# SeaHawk Tutors

A-Level Economics - Topical Stories　　February 2024

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# Vodafone/Three Merger

## In the news 2023/2024

### Background

#### Vodafone PLC:

UK-based company
Founded 1984
Listed on London Stock Exchange

#### Three UK:

Subsidiary of Hong Kong-based CK Hutchison Holdings
Conglomerate with businesses in Telecoms, Infrastructure, Retail and other sectors
Listed on HK Stock Exchange

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https://www.bbc.co.uk/news/technology-68105256
https://www.cnbc.com/2024/01/26/vodafone-and-three-uk-merger-under-investigation-by-cma.html

### Timeline to date

June 2023 - deal announced
September 2023 - Parliament debate with focus on national security and consumer competition implications
January 2024 - CMA announces review

Previously - in 2016 BT, who had no presence in the mobile market, bought EE; and O2 tried to buy Three but the deal was blocked by the EU:
https://www.bbc.co.uk/news/business-36013082

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### Market Share Data (2018 data)

| Pre-merger | Pro-forma Post-merger data |
|---|---|
| O2 36%<br>EE 28%<br>Vodafone 21%<br>Three 12% | O2 36%<br>Vodafone/Three 33%<br>EE 28% |

## Topic relevance

### Business Growth

- Growth by Mergers and Acquisitions
- Horizontal integration
  - Challenges of integration
- Consentual (non-hostile) takeover
- Conglomerates (CK Hutchison is a good example of a conglomerate)

### Market Structure

- Oligopoly
  - Competitive or collusive
- Concentration ratio

### Regulatory involvement

- CMA's role in reviewing M&A
  - Ability to force sale of assets as condition of approval

### Pros and cons of concentrated markets

- Con
  - Standard argument of less choice = higher prices = worse for consumers
- Pro
  - increased scale = more ability to invest in next generation infrastructure = better products for consumers
- Is an evenly-shared oligopoly more likely to lead to better outcomes for consumers than an uneven one?
  - More competition? / More risk of collusion?

### Geopolitics / Protectionism

- Ownership of Three and new combined entity by Hong Kong-domiciled company
  - National security issues for critical infrastructure

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### Share price charts (source: Bigcharts.com)


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# Sample questions:

1.

Extract: Letter from CMA to EU regarding proposed takeover of Three by O2, 2016: [https://assets.publishing.service.gov.uk/media/5a816cebe5274a2e87dbd8f6/CMA_letter_to_Commissioner_Margrethe_Vestager.pdf](https://assets.publishing.service.gov.uk/media/5a816cebe5274a2e87dbd8f6/CMA_letter_to_Commissioner_Margrethe_Vestager.pdf)

**Examine the actions that a regulator might take when considering a proposed horizontal merger in an oligopoly market. [8]**

2.

Extract: Excerpt from official press release announcing proposed Vodafone/Three merger, 2023

*Margherita Della Valle, Vodafone Group Chief Executive, described the merger of Vodafone UK and Three UK as being "great for customers, great for the country and great for competition."*

*Great for Customers • From day one1 , millions of customers of Vodafone UK and Three UK will enjoy a better network experience with greater coverage and reliability at no extra cost, including through certain flexible, contract-free offers with no annual price increases, and social tariffs. • MergeCo will reach more than 99% of the UK population with our 5G standalone network, delivering to customers up to a six-fold increase in average data speeds by 20342 .*

*Great for Country • The combined business will invest £11 billion in the UK3 over ten years to create one of Europe's most advanced standalone 5G networks, in full support of UK Government targets. • By having a best-in-class 5G network in place sooner, the merger will deliver up to £5 billion per year in economic benefit by 20304 , create jobs and support digital transformation of the UK's businesses. Every school and hospital in the UK will have access to standalone 5G by 2030.*

*Great for Competition • The merger will create a third operator with scale, levelling the competitive playing field, increasing competition to the UK's two leading converged operators and will also provide more choice in wholesale partners for the UK's already competitive MVNOs. • The combined business will offer fixed wireless access (mobile home broadband) to 82% of households by 2030, complementing MergeCo's access to the UK's biggest full fibre footprint.*

*Value-creating Transaction • The Transaction is expected to result in substantial efficiencies. These are expected to amount to more than £700 million of annual cost synergies by the fifth full year post-completion, with an implied NPV of over £7 billion.*

**Discuss the factors that might affect the achievability of the expected cost savings described in the extract. [12]**

3.

**"Not every merger, even in an oligopoly market with few firms, should be viewed as likely to create a poor outcome for consumers." Evaluate this statement. [25]**