EDINBURGH
FINANCE SOCIETY

Virgin Media O2 & Vodaphone

GRACE, CINDY, EMMA & VANESSA

EDINBURGH FINANCE SOCIETY 2025

DEAL OVERVIEW

Acquirer: Virgin Media O2

Target: Mobile Spectrum of Vodafone UK

Total Transaction Size: £343 million

On May 31st of 2025, Virgin Media O2 agreed to purchase a portion of mobile spectrum from Vodafone UK for £343m, a move intended to advance its network capabilities amidst increasing concerns over mobile connectivity, subsequently creating the UK's largest phone network. The deal specifically aimed to advance the connectivity of Virgin media in major cities, with particular emphasis on London and affects approximately 24 million users, with the plans being made to further advance connectivity over the next decade.

The acquisition is primarily funded through an internal source of cash, specifically the money raised from selling a minority stake in the Cornerstone Telecommunications Infrastructure (CTIL) joint venture. This strategic move allowed Virgin Media O2 to convert a portion of an existing asset into immediate capital to cover the spectrum cost without tapping into its core business cash reserves.

For the remaining portion of the cost, the deal utilises vendor financing provided by Vodafone. Rather than paying the full £343 million upfront, the payments are spread over several years beyond 2025, meaning Vodafone is effectively funding part of the purchase itself through this deferred payment plan.

For Virgin Media O2, the acquisition directly supports its strategy of heavy network investment and improving competitive parity. It boosts their network capacity to better challenge rivals like the newly merged Vodafone-Three. For Vodafone, the sale was a strategic concession to secure regulatory approval for its more critical merger with Three, aligning with its goal of creating a larger, more powerful entity.

The primary value for Virgin Media O2 is a tangible upgrade to its network infrastructure, increasing its total spectrum share to 30%. This will translate into improved coverage, faster speeds, and a more reliable experience for its customers. For Vodafone, the value was not just the £343 million in cash, but the strategic value of successfully getting its larger merger approved by proactively addressing competition concerns.

A potential downside for Virgin Media O2 is the financial outlay, which, while managed through the Cornerstone sale and extended payments, still represents a significant cost that must be justified by future customer growth and revenue. For Vodafone, the downside is strategically strengthening a key competitor by providing it with the essential spectrum needed to close the network quality gap.

COMPANY DETAILS (ACQUIRER – VIRGIN MEDIA)

Virgin Media O2 is a major UK-based telecommunications company, formed by the merger of Virgin Media and O2. It provides high-speed fibre broadband, mobile, landline, and television services.

Founded: 1 June 2021

Headquarters: 500 Brook Drive, Reading, RG2 6UU

CEO: Lutz Markus Schuler

Number of employees: 10,000+ (As of May 2025)

Market Cap: The number of active mobile phone users in the UK in 2024 was 88.9 million

LTM Revenue: £10,339.1 million

LTM EBITDA: 3,781,300 (2024 FY)

LTM EV/Revenue: £10,275.5 million

LTM EV/EBITDA: £3.91$ billion

COMPANY DETAILS (TARGET – VODAFONE)

Founded: 1982

Headquarters: Newbury, Berkshire, UK

CEO: Margherita della Valle

Number of employees: about 93000 (As of 2025)

Market Cap: $20.41 billion

Enterprise Value (EV): $68.086 billion

LTM Revenue: $4020430

LTM EBITDA: $9140752

LTM EV/Revenue: 169350.04

LTM EV/EBITDA: 74486.21

PROJECTIONS AND ASSUMPTIONS

SHORT-TERM CONSEQUENCES

This deal has had a mostly positive reaction from the market and investors, particularly as this deal was carried out with the intention of levelling out the playing field between the major network providers. There are 3 major providers, and with Vodafone UK's recent merger with Three UK in May 2025, leading to a new leading spectrum holding of 46%, compared to Virgin Media O2 with a 22% holdings pre-deal (changing to a wider 30% spectrum holding post-deal) this was a strategic move to stay competitive, amongst its investors and rivals. Overall, investors were pleased with this move, it is comfortably in the investors best interests, resulting in neither withdrawing nor increasing investing at drastic rates. Virgin Media's £700 million plan, called their 'Mobile Transformation Plan', to expand its network (which included the £343 million deal purchase from Vodaphone), was seen as a necessary and strategic move from the investors point of view to maintain Virgin Media's competitiveness and induce long-term growth.

As previously mentioned, this £343 million deal was a key part in their £700 million transformation plan, their main action plan is to convert their extra newly acquired spectrum into building 1000 'Giga Sites' across the UK, along with newer high-tech capabilities of these new 'Giga Sites', to create even faster internet speeds and improved reliability for their customers.

LONG-TERM CONSEQUENCES

This £343 million deal on mobile spectrum is a great strategic move that will fundamentally reshape Virgin Media O2's (VMO2) competitive position in UK's newly reshaped mobile market. Following the Vodafone-Three merger in May 2025, the industry has consolidated into a powerful triopoly, consisting of Vodafone Three, EE and VMO2. For VMO2, this deal is a direct and necessary countermeasure, providing an immediate supply of critical network capacity to compete effectively against the new enlarged entities.

A key long-term consequence is the deepening of the network sharing agreement with Vodafone. This deal suggests a future where VMO2 and Vodafone may move towards a more integrated network infrastructure model, like BNL joint venture between Three and EE in the past. This could involve further collaboration on mast and radio equipment, leading to massive capital expenditure savings for both. For VMO2, these savings can be redirected towards its fibre expansion and service innovation, strengthening its core fixed-mobile convergence (FMC) strategy. Furthermore, with a bolstered mobile network, VMO2 may shift its market strategy from competing primarily on price to competing on network quality and the value of its bundled services, potentially leading to higher Average Revenue Per User (ARPU).

The strategies of both parent companies, Liberty Global (for Virgin Media) and Telefónica (for O2), provide clear insight. Telefónica has a strong reputation for operational excellence in mobile networks, as evidenced by O2's historically strong performance in the UK prior to its merger with Virgin Media. The company favours strategic partnerships and mergers to achieve scale, as seen with the original creation of O2 UK and the subsequent Virgin Media O2 merger. Liberty Global is a savvy asset trader, known for making bold acquisitions and disposals to maximise value. This deal fits both patterns perfectly: it is a partnership that enhances scale and network quality and a tactical acquisition of a high-value asset.

RISKS AND UNCERTAINTIES

Virgin Media has dedicated billions to improving connectivity in the UK. However, if they are unable to accomplish this, they could risk falling behind competitors. The company is in a somewhat competitive market. There are two other main network providers outside of Vodafone, EE and Three. While these companies could perhaps threaten Vodafone their networks are not as expansive and fast as Vodafone.

Both O2 and Vodafone have ongoing lawsuits against them. O2 is involved on a major clash action lawsuit alleging overcharging customers for mobile contracts. Vodafone is also facing a separate lawsuit of £120 million alleging a breach of data from its franchisee.

The mobile data industry is steady. There is a constant demand for a secure network that is unlikely to change dramatically in a short period of time. While the future of network connection will undoubtably change overall, it is unlikely that it will change so fast that Vodafone will not be able to change their business model to keep up.