scrutiny:

a. **Spectrum**: Three has the second largest share of spectrum, and is already the best-placed for 5G spectrum, with Vodafone holding the second largest allocation.[xi] If the merger went ahead, the combined business would hold just under 50% of total UK spectrum, exceeding a 37% cap imposed by Ofcom in 2017.[xii]

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b. **Revenue**: Throughout recent years, Vodafone UK have recorded a revenue figure which is either similar to, or greater than, the second largest operator in the market.[xiii] In the first quarter of 2023, for example, Vodafone UK had the second largest market share in terms of revenue (23.1%, compared to 22.5% for Virgin Media O2).[xiv] The combined entity would have a 35% market share in terms of revenue, in addition to market share from MVNOs operating on the companies' networks – making it by far the largest provider.[xv]

The company's claims about the merger increasing options for MVNOs are also questionable, given the significant wholesale role that both Three and Vodafone already play in the MVNO market. MVNOs which operate on Vodafone's network include major players Asda Mobile, Lebara Mobile, and Talkmobile, while MVNOs which operate on Three's network include SMARTY and iD Mobile, which is one of the MVNO market's largest mobile operators, with 1.2 million subscribers.[xvi]

Approval of the 4-to-3 merger in Ireland in 2014 was made subject to commitments that the merged company would conclude MVNO agreements with Virgin Media and iD Mobile. At the time, the Irish competition regulator expressed reservations that this would be insufficient to preserve competition in the Irish mobile market. These concerns have been supported by the subsequent exit of iD Mobile from the Irish market, and the declining role played by Virgin Mobile.[xvii]

At the same time, other MVNOs active in the market have not significantly increased their market shares, or even seen their shares decrease. In a report for the Irish competition regulator, consultancy Wik Consult concluded that "the conditions for commercial MVNO access may have been constrained by the limited degree of competition amongst the three MNOs in the provision of MVNO access".[xviii]

Further detail on these and other points can be found in Unite's dossier on the implications of the deal for consumers, which is accessible at: https://www.unitetheunion.org/media/5728/unite-the-union-three-vodafone-merger-consumer-dossier.pdf

Yours sincerely,

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[xiii] Unite analysis of company accounts for Hutchison 3G Limited, EE Limited, O2 Holdings Limited (2018-20) and Telefonica UK Limited (2021), and Vodafone Limited
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