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REPORT: State of the Australian Telecommunications Industry: Telco at a Crossroads

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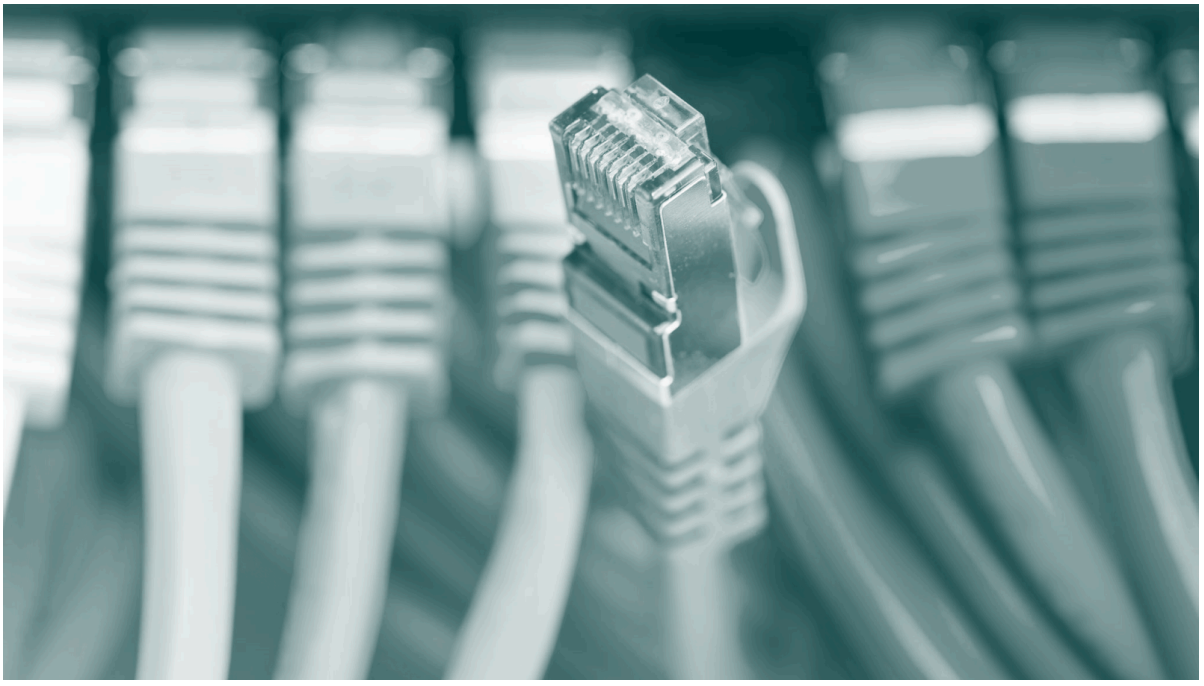

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State of the Australian Telecommunications Industry: Telco at a Crossroads

Good morning, to all my telco industry colleagues here today.

We are at a critical juncture for digital infrastructure, facing challenges that are not unique to Australia. Telecommunications networks are no longer a luxury; they are the fundamental foundation of our social and economic ecosystems, providing infrastructure essential for the delivery of digital content and services.

Our discussion today centres on a profound paradox facing the industry worldwide: data traffic has expanded rapidly, yet the revenues generated by network operators have been flat. This "decoupled trend" jeopardises the future investments required to maintain and expand the networks upon which modern society relies.

Globally, the financial situation of telecommunications companies is worrying. In Europe, major operators reported operating profits 46% lower in 2018 than they were in 2010. This decline has led to returns on investment that are often below the cost of capital. For the five main European operators (Telefónica, Orange, Vodafone, Deutsche Telekom, and Telecom Italia), the average Return on Capital Employed (ROCE) plummeted from 10% in 2010 to 5% in 2018.

This situation is particularly striking when contrasted with the vast profits and market capitalisation of the largest global technology companies involved in the attention economy, the so-called Large Traffic Originators (LTOs).

Between 2015 and 2023, the market capitalisation of European telecom companies fell by 41%. Meanwhile, the value of the five largest global technology companies (Alphabet, Amazon, Apple, Meta, Microsoft) increased by a staggering 357%.

This chasm underscores why European telco leaders identify profitability, new business models, and regulatory constraints as their most pressing concerns. While the biggest users of connectivity expand their businesses, the providers of that connectivity go begging.

This situation is reflected in Australia too. Global digital platforms have perfected an extractive model of operation, up to and including transfer pricing to minimise corporate taxation.

Given all of that, where to from here?

We will start today by checking the state of the industry by the numbers: data growth, revenue, EBITDA, and return on capital.

Then we will look at how the industry is responding.

Finally, we will look at the implications for Australia's digital economy ambitions. Is there a fundamental gap between those ambitions and the industry realities we have outlined, and what options do we have to close it?

The Australian telco industry: by the numbers

Like everyone else, Australia has seen big boosts in data usage over recent years. But it is also important to note that this change is also subject to change.

- **Total data growth is slowing down.** Total TB/mnth downloaded was growing at 40.1% annualised in June 2020, spurred by lockdown uptake of SVOD services.
- This has slowed to only 4.3% in December 2024 (the last data available from the ACCC Internet Activity Survey).
- **This result is dominated by fixed**. Fixed data download growth fell from 37.6% to 2.4% annualised over the same period.
- In contrast, mobile data growth peaked in December 2022 at 38.9% annualised, and fell to only 15.0% in December 2024. Mobile data is now growing faster than fixed again after a long period where fixed growth led.

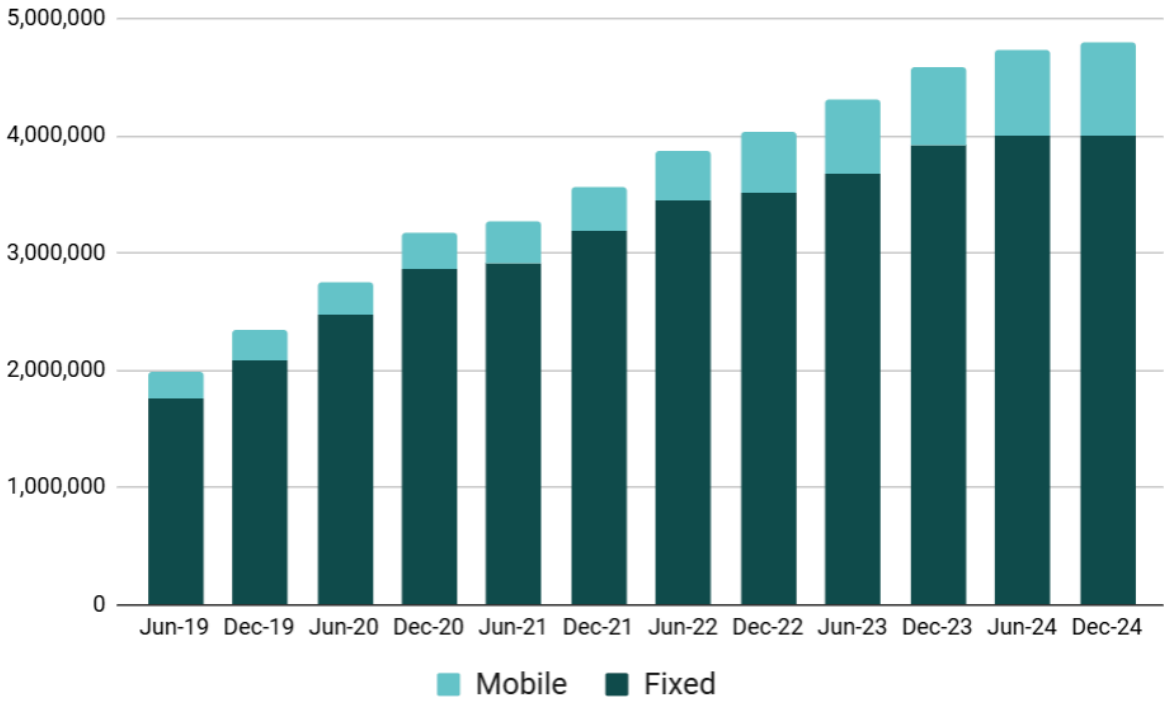
The shift is mainly due to the maturing of the SVOD market flattening fixed growth, and AVOD's ongoing dominance of mobile video viewing.

NBN's Accelerate Great speed boost from 100 to 500Mbps on fibre networks may affect this, but this is hard to predict.

And do not forget the accelerating growth of BVOD. FTA TV is at an early stage of its migration to digital networks, and that process has a long way to run. But we also think that new classes of applications - particularly AI applications - will renew growth over the coming years.

As a side note, our view is that investors should assess telecommunications assets based on their readiness for the AI era, not specifically because of any projected usage growth, but because **deep fibre penetration and control over that infrastructure represent a strategic hedge** against future demand uncertainty and are likely undervalued relative to capacity-constrained wireless and legacy networks.

Figure 1: Total national data downloads (TB/mnth)

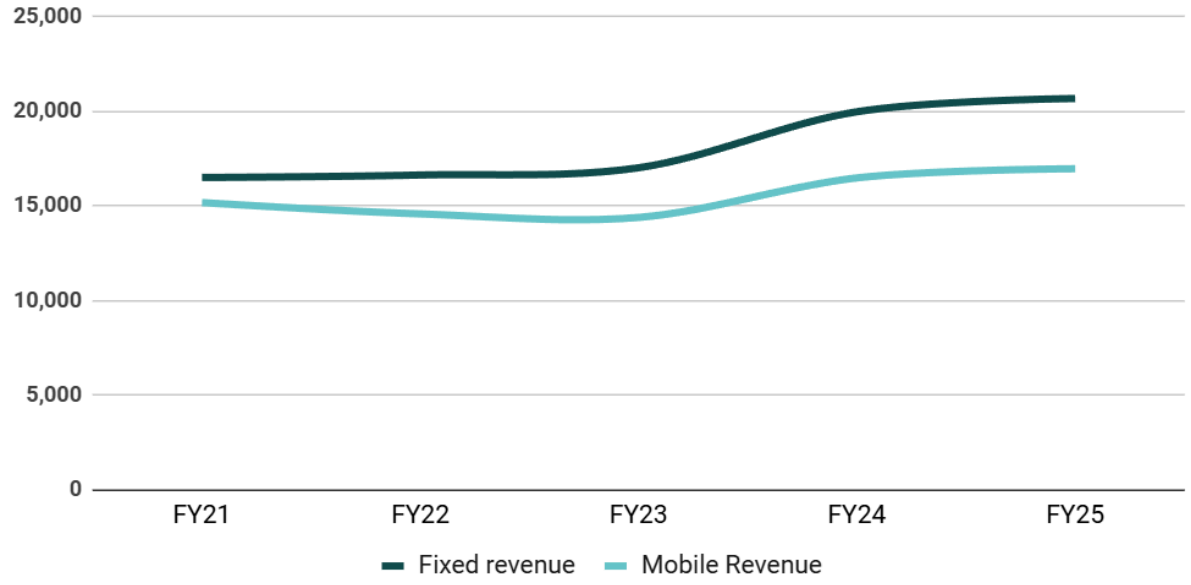


Source: ACCC Internet Activity Survey

But while data growth has ballooned over the last five years, **industry revenue has been fairly flat**.

The industry was hit by the pandemic as locked-down users reduced their mobile consumption, and roaming revenues disappeared. Fixed connections were resilient with more working from home, but existing fixed pricing constructs meant that the increased usage was not monetised.

Figure 2: Australian telco industry revenues (all segments, $m)



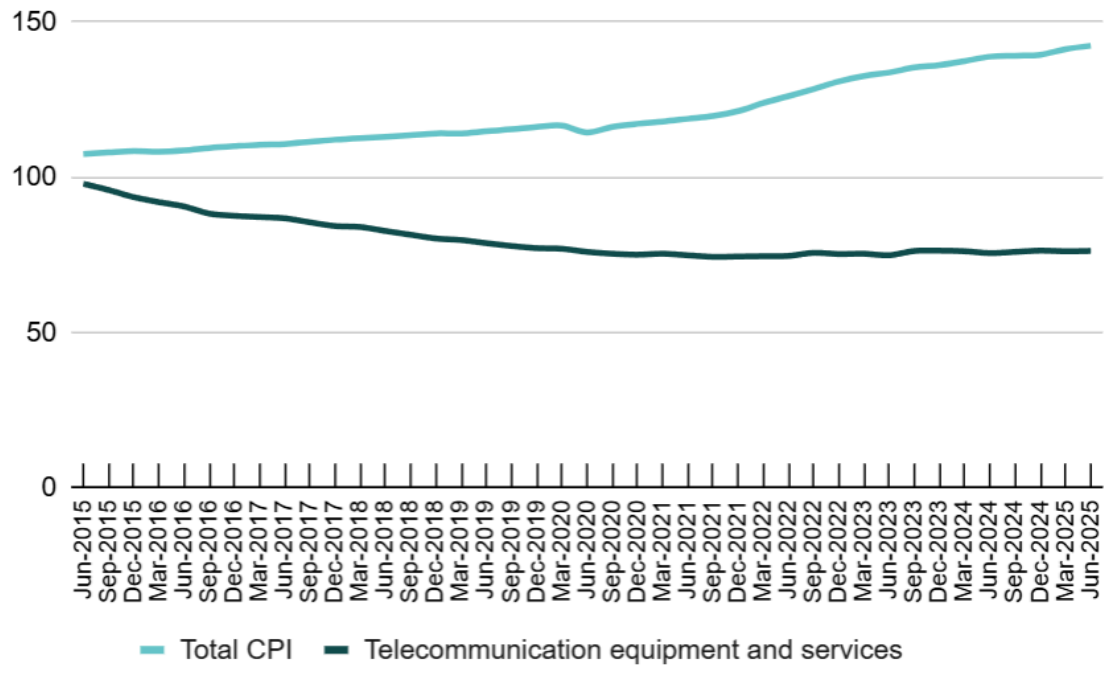
Source: Company reports, Venture Insights analysis

Since FY22, the situation has improved. This is due to a mix of increased SIOs and higher prices (especially in mobile), which have seen revenues recover.

But it is important to put telco price rises into context. These come after a long period of falling real prices.

While we saw real prices slump in the years to 2022, prices have stabilised since. The long-term downward trend is partly because the ABS takes into account improving value from services. As data allowances and broadband speeds have grown, ABS reflects this in a lower index to capture better value. And what a value it is! No other industry has achieved this kind of improvement in value delivered over this period.

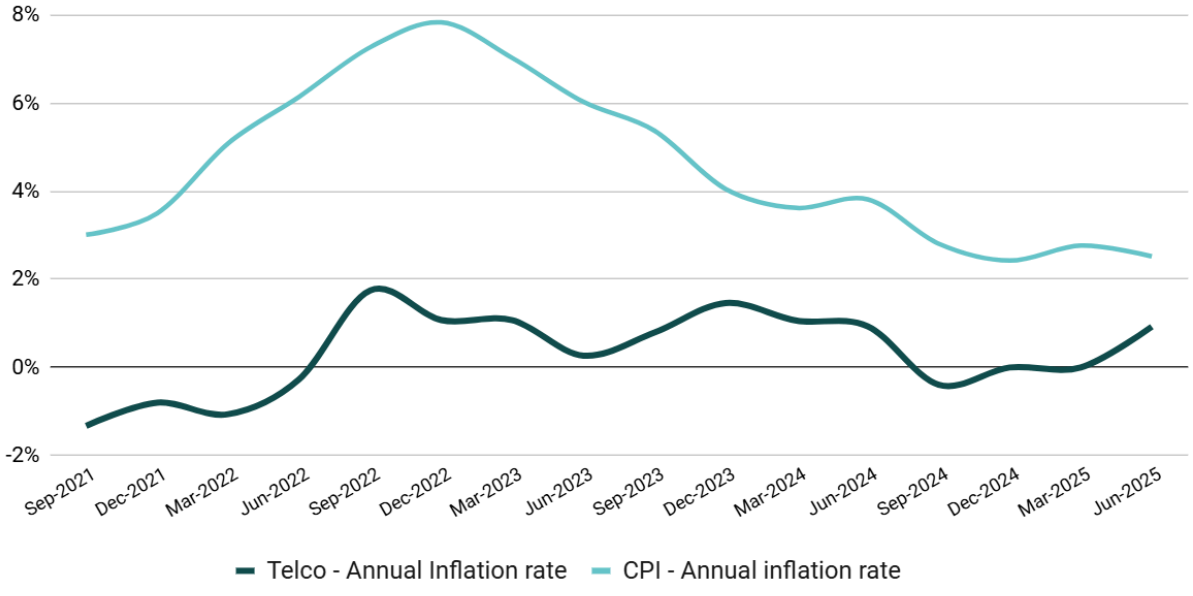
Figure 3: Australian CPI indices (2014 normalised)



Source: ABS

Looking at the last three years specifically, we switch from the CPI index to its derivative - the rate of inflation.

Figure 4: Australian inflation rate (%)

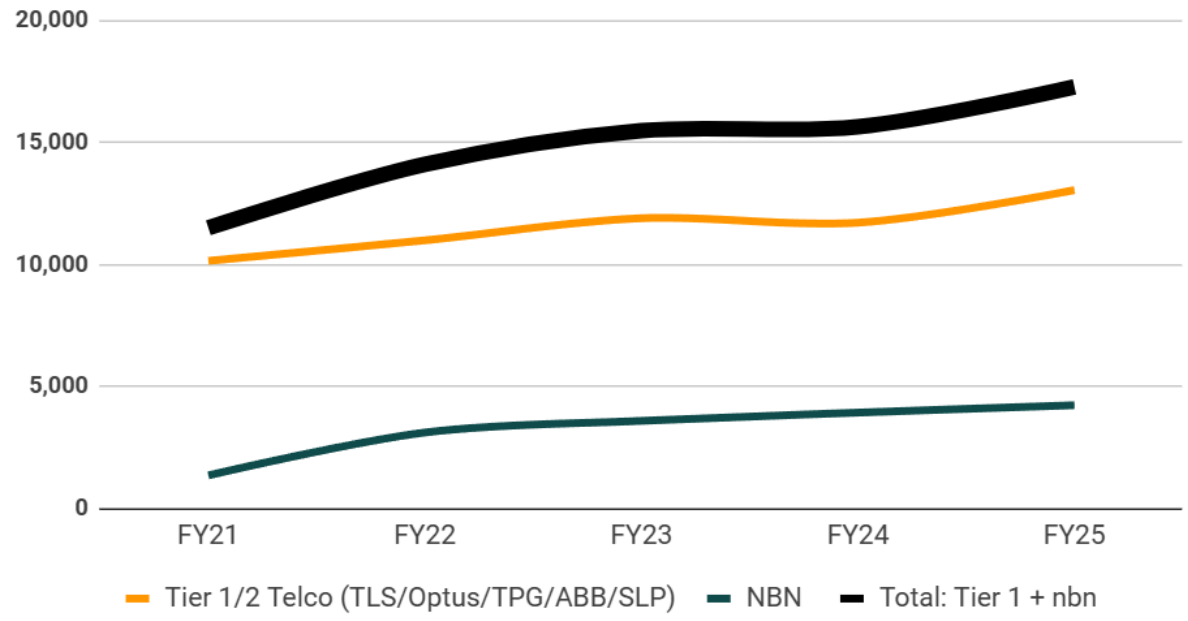


Source: ABS

We can see that we saw some price inflation after June 2022, extending as recently as June 2025. But these increases remain well below general inflation - in fact, they reflect real price declines.

Despite this sluggish price performance, higher revenues have flowed through to industry EBITDA. Sustained cost cutting over the last five years has seen EBITDA improve more than revenue. A loss of cost discipline in FY24 saw EBITDA flatten, but we have returned to trend in FY25.

Figure 5: Australian telco industry EBITDA (all segments, $m)



Source: Company reports, Venture Insights analysis

This is encouraging. But the real question is whether this level of profitability really supports the major infrastructure investments already made, and future investments like 6G and improved core network capacity.

Return on capital can be measured in many ways. However, the details do not change the picture very much.

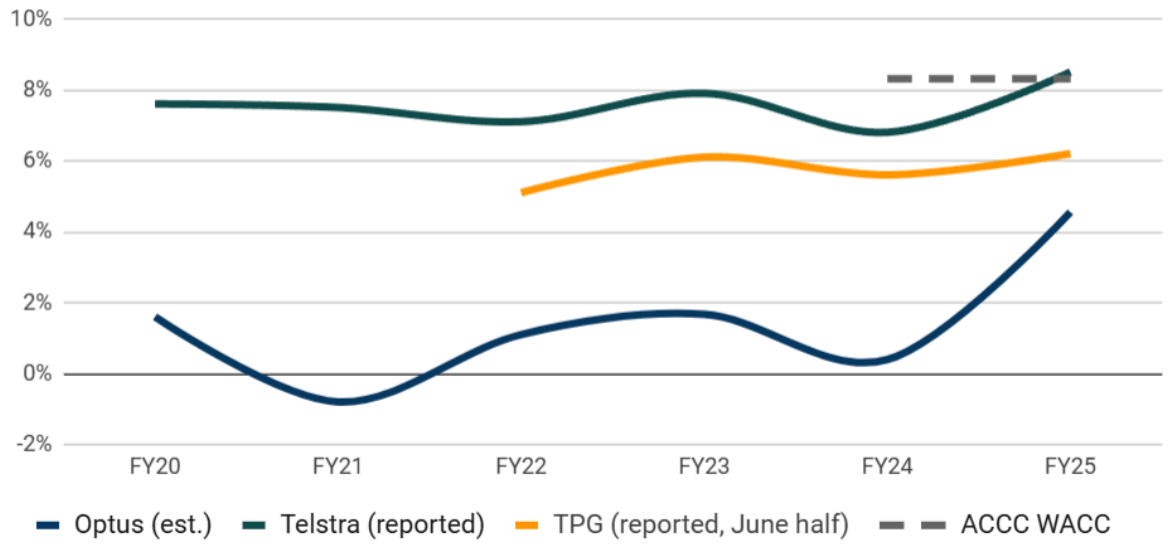
In summary:

- Telstra is the only operator that meets industry WACC. And only barely at that, though it plans to lift its ROIC above 10% in coming years. And investors know that an integrated incumbent must generate a much higher return than a pure-play infrastructure owner to be considered a success.

- TPG has been consistent, but has failed to meet industry WACC of around 8.3% (ACCC).
- Optus has performed poorly in recent years, but has recently improved:
    - A very low post-tax profit of $19m in FY24 was followed by a $136m profit in FY25.
    - Singtel wrote off around 40% of Optus invested capital at the end of FY24.

However, it is plain that the industry - as a whole - is not covering its cost of capital. The industry has an ROIC problem!

Figure 6: Australia operator ROIC (%)



Source: Company reports, Venture Insights analysis

The return on investment challenge

Prior to 2023, capital was cheap across all developed economies. Quantitative easing to manage the impact first of the 2008 financial crisis, and then the pandemic, meant that capital return targets were lower.

Since then, capital has become significantly more expensive, and this is driving a re-evaluation of capital-intensive businesses like telcos.

The mandate from the investment community is profitable, value-accretive growth, making ROIC now the central pillar of TMT investment strategy. And we have already seen many changes flow through in recent years to address this.

The “standard model” has been to try to re-invigorate the business within the confines of the integrated telco, through operational and commercial excellence.

The first strategy has been to boost efficiency and effectiveness through comprehensive, digital-driven redesign of the entire telco operating model.

The objective is to build an organisation where automation (increasingly AI-driven) is at the centre of virtually all business activities, from customer care and marketing to finance and strategy.

In parallel, operators can pursue investment sharing models, such as network-sharing joint ventures, to reduce the significant burden of capital expenditure (capex) associated with infrastructure build-outs.

We have seen structural separation and asset monetisation, to transform the capital-intensive business into a capital-light entity with a structurally higher ROIC.

The mechanism has been carving out infrastructure assets (towers, fibre) into separate entities (e.g., Telstra's InfraCo and Amplitel).

Proceeds are used to reduce the Invested Capital denominator of the return on investment ratio, while the remaining ServeCo has higher operating leverage and margins.

The second strategy focuses on expanding the business beyond its core connectivity offerings. This involves systematically tapping into new B2C and B2B revenue sources that leverage the telco's existing assets and customer relationships but are not solely dependent on data and voice services.

In practice, the focus on efficiency and effectiveness has been much more successful than the search for new revenue streams. Australia’s relatively small market makes it hard to develop these adjacencies at scale sufficient to generate significant profit.

In Australia, for example, TPG Telecom's low ROIC is forcing necessary and painful strategic restructuring to exit the "capital trap", while Optus’ low ROIC has forced it to re-value assets.

In contrast, Telstra's sustained superior ROIC is the clearest evidence of its "economic moat" - its network supremacy, brand equity, and scale - which allows it to consistently turn investments into superior profits.

For investors, a return on capital that exceeds the WACC is non-negotiable. Companies failing this test are exposed to long-term financial risk, regardless of revenue growth.

Future shareholder returns will be disproportionately driven by companies that can sustainably reinvest capital at rates significantly above their cost of capital. Disciplined capital allocation is now the primary determinant of long-term wealth creation in the Australian telecommunications sector.

This determinant may drive new models of telco operation, specifically the transition to a utility-like model. According to a global McKinsey survey, over half of telco executives believe a utility model will be the best fit for the industry in the next five to ten years.

If we conclude that the fundamental market dynamics are insurmountable, then the wisest course is to embrace stability. This path represents a strategic pivot away from the industry's long-standing prioritisation of growth. Instead, it emphasises efficiency, operational stability, and the pursuit of regulatory support to function more like a critical public utility.

The transition to a utility-like model requires three primary strategic moves:

1. **Increase emphasis on efficiency over growth**: This involves aggressively streamlining processes and simplifying product structures to create a leaner, more cost-effective operations base and a less volatile cash profile.

2. **Reduce overall capex intensity**: This can be achieved through expanded use of investment-sharing partnerships and by aligning major infrastructure investments with national strategic goals to reinforce the telco's status as a critical asset.

3. **Pursue regulatory support:** Actively seek government funding, subsidies (e.g., for rural deployments or reduced spectrum fees), or stable regulatory frameworks like the Regulatory Asset Base (RAB) to ensure sustainable, long-term investments.

In fact, Australia has already done this. The NBN is the outcome of this kind of choice. This path is a sensible approach for an industry where the market is not expected to grow faster than the broader economy (GDP). Investors have been attracted to the utility model in recent years, as shown by utilities' more favourable enterprise value to EBITDA ratios compared to telcos.

This indicates that telco investors increasingly value low-risk, reliable cash flows more than the potential for future earnings growth. From a value-creation perspective, if a company's Return on Invested Capital (ROIC) is below its Weighted Average Cost of Capital (WACC), returning cash to shareholders is preferable to pursuing growth initiatives that destroy value.

Internationally, we see that Europe’s more competitive telco markets have delivered more investment intensity than the United States’ more concentrated industry. In part, this reflects these two alternative pathways.

Europe remains a competitive, high investment market, achieving public goods, but at the expense of telecom investors.

In contrast, the United States has adopted an approach closer to the utility model - less investment of higher quality - a model that arguably falls short of the digital backbone that an advanced economy will need.

These two approaches generate different kinds of problems.

In Europe, this tension has fuelled debates over the need for further network consolidation or for Large Traffic Originators (LTOs) to make additional contributions to network providers to improve telco industry returns.

In the United States, the debate is over universal service and the need for public support for digital network expansion.

Private value versus public good

Which of these two models - a more conventional integrated model, or the more radical utility model - is best for Australia?

Can we find new sources of revenue to sustain the traditional model, or must we retreat to a smaller utility investment footprint?

There are major problems with either approach. On the first, it is unlikely we will find new commercial revenue sources that have not already been tapped. On the second, we are likely to see a national digital investment shortfall.

What is strange about these issues is that while the industry struggles to lift prices in the face of customer resistance, the rhetoric around digital infrastructure all leans in the opposite direction.

The private valuation of the industry is reflected in the price that our customers are willing to pay for our services. As we have seen, those prices currently do not reflect the cost of the capital invested in networks.

Yet, simultaneously, the public rhetoric around telecommunications is that it is a foundational infrastructure for our digital economy, for productivity growth, for our national interest, and even for our national security.

There is a mismatch here between private valuation and public good that points to either a significant market failure suppressing revenues, or a significant policy failure to encourage investment in digital infrastructure for our economy and society.

It will not be possible to address the policy framework in any constructive way until we get to grips with the fundamental gap between the private and public valuations of the telco industry.

And we can tie these possibilities to the two alternative structural outcomes for the telecommunications industry.

If we conclude that revenues are suppressed, then the answer is regulatory support for higher telecom revenues. End-users are resistant to price increase - not to mention their political representatives, who would be just as resistant.

In Europe, contributions from platforms have been canvassed. The argument here is that global platforms are exploiting an open platform that was designed and regulated for the benefit of domestic end users, not the richest global corporations.

In a scenario with higher revenues like this, an industry of rejuvenated integrated telcos is a possibility.

But if the current valuation of digital networks prevails, then we are almost inevitably on a track towards the utility model - not just in fixed networks, but in mobile networks as well.

Because what shareholder will invest the capital for - say - 6G networks at a rate of return below the WACC - unless that investor is looking for the certainty of utility returns?

But the certainty that such an investor is looking for cannot be delivered in the world where we now live - where we have competing mobile networks, new generations of technology every ten years, and the overhang of potential policy intervention.

The world where those three threats have been eliminated is one where there is:

- a monopoly provider
- public funding of technology upgrades
- a long term regulation framework.

In short, it looks a lot like the NBN.

But in that world, we can expect the taxpayer to be increasingly called upon to provide the capital necessary to achieve the public goods that digital networks deliver. And it just so happens that the biggest beneficiaries will be global players with little commitment to this country.

Anyone who does not think this scenario is a real possibility for the mobile industry should ask themselves this question - who really predicted the launch of the NBN twenty years ago? The radical, mandatory handover of assets, the consolidation of most of the fixed market into (effectively) a statutory monopoly? We have become so used to it that we forget what a policy rupture this was.

I do not raise these possibilities because I am predicting them - there is a lot of water to go under that bridge yet.

Nor do I think this is desirable - I think the loss of network competition in the industry would undermine end user interests.

I raise these possibilities because they now constitute real policy risks running parallel to the commercial risks inherent in the industry's low long-term return on investment.

There are some lobbies who would be pleased by a mobile NBN, particularly some rural and consumer groups, but they should be careful what they wish for. Australia's NBN approach of a fully government owned monopoly has not been adopted by any other country in the years since.

The reason for that is that competition has delivered what policy-makers want in other markets. And it might have done so here too - if that possibility had not been foreclosed - and at a much lower cost to the taxpayer.

The only way to prevent the utility outcome here is a frank acknowledgement of the problem, and the systematic identification of alternatives that support telco revenues and can divert us away from a nationalisation of the telecommunications industry.

And we need to have that debate now, before the next major round of mobile investment - not afterwards when policy uncertainty generates sovereign risk for the investors we need to fund our digital future.

Thank you.

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