S&P Global
Ratings

Environmental, Social, And Governance Evaluation

Masmovil Ibercom SA

Summary

MasMovil is one of the four largest telecommunications operators in Spain, providing fixed and mobile voice and internet services to business and retail customers. On Nov. 3, 2020, it completed the delisting of its entire share capital following the takeover by private equity groups Cinven, KKR, and Providence Equity Partners. In fiscal 2021, the group reported revenue of €2.45 billion, from its residential (82% of the total) and wholesale and business (19%) segments. In 2021, MasMovil acquired Euskaltel, the leading telecommunications provider and sole cable operator in Spain's Basque Region, as well as Asturias and Galicia. This acquisition follows Pepephone and Yoigo in 2016, Llamaya in 2017, Lebara in 2018, and Lycamobile Spain in 2020. MasMovil has a hybrid network model, through which it leases part of its network while owning the rest. It stands between traditional mobile network operators (MNOs) and mobile virtual network operators (MVNOs).

The ESG evaluation of 67 reflects MasMovil's good management of environmental and social risks, effective governance structure, and adequate preparedness for disruptions. MasMovil's achievement of net zero scope 1 and 2 carbon emissions, with limited reliance on carbon offsets, and its above-industry-average use of renewable energy highlight its progress in reducing carbon emissions. However, the company's tracking of its most material souce of emissions (scope 3) is limited, as it does not capture emissions associated with its leased networks, lagging more advanced industry practices. MasMovil has a track record in completing acquisitions, which has enabled it to steadily increase its market share in Spain. However, the company faces the challenge of bringing Euskaltel's customer satisfaction in line with MasMovil's high historical level. This ESG Evaluation does not address the impact of the potential merger with Orange, announced in March. Should it proceed, we would evaluate the new entity's sustainability strategies, policies, commitments, governance structure, and awareness of plausible long-term disruptions.

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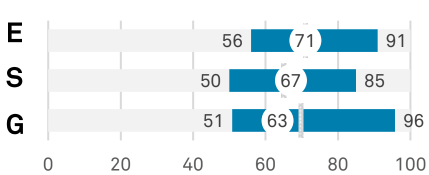
ESG Profile Components

Entity-specific assessment			Sector/region analysis			Achieved and attainable scores
E (30%)	30	+	E (30%)	41	=	E
S (30%)	32	+	S (30%)	35	=	S
G (40%)	33	+	G (40%)	31	=	G
ESG	**32**		**ESG**	**35**		



Entity within its sector/region

Entity's sectors/ regions versus all sectors/ regions

Range indicates minimum and maximum score possible given sectors and regions in which the entity operates

ESG Profile 67

Preparedness No Impact

Low | Emerging | **Adequate** | Strong | Best in class

ESG Evaluation

67

A higher score indicates better sustainability

Component Scores

Environmental Profile		Social Profile		Governance Profile	
Sector/Region Score	**41/50**	**Sector/Region Score**	**35/50**	**Sector/Region Score**	**31/35**
Greenhouse gas emissions	**Good**	Workforce and diversity	**Good**	Structure and oversight	**Developing**
Waste and pollution	**Good**	Safety management	**Good**	Code and values	**Good**
Water use	**Good**	Customer engagement	**Strong**	Transparency and reporting	**Good**
Land use and biodiversity	**Good**	Communities	**Good**	Financial and operational risks	**Neutral**
General factors (optional)	**None**	General factors (optional)	**-2**	General factors (optional)	**None**
Entity-Specific Score	**30/50**	**Entity-Specific Score**	**32/50**	**Entity-Specific Score**	**33/65**
E-Profile (30%)	**71/100**	**S-Profile (30%)**	**67/100**	**G-Profile (40%)**	**63/100**

ESG Profile (including any adjustments) **67/100**

Preparedness Summary

MasMovil's adequate preparedness reflects our view that the company's board and management have demonstrated their ability to sustain growth through acquisitions and manage strategic risks in a competitive market. MasMovil is also aware of the most material risks it faces over the near-to-medium term and relevant industry trends, including cybersecurity and data protection regulation and compliance. The company demonstrates awareness of the risks it faces linked to the impact it has on stakeholders, such as accessibility, affordability, and network stability. However, MasMovil is not capitalizing on opportunities in the industry, such as how its services can contribute to bridging the digital divide.

Capabilities	
Awareness	**Good**
Assessment	**Good**
Action plan	**Good**
Embeddedness	
Culture	**Good**
Decision-making	**Good**

Preparedness Opinion (Scoring Impact) **Adequate (No Impact)**

ESG Evaluation **67**

Note: Figures are subject to rounding.

Environmental Profile

71/100

Sector/Region Score (41/50)

MasMovil operates in the telecom sector, which has lower exposure to environmental risks than industrial sectors. Still, rising data traffic across networks is increasing electricity demand and exposes the sector to climate transition risks. The management of waste from end-of-life network equipment and hardware is also material. However, the sector's impact on land and water resources is more limited.

Entity-Specific Score (30/50)

Note: Figures are subject to rounding.

Greenhouse gas emissions	Waste and pollution	Water use	Land use and biodiversity	General factors
Good	**Good**	**Good**	**Good**	**None**

The company's net zero target excludes its most material sources of indirect greenhouse gas emissions, such as purchased goods and services and use of sold products--which compares negatively with more advanced players in the sector. MasMovil achieved net zero on its scope 1 and 2 emissions in 2021, with limited use of carbon offsets. This should continue thanks to its significantly above-the-sector-median use of renewable energy with certificates of origin (100% as of 2022). However, MasMovil's limited tracking of scope 3 emissions and its lack of targets to reduce them, which other peers have already set, weigh on our assessment, because scope 3 emissions represent a significant portion of overall emissions due to the company's use of leased network assets. In the context of the recently announced merger with Orange's Spanish business, we would expect scope 1 and 2 emission intensity, currently below the industry median due to MasMovil's asset-light business model, to increase because Orange has a greater asset ownership model than MasMovil.

MasMovil's waste intensity is lower than the industry average, in part due to the asset-light business model. In the past years, the company's reporting on waste metrics has improved, and is now in line with the industry. However, contrary to some of its peers, MasMovil has not set quantitative targets to reduce its waste generation further. The company's office and data centres waste is managed by approved recycling waste agents, and its rate of refurbished equipment increased to 49% in 2021 from 37% in 2020.

MasMovil's tracking of water consumption and use of water recycling technologies at its data centers are in line with industry standard practices. The company's water consumption intensity is below the peer average and has been stable over the past years. We believe that MasMovil's below average water consumption intensity is due to its hybrid network model and use of closed-circuit cooling systems at its data centers. While the company has implemented initiatives to reduce water use at its headquarters, the effectiveness of these measures is unclear due to the increase in telework during the pandemic, which resulted in fewer-than-usual employees in the office.

Due to the company's asset-light model, the biodiversity impact of its activities is limited. MasMovil follows regulatory requirements regarding biodiversity risk assessment and management and its initiatives in this area are limited, which is the case for most industry peers.

Social Profile

67/100

Sector/Region Score (35/50)

The telecom sector has medium exposure to social risks from service affordability, data privacy, network stability, employee management, and connectivity, especially in rural areas.

Entity-Specific Score (32/50)

Note: Figures are subject to rounding.

Workforce and diversity	Safety management	Customer engagement	Communities	General factors
Good	**Good**	**Strong**	**Good**	**-2**

Customer satisfaction and service quality are at the core of MasMovil's strategy and business expansion. While MasMovil's net promoter score decreased to 26 in first-quarter 2022 from 38 in first-quarter 2020, it is still above the average for regional peers. However, as recently acquired Euskaltel's net promoter score is below the industry average, MasMovil faces the challenge of bringing it in line with the rest of the group. We view positively that customer satisfaction and acquisition metrics are linked to executive compensation, in line with other advanced industry players. MasMovil recognizes customer data privacy as one of its most material risks. The company has a cybersecurity committee, and in 2021, it conducted cybersecurity and compliance awareness programs for employees across the group. However, its practices to mitigate cybersecurity risks, such as conducting daily ethical hacking exercises, are still behind those of leading industry players. MasMovil has evolved to become a mature and consolidated player, so challenges to keep its leadership position and strong customer satisfaction across a larger customer base could become greater.

Due to its acquisitive nature, MasMovil faces the challenges of successfully integrating different cultures across its workforce. The company's employee net promoter score decreased to 32 in 2021 from 56 in 2020, due to employee concerns related to the acquisition of Euskaltel and remote work during the pandemic. However, MasMovil's turnover, of 8.9%, is lower than the industry median of 11%, reflecting the company's ability to retain talent. As required by Spanish legislation, MasMovil conducted an annual gender pay gap analysis and reported that its gender pay gap is larger than other peers in the industry. In 2021, MasMovil approved a diversity plan, establishing improvement goals and commitments that will be managed over the next four years. We will monitor progress at the managerial level, given the company still has lower female representation in management positions than the industry median (17%, compared with the 27% median across the industry), which weighs in our assessment.

In line with industry standard practices, MasMovil has a safety policy, applicable across its operations and supply-chain, and tracks safety metrics for its direct employees. The company is exposed to indirect safety-related risks, relying on contractors to maintain its network infrastructure. While MasMovil has not set targets to improve safety metrics, this is standard across the industry. The company has developed programs for deployment of fiber connection in rural areas of Spain, and created a start-up accelerator, MasVentures, which provides local start-ups the opportunity to integrate their products and services within the group. At the end of 2021, MasMovil had reached around 2 million building units connected by fiber in towns with populations below 20,000, an increase of 35% compared to 2020. However, the company lacks concrete measures to address concerns of the communities where it operates regarding issues such as cyberbullying or the potential health effects of electromagnetic waves.

Governance Profile

63/100

Sector/Region Score (31/35)

MasMovil is headquartered and operates in Spain, a country that has a strong rule of law and institutions and relatively robust governance standards.

Entity-Specific Score (33/65)

Note: Figures are subject to rounding.

Structure and oversight	Code and values	Transparency and reporting	Financial and operational risks	General factors
Developing	**Good**	**Good**	**Neutral**	**0**

In late 2020, MasMovil's board underwent significant changes following the delisting of the entire share capital and takeover by private equity groups Cinven, KKR, and Providence Equity Partners. The board has overall a short average tenure of less than a year, which reflects the recent changes in the group's shareholder base. It is now composed of eight members, including separate CEO and chairman roles, with the latter being the only independent board member. In line with local governance standards, MasMovil has two board level committees: audit, and appointment and remuneration. Both committees have only one independent member, the chairman, falling short of international best practices.

MasMovil's board has a good balance of skills and expertise, but lacks diversity and independence by Spanish standards. Although there has been continuity in MasMovil's strategy and management, the share of independent board members has substantially decreased since the takeover, to 12% (being solely the chairman) from 50%, and falls short of local governance best practice. This is because six of the eight board members represent Cinven, KKR, and Providence Equity. Although not applicable to MasMovil, the company is below the recommended 40% female representation in the board applicable to listed companies in Spain by 2022, with only one woman. While board members have a relatively diverse and relevant skill set, including experience in the telecom, media, and finance industries, they do not have direct sustainability experience.

In line with industry standards, MasMovil has established policies on social and environmental issues. Its code of ethics, covering aspects such as human rights, corruption and conflicts of interest, is enforced through mandatory training for employees and contractors. The company also has a mechanism enabling employees and stakeholders to report potential breaches of the code of ethics. However, this whistleblower mechanism is not managed by an independent third party and does not allow for anonymous reporting, which falls short of best practice and could impair its success. In addition, MasMovil's CEO's variable compensation is not linked to ESG-related metrics--other than customer satisfaction--despit it becoming a more common practice locally and in the industry.

MasMovil's nonfinancial reporting, namely environmental key performance metrics such as waste, has improved over the past two years. The company's reporting on nonfinancial metrics is now, in our view, aligned with Spanish and, more broadly, European-based companies in the telecommunications sector. MasMovil also discloses governance related information, including board members biographies and executive remuneration. In line with regional standards, MasMovil's sustainability report prepared as per the Global Reporting Initiative standards, and the company's nonfinancial data received limited assurance certified by a third-party auditor. We believe its financial reporting is in line with industry peers and so far, the private equity ownership has not affected the disclosure of financial reporting, which remains public.

Preparedness Opinion

Adequate
(No Impact)

Preparedness	Low	Emerging	Adequate	Strong	Best in class

Our assessment of MasMovil's adequate preparedness reflects our view that the company's board and management have demonstrated their ability to sustain growth through acquisitions and manage strategic risks in a competitive market. MasMovil is also aware of the most material risks it faces in the near-to-medium term and relevant industry trends, including cybersecurity and data protection regulation and compliance. The company demonstrates awareness of the risks it faces linked to the impact it has on stakeholders, such as accessibility, affordability, and network stability. However, it has not capitalized on opportunities in the industry, such as how its services can help bridge the digital divide.

MasMovil's executive team and board members focus on risks that could affect the company's five-year action plan, prepared in collaboration with a consulting firm. This may differ from some more established and mature companies that examine potential risks and opportunities over a long-term horizon, such as changes in the competitive or regulatory environment, 5G deployment, tech-related disruptions, or transition climate risks.

MasMovil has maintained continuity of its management and strategic direction through the takeover by private equity groups Cinven, KKR, and Providence Equity Partners in 2020, and the acquisitions it has completed. The company has so far taken advantage of its hybrid business model, which combines reduced network development costs with the flexibility of accessing peer networks long term, along with growth through acquisitions. This allowed MasMovil to position itself as a disruptor in the industry. However, in our view, the company's strategy still lacks clarity on some aspects, including the potential move to a more asset-heavy business model in case the potential merger with Orange goes ahead.;

Through recent acquisitions, MasMovil has ensured continuity and consistency in its culture across the organization, by focusing on transparent communication and close monitoring, through cultural integration surveys. Overall, we believe recent integrations, including that of Euskaltel, have been well implemented due to a clear group strategy and its multibrand approach, allowing integrated companies to retain their diverse customer services and propositions.

MasMovil has enacted policies and tools to assess its strategic risks, and has defined the processes to report the findings to the board of directors. The company assesses the likelihood and impact of financial and nonfinancial risks as part of its risk management process under a base-, best- and worst-case scenarios. Although we have limited visibility on the assumptions used to develop each of those scenarios, we understand the outcomes of those scenarios are regularly discussed and monitored at the board level. Exposure to nonfinancial risks is typically assessed qualitatively, for example through questionnaires. The company also uses consultants when necessary.

We view positively that MasMovil has included an ESG component in a leverage loan package. The company's use of an ESG-linked ratchet of its revolving credit and capex and term loan B facilities acts as an incentive for top management to consider sustainability factors in its strategic and financial decisions over time. MasMovil also incentivizes customer quality by including linking executive compensation to high customer satisfaction, which supports the alignment of executive decisions with the company's long-term strategy.

Sector And Region Risk

Primary sector	Telecom
Primary operating region	Spain

Sector Risk Summary

Environmental exposure

The telecom sector is experiencing a rapid rise in energy consumption driven by the explosion of data usage and processing across its networks. The growth in data traffic directly results in higher electricity consumption and indirectly relates to global greenhouse gas emissions. Telecom-related emissions are mostly Scope 2 (related to energy consumption) and come from both the production of devices (including smartphones) and their usage (in data centers, networks, and direct consumer usage). Environmental responsibility for telcos also includes the end-of-life implications of handsets and equipment used in telecom networks. In many countries, especially in emerging markets, there are no facilities to recycle handsets. The telecom sector has more limited exposure to water and land use risks, except for water consumption in data centers. In addition to its effect on the environment, the sector is exposed to climate risks because a notable portion of its operating infrastructure (as well as customers) is exposed to extreme weather conditions like hurricanes, tornadoes, ice storms, or flooding.

Social exposure

Data privacy and network stability are the main social factors for telecoms because they are responsible for transmitting information. Failure to protect people's privacy could have significant regulatory and reputational implications for a telco. Also, debate over the societal impact of excessive social media use and the effects of misinformation could increase social pressure to reduce or change usage patterns. Rising health concerns around potential radiation from telecom equipment and devices could affect consumer perceptions of telecom service providers. Telcos are also large employers, typically with a significant unionized workforce (in particular for incumbent players), so human capital management is another key social risk. Given the sector's large and ethnically diverse customer base, community relationships and sensitivity are low but important social-cohesion risks. Safety management risks stem from the industry's technicians and personnel building, and maintaining the telecom infrastructure including towers and data centers. Given the sector's expansive reach and visibility, consumer confidence in telcos' community engagement, social equity, and corporate citizenship also contribute to our social risk assessment.

Regional Risk Summary

Spain

Spain has a strong rule of law and institutions despite undergoing important internal political challenges including from regional independence movements. Spain's corporate governance framework for listed companies has two components: binding provisions from the company law and voluntary recommendations of the Spanish Corporate Governance Code published in 2015 by the Comisión Nacional del Mercado de Valores (CNMV), Spain's national securities commission. In January 2020, the CNMV started to review the code, proposing amendments to executive pay, voting rights, and increasing gender quotas on boards to 40% from 30%--all on a comply-or-explain basis only. The code followed significant legal reforms such as the Law 31/2014, which included binding votes on remuneration policy, stricter regulations on directors' classifications, and new ownership thresholds for shareholders' rights. By law, Spanish boards must establish committees for audits, remuneration, and nominations. Companies must disclose an annual corporate governance report. While the stock exchange does not have specific ESG requirements in its listing rules, companies of over 500 employees are implementing the EU Non-Financial Reporting Directive's recommendations, which mandate disclosing ESG (including diversity) risk. Spain ranks 32 out of 180 on Transparency International's 2020 Corruption Perception Index.

Related Research

- Environmental, Social, And Governance Evaluation: Analytical Approach, Dec. 15, 2020
- The ESG Risk Atlas: Sector And Regional Rationales And Scores, July 22, 2020
- Our Updated ESG Risk Atlas And Key Sustainability Factors: A Companion Guide, July 22, 2020
- How We Apply Our ESG Evaluation Analytical Approach: Part 2, June 17, 2020

This report does not constitute a rating action.