



Telecommunications Labor Market Review: Canada

Labor costs account for ~23% of telecom operator* opex in Canada, will be pressured by 5G; industry headcount fell 1% YoY in 3Q18

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*Company types include TNOs with operations in mobile, fixed, cable TV, IPTV, alternate fixed and satellite and media segment. Does not include: MVNOs; vendors; stand-alone media/radio/TV broadcasters.



Contents

(Click to navigate)

- 1 Key economic indicators - Canada**
- 2 Canada's labor market – communications industry**
- 3 Telecom revenue & capex analysis - Canada**
- 4 Telecom labor cost analysis - Canada**
- 5 Telecom opex and profitability analysis - Canada**
- 6 Recent labor trends in Canada**
- 7 5G to spur employment across sectors in Canada**

APPENDIX 1

APPENDIX 2

Introduction



About this report

This report is the first in MTN Consulting's "Telecom Labor Market Review" series. This series provides country-level analysis of labor markets in the telecommunications network operator (TNO) sector. Labor costs account for over 18-19% of TNO revenues, so this is a significant topic as telcos search for a sustainable growth model.

Each report in this series addresses the following topics: local economy; local telecom labor markets; telecom sector revenue & capex; telco labor costs, opex and profitability; macro trends; and, when relevant, implications of the growth of SDN/NFV and 5G mobile networks.



Abstract

Operators in Canada are pursuing a wide range of business strategies as they look to reduce one of their largest overhead costs, i.e. the workforce. Apart from using automation and digitalisation to cut costs, telcos are also relying on voluntary separation programs (VSPs) to reduce these costs. A case in point is Shaw, which offered a VSP in early 2018, as part of its broader initiative to cut staff costs amid technological changes.

TNOs are also reshaping their workforces to prepare for new technologies like 5G. While 5G is at an early stage in Canada, lots of new 5G-related jobs are expected to appear, from deployment to testing and applications. By our estimate, total headcount for the telecom sector fell YoY by 1.3% to reach 163K in 3Q18. Canada's telcos are slowly scaling down their network departments and pushing hard on unions for concessions. That is likely to lead to additional M&A.

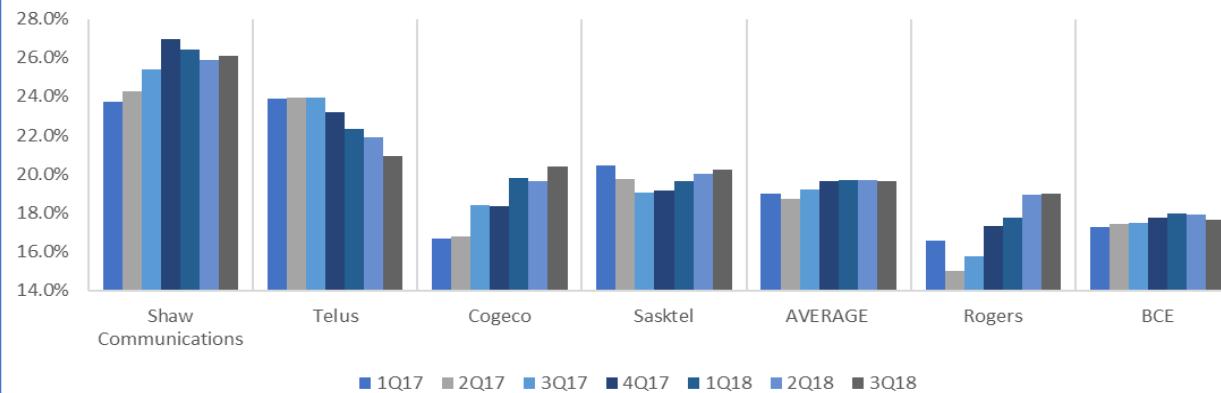
Below are a few key highlights from the report:

- Telco revenue was up by a 6.6% annualized rate in 3Q18, while capex grew 9%. Early 5G buildouts were a major reason for growth
- Labor costs for telcos in Canada are in the 23%-24% range of total opex, or around 30% of opex (excluding D&A).
- The average labor cost per employees in Canada was \$54.7K in 2017, marginally higher than the global average of \$54.3K.

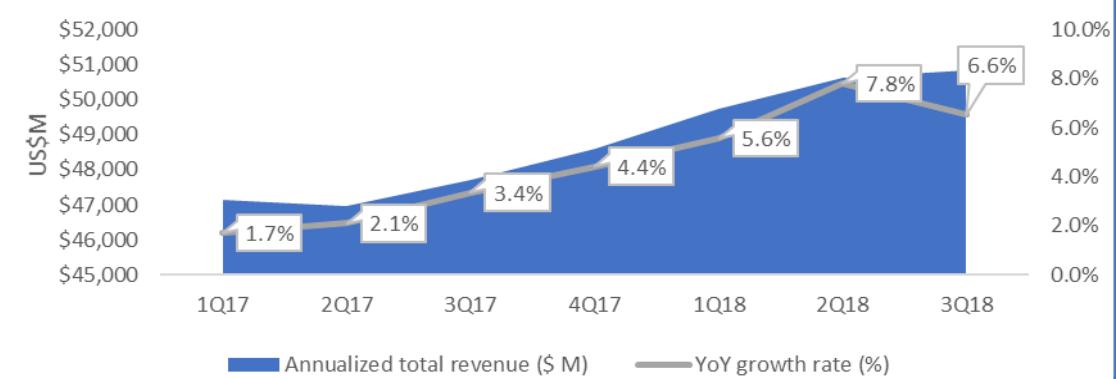
Industry-wide capex likely to exceed 20% of revenue as 5G takes center stage

Industry wide indicators	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18
Annualized revenue (\$ M)	\$47,129	\$46,980	\$47,726	\$48,600	\$49,750	\$50,642	\$50,855
YoY growth rate (%)	1.7%	2.1%	3.4%	4.4%	5.6%	7.8%	6.6%
Annualized capex (\$M)	\$8,941	\$8,791	\$9,153	\$9,531	\$9,804	\$9,976	\$9,989
YoY growth rate (%)	0.9%	-0.1%	4.5%	11.3%	9.7%	13.5%	9.1%

Annualized capital intensity(%), 1Q17-3Q18



TNOs: Annualized revenue and YoY growth rate, 1Q17-3Q18



- Capex increased by 9.1% (on an annualized basis) in 3Q18; early 5G buildouts were a major reason for this growth. Operators across Canada are deploying wireless small cells to improve coverage and capacity as they gear up for 5G. TNOs are also upgrading core network capacity in advance of the speed upgrade 5G will bring at the edge.
- On average, operators spend close to 20% of their revenue on capex. Shaw has the highest capital intensity at 26%. The company's capex for 3Q18 (in local currency) was up 9% compared to the previous year. This was due to increased investment in network infrastructure, deployment of 700 MHz spectrum, LTE and small cells as well as back office system and retail footprint expansion.

- Revenue was up 6.6% YoY in 3Q18, on an annualized basis. This growth can be attributable to higher sales of premium handsets and equipment to enterprise users, wireless user base expansion and increased sales from broadband services.
- Revenue from legacy services continues on the downward trend. For instance, Telus' annualized revenue for 3Q18 touched \$11B (up 6.6%) - due to increase in mobile network and data revenue, but wireline voice service revenue fell 12% YoY in 3Q18.
- BCE's annualized net sales for 3Q18 grew by 3.2% YoY, owing to strong results from all its business segments. In 2017, BCE's unusually high growth rate of 7% was due to its acquisition of MTS and Q9.