



FACULTAD DE TURISMO Y FINANZAS

GRADO EN FINANZAS Y CONTABILIDAD

**FINANCIAL ANALYSIS OF THE TELECOMMUNICATIONS
SECTOR: A MULTI-CASE**

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TÍTULO:

FINANCIAL ANALYSIS OF THE TELECOMMUNICATIONS SECTOR: A MULTI-CASE

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RESUMEN:

This research provides a thorough financial analysis of Telefonica, Orange, and Xfera, with an emphasis on their financial statements, profitability, liquidity, and solvency. The report seeks to give insights into the financial performance of various telecoms firms. This research provides a comparative assessment of the firms' financial health by studying its financial statements, profitability, liquidity, and solvency, assessing key financial indicators and ratios, and producing conclusions based on the findings. The conclusion drawn from the analysis is that Telefónica is expected to continue leading the sector, but it should be cautious of competition from new low-cost companies. Orange's low profitability and increased rivalry are seen as significant concerns, while Xfera is viewed positively with expectations of sustained growth and profitability.

Esta investigación proporciona un análisis financiero completo de Telefónica, Orange y Xfera, con énfasis en sus estados financieros, rentabilidad, liquidez y solvencia. El informe busca brindar información sobre el desempeño financiero de varias empresas de telecomunicaciones. Esta investigación proporciona una evaluación comparativa de la salud financiera de las empresas mediante el estudio de sus estados financieros, la rentabilidad, la liquidez y la solvencia, la evaluación de indicadores y ratios clave y la elaboración de conclusiones basadas en los hallazgos. La conclusión que se extrae del análisis es que se espera que Telefónica siga liderando el sector, pero debe tener

cuidado con la competencia de nuevas compañías de bajo coste. La baja rentabilidad de Orange y el aumento de la rivalidad se ven como preocupaciones importantes, mientras que Xfera se ve positivamente, con expectativas de crecimiento y rentabilidad sostenidos.

PALABRAS CLAVE:

Financial analysis; profitability; liquidity; solvency; telecommunications sector.

Análisis financiero; rentabilidad; liquidez; solvencia; sector de las telecomunicaciones.

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1.-INTRODUCTION OF THE UNDERGRADUATE THESIS PROJECT

This final degree project aims to perform a financial statement analysis to study and compare three big enterprises (Telefonica Móviles España SA, Orange Espagne SAU, and Xfera Móviles SAU) between themselves and the sector during the analyzed period.

The comparison will be carried out using techniques acquired during the four-year degree, to understand the evolution of these enterprises and foresee their (financial) future.

To carry out the financial analysis, we will use the annual accounts of each of the three enterprises and the industry data available in the SABI platform (Sistema de Análisis de Balances Ibéricos). These annual accounts will be used to calculate ratios to analyze the profitability, liquidity, and solvency of these companies and their evolution in time (2018-2021).

A brief introduction to the industry will be also given before we start with the analysis to understand the progress of the industry and to give information on the existing companies and their weight and importance in the sector. César Alierta, president of Telefónica, said that currently, we are experiencing one of the greatest revolutions in the history of humanity: the digital revolution. This revolution is changing society at a very high rate because of its big impact.

The project will be structured in the following way. First, we will start by studying each company's financial statements, and analyze their profitability, liquidity, and solvency. Later, we will be able to compare the results of the individual companies with the sector and get conclusions about the foreseeable future.

The degree of digitalization of the economy has a direct impact on productivity and innovation, and consequently on the levels of well-being and development. This new era of digitalization is based on connectivity, and this makes the telecommunications sector a key player in the future. However, this sector faces some difficulties to monetize the unstoppable traffic of data, and to be able to meet growing digital customer demand. These are some of the reasons why I consider this sector a very interesting topic to study.

2.-INTRODUCTION OF THE SECTOR AND THE CHOSEN ENTERPRISES.

From the optical telegraph to the free WhatsApp calls, the importance of staying connected is the main reason the telecommunications sector has rapidly increased, as it went from something that only a few people could afford to something that we can not live without; and the Covid-19 global pandemic has only ensured its importance.

Due to the constant appearance of new technologies, the sector has been in constant development and growth. Moreover, for firms to remain competitive in the market, they have to invest immensely.

Nowadays, the way of communication between us has changed drastically, as we can communicate faster and somewhat free of charge using OTT (Over-the-Top Apps – WhatsApp, Telegram, Skype). The appearance of these new technologies has forced firms to change their infrastructures to enter this new market, where we not only want to exchange voice but also media.

The telegraph system was brought into Spain from abroad because of the rush to have it, which prevented the development of the national industry. The same thing happened with the telephone terminals.

2.1. HISTORY OF THE TELECOMMUNICATIONS SECTOR

As Ortega (2019) mentioned, in April 1924, the Compañía Telefónica Nacional de España was founded, whose majority capital came from the International Telephone and Telegraph Corporation (ITT), which, later, got the monopoly of manufacturing telephone material.

Later in 1926, Standard Eléctrica SA (SESA) was founded. It dominated the industry of telecommunications, with mainly Spanish engineering and technology.

In the '60s there was an important R&D activity in Spain, which made Spain have a high level of technological knowledge.

According to Adanero (2019) at that time, the demand for new equipment and systems of telecommunications was at constant growth, going hand in hand with a policy favoring local manufacturing. All this made the industry grow bigger with its technological development, which not only satisfied local demand but also favored exports.

Because of all of this, Spain had a big portion of the overall telecommunications sector by 1972 (46%). This improved employment which grew by 150%. By the end of the '60s, Spain had three big enterprises that contributed more than 85% of the total production. Nevertheless, at the beginning of the '70s, the CTNE (Compañía Telefónica Nacional de España) negotiated the end of the monopoly of Stándard Eléctrica, which held the three biggest product lines (transmission, switching, and cables). This promoted the establishment of these enterprises: Intelsa, Telettra Española, and Cables de Comunicaciones.

Later, in 1983, the CTNE formed Grupo Industrial de Telefónica, that, only two years later, was formed by 29 corporations. To promote competitiveness, diminish public debt and so, contain inflation, the CTNE divested from the last enterprises of the holding.

At the same time, the INI (Instituto Nacional de Industria) acquired enterprises from the electronic sector with innovative capacities. All of these enterprises formed the "División de Electrónica e Informática". There was a deceleration in the telecommunications sector

because of the 1990s crisis. This resulted in the dissolution of the “División de Electrónica e Informática”.

Nowadays, there are practically no enterprises of manufacturing telecommunications systems and equipment in Spain. This happened, to an extent, because of the Telecommunications Regulation Law (Ley de Ordenación de Telecomunicaciones) in the year 1987. After, there were a lot of new operators entering the country, which made prices the main difference between one operator and the other. This made the manufacturing companies move to other places to offer cheaper prices.

The 2000s came with the deployment of mobile phones and the collapse of national manufacturing of equipment. Because of this, the manufacturing activity transformed into system integration. Telefónica and other operators made a big effort, as the fixed and mobile networks were vast and modern, but were anchored in circuit switching and CCITT signaling system no 7. The conversion into an IP network was hard. The Spanish operators were weakened because the rates they had to pay were higher than their income.

As Gordillo (2019) said, the industry was not focusing on R&D, which resulted in a loss in competitiveness, which, inevitably, resulted in a fall in exports. After this, multinationals drastically slimmed down their Spanish subsidiaries.

Since the late 1980s and early 1990s, European providers sought a way out by selling to China with soft loans from EU Member States. Soon China began to demand the transfer of the technology of the specific ASICs (Application Specific Integrated Circuits). Today China is the leader in technology and financial capacity in the manufacture of telecommunications equipment.

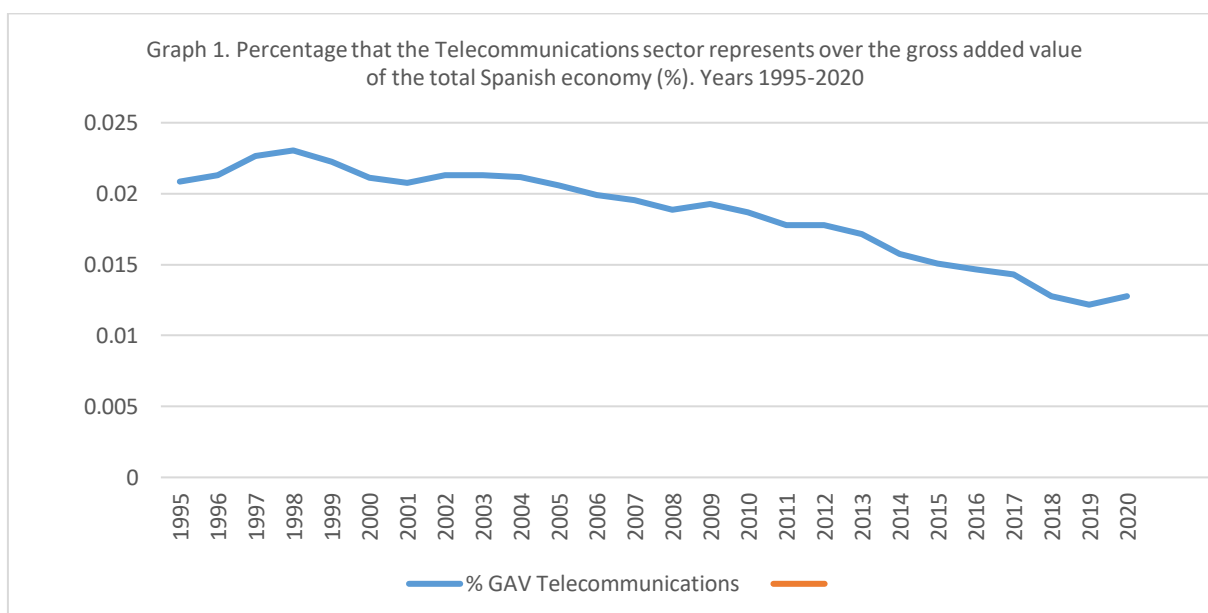
2.2. ECONOMIC AND FINANCIAL SITUATION OF THE SECTOR.

For some time, the telecommunications sector has experienced a downward trend in terms of GVA and employment. Nevertheless, the productivity of the sector started growing in 2015, reaching in 2018 more than double that of the Spanish economy. That same year, the Spanish telecommunications sector led productivity among other analyzed European countries. Internationally, the sector's exports formed 0,44% of the total Spanish economy and the imports 0,56%. This caused a decrease in its negative trade balance. (Cámara de Comercio de España, 2021)

The sector's billing grew between 2016 and 2018, and 83.1% was generated by the sub-branches of Cable Telecommunications (53.0%) and Wireless Telecommunications (30.1%).

In the case of the number of enterprises, the sector grew continuously.

Going back to the GVA, in this graph we can see the evolution of the percentage that the Telecommunications sector represents over the gross added value of the total Spanish economy (%).



Source: Own elaboration with data from INE (Instituto Nacional de Estadística)

In this next table, we can see the evolution of the revenue of each one of the branches of the telecommunications sector from 2018 to 2020.

Table 1: Evolution of the revenue of each one of the branches in the telecommunications sector (in thousands of €).

	2018	2019	2020
Telecommunications sector	31,694,201	33,032,928	31,167,764
611-Cable Telecommunications	16,704,187	17,411,289	15,835,954
612-Wireless Telecommunications	11,406,483	11,564,688	11,792,837
613-Satellite Telecommunications	213,973	217,122	198,828
619-Other telecommunication activities	3,369,558	3,839,829	3,340,145

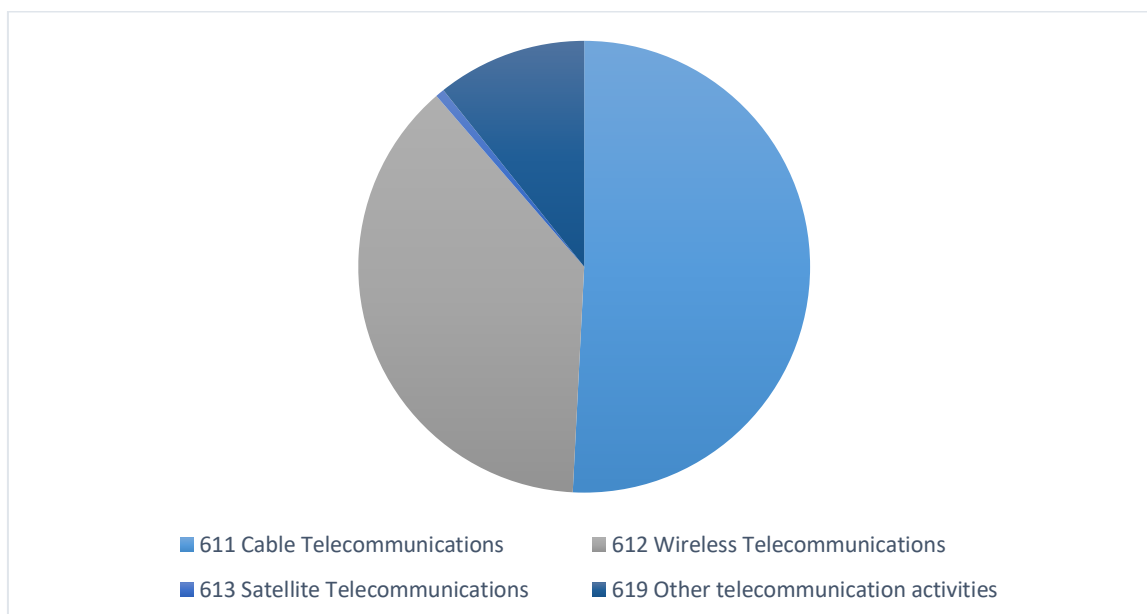
Source: Own elaboration with data from INE (Instituto Nacional de Estadística)

<https://www.ine.es/jaxiT3/Datos.htm?t=36186>

From the table, we can see that all of the branches of the telecommunications sector grow from 2018 to 2019 but fell back down in 2020, except for the wireless telecommunications branch, which continued growing.

From this, we can come to the conclusion that the telecommunication sector's revenue comes primarily from Cable Telecommunications (50.81%), next from Wireless Telecommunications (37.84%), followed by Other telecommunication activities (10.72%), and finally, Satellite Telecommunications (0.63%).

Graph 2. Contribution to the total turnover of the sector for each type of activity.



Source: Own elaboration

As mentioned by DBK Informa in 2022, around 170 companies operate in the sector, of which around thirty are virtual mobile operators. The volume of employment in the sector stood at around 47,300 workers in 2021. The concentration process in the sector continues, highlighting especially the acquisitions carried out by the MásMóvil Group, which in 2021 bought Euskaltel, and by Avatel, which has grown significantly with the purchase of numerous local operators.

The mobile communications market is led by Telefónica Móviles, with a share of 33.8%, followed by Vodafone (26.1%), Orange (20.4%), and Grupo MásMóvil (14.1%). In this way, the first four companies jointly gathered 94.4% of the billing to final customers.

Portability grew again in 2021 after the decline registered the previous year. In this way, in the year 7.2 million ported numbers were counted, compared to 6.8 million in 2020.

Telefónica de España leads the internet access segment, reaching a market share of 43.1% in 2021, followed by Orange (27.0%), Vodafone (12.8%), and Grupo MásMóvil (9.5%). The landline telephone market is also led by Telefónica de España, which obtained a share of 46.9% in value in 2021, followed by Vodafone, with a share of 21.1%, Grupo MásMóvil (17.8%) and Orange (8.1%).

2.3. ECONOMIC AND FINANCIAL SITUATION OF THE ANALYZED ENTERPRISES.

2.3.1. TELEFÓNICA MÓVILES ESPAÑA SA.

Telefónica is one of the world's leading telecommunications service providers. The company offers fixed and mobile connectivity services, as well as a wide range of digital services for individuals and companies.

Telefónica was founded in Madrid the 19th of April of 1924 as Compañía Telefónica Nacional de España (CTNE). Telefónica has the monopoly of telephone services and shares of the enterprise ITT.

By 1945, the state had the majority of shares (79.6%), which were diluted in 1967 because of a capital increase.

Between 1995 and 1999, telefónica went private because of two public offerings of shares.

Telefónica has become, since then, one of the biggest telecommunications enterprises. After its privatization and after the state deregulated the telecommunications market, there was a decrease in the workforce, adoption of new technologies, and a focus on profit momentum and share value. Telefónica took advantage of all of this and set out to grow. Because of the already present situation of deregulated wave and privatization, Telefonica decided on opening subsidiaries in South America.

2.3.1.1. Mission, Vision, and Values:

Mission.

Telefónica's mission is to better people's lives, facilitate business development, and contribute to the progress of the societies and communities in which it operates. It aims to achieve this by investing in telecommunication infrastructures, generating employment, and developing services that improve productivity and competitiveness.

Telefónica aims at the possibility that business success goes hand in hand with societal progress.

Telefónica also aspires to digitize the entire society, leaving no one behind, thus aligning itself naturally with the United Nations 2030 Agenda, which highlights the key role of technology, innovation, and communications in addressing the great challenges of humanity.

Vision.

Telefónica wants to act as a transformation engine. At the same time, it wants to manifest its compromise to societies and communities where it operates. It aspires to be its strategic ally for the development of the Information Society and in sustainable economic development and social cohesion backed by technology.

Values.

·Being open.

“We believe that by working in a collaborative, friendly, and transparent way the best solutions are achieved. We are an open system where everyone counts.”

·Being challengers.

“We offer innovative solutions; we transform and simplify people's lives. And we do not settle, we are always willing to change to do better.”

·Being trustworthy.

“We work in an honest, simple, and committed way, offering a safe and quality connection. We are still here after almost 100 years adapting to what our customers need.”

2.3.1.2. Research & Development (R&D).

Santiago Millán Alonso mentioned that Telefónica recorded an expense on research and development (R&D) in the first nine months of the year 2020 of 691 million euros, 14% more than in the same period of the previous year, when said spending was around 603 million.

In order to advance the state of the art and establish itself as a leader in the digital industry, Telefónica has to be aware of what is occurring in the scientific community globally.

For this reason, Telefónica Research was established. The Research team at Telefónica pushes the boundaries of fundamental science and technology as part of the long-standing and steadfast tradition of R&D that Telefónica has had for more than 30 years. By sharing their knowledge with the world, they elevate Telefónica to the forefront of scientific research.

A diversified, multidisciplinary, and worldwide team of scientists work at Telefónica Research with the goal of enhancing the company's operations while daring to push the boundaries of knowledge. One thing that makes Telefónica Research one of the most distinctive and significant assets of Telefónica is the balance between the objective to research and discover, the focus on growing the firm, and being connected to the business.

One of Telefónica's assurances that it will lead the technological transformation that will bring us to the more connected and humane future we desire is the position the Research team has acquired as one of the top participants in the academic research world.

2.3.2. ORANGE ESPAGNE S.A.U.

Orange Espagne S.A.U is an operator of all types of telecommunications and electronic services, which include, among other things: public access to landline telephone service, mobile telephone services, Internet access services, e-commerce-related operations, radio broadcasting services, sound and television broadcasting, and audiovisual and interactive services and content.

In 1993, the European Commission agreed to liberalize the telecommunications market in the European Union for the year 1998. To this end, the Spanish government agreed to initially liberalize mobile telephony, calling a contest in 1994 that was won by the Airtel consortium (now Vodafone).

In 1998 the Spanish government called bidding for the third fixed telephony license to which only France Télécom (from now on, FT) applied for. On December 1st of that same year, France Télécom began operating in Spain under the "Uni2" brand.

In March 1999, FT acquired the Spanish ISP (Internet Service Provider) CTV-Jet, one of the three main ones in the country, and that same year it began to offer Internet services. Later, FT would unify its Internet products under the "Wanadoo" brand.

In the years 1998 and 2000, the Spanish government called competitions to grant a new mobile telephony license. France Télécom also entered the contest but the license was finally granted to Retevisión (creating the Amena brand), and to Xfera Móviles (now Yoigo) respectively.

Amena slowly increased its market share to reach 24% in 2005, the year in which an agreement was reached to sell the company to France Télécom. At the beginning of August 2006, the change of ownership was formalized.

Commercially, FT refused to maintain the Amena banner because its brand strategy focuses on the use of the same brand globally, Orange. In October, the disappearance of Amena was officially announced and it was replaced by the Orange brand.

In 2012, Orange Spain decided to enter the low-cost market, with aggressive rates in exchange for the lack of value-added services. To do so, FT decided to recover, five years later, the "Amena" brand as a second brand. The company justified this decision by stating that using a previously known brand, a large investment in advertising would not be necessary, which made it the ideal brand for this low-cost operator.

In December of the same year, it bought its subsidiary in Spain from the Dutch group KPN, which operated under the "Simyo" brand for approximately 30 million euros, and began to manage it as a second low-cost brand. With this move, Orange gained control

of a second low-cost brand, operating as an MVNO (Mobile Virtual Network Operator) under the cover of its parent company and adding 380,000 new users to its customer base. Simyo was legally renamed Orange España Virtual, S.L.U.

In September 2014, Orange launched a takeover bid for the Spanish operator Jazztel, whose main reason was to take over its fiber network to compete in this sector, in which it had lagged behind, since Orange's fiber deployment was much lower than its competitors, while Jazztel already had access to 4 million real estate units. In July 2015, the takeover bid was favorable for Orange.

In February 2016, Jazztel was merged by absorption, legally disappearing but remaining as a trademark of Orange Spain.

At the end of 2018, it acquired the operator República Móvil, for which it paid around 25 million euros. República Móvil legally became Orange España Virtual, S.L.U., the same company name as Simyo.

On June 12, 2021, the integration of the República Móvil brand into Simyo, announced by Orange in April of that year, materialized.

On September 1, 2021, the Amena brand ceased to be operational and the migration of its customers to the Orange brand began. In this way, Orange Spain's brand portfolio would be made up of the "Orange", "Jazztel" and "Simyo" brands, high, medium, and low range, all with convergent fiber and mobile products.

On March 8, 2022, Orange Spain and Grupo MásMóvil announced that they had begun a period of negotiations for the creation of a 50:50 joint venture with a valuation of 19.6 billion euros and that would make it the telecommunications operator with more clients in Spain and the second in billing behind Telefónica. The merger is expected to conclude in the second quarter of 2023 and will have to have the go-ahead from Spanish and European regulators.

2.3.2.1. Mission, Vision, and Values.

Mission.

“Our mission is to ensure that digital services are well thought-out, made available, and used in a more caring, inclusive, and sustainable way in all areas of our business. Orange does everything in its power to ensure people and organizations enjoy a more autonomous, secure digital life. Through the engagement and expertise of the Group's teams, Orange employs innovative technologies and services everywhere, and for everyone.”

Vision.

Among Orange's visions are the following:

“Ensure that our customers have the best experience with Orange at all times.”

“Continue growing in our main business, through the development of convergence in all of Orange's offers.”

“Promote the business of Companies, where we want to be the trusted partner of all organizations in this global phenomenon of digital transformation.”

Values.

The 5 values of Orange are audacity, dynamism, proximity, transparency, and simplicity.

For Orange, it means being simple, honest, and close to those for whom they work. It means being dynamic, daring to think and, act differently in the services for their customers.

2.3.2.2. Research and development

Orange is currently developing an investment project in fixed (fiber to the home) and mobile (4G/5G) infrastructures, to contribute to the development of the country, providing it with the most advanced telecommunications networks.

Orange is expanding its Fiber To The Home (FTTH) coverage in Spain and launching its ultra-fast 10Gb/s Fiber network over XGSPON Spain. It has 11,043,000 4G customers and fourth-generation coverage for over 99% of the Spanish population.

Orange's 5G network reaches 1,529 municipalities spread over 52 provinces, with a coverage of 68.7% of the total population. At the beginning of 2022, Orange announced the largest 5G network deployment plan in the 700 MHz band of an operator in Spain, with the aim of promoting the recovery of the economy and reducing the territorial digital gap. Orange has already deployed 700 MHz nodes in 1,212 municipalities, making it the largest operator in Spain in the priority bands for the deployment of 5G connectivity.

After reordering frequencies in the 3.5GHz band, the company can offer more than 60% additional speed to its customers. Orange has also played a leading role in the pilots developed within the framework of the National 5G Plan in Galicia, Valencia, and the Basque Country, which will promote the digitization of the economy in different productive sectors.

2.3.3. XFERA MÓVILES SAU (Yoigo)

Grupo MásMóvil owns Yoigo, a provider of telecommunications services, whose corporate name is Xfera Móviles, S.A.U. In Spain, it provides services for fixed and mobile phones, the Internet, and television.

In March 2000, the Ministry of Industry, Tourism and Commerce awarded, through a public tender, the fourth mobile telephone license to operate with a 3G network in Spain to the Xfera Móviles consortium. This technology allows the transmission of voice and data with higher quality, as well as the commercialization of other advanced services such as video calls.

In June 2004, the original conditions of the license were modified by the Ministry of Industry, Tourism, and Commerce, taking into account market circumstances. The 3G technology was not mature enough, at that time, to launch a commercial offer and sustain a profitable business model with projection. For this reason, the consortium made the decision to significantly reduce capital and operating expenses, until market conditions made the project viable.

In June 2006, TeliaSonera, the leading telecommunications operator in Northern Europe and the Baltic, increased its stake in Xfera Móviles until it reached a majority shareholding (76%) and had the support of local partners who knew the market. TeliaSonera's intention was to reactivate the company to be able to start providing service before the end of the year.

The agreement agreed with Ericsson to construct the communications network and achieve 26% coverage over the national area by the end of the year was disclosed 30 days after the company's new shareholder structure became known to the public.

In September 2006, the terms of the roaming agreement with Vodafone were updated, which guarantees the company the possibility of providing service to its subscribers throughout the country.

On October 26, 2006, the company announces that its trademark will be Yoigo.

Contrary to the market trend at that time, Yoigo was preparing to launch an offer with a single cost for all calls to any destination, at any time and any day of the week. The company decided to indicate all prices honestly for the consumer and without small print,

including the cost of call establishment. Thus, the first low-cost operator in Spain was created.

In 2015 Yoigo managed to obtain benefits for the first time, obtaining 2 million euros, mainly due to their endless rate (unlimited voice and data rate), and in 2016, it was the fourth operator with the largest number of mobile lines (3,271,629 lines).

In 2015, the CNMC annulled the clause imposed by Movistar, which prevented Yoigo from reselling Movistar's 2G and 3G networks to other virtual mobile operators. Although it currently does not provide service to any MVNO.

On June 2016, the purchase of 100% of the shares of Xfera Móviles by the MásMóvil group, which had recently purchased the operator PepePhone, was made official, disbursing 612 million euros.

After the purchase of Yoigo, by MásMovil, the company announced that an agreement has been reached so that Orange is the company that provides them with the 4G network in those places where the Yoigo network does not reach. They also reached an investment agreement to jointly deploy fiber. Therefore, Yoigo and Pepephone will break the agreements they had with Movistar.

2.3.3.1. Mission, vision, and values:

Mission.

Grupo MasMóvil, which includes Yoigo has a mission to establish connections between individuals utilizing the most cutting-edge technologies while ensuring the greatest possible user experience.

Vision.

Grupo MasMóvil's vision is to have the best levels of customer satisfaction among European telecom companies and to have a good influence on our employees, shareholders, and the environment.

Values.

- The customer always comes first.

“We look after them and anticipate their problems, we quickly identify their needs so as to offer them the best solution, and we innovate to create tangible, quality benefits for our customers.”

- Positive attitude.

“We smile and work enthusiastically and honestly, we dare to do things differently, we enjoy working, we learn from mistakes and we celebrate our successes as a team.”

- Simplicity.

“We are pragmatic and fast, we look for simple solutions, and we avoid unnecessary red tape.”

- Sustainability.

“We prioritize long-term value over short-term gains, we aim to create a positive impact on our customers, employees, partners, shareholders, and society, and we look after our surroundings and the environment.”

2.3.3.2. Research and Development (R+D)

In 2022, Indra, a leading global technological engineering company for the aerospace, defense, and mobility sectors, signed a collaboration agreement with MÁSMOVIL, one of the main 5G operators in Spain, to promote smarter, more connected, and sustainable mobility, through the development of advanced solutions and services based on 5G communications for different modes of transport.

Both companies are going to create a test site, a new innovation space for validation and testing at Indra's facilities in the Community of Madrid, equipped with the latest generation 5G technology and the necessary hardware and software to be able to deploy and validate new solutions, and smart mobility services that can later be transferred to a real environment.

Indra and MÁSMOVIL have already collaborated on different innovation initiatives in the field of autonomous cars and solutions for Low Emission Zones and their real-time measurement that favors more sustainable mobility. In addition to reinforcing this relationship, the agreement aims to turn the new 5G environment into a space for open collaboration with startups, SMEs, and universities, facilitating the development of R+D+i activities, proofs of concept, demonstrators, and pilots that make it possible to exploit all the potential of the 5G network in solutions for a more connected mobility.

3.-FINANCIAL ANALYSIS OF TELEFÓNICA.

The financial analysis will be done in two steps. We will first start with the vertical and horizontal analysis of the balance sheet, income statement, statement of changes in equity, and cash flow statement. After, we will focus on the profitability, liquidity, and solvency of the company using various ratios.

First of all, we should mention that the company's statements have been audited and provide a reliable picture of its condition (2018-2019-2021), while for the 2020 auditors' report, we have the consolidated group report.

3.1. VERTICAL AND HORIZONTAL ANALYSIS

3.1.1. BALANCE SHEET

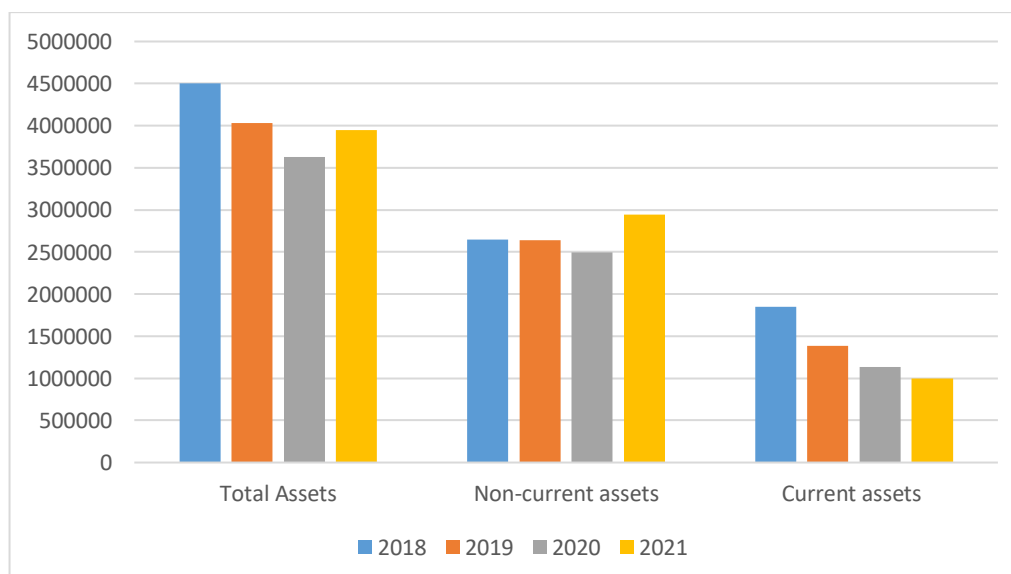
We will start by analyzing the items on the balance sheet. For the vertical analysis, the base figures will be assets and liabilities.

3.1.1.1. ASSETS

The total assets of Telefónica have decreased 12.36% since 2018, being the biggest decrease in 2020, when it nearly got to 20%. This happened mainly because there was a big fall in both current and non-current assets. On the one hand, the explanation for the fall in non-current assets can be found in the disappearance of "Patents, licenses, trademarks, and similar", "Goodwill", and "Net worth instruments". In the non-current assets, there was also a significant decrease in "Non-current commercial debts", which went from 1.600€ in 2018 to 189€ in 2020. On the other hand, the explanation for the decrease in current assets can be found in the decrease in "Cash and equivalents", which went from 889.627€ in 2018 to 225.214€ in 2019.

Overall, the fall in assets was more significant in 2020, but for current assets, the 2021 decrease was more noteworthy, as it decreased 45,88%, going from 1.849.323€ in 2018 to 1,000,835€ in 2021.

Graph 3. Evolution of Total Assets, Non-current Assets, and Current Assets.

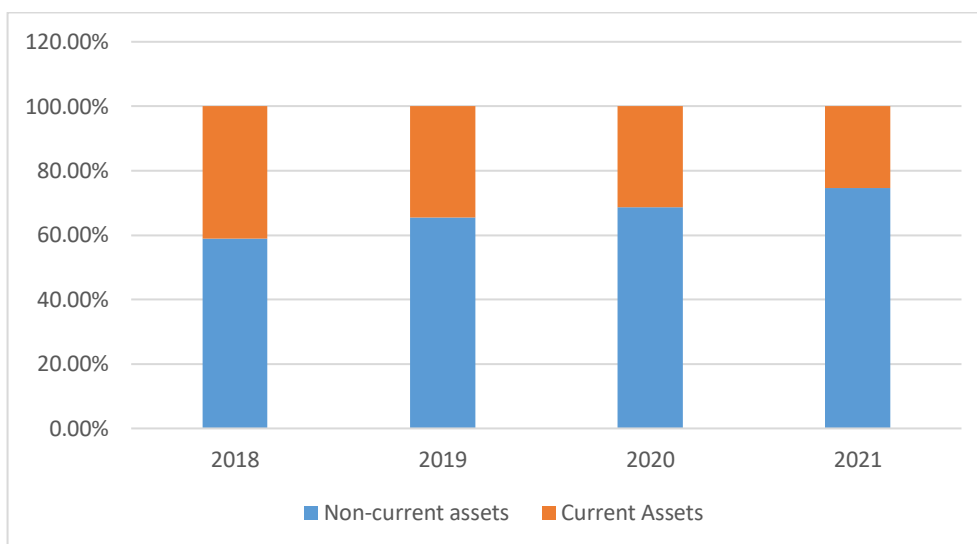


Source: Own elaboration

As we can see from this graph, current assets follow a decreasing trend throughout the whole analyzed period, while non-current assets break the trend increasing by 11% in 2021, which causes a break in the constant decrease of total assets.

Regarding the distribution of current and non-current assets, non-current assets are the highest investment, and increased 15.7% during the analyzed period, going from 58.9% of total assets in 2018 to 74.6% of total assets in 2021. Consequently, current assets followed a decreasing trend in importance and they went from 41.1% of total assets in 2018 to 25.4% of total assets in 2021.

Graph 4. Distribution of current and non-current assets.



Source: Own elaboration

All line items of the non-current assets grew at a slow pace during these 4 years, being the biggest growth of intangible assets (6.5% growth), going from 1,509,798€ in 2018 to 1,577,627€ in 2021.

Current assets experienced significant growth in some line assets, like “Clients for sale and long-term services rendering”, as it went from non-existent to 16.61% of total assets. Other assets decreased in significance like “Cash and cash equivalent”, which went from 19.7% of total assets in 2018 to 0.23% in 2021.

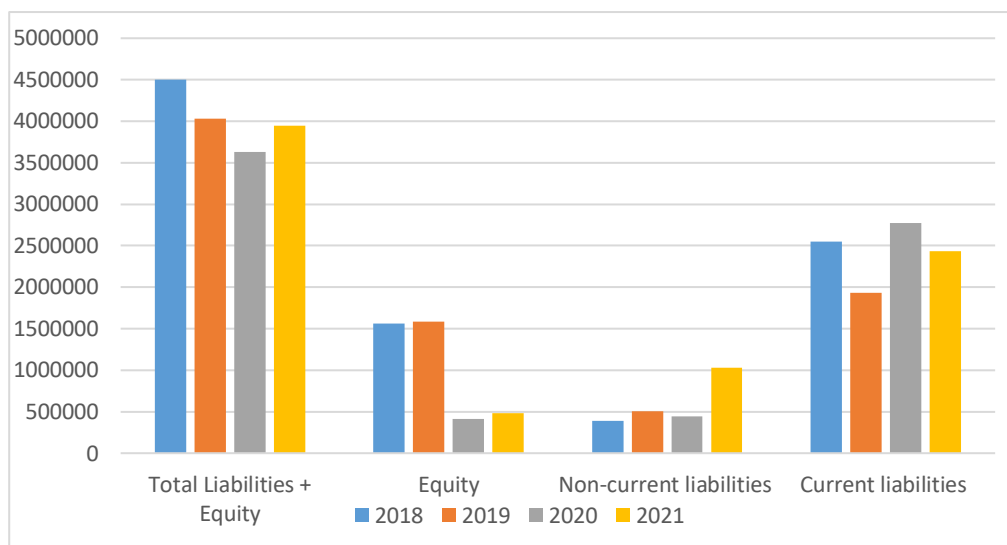
3.1.1.2. LIABILITIES AND EQUITY

Total liabilities and equity evidently had the same decrease as total assets, being the biggest decrease in 2020. That happened mainly because of a big decrease in equity, specifically in reserves. This happened because there was a SCR (Share Capital Increase through Reserves), as explained in the audits report by PWC in 2020:

“El 8 de julio de 2020 se inscribió la escritura de ampliación de capital liberada, por importe de 136.305.986 euros, en la que se emitieron 136.305.986 acciones ordinarias, de 1 euro de valor nominal cada una de ellas, con cargo a reservas; todo ello en el marco de la retribución del accionista mediante scrip dividend. Tras dicha ampliación, el capital social quedó fijado en 5.328.437.672 euros. “

"On July 8th, 2020, the deed of a capital increase through capitalization of reserves was registered, for an amount of 136,305,986 euros, in which 136,305,986 ordinary shares were issued, with a nominal value of 1 euro each, charged to reserves; all of this in the framework of shareholder remuneration through a scrip dividend. After said capital increase, the share capital was set at 5,328,437,672 euros."

Graph 5. Evolution of Liabilities and Equity.



Source: Own elaboration

On the one hand, non-current liabilities increased at a rapid pace, going from 390,502 € in 2018 to 1,029,107€ in 2021 (an increase of 163.53%). This can be explained by the increase of “Long-term provisions” (62.10% increase), “Long term debts with associated and affiliated companies” that went from 519€ to 401,330€ (77.227.5% increase), and “Long-term debt with special characteristics”, that grew 8,741,64%, going from 1,203€ to 106,365€.

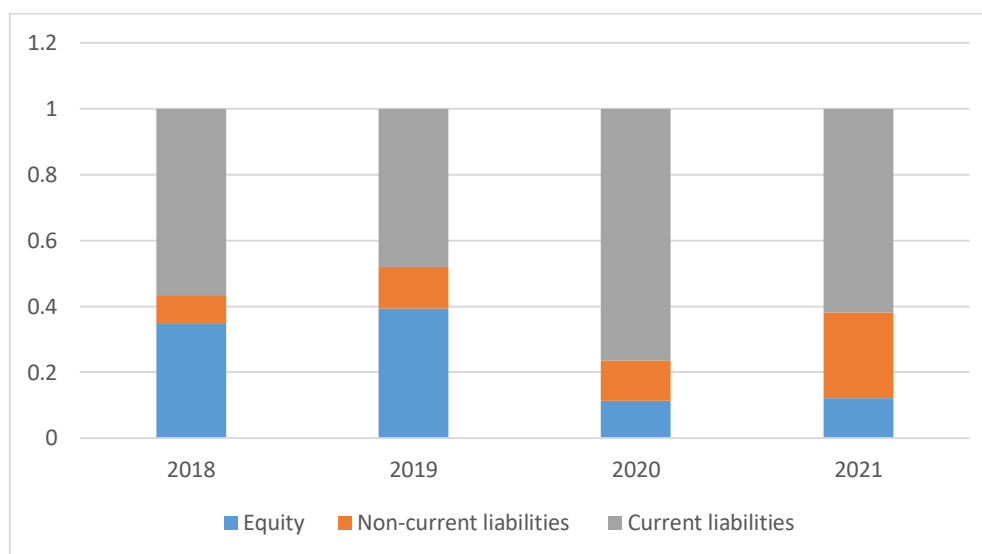
On the other hand, current liabilities experienced a fall in 2019 and 2021, of 24.08% and 4.48% respectively. The following line items experienced a decrease in all four years, “Short-term debts with associated and affiliated companies”, “Trade creditors and other payable accounts” (except for 2021, where it grew 5.3%), and “Short-term accruals”. The fall in current liabilities was only noticeable in 2021 and 2019 because in 2020 there was a big increase in “Short term debt” that made up for the fall in the other line items.

Regarding the distribution of the liabilities, current liabilities are the most significant, being 56.6% in 2018, 48.02% in 2019, 76.39% in 2020, and 61.75% in 2021. Equity was the second most significant item in 2018 and 2019 (35.66% and 39.35% respectively), while, in 2020 and 2021, non-current liabilities were the most significant, being 12.23% and 26.09% respectively.

All line items of equity maintained a steady rate, except for “Other funds” which fell drastically in 2020, going from 10.63% of total liabilities and equity in 2019 to 0.26% in 2020.

Concerning non-current liabilities, they experienced a big increase in significance in 2021, mainly because there was an increase in “Long term debts with associated and affiliated companies”, which went from 0.6% of total liabilities and equity in 2020 to 10.17% in 2021. This went hand in hand with the decrease in the importance of current liabilities in 2021.

Graph 6. Distribution of equity, non-current liabilities, and current liabilities.



Source: Own elaboration

3.1.2. INCOME STATEMENT

The net turnover has maintained a fairly steady value for the net turnover, as it started at 4,301,22€ and increased to 4,340,283€ in 2019. In 2020 and 2021 it experienced very slight decreases to 4,161,724€ and 4,180,348€ respectively.

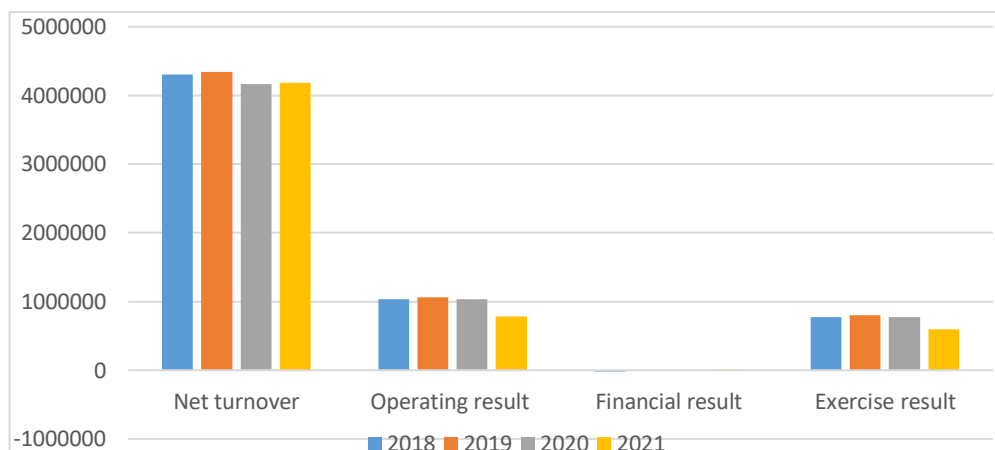
We can also say that in Telefónica, during 2021, sales are only 12.01% of the net turnover, while the other 87.99% comes from services provided. In 2018 and 2020, the percentage (2018) was 10.5% of sales and 89.5% of services provided, which then changed to 8.32% of sales and 91.68% of services provided in 2020. Regarding the exercise result, it increased slightly in 2020 and 2021, going from 17.98% of the net turnover to 18.46% in 2019, and 18.63% in 2020. Later in 2021, it decreased to 14.33% of the net turnover.

The result for the year has decreased significantly, going from 773,733€ in 2018 to 599,214€ in 2021. It did experience a small increase in 2019 and 2020, increasing to 801,221€ (3.55% increase), and 775,575€ (0.24% increase) respectively. This same trend was followed by the operating result, increasing slightly in 2019 and 2020, and then decreasing in 2021. These fluctuations can be explained by multiple phenomena. First, there was an increase in labor costs, such as wages, which went from 265,031€ in 2018 to 405,876€ in 2021. There was also an increase in supplies and amortization of fixed assets, increasing by 9.836% and 7.75% respectively.

The financial result, on the flip side, only increased through the analyzed period, going from -16,290€ in 2018, to 8,793€ in 2021 (153.97% increase), being the biggest increase in 2021, and the smallest in 2020, where it only increased by 40.41%. The big increase in 2021 can be explained by the appearance of "Results for disposals and others", a significant increase (1984.97%) in Financial Income (from negotiable values and other financial instruments), and a decrease in Financial Expenses (77.29% decrease).

Taxes also experienced a decreasing trend, going from 801,221€ in 2018 to 599,214€ in 2021.

Graph 7. Evolution of Income Statement.



Source: Own elaboration

3.1.3. CASH FLOW STATEMENT

Cash flow from operating activities.

Starting with cash flow from operating activities, it has increased by 25% in 2019, compared to 2018. In 2020 and 2021, it also increased, by 1.12% and 47.26% respectively, compared to the base year.

These fluctuations are mainly due to the similar trend followed by “Results adjustments” and “Changes in current capital”, which both increased at a higher pace in 2019 and 2021, but only increased slightly in 2020.

“Results adjustment” went from 482,227€ in 2018 to 651,318€ in 2019 (35.06% increase), later to 502,216€ in 2020 (4.14% increase), and finally, in 2021, getting to 659,138€ (36.69% increase). We can see that “Value correction for deterioration” suffered a big increase in its value in 2019 and 2020, going from -2,850€ in 2018 to -23,363€ in 2019, and -9,706€ in 2021. Later, in 2021, it decreased by 4.84%, going to -2,712. This has happened because assets were valued more than what they were worth.

Another line item that experienced a big fluctuation is “Change of provisions”, which went from 33,980€ in 2018 to 216,854€ in 2019 (538.18% increase). In 2020 it increased by 44.59% compared to 2018, getting to 49,135€, and finally, in 2021, it got to 200,371€ (489.67% increase).

As for “changes in current capital”, it increased throughout the analyzed period, going from -327,709€ in 2018, to 63,192€ in 2021 (119.28% increase).

Some line items of “Changes in current capital” experience drastic fluctuations, such as “Stocks”, “Other current assets”, and “Creditors and other payable accounts”.

“Stocks” follow an increasing trend, as part of the revenues of this year corresponds to revenues for next year.

As for “Other current assets”, it starts off by being positive in 2018, then falls to -3,328€ in 2019. In 2020, it goes back up to 2,659€, only for it to fall back again drastically in 2021 to -62,380€. These fluctuations show that Telefónica, in 2018 and 2020, collects revenues from previous years, while in 2019 and 2021 it collected some revenues from the next years.

Lastly, “Creditors and other payable accounts” also start positive, being 1,224€ in 2018, and then drop for the next two years to -93,751€ in 2019, and -134,077€ in 2020. Later,

in 2021, it increased drastically to 267,582€. This shows that in 2019 and 2020, either some expenses of previous years were paid during these years, or that some revenues of these years were collected in previous years.

“Other cash flow coming from operating activities” experienced decreases in 2019 and 2020, going from -194,310€ in 2018 to -393,477€ in 2019, -318,549€ in 2020, and finally increasing in 2021 to -68,790€. This is mainly because in 2021, as opposed to 2019 and 2020, “Collection for profit tax” decreased, while it increased in the other two years.

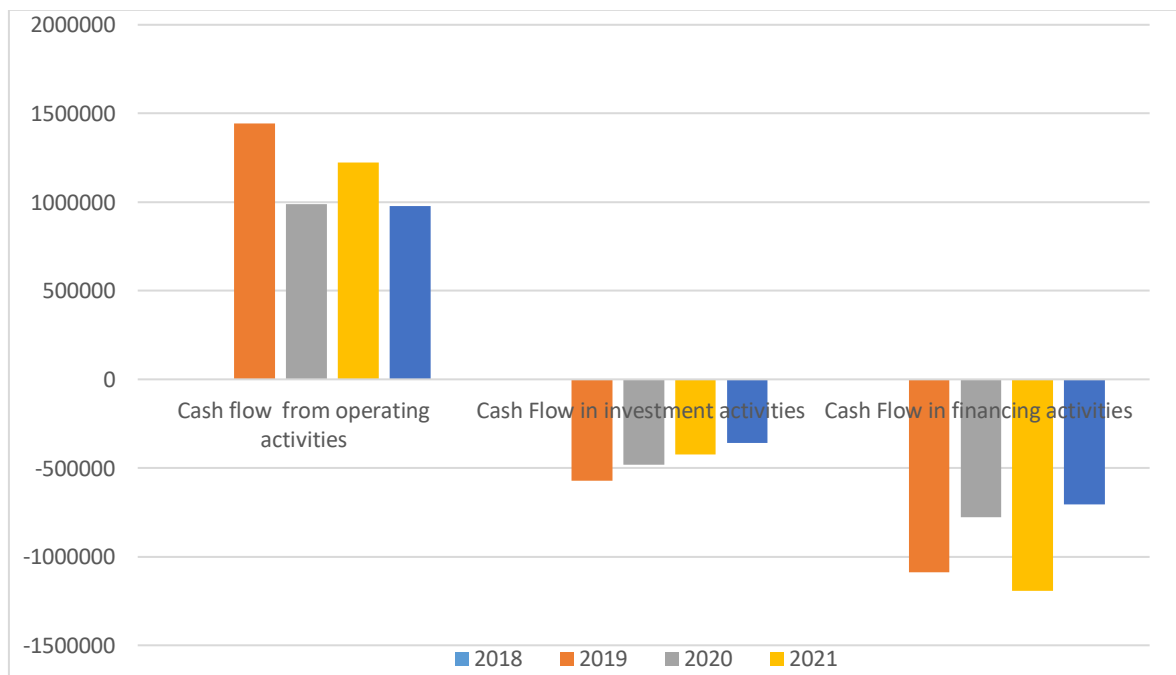
Cash flow from investing activities.

The cash flow from investing activities is negative and follows a decreasing trend throughout the whole analyzed period. This can be explained by the constant increase in investment payments, while, the “Disinvestment collections” are also increasing but at a lower rate. While the investments go from -364,590€ in 2018 to -582,551€ in 2021, the disinvestments go from 5,684€ in 2018 to 11,924€ in 2021.

Cash flow from financing activities

Cash flow from financing activities is negative and decreasing in the analyzed period. In 2018 it is -705,603€, and later it decreases 69.22% in 2019 to -1,194,059€. In 2020 it increases a little bit compared to the fall in 2019, to 779,095€, only for it to fall back again in 2021 to 1,087,206€. This happens because the “Payment for dividends” is following an increasing trend, going from -305,603€ in 2018, to -1,949,000€ in 2021 (537.75% increase), while “Financial liabilities instruments collections and payments” decrease in the first year, but increase in 2020 and 2021, going from -400,000€ in 2018 to 861,794€ in 2021.

Graph 8. Evolution of Cash Flow.



Source: Own elaboration

3.2. PROFITABILITY OF TELEFÓNICA.

In this case, we will substitute sales by the net turnover, as this company, apart from sales, gets a big percentage of its income from the services provided.

From this next table, we can see the values of the Profit Margin, Asset Turnover, and ROA.

Table 2. Values of ROA.

	2018	2019	2020	2021
Profit margin	24.07%	24.60%	24.94%	18.94%
Asset turnover	0.96	1.08	1.15	1.06
ROA	23.01%	26.49%	28.59%	20.08%

Source: Own elaboration.

Firstly, Telefónica's Return On Assets is positive and greater than 20% throughout the analyzed period. From this table, we can deduce that the company is using its funds properly, especially in 2020, where the ROA was 28.59%. This was because that year there was a big decrease in both current and non-current assets, as opposed to the other years, where the decrease was very small in non-current assets in 2019, and in 2021, it was an increase.

In 2021, the ROA fell 8.51% in comparison to the previous year because of the big decrease in EBT, and the increase in total assets. This was due to the big decrease in operating result. As explained in the analysis of the income statement, the fluctuations in the operating result can be explained by multiple phenomena. First, there was an increase in labor costs, such as wages, which went from 265,031€ in 2018 to 405,876€ in 2021. There was also an increase in supplies and amortization of fixed assets, increasing by 9.84% and 7.75% respectively.

It should be noted that the increase in 2020 was very significant. One of the reasons may be that, because of the pandemic, the majority of people had to work and/or study from home, which could mean that more people were introducing WIFI into their homes or improving their existing internet rates/fees.

We can also calculate operating ROA, which will be calculated using operating profit margin and operating asset turnover. This ratio follows a similar trend, as it increases from 2018 to 2020, and then decreases in 2021.

Table 3. Values of Operating ROA.

	2018	2019	2020	2021
Operating Profit margin	23,99%	24,01%	24,71%	18,58%
Operating Asset turnover	120,36%	124,13%	123,59%	107,23%
OP. ROA	28,89%	29,80%	30,53%	19,92%

Source: Own elaboration.

ROE is positive and higher than 60% in the first two years and higher than 160% in the following two years.

Table 4. Values of ROE.

	2018	2019	2020	2021
FLEV	1,89	1,54	7,80	7,23
AIR	0,57%	0,39%	0,30%	0,11%
ROA	23,007%	26,487%	28,593%	20,077%
ROE	65,348%	66,719%	249,205%	164,396%

Source: Own elaboration.

We can see that the ROE is very high and follows the same trend as the ROA. This happens because Earnings Before Taxes are very high, while equity is not as significant. This means that the company knows how to convert its equity into profits. Moreover, we can say that even when the company's equity suffered a big drop (2020), it was able to not let earnings drop at the same rate.

Telefónica is using more debt than equity to finance its activity, as the FLEV, in 2020 and 2021, shows us that its liabilities were 7 times bigger than equity. This happened because of an increase in the company's total liabilities in 2020 and 2021, going hand in hand with a drastic fall in equity. The first change is due to a very big increase in current liabilities in 2020, mainly because of an increase in its short-term debt (Other financial liabilities). The second change (decrease in equity), happened because of a big decrease in equity. As explained before, this was due to a SCR (Share Capital Increase through Reserves).

Preliminary opinion on profitability.

Telefónica is very profitable, having a good ability to generate profit. Both ROA and ROE have followed the same trend, increasing until 2020, and falling slightly in 2021. This fall shouldn't be concerning as Telefónica is still very profitable, and is probably just experiencing side effects of the global pandemic. The increase in 2020, as explained before, is probably due to an increase in the demand for telecommunication services (data, WIFI, calls) as many people had to work from home for a long period of time. The fall in the next year was probably due to the decrease in those services (contrary to 2020), as many people were able to return to offices and offline classes. It can be expected that Telefónica will increase its current profitability.

3.3. LIQUIDITY OF TELEFÓNICA.

The current ratio is positive and decreasing through the analyzed period.

Table 5. Values of Current Ratio.

	2018	2019	2020	2021
Current ratio	0.72	0.72	0.41	0.41

Source: Own elaboration.

After calculating the current ratio, we can say that the ability of the company's current assets to cover current obligations has been concerning and decreasing throughout the analyzed period. The biggest drop happened in 2020 when the company probably required more external financing to get through the Covid-19 pandemic.

After seeing the poor ability of Telefónica to pay for its current abilities, we decided to study further and analyze past current ratios. Telefónica was only able to get 100% in the current ratio in 2009. As for the other years, the current ratio has fluctuated throughout all years, being the smallest percentage in 2020, and the highest, apart from 2009, in 2010, when it reached 89.73%.

We should keep in mind, that this company is part of the telecommunications sector, which could explain the small current ratio, as these companies do not need inventories for example.

Secondly, we will calculate the quick ratio. This ratio only considers a company's more liquid assets, that is, cash, short-term financial investments, and account receivables.

Knowing that the results of the current ratio were not optimal, we should suppose that the quick ratio will also be low, but it will help us see if the main problem comes from the amount of cash, receivables, and short-term financial investment that the company keeps.

Table 6. Values of Quick ratio.

	2018	2019	2020	2021
Quick ratio	0.71	0.69	0.39	0.35

Source: Own elaboration.

The quick ratio has been decreasing throughout the analyzed period, following a similar trend to the current ratio. It is also very close in value to the current ratio, which shows that the more liquid assets are the most significant.

The cash ratio is similar to the quick ratio, but it doesn't take into account the account receivables. With this ratio, we will be able to determine whether the account receivables hold an important weight.

Table 7. Values of Cash ratio.

	2018	2019	2020	2021
Cash ratio	0.35	0.26	0.08	0.0037

Source: Own elaboration.

From here, we can see that the cash ratio follows a similar trend to the current ratio, except in 2021, where cash and short-term financial investments drop at a faster pace than current liabilities, which makes it very concerning, as in that year, there is only 0.0037 cts of very liquid assets for every 1 cts of debt.

As we can see, the cash ratio shows a very big difference from the current ratio, opposite to the quick ratio, where the difference is not as significant. This means that the company depends mainly on its account receivables. These companies usually charge their customers for their services a month and a half later, and many customers fail to pay on time. This could explain the drastic change from quick to cash ratio.

Next, we will focus on Working Capital (WC) and Operating Working Capital Requirements (OWCR). Working capital is able to tell us the excess long-term financing over non-current assets. We know that WC is going to be negative because the current ratio was smaller than one.

Table 8. Values of Working Capital.

	2018	2020	2019	2021
Working Capital	-702,440	-1,636,122	-547,215	-1,435,065

Source: Own elaboration.

We can see that the Working Capital is negative throughout the whole analyzed period (as supposed before). It experienced an increase in 2019, because there was an increase in non-current liabilities, while equity and non-current assets changed slightly. The big decrease in 2020 was because both equity and non-current liabilities dropped at a more rapid pace than non-current assets. The next year it increased slightly mainly due to the increase in non-current liabilities

The operating Working Capital Requirement is similar to WC, but it only focuses on current assets and liabilities that represent the firm's principal work (operating current assets, and operating current liabilities).

Table 9. Values of Operating Working Capital Requirements.

	2018	2019	2020	2021
OWCR	162,431	190,877	342,664	160,335

Source: Own elaboration.

OWCR is positive and increasing until 2021, when it suffers a big decrease. The increase in the first years is due to a more significant decrease in operating current liabilities than in operating current assets. As Operating Working Capital Requirements are higher than Working Capital, there is a working capital deficit, which means that the company is in need of negotiated financial liabilities.

Activity ratios

As for activity ratios, we will calculate account receivable turnover, and days receivable outstanding. These ratios will help us determine, as mentioned before, if the company does need to decrease the collection time for its receivables.

Table 10. Values of Account Receivable and Payable Turnover and Days Receivable and Payable Outstanding.

	2018	2019	2020	2021
Account Receivable Turnover	5,37	4.97	4.93	4.94
Days Receivable Outstanding	67	72	73	73
Account payable turnover	1,55	1,43	1,28	1,21
Days accounts payable outstanding	231,68	252,46	280,75	297,08

Source: Own elaboration.

We can see that the values have remained constant throughout the analyzed period. The average collection period was lowest in 2018, at 67 days, and highest in 2020, at 73 days. According to reports, the average collection period of the sector is smaller than the average collection period of Telefónica.

First, a longer collection period can reduce cash availability and limit a company's ability to invest in the business. This may result in a decrease in the company's ability to offer new services or improve its existing offerings, which could affect its competitiveness in the marketplace.

Second, a long collection period can increase the risk of bad debts and the need for additional financing to cover the cash shortfall. This could have a negative impact on the financial health of the company and its ability to obtain financing in the future.

Finally, a longer collection period could negatively affect the company's relationship with its customers, as customers may become frustrated with the time it takes for the company to collect from them, and this could lead to a loss of trust in the company.

Therefore, it is important that companies in the telecommunications sector monitor their customer collection period and look for ways to reduce it or keep it in line with industry standards to ensure financial health and market competitiveness.

As for the payment period, the value has been following a decreasing trend, starting at 297 days, and decreasing until 232 days in 2021. The values are very high, which could mean that the company is having some liquidity issues, and, if the values continue increasing, it could mean that the company is worsening its relationship with suppliers.

Coverage ratios

Table 11. Values of Coverage Ratios.

	2018	2019	2020	2021
Coverage of FL with CFO	0,78	0,55	0,54	0,56
Coverage of FL with FFO	0,57	0,41	0,37	0,40

Source: Own elaboration.

As for the coverage ratios, we can see that the values are lower than 1, which means that the CFO and FFO are enough to pay for the financial current liabilities. The values followed a decreasing trend until 2021 when they increased slightly. This increase happened mainly due to a more significant increase in financial current liabilities than in CFO and FFO.

Preliminary opinion on liquidity.

As explained before, companies like Telefónica (service sector) usually don't have many inventories, which could explain the low ratios. This should not be concerning as the company has very strong profitability and has been for a long time one of the best companies in the sector. Telefónica does not have many liquid assets, as it only offers services.

The Telecommunications sector is a very competitive sector, and that's why these companies have to keep up with new technologies and invest in research and development. This could also be an explanation as to why its liquidity ratios are low.

As mentioned before, the collection period is higher than that of other companies in the sector (we will discuss this further when studying the other companies).

As for the coverage ratios, they show us how the company is able to pay for its short-term financial liabilities with its Cash Flow from Operations and Funds from Operations.

We will be able to understand more after we study the rest of the companies and compare them to the sector.

3.4. SOLVENCY OF TELEFÓNICA.

Solvency focuses on the ability to repay long-term debts. For this part, it is necessary to focus on capital and on long-term debt, which are the two sources of financing for a company. As explained in the profitability analysis, debt should be preferred as the interest cost is less than the Return on Assets.

Solvency Stock measures

First, we have the total assets to total liabilities ratio, which helps us determine if the company has a safety cushion for creditor losses if the firm goes bankrupt.

Table 12. Values of Total Assets to Total Liabilities Ratio.

	2018	2019	2020	2021
Total assets to Total liabilities	153.06%	164.89%	112.83%	113.84%

Source: Own elaboration

We can see that the total assets to total liabilities ratio increased from 2018 to 2019, but dropped in 2020. This is mainly because, as commented in the horizontal analysis, assets dropped slightly while liabilities increased, because of an increase in short-term debt. We can see that in 2021 it increases slowly, and we can expect it to continue increasing in the next year, as it recovers from the hit of the 2020 global pandemic that affected all businesses.

Second, we have the Equity to total liabilities ratio.

Table 13. Values Equity to Liability Ratio.

	2018	2019	2020	2021
Equity to Total Liabilities	53.06%	64.89%	12.83%	13.84%

Source: Own elaboration.

The ratio was growing in the first two years, but well significantly in 2020, as there was a significant increase in liabilities and a decrease in equity. We can expect this value to recover in the next years, as it grows slowly in 2021.

Solvency flow measures

The interest coverage ratio indicates the ability of a company to meet interest payments. It is calculated by dividing EBIT by interest expenses.

Table 14. Values Interest Coverage Ratio.

	2018	2019	2020	2021
Interest Coverage ratio	102.08	1955.58	794.62	419.66

Source: Own elaboration.

The interests are very low, as commented earlier, which makes the ratio very high. It grew tremendously in 2019 because of the fall in interests and the increase in EBIT, only for it to fall back again in the next years with the simultaneous fall in EBIT.

Next, there is the cash flow ratio, which indicates how well the cash flow from operations covers the cash needed to settle liabilities in the long term.

Table 15. Values of Cash Flow Ratio

	2018	2019	2020	2021
Cash Flow ratio	33.30%	50.08%	30.78%	41.61%

Source: Own elaboration.

The cash flow ratio experienced an increase in 2019 and 2020. In the former, CFO increased while total liabilities decreased, while in the latter, CFO increased at a faster pace than total liabilities. This shows that it would take the company approximately two to three years to cover total liabilities with the CFO.

Coverage ratios.

Table 16. Values of Cash Flow Ratio

	2018	2019	2020	2021
Coverage of FL with CFO	1,90	1,07	2,29	1,42
Coverage of FL with FFO	1,39	0,80	1,54	1,02

Source: Own elaboration.

As for the coverage ratios, we can see that the values decrease in 2019 because of a decrease in financial liabilities, going hand in hand with an increase in CFO and FFO. Later, in 2020, the value increased again because of a drastic increase in financial liabilities. We can see that the value is decreasing again in 2021, as the CFO and FFO increase back again, after the fall in 2020.

Preliminary opinion on solvency.

Telefónica's ability to repay long-term debt is a lot better than its ability to repay short-term debt. This means that the company has long-term well-being, but is in need of liquidity, such as cash. The coverage ratios show that after the decrease in 2020, the company was able to bring back up its CFO and FFO.

3.5. FINAL OPINION.

After analyzing the financial statements of Telefónica we can conclude by saying that the company is very profitable and is expected to grow in the next years. It is using its funds properly. Moreover, the company knows how to convert its equity into profits, even if those are not the most important part of its financing.

Regarding liquidity and solvency, Telefónica shows low values for liquidity ratios, but, as explained before, companies like Telefónica don't have many current assets, as they offer services to their clients. Moreover, they invest a lot of money into research and development, which could explain the lack of current assets. As discussed, Telefónica's collection period is a little higher than that of other companies in the same sector. This

means that the company should try and collect its receivables in a shorter period of time, which would result in having more cash to invest or to cover its current liabilities.

Telefónica should also monitor closely its payment period, as it could lead to bad relationships with suppliers.

On the contrary, Telefonica is solvent and is not having problems with its long-term financing. Because the company is very profitable, we should expect the company to continue increasing its CFO and FFO, which would mean that the coverage ratios would continue decreasing in the next years. One possible solution is to use long-term debt to finance some investments that will increase cash and other more liquid assets because the interest rate is very low, and using debt will be better than using capital because $ROA > AIR$. Another possible solution is to try and delay the payment of short-term debt so that it goes into long-term debt. This would incur an increase in interest.

Because of the high levels of profitability of Telefónica, we should expect the CFO and FFO to continue increasing. This provides a solid financial foundation for the company.

Overall, Telefónica demonstrates strong profitability, with potential for further growth. While its liquidity ratios may be lower due to industry characteristics and investment requirements, the company's solvency remains stable, indicating its ability to meet long-term financial obligations. It is important to conduct further analysis and compare Telefónica's performance to other companies in the sector to gain a comprehensive understanding of its position in the market.

4.-FINANCIAL ANALYSIS OF ORANGE.

Orange's statements have been audited and provide a reliable picture of its condition.

4.1. VERTICAL AND HORIZONTAL ANALYSIS

4.1.1. BALANCE SHEET

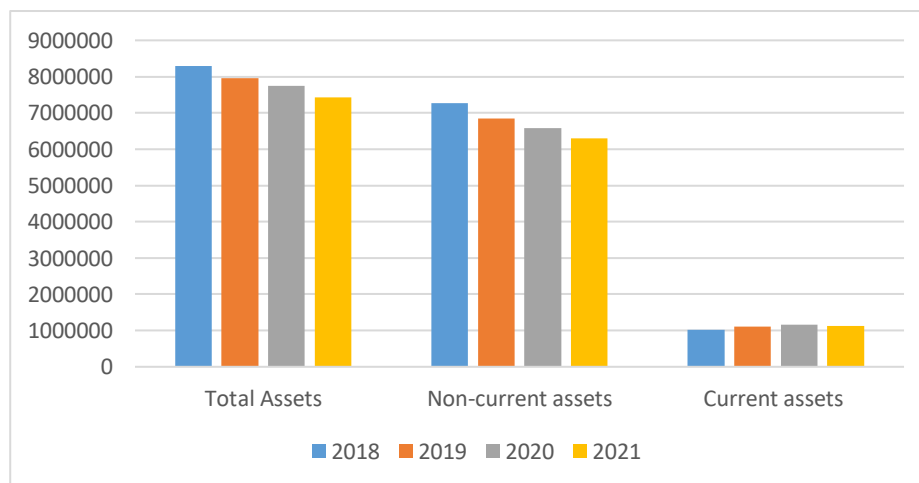
4.1.1.1. ASSETS

The total assets of Orange have decreased throughout the analyzed period, going from 7,266,168€ in 2018 to 6,296,399€ in 2021 (13.35% decrease), being this year the biggest decrease. This happened mainly because of the fall in non-current assets, as current assets have been increasing throughout the analyzed period. Non-current assets represent more than 84% of the total assets, hence why the increase in current assets did not have a positive effect on the variation of total assets.

The fall in non-current assets can be explained by the fall of all line items. Intangible assets decreased by nearly 16%, going from 3,076,535€ in 2018 to 2,588,974€ in 2021. Intangible assets are the most important item in assets, and their continuous decrease affected greatly the decrease in total assets. Following the intangible assets' trend, "tangible assets", "long-term investments in associated and affiliated companies", "long-term financial investments, and "assets by deferred taxes" all decreased continuously in the analyzed period by 12.79%, 3.19%, 40%, and 28.05% respectively. All line items have followed a decreasing trend these four years.

As for current assets, they have followed an inverse trend to the non-current assets, as they have increased 9.48%, going from 1,027,273€ in 2018 to 1,124,694€ in 2021. The biggest increase was in 2020, when it got to 1,163,775€ (13.29% increase). Many of the line items decreased through the years, except "trade debtors and other receivable accounts" and "short term accruals", increasing 7.56% and 58.15% respectively. These are also the most significant current items, hence why they influence the constant increase in current assets, especially "trade debtors and other receivable accounts" which represent 9.31% of all assets.

Graph 9. Evolution Total Assets, Non-Current Assets and Current Assets.

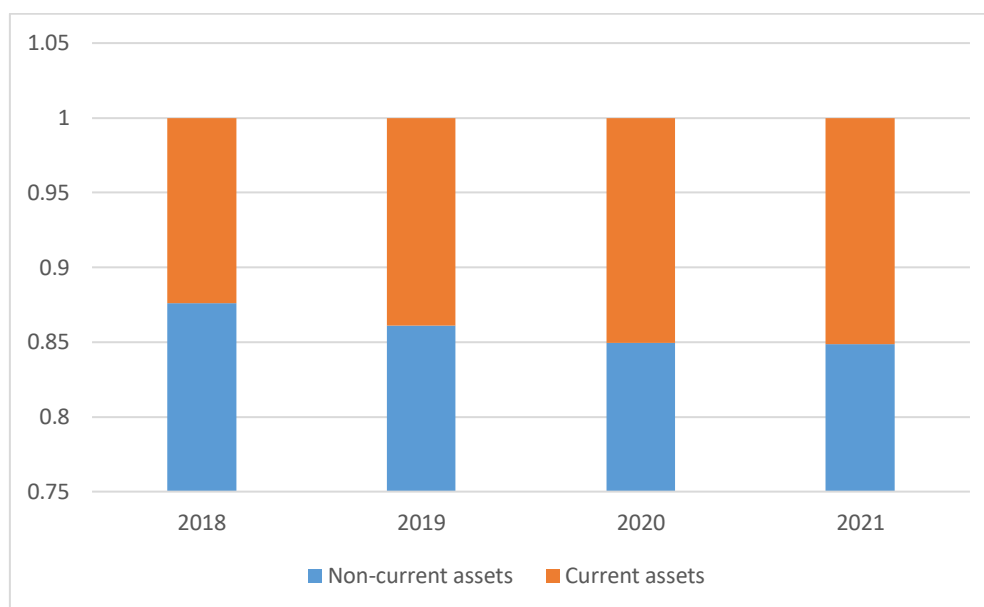


Source: Own elaboration

The changes in total assets are only slightly smaller than those of non-current assets, but they are following the exact same trend.

As for the distribution of assets, and as mentioned above, non-current assets represent more than 84% of all total assets, being the most significant, the intangible assets, which represent more than 33% of total assets in the four years. These are followed by “long-term investments in associated and affiliated companies”, “tangible assets”, and “assets by deferred taxes”, all representing 22.8%, 20.19%, and 6,72% respectively.

Graph 10. Distribution of Non-Current Assets, and Current Assets.

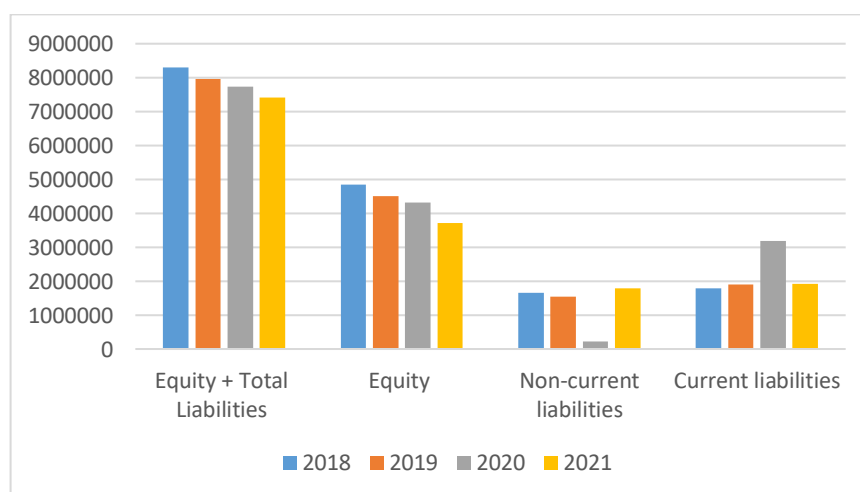


Source: Own elaboration

4.1.1.2. LIABILITIES AND EQUITY

Total liabilities experienced the same decrease as total assets, but the difference is that both current assets and current liabilities were increasing, while equity was decreasing. Equity represented more than 50% of total liabilities throughout the period, which explains why total liabilities do not increase when both current and non-current liabilities increase.

Graph 11. Evolution Liabilities.



Source: Own elaboration

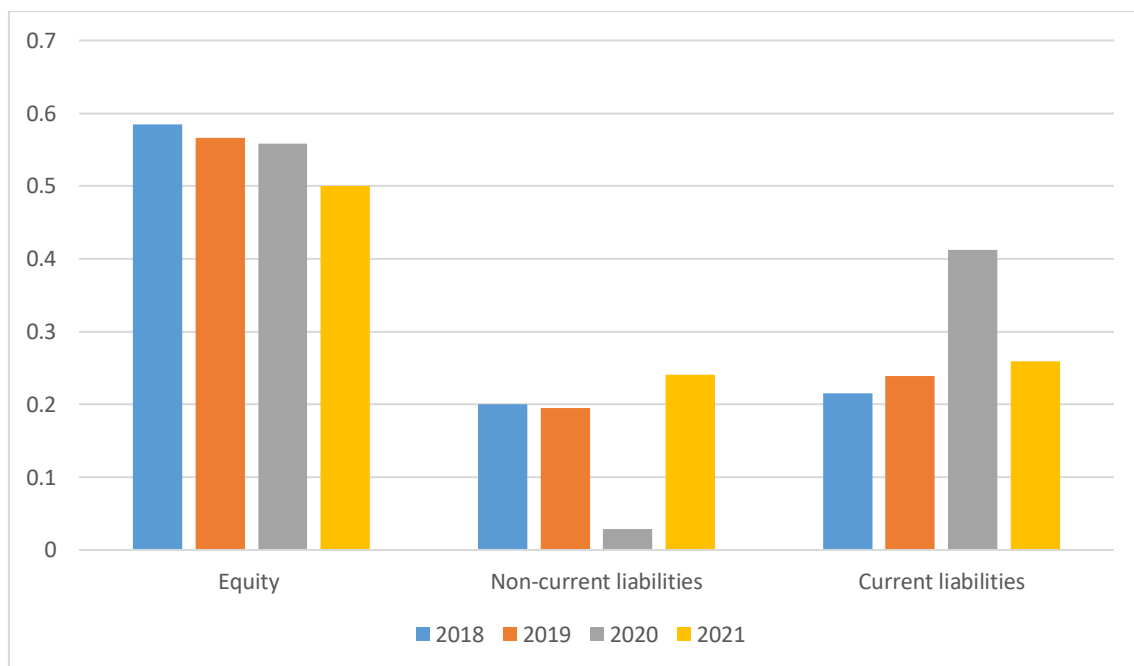
Equity decreases continuously throughout the analyzed period, going from 4,847,967€ in 2018 to 4,710,873€ in 2021 (23.46% decrease). We can see that the biggest problem comes from the exercise result, which went from 157,478€ in 2018 to -570,792€ in 2021.

We will study this further in the analysis of the income statement. The other line item that makes the equity decrease is the issue premium, which decreased in 2019, going from 2,161,127€ to 1,718,595€. It then remained constant until 2021. This represents a 20.48% decrease. This could mean that part of the money that the company received at a premium was used to pay for some expenses, make investments, buy back shares, pay dividends, or more than one at the same time.

Non-current liabilities decreased in the first two years going from 1,661,723€ in 2018 to 1,550,236€ in 2019 (6.71% decrease), and to 222,666€ in 2020 (86.6% decrease). It quickly went back up in 2021, increasing 7.46% to 1,785,646 in 2021. The decrease in 2020 was due mainly to the disappearance of the debt from affiliated companies, which was 1,278,698€ in 2018, and fell to 0 in 2020, but went back up to 1,624,855€ in 2021. In current assets, we can see that the account for “short-term debts with associated or affiliated companies” increased drastically that year. That can only mean that the loan was due in less than twelve months and had to be reclassified.

Current liabilities increased throughout the analyzed period, going from 1,783,751€ in 2018 to 1,924,574 in 2021. The most significant increase was in 2020 for the above-mentioned reason.

Graph 12. Distribution of Equity, Non-Current Liabilities, and Current Liabilities.



Source: Own elaboration

As for the distribution of current and non-current assets, they both hold nearly the same significance, being the current liabilities slightly higher, except in 2020, where the current liabilities represent 41% of total liabilities, while non-current liabilities only represent 2.88% of total liabilities. The most significant line item in the non-current liabilities was the “long-term debts with associated and affiliated companies”, except in 2020. As for current liabilities, the most significant is the “trade creditors and other payable accounts”, which represents more than 14% of total liabilities.

4.1.2. INCOME STATEMENT.

Orange's net turnover, similar to that of Telefonica, is composed mainly of services provided, which make up more than 87.8% of the total net turnover, while sales only represent 10%-12% of total net turnover. It has been following a decreasing trend throughout the whole analyzed period, going from 4,362,154€ in 2018, to 4,272,121€ in 2021. As explained in the management report, the decrease in net turnover in the last years has been due to the increased rivalry due to the low-cost rivalry and other secondary effects derived from the effects that the health crisis is having in the general economy.

The exercise result was positive for the first three years but went negative in 2021. It increased in the first year, going from 157,468€ in 2018, to 255,209€ in 2019 (62.07% increase), only for it to fall to 21,802€ in 2020 (86.15% decrease) and then in 2021 getting to -570,792€.

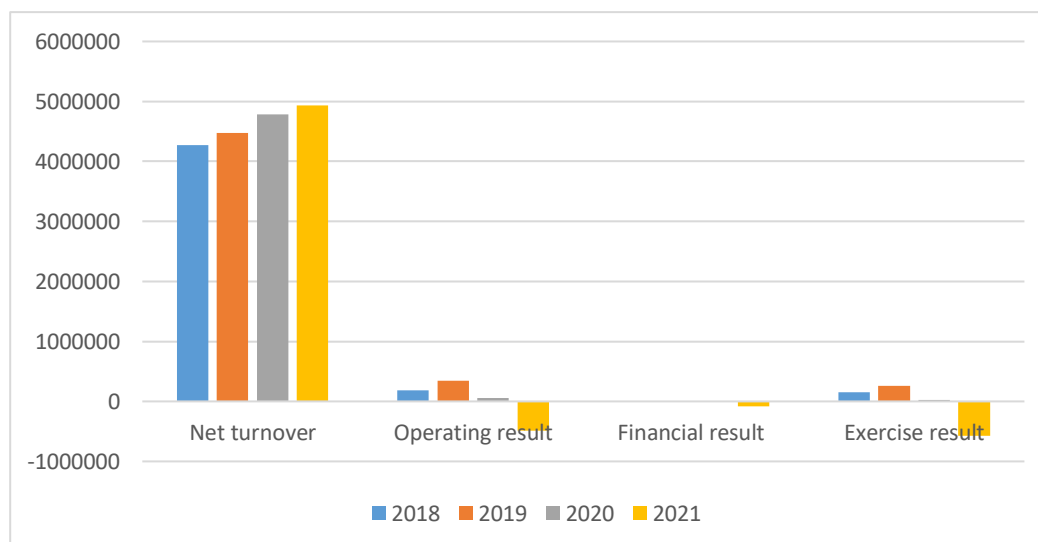
The operating result followed the same trend, increasing in the first year (92.08% increase), and then decreasing by 67.48% and 368.99% in 2020 and 2021 respectively. The increase in the first year was mainly due to the increase in "allocation of subventions on non-financial investments and other", which went from 35,299€ in 2018 to 157,058€ in 2019 (344.94% increase). The next two years this account ceased to exist. Labour costs also increased throughout the analyzed period, especially in 2021, where they got to 397,317€, a 66.96% increase compared to 2018. With the increase in labor cost and a decrease in net turnover, the operating results experience a big fall in 2021 and it becomes negative, reaching -4,888,106€.

As for the financial result, it increased in the first three years, and then decreased the last year, being -6,389€, -5,232€, -4,102€, and -86,805€ in 2018, 2019, 2020, and 2021 respectively. This was due mainly to the decrease in the account "Deterioration and result for disposal of financial instruments", which decreased drastically, going from 414€ in 2019 to -77,000€ in 2021. This means that the company has incurred a loss from the sale of its financial instruments. This could be concerning, as the company could be exposed to risk from its financial instruments. This should be monitored carefully as it could impact how investors and creditors view the company's financial health.

The decrease in operating income, combined with the increase in financial expenses makes the exercise result negative in 2021. Unfortunately, we were unable to find the management report of 2021, but, as mentioned in the management report of 2020, the company was planning on continuing its investments in 5g networks.

As we saw in Telefonica's analysis, it also experienced a decrease in its operating result and in its exercise result in 2021, but it wasn't as drastic as the one experienced by Orange.

Graph 13. Evolution of Income Statement.



Source: Own elaboration

4.1.3. CASH FLOW STATEMENT.

Cash flow from operating activities.

The cash flow from operating activities has been decreasing for the whole analyzed period, going from 1,321,493€ in 2018 to 652,881€ in 2019. This was due mainly to the decrease in the exercise result, mentioned above in the analysis of the income statement.

Another reason for the decrease in CFO was the decrease in the changes in the current capital, which went from 114,907€ in 2018 to 56,095€ in 2021 (51.18% decrease). The biggest decrease was experienced in 2020, when it got to 14,899€, experiencing an 87.03% decrease. This was due to the decrease in “creditors and other payable accounts”, which experienced a drastic change in 2020, going from 135,259€ in 2018 to -75,380€ (154.99% decrease). This could mean that the company overpaid its creditors, or if the company received payments in advance from creditors or customers. This is not a desirable situation and could mean that the company is facing liquidity issues.

“Other cash flows coming from operating activities” decreased in the first two years, going from -11,466€ in 2018 to -74,683€ and 69,939€ in 2019 and 2020 respectively. It increased the last year to -9,884€ (13.8% increase). The decrease in the first two years was mainly due to the increase in the “payment for profit tax”, which ceased to exist in the last year. This line item increased from 7,518€ in 2018 to 58,462€ in 2019 (677.63% increase) to 83,564 in 2020 (1,011.51% increase).

Cash flow from investment activities.

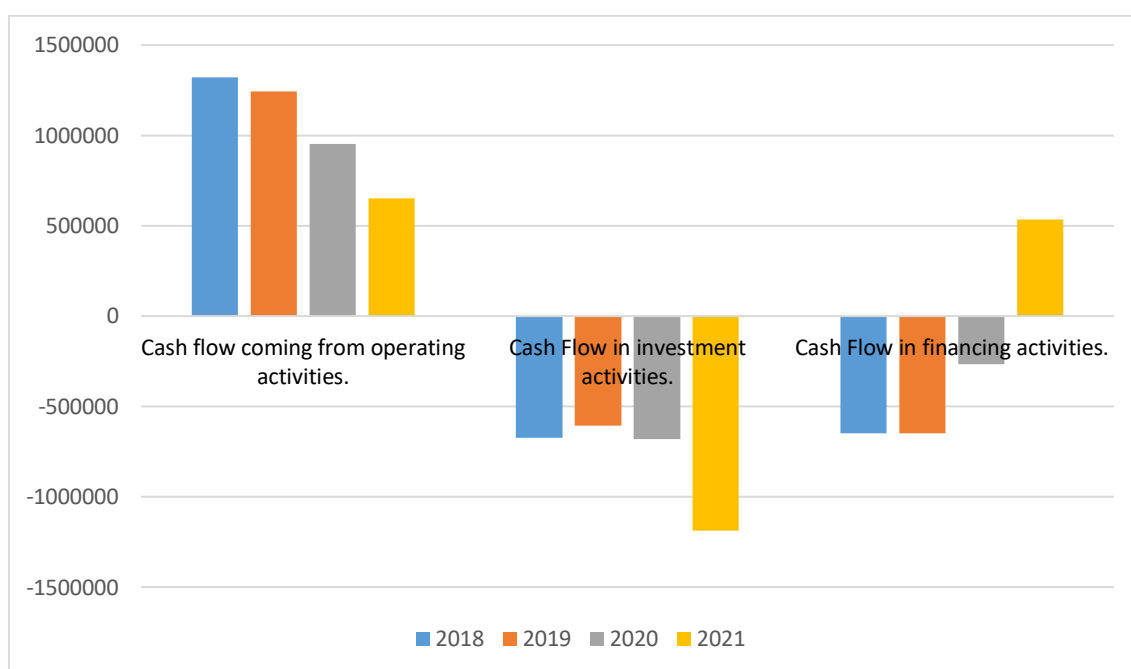
Cash flow from investment activities decreased the first year, going from -674,684€ in 2018 to -604,850€ in 2019 (10.35% decrease). They then increased in 2020 and 2021, going to -682,541€ (1.16% increase) and -1,185,909€ (75.77% increase). The big increase in 2021 was due to a fall in disinvestment collections, which fell from 62,075€ in 2018 to 1,122€ in 2019 (98.19% decrease), going hand in hand with an important increase in investment payments, which went from -736,759€ in 2018 to -1,187,031€ in 2021 (61.12% increase).

The increase in investment payments was mainly due to the increase in payment in intangible assets, which increased slightly in 2019 (5.02% increase) but fell back down in 2020 (10.19% decrease).

Cash flow from financing activities.

As for the cash flow from financing activities, it increases rapidly, going from -648,358€ in 2018 to -647,169€, -264,864€, 534,235€ in 2019, 2020 and 2021 respectively. The big increase in 2021 was due to the increase in “debts with group and associated companies”, which went from 0€, 21,835, 0€, 556,337€ in 2018, 2019, 2020, and 2021 respectively.

Graph 14. Evolution of Cash Flow Statement.



Source: Own elaboration

4.2. PROFITABILITY OF ORANGE.

From this next table, we can see the values of profit margin, asset turnover, and ROA.

Table 17. Values of ROA.

	2018	2019	2020	2021
Profit margin	3.82%	7.45%	1.49%	-13.14%
Asset turnover	0.59	0.60	0.58	0.58
ROA	2.27%	4.48%	0.86%	-7.57%

Source: Own elaboration.

ROA is fluctuating through the analyzed period, increasing in the first year, but then rapidly decreasing until it becomes negative in 2021. The increase in the first year was mainly due to the increase in profit margin, as EBIT increases by nearly 90%. As explained in the analysis of the income statement, this was due mainly because of the increase in the “allocation of subventions on non-financial investments and other”. The EBIT fell the next years as that account ceased to exist and labour costs increased. Total assets and net turnover have also been following a decreasing trend. The decreasing trend in total assets is due to the decrease in non-current assets. The decrease in net

turnover, as explained before, has been due to the increased rivalry due to the low-cost rivalry and other secondary effects derived from the effects that the health crisis is having in the general economy

The drastic fall happened in 2021 when operating income became negative, making ROA negative.

The values calculated for ROA are showing that the company is not effectively using its assets, which may be because of high expenses or other factors. The company should focus on improving its profitability by reducing costs, investing in more profitable projects, or improving asset utilization. If the low value for ROA would have been only present in 2020 or 2021, we could say that the company is having a hard time trying to bounce back after the pandemic, but the ROA has been low since 2008. From 2008 to 2011 it was negative, increasing at a very slow rate until it became positive in 2012, but was still low.

We will continue studying the operating ROA and the ROE in order to further understand the profitability of Telefónica.

Table 18. Values of Operating ROA.

	2018	2019	2020	2021
Profit margin	3.68%	7.29%	-0.10%	-11.43%
Asset turnover	60.53%	61.41%	59.47%	58.25%
OP. ROA	2.23%	4.48%	-0.06%	-6.66%

Source: Own elaboration.

The operating ROA follows a similar trend to the ROA, increasing in the first year, and then decreasing, until it becomes negative in 2021. Operating ROA is higher than ROA (except the last year, when it falls at a more rapid pace), which means that the return from the operating assets is higher than the return of total assets. It is still low, but the company should, as mentioned before, focus on effectively using their assets.

Table 19. Values of ROE.

	2018	2019	2020	2021
FLEV	0.71	0.77	0.79	1.00
AIR	0.38%	0.38%	0.34%	0.36%
ROA	2.27%	4.48%	0.86%	-7.57%
ROE	3.61%	7.62%	1.27%	-15.49%

Source: Own elaboration.

As for the ROE, it follows the exact same trend as ROA. It increases in the first year, and then rapidly decreases in the next two years. We should mention that the ROE has also been very low for a long time, especially in 2008, 2009, and 2009, when it was less than -45%, even reaching -64% in 2008. Comparing it to Telefonica, we can see that those values are not normal in the sector.

Preliminary opinion on profitability.

Both ROA and ROE show a very poor image of the profitability of Orange. We should keep in mind that the company did experience an increase in both ratios in 2019 but then fell back down in 2020. The net turnover is continuously decreasing, which, again, has been due to the increased rivalry due to the low-cost rivalry and other secondary effects derived from the effects that the health crisis is having in the general economy.

Knowing that 2020 was a very complicated year for many companies, we should see the evolution of the next years, to see if the company is going to be able to go back up. We should also keep in mind that Orange's history tells a lot about the possible future of the company, as the ratios have always been very low. This is concerning as the company

could struggle to attract new investors and may find difficulty raising capital. The company blames the low levels of profitability on the increased rivalry between the three big companies (Telefónica, Orange, and Vodafone), but also on the low-cost subsidiaries like those of the Group Más Móvil.

4.3. LIQUIDITY OF ORANGE.

The current ratio is positive and constant through the analyzed period, decreasing in 2020.

Table 20. Values of Current Ratio.

	2018	2019	2020	2021
Current ratio	0.58	0.58	0.36	0.58

Source: Own elaboration.

What stands out the most about the current ratio is how it quickly increased after the fall in 2020. The decrease in 2020 was mainly due to the increase in current liabilities. As we saw in the analysis of the balance sheet, this increase was because the account “debt from affiliated companies” was reclassified as a short-term liability.

These values are very similar to the ones in Telefónica, which only ensures our assumptions. Even if these ratios show a poor ability to pay back its short-term liabilities, it is normal for the companies in this sector to have smaller current ratios, as they don't have many current assets, as they probably invest the majority in research, infrastructure, and development.

Table 21. Values of Quick Ratio.

	2018	2019	2020	2021
Quick ratio	0.37	0.39	0.23	0.37

Source: Own elaboration.

The quick ratio followed the same trend as the current ratio, as it increased the first year, fell in 2020, but increased again in 2021. The decrease in 2020 happened as cash, short-term investments and account receivables decreased, while current liabilities increased for the above-mentioned reason.

Table 22. Values of Cash Ratio.

	2018	2019	2020	2021
Cash ratio	0.01317	0.00757	0.00622	0.01099

Source: Own elaboration.

For the analysis of the cash ratio, we have put more than two decimals, as with two decimals they would all have been 0,01. In this case, we can see that the ratio drops the first two years, but comes back up in 2021. The decrease was because cash experienced a decrease in the first year, but then started to increase slowly. As for current liabilities, they increased in the first year two years, but we can see the value drop in 2021.

Table 23. Values of Working Capital.

	2018	2019	2020	2021
Working Capital	-756,478	-797,562	-2,030,756	-799,880

Source: Own elaboration.

It was already within our knowledge that the working capital was going to be negative, as the current ratio was smaller than one. In this type of company, as mentioned before,

the negative working capital should not be a reason to worry, as these companies don't usually keep inventories and invest in many projects in order to stay competitive.

The working capital follows a similar trend to the cash ratio, as it decreases in the first two years, but then starts to increase slightly in 2021, where it gets to -799,880€.

The management report mentions that "even though in accounting terms there is an imbalance in working capital at the end of the year, which is also inherent to the operation of the industry, it is considered that the solid and determined policy of cost containment and the anticipated increase in income ensure the normal development of operations and development of the business plan approved by management".

Table 24. Values of Operating Working Capital Requirements.

	2018	2019	2020	2021
OWCR	-11,715	-544,832	-516,590	-536,756

Source: Own elaboration.

Operating working capital requirements are negative and are fluctuating through the analyzed period. It starts at -11,715€ and quickly falls to -544,832€ in 2019. This happens because of an increase in operating current liabilities and a decrease in operating current assets. Later, in 2020 it increases slightly as the decrease in operating current assets is smaller than the decrease in operating current liabilities. And lastly, the opposite happened in 2021, as operating current assets fall at a faster pace than operating current liabilities.

Activity ratios.

Table 25. Values of Account Receivable and Payable Turnover and Days Receivable and Payable Outstanding.

	2018	2019	2020	2021
Account Receivable Turnover	7.57	6.96	6.20	6.09
Days Receivable Outstanding	48	52	58	59
Account Payable Turnover	6,92	5,38	6,73	7,36
Days accounts payable outstanding	52,03	66,94	53,50	48,92

Source: Own elaboration.

As for the days account receivable turnover and the days receivable outstanding, we can see that the values are lower than those from Telefónica, but that they are slowly increasing through the analyzed period, following the same trend as Telefónica. As mentioned in the analysis of the days receivable outstanding of Telefónica, it is important for companies to monitor their customer collection period and aim to reduce or keep it in line with industry standards to ensure financial health and market competitiveness.

The days accounts payable outstanding increased in 2019, but quickly decrease in 2020 and continue decreasing in 2021.

The days accounts payable outstanding are higher than the days receivable outstanding at the beginning of the period but then start decreasing.

Coverage ratios.

Table 26. Values of Coverage Ratios.

	2018	2019	2020	2021
Coverage of FL with CFO	0,30	0,33	2,15	1,10
Coverage of FL with FFO	0,19	0,20	1,20	0,39

Source: Own elaboration.

Both, the coverage of financial liabilities with CFO and FFO follow the same trend, increasing in the first two years and then decreasing in 2021. The increase in 2019 is not as important as the increase in 2020. This happens because in 2020 there is a very drastic increase in current financial liabilities, while CFO and FFO decreased.

This shows that the company is able to pay its financial liabilities in less than a year in 2018 and 2019 with both FFO and CFO. In 2021, it is able to cover them with FFO, but it needs a little over a year for CFO.

Preliminary opinion on liquidity.

As with Telefónica, we should keep in mind that the companies in this sector have lower values in liquidity ratios when compared to some other companies from other sectors, where they have high levels of inventory and other current assets.

We can see that all ratios calculated to analyze the liquidity fell in 2020 because of the pandemic, but quickly went back up in 2021 (except with coverage ratios, where the opposite happened, as lower ratios indicate better liquidity).

The accounts receivables outstanding at the end of the analyzed period are higher than the days accounts payable outstanding, which means that the company is paying faster than it is collecting. The company could try delaying slightly its payables.

For now, the profitability of the company looks like a more serious problem than its liquidity. After we study the solvency, we will be able to give a proper opinion regarding the company.

4.4. SOLVENCY OF ORANGE.

Solvency stock measures

Table 27. Values of Total Assets to Total Liabilities Ratio.

	2018	2019	2020	2021
Total assets to total liabilities	240.71%	230.40%	226.56%	200.012%

Source: Own elaboration.

The total assets to total liabilities ratio is higher than 200% through the whole analyzed period, decreasing slowly through the years as total assets decrease and total liabilities increase.

Table 28. Values of Equity to Total Liabilities Ratio.

	2018	2019	2020	2021
Equity to total liabilities	140.70%	130.40%	126.56%	100.02%

Source: Own elaboration.

The equity to total liabilities ratio is decreasing but higher than 100% throughout the whole analyzed period. This shows that a large proportion, if not the totality of liabilities, is funded by its equity, so the company is financially stable. The decrease is happening as equity is slowly decreasing and liabilities increasing.

Solvency flow measure

Table 29. Values of Interest Coverage Ratio.

	2018	2019	2020	2021
Interest Coverage Ratio	14,29	27,50	5,75	-41,82

Source: Own elaboration.

The interest coverage ratio increased in 2019 and decreased the next two years, when in 2021 it became negative because of the negative EBIT. The values show that the company was able to cover its interest expenses, except in 2021, when it had negative earnings.

Table 30. Values of Cash Flow Ratio.

	2018	2019	2020	2021
Cash Flow Ratio	38.35%	35.99%	27.88%	17.60%

Source: Own elaboration.

The cash flow ratio is decreasing through the analyzed period, as CFO decrease and total liabilities increase. The decrease in CFO was mainly due to the decrease in the exercise result, as mentioned above. This ratio shows us that at the beginning of the period, the company needed a little less than three years to pay for its liabilities with CFO, but at the end of the period it needed a little less than six years to repay the debt.

Coverage ratios

Table 31. Values of Coverage Ratios.

	2018	2019	2020	2021
Coverage of FL with CFO	1,42	1,47	2,27	3,74
Coverage of FL with FFO	0,91	0,90	1,26	1,33

Source: Own elaboration.

The values of the coverage ratios are increasing at a constant pace and show that the ability of the company to repay its financial liabilities with FFO is better than its ability to repay them with CFO. In 2021, we can see that the increase in the coverage ratio with CFO is increasing at a faster pace than the coverage with FFO.

Preliminary opinion on solvency

The company is solvent as it will not have any problems with repaying its long-term debt. The solvency stock measures show that the company has a good ability to remain operational in the long run, which will help investors and lenders see the company's financial wealth. The company should monitor closely its ability to repay its financial liabilities, as these are constantly increasing. The negative result means a decrease in cash inflows, which could explain the drastic increase in the coverage ratio with CFO in 2021.

4.5. FINAL OPINION.

After analyzing Orange's financial statements, we can conclude that the company is not very profitable, as its ROA and ROE are very low, even negative in 2021. As mentioned above, Orange has had a very low ROE and ROA for a long period of time. The company should study all of its expenses and decide which expenses are unnecessary in order to reduce costs and increase revenue by introducing new services or new mobile phone rates. The sector is very competitive, and we should keep in mind that Telefonica is the biggest company in Spain, and in this sector, many people hesitate in changing mobile carriers. We should also keep in mind that in this sector many people are only willing to change to other mobile carriers if they offer cheaper rates. These past years many companies have opened low-cost subsidiaries to attract new customers, especially the younger generation. Orange could profit in the long term from this option, as the company is aware that the decrease in its net turnover is mainly due to the new low-cost companies.

As for the company's liquidity, Orange has ratios similar to those of Telefonica, and, as mentioned in the final opinion of Telefónica's analysis, the companies in the telecommunications sector don't have many current assets, which at first glance may be worrying, but are normal for the sector.

Orange is a very solvent company, not having any problems with its long-term financial well-being. It is able to cover all of its debt with its assets and has a strong capital to fund its liabilities.

We should keep in mind that if the negative result continues to be negative in the next years, it could lead to a negative CFO, which would increase the risk of bankruptcy or insolvency.

5.- FINANCIAL ANALYSIS OF XFERA MÓVILES SAU.

Xfera's statements have been audited and provide a reliable picture of its condition.

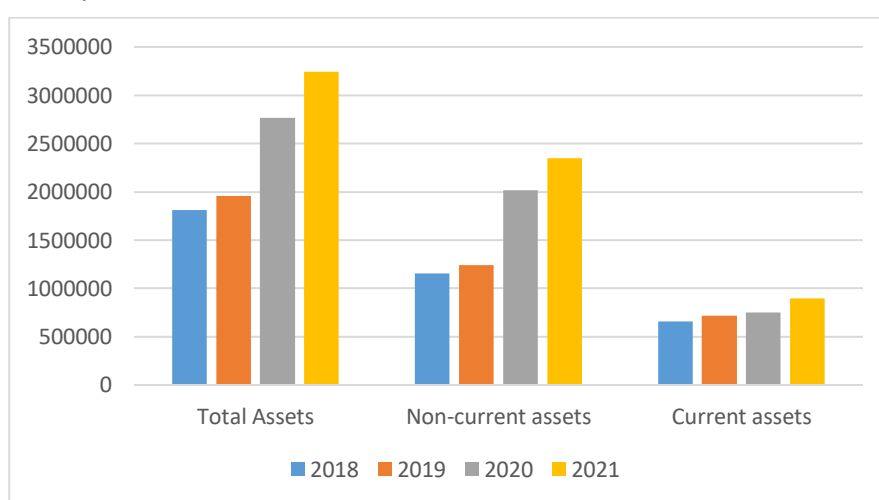
5.1. VERTICAL AND HORIZONTAL ANALYSIS.

5.1.1. BALANCE SHEET.

5.1.1.1. ASSETS.

Xfera's (from now on, Yoigo) total assets have followed an increasing trend, starting at 1,810,461€ in 2018 and increasing to 1,960,245€, 2,767,720€, and 3,245,662€, in 2019 (8.27% increase), 2020 (52.87% increase), and 2021 (79.27% increase) respectively.

Graph 15. Evolution of Total Assets, Non-Current Assets and Current Assets.



Source: Own elaboration.

Both current and non-current assets have experienced an increasing trend. On the one hand, non-current assets have been growing at a very high pace, going from 1,153,189€ in 2018 to 2,350,454€ in 2021 (103.82% increase). The most significant line item is the "long-term investment in associated and affiliated companies", which fell slightly in 2019 (13.16% decrease), but rapidly increased until it reached 1,245,840€ in 2021 (207.96% increase). Tangible assets were the only line items following a decreasing trend, going from 197,203€ in 2018 to 180,842€ in 2021 (8.30% decrease). "Long-term financial investment" increased in 2019, going from 10,194€ in 2018 to 32,387€ in 2019. In 2020 it fell back slightly to 11,020€ and in 2021 it experienced a big decrease, getting to 6,970€. Another non-current asset that experienced a big increase was "non-current commercial debts" which went from 21,191€ in 2018 to 236,235€ in 2021 (1014.79% increase). This line-item experienced small increases through the years, but increased tremendously in 2021. This could mean that the company needed some money to finance its working capital, new investments, R&D, some debt financing, etc.

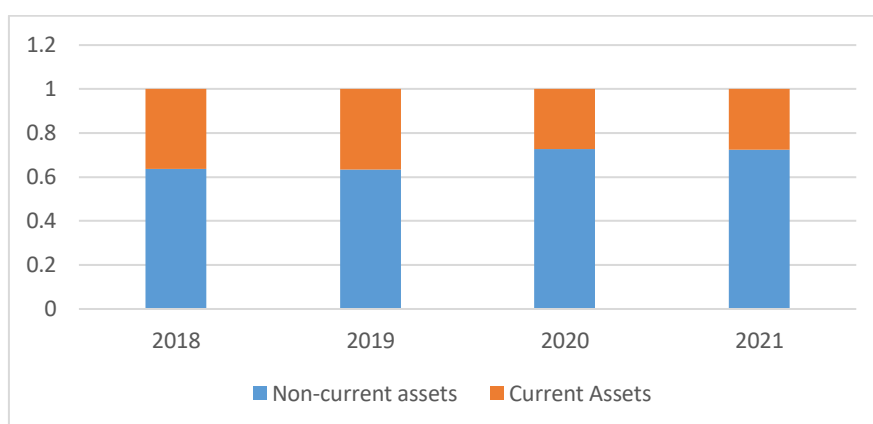
On the other hand, current assets also followed an increasing trend, going from 657,272€ in 2018 to 715,706€, 753,208€, and 895,208€, in 2019 (8.89% increase), 2020 (14.6% increase), and 2021 (36.20% increase) respectively. The most significant line items were the receivables, credit to companies, and short-term accruals. The receivables increased from 205,769€ in 2018 to 272,026€ in 2021 (32.2% increase). It did experience a decrease in 2019 (167,591€) but increased back in 2020 to 238,104€. The credit to companies experienced increases in the first two years, going from 392,010€ in 2018 to 473,372€ in 2019 (20.76% increase), and 464,199€ in 2020 (18.42% increase). In 2021,

it experienced a slight decrease to 352,591€ (10.06% decrease). Lastly, the short-term accruals experienced a very big increase in 2021, as they went from 2,053€ in 2018 to 203,970€ in 2021 (9835.22% increase)

Even if less significant, the value of the goods available for sale also experienced a big increase, especially in 2019, when it went from 111€ to 11,999€ (10,709.91% increase).

The distribution of the assets is similar to that of Telefónica and Orange, as non-current assets represent a bigger percentage than current assets. The significance of current assets grew slightly in 2019 (from 36.3% of total assets to 36.51%) but then started decreasing until getting to 27.58% of total assets in 2021.

Graph 16. Distribution of Non-Current Assets and Current Assets.

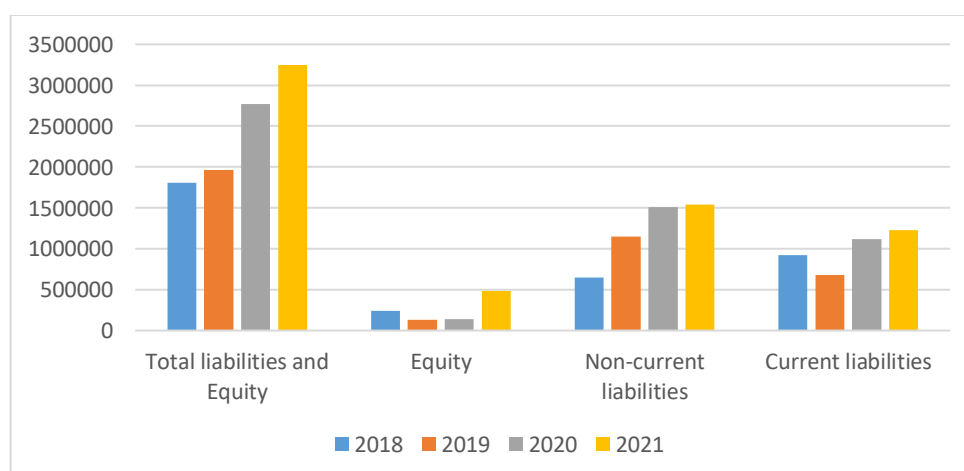


Source: Own elaboration.

5.1.1.2. Liabilities.

Total liabilities increase, following the same trend as total assets. Non-current liabilities are the most significant item in liabilities and increase from 647,631€ in 2018, to 1,150,199€ in 2019 (77.6% increase), 1,509,898€ in 2020 (133.14% increase) and 1,537,455€ in 2021 (137.4% increase). The account that made total liabilities grow in 2020 and 2021 was the “long-term debt with associated and affiliated companies”, which went from 5,950€ in 2018 to 1,477,755€ in 2020 (24,736.22% increase) and 1,497,495€ in 2021 (25,067.98% increase). “Long term debts” experienced a significant in the last two years. It increased in 2019, going from 605,077€ in 2018 to 1,133,004€ in 2019. Later, in 2020, it decreased to 12,138€ (97.99% decrease), and in 2021 it got to 9,575€ (98.42% decrease).

Graph 17. Evolution of Total Liabilities, Equity, Non-current Liabilities, and Current Liabilities.



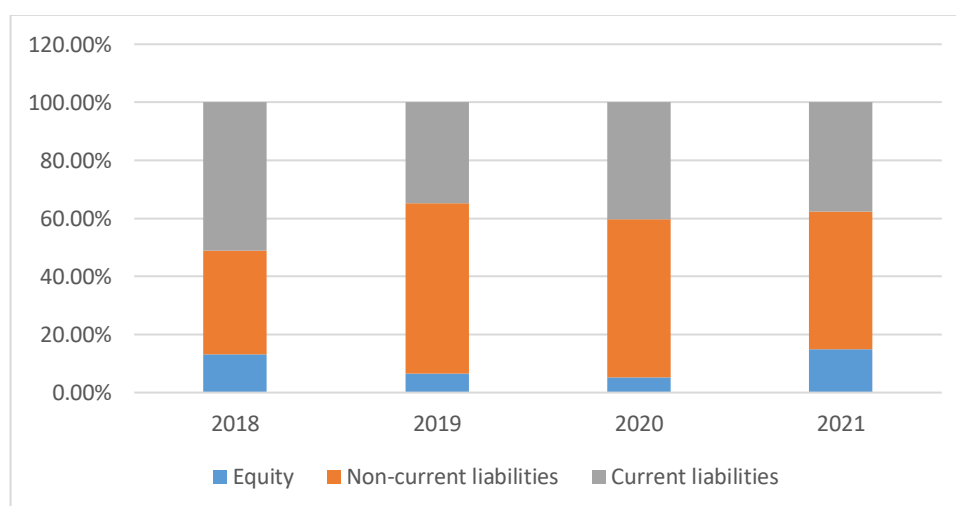
Source: Own elaboration.

As for current liabilities, they fell slightly in 2019, going from 923,306€ in 2018 to 880,893€ in 2019 (26.25% decrease), but it went back up in 2020 and increased in 2021 to 1,115,154€ (20.78% increase) and 1,225,119€ (32.69% increase) respectively. The decrease in 2019 was mainly due to the decrease in short-term debts and short-term debts with associated and affiliated companies. The former went from 128,375€ to 59,736€ (53.47% decrease), while the latter went from 270,880€ to 82,588€ (69.51% decrease). Short-term debts with affiliated companies increased slightly in the next two years, while short-term debts continued decreasing. The “trade creditors and other payable accounts” increased in the last two years, which compensated for the decrease in short-term provisions, short-term debt, and short-term accruals.

Equity decreased for the first two years but then increased in 2021. It went from 239,524€ in 2018 to 129,162€, 142,668€, and 483,088€ in 2019 (46.08% decrease), 2020 (40.44% decrease), and 2021 (101.69% increase) respectively. The increase in the last year was due to a big increase in reserves, which went from 24,569€ in 2018 to 177,919€ in 2021 (624.16% increase), and an increase in the exercise result, which went from 53,502€ in 2018 to 250,804€ in 2021 (368.77% increase).

As for the distribution of total liabilities, non-current assets represent the most significant items, followed by current liabilities and finally equity.

Graph 18. Distribution of Equity, Non-current Liabilities, and Current Liabilities.



Source: Own elaboration.

5.1.2. INCOME STATEMENT.

The net turnover has been following an increasing trend, as it went from 1,372,384€ in 2018, to 1,902,799€ in 2021. The same trend was followed by the services provided, as they increased from 1,372,384€ in 2018 to 1,691,413€ in 2021. In 2020 and 2021, the company started getting income from sales, apart from the services provided. It should also be noted that, in 2020 and 2021, when the company started getting income from sales, these accounted for roughly 11% of the net turnover

As mentioned in the management report, Group MásMóvil has led the portability, which allows users to change from one carrier to another without additional costs.

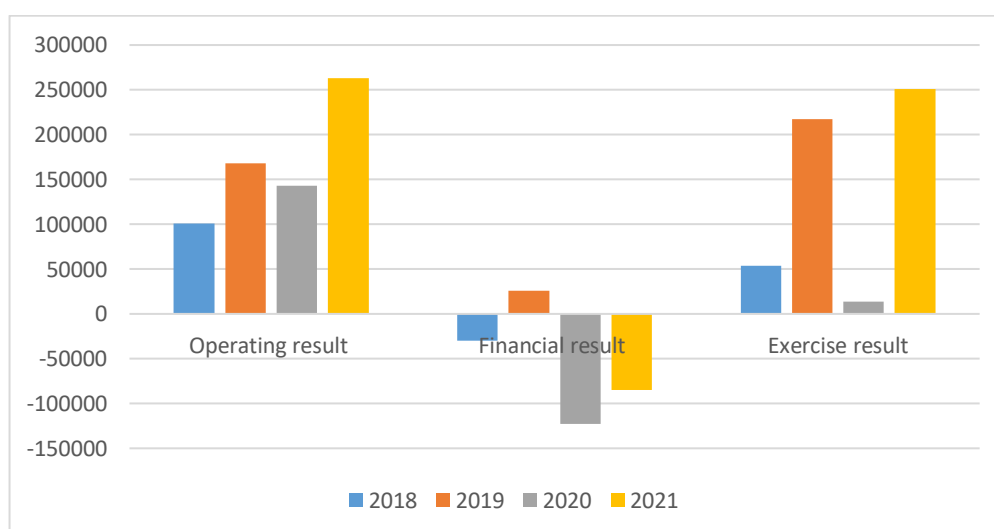
The exercise result experienced a very high increase in 2019, fell back in 2020, and increased again in 2021. The values were 53,502€, 217,655€, 13,740€, and 250,804€, in 2018, 2019, 2020, and 2021 respectively. These fluctuations happened because of the values of the financial result, as the operating result has been increasing continuously.

The operating result experienced an increasing trend throughout the analyzed period, going from 101,128€ in 2018 to 168,131€, 143,272€, and 262,961€ in 2019, 2020, and 2021. These increases happened mainly due to the increase in the net turnover. As mentioned above, the values for the services provided increased at a constant rate, but in the last two years, the company got income from sales, which made the increase in the net turnover more significant. Labour costs also increased, going from 33,550€ in 2018 to 67,150€ in 2021. In 2021, the company also got some income from disposals for an amount of 9,003€.

The increase in the exercise result of 2019 happened mainly because the increase in financial income was significantly higher than the increase in financial expenses, but in 2020, the opposite happened, as the increase in financial expenses was higher than the increase in financial income. These two events and the fact that the increase in the operating result in 2019 was higher than in 2020 is what made the exercise result of 2019 a lot higher than the one in 2020.

We should keep in mind that the company was increasing its exercise result and it only fell in 2020, as side effects of the pandemic, just like what Orange experienced. This drastic decrease happened mainly because of the big increase in financial expenses.

Graph 19. Evolution of the Income Statement.



Source: Own elaboration.

5.1.3. CASH FLOW STATEMENT.

Cash flow from operating activities.

The cash flow from operating activities followed an increasing trend, experiencing the biggest increase in 2020, when it increased 209.29% in comparison to 2018, as it reached 411,771€. This happened even if the exercise result of 2020 was lower compared to the other years. The results in adjustments decreased in 2019, going from 194,954€ in 2018 to 157,079€. It then increased to 300,406€ in 2020, and slightly decreased in 2021, reaching 225,670€.

The “changes in current capital” experienced decreases in the first two years, going from -112,417€ in 2018 to 69,761€ (37.94% increase) in 2019 and 128,431€ (214.25% increase). Later, in 2021, it fell back to -173,333€ mainly due to the change in “other non-current assets and liabilities”

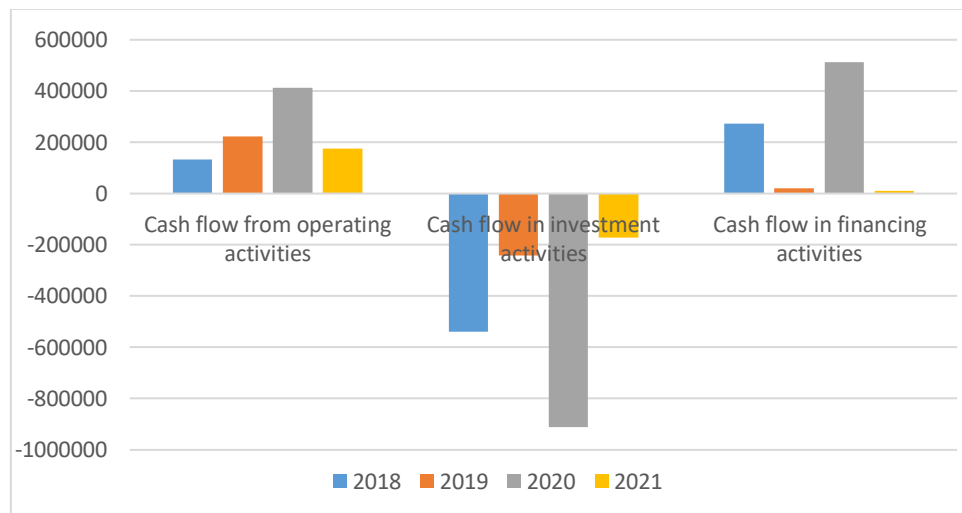
Cash flow in investment activities.

The cash flow in investment activities fluctuated through the analyzed period, as it increased in the first year, going from -538,612€ in 2018 to -242,937€ in 2019 (54.9% increase). In 2020 they decreased again to -912,303€ (69.38% decrease), and later, in 2021, increased back again to -172,520€ (67.97% increase). The decrease in 2020 was mainly due to two facts. Firstly, there was an increase in all investment payments, and, secondly, there was no collection of payment from group and associated companies. In 2019 and 2020, the opposite happened, as the investment payments decreased, but the disinvestment collections increased.

Cash flow in financing activities.

The cash flow in financing activities followed the opposite trend as the cash flow from investment activities, as it decreased in the first year, increased in the second, and then decreased again in 2021. The decrease in 2019 was due to a big increase in net worth instrument payment as it acquired its own assets which went from -118,848€ in 2018 because of the amortization of some net worth instruments to -228,172€ in 2019 (91.99% decrease). There was also an increase in return and amortization of debts with bank entities. The decrease in 2021 was mainly due to the big decrease in the issue of debts with bank entities and group and associated companies. On the flip side, the increase in 2020 was due to an increase in the issue of debts with group and associated companies.

Graph 20. Evolution of the Cash Flow Statement.



Source: Own elaboration.

5.2. PROFITABILITY OF XFERA.

The Return on Assets is increasing the first year from 5.99% to 14.81%, then decreases again in 2020 to 5.7%, and, lastly, increases again in 2021 to 8.22%.

Table 32. Values of ROA.

	2018	2019	2020	2021
Profit margin	7,91%	18,16%	8,90%	14,03%
Asset turnover	0,76	0,82	0,64	0,59
ROA	5,99%	14,81%	5,70%	8,22%

Source: Own elaboration.

The increase in 2019 happens mainly because there is a big increase in EBIT. The increase in EBIT happened as both the operating result and financial income increased at a higher rate than the increase in financial expenses. The increase in 2019 is higher than in 2021 because of the asset turnover, as assets are a lot higher in 2021 than in

2019, which makes the asset turnover lower. For 2020, the decrease in ROA happened mainly due to the big decrease in EBIT, as a side effect of the pandemic. We can see from the values above that the company recovered after the big fall in 2020, and will probably continue increasing. The values of ROA are not optimal as the asset turnover is decreasing, which means that the company is decreasing the efficiency with which it uses its assets.

Table 33. Values of Operating ROA.

	2018	2019	2020	2021
Operating Profit margin	6,667%	8,970%	7,772%	13,183%
Operating Asset turnover	1,10	1,15	0,80	0,72
Operating ROA	7,322%	10,355%	6,226%	9,448%

Source: Own elaboration.

As for the operating ROA, it follows the same trend as the ROA.

ROE is positive and experiences strong fluctuations.

Table 34. Values of ROE.

	2018	2019	2020	2021
FLEV	6.58	14.29	18.48	5.72
AIR	2.36%	5.27%	5.22%	3.22%
ROA	5.993%	14.81%	5.70%	8.22%
ROE	29.86%	151.16%	14.61%	36.88%

Source: Own elaboration.

Once again, ROE follows the same trend as ROA. The big increase in 2019 is due to two facts. The first one is the decrease in equity and increases in total liabilities, which make the financial leverage higher. The second is the spread, as the ROA is very high that year. The next year it falls drastically even if the financial leverage increases, as the spread becomes a lot smaller. In 2021, the financial leverage experiences a big decrease as equity increased because of the increase in the exercise result and in reserves.

Preliminary opinion on profitability.

Xfera experienced a decrease on its profitability during the Covid pandemic, as it was increasing both its ROA and ROE before that. The values are not as high as those of Telefónica, but are better than those of Orange, as they did not continue falling after 2020. We should expect the company to go back to pre-pandemic values for ROA and ROE, as the increase in 2021 shows that the company was able to adjust properly to the situation, and will probably continue with its increase in returns.

5.3. LIQUIDITY OF XFERA.

The current ratio is positive and bigger than 0,68 throughout the analyzed period.

Table 35. Values of Current Ratio.

	2018	2019	2020	2021
Current ratio	0.71	1.05	0.68	0.73

Source: Own elaboration.

The current ratio was also increasing in 2019 but decreased in 2020 due to a big increase in current liabilities. We can observe that in 2019 the current ratio was bigger than 1,

which shows that the company was able to repay all of its short-term debt with its current assets. This company is doing better liquidity-wise than what our expectations of the sector were. Again, we can see that the company is increasing its liquidity ratio in 2021, after the fall in 2020. This happened due to the big increase in current assets, as many of the line items increased significantly in that year, especially the short-term accruals. As explained in the analysis of the other two companies, the current ratio of these companies is usually lower, as they do not have many current assets. The high values of this company could mean that the company is not properly using its resources and that it should invest more.

The quick ratio is positive and bigger than 0.25 throughout the whole analyzed period.

Table 36. Values of Quick Ratio.

	2018	2019	2020	2021
Quick ratio	0.28	0.34	0.25	0.27

Source: Own elaboration.

The values of the quick ratio are a lot lower than those of the current ratio as we leave out the credit to companies and short-term accruals. It experiences the same trend as the quick ratio, as it increases in 2019, then decreases and finally starts going back up in 2021.

The cash ratio is positive and bigger than 0.04 through the analyzed period.

Table 37. Values of Cash Ratio.

	2018	2019	2020	2021
Cash ratio	0.06	0.09	0.04	0.05

Source: Own elaboration.

Again, the cash ratio increases in 2019, decreases in 2020, and increases again in 2021, following the same trend as many ratios of Xfera.

We should expect the Working Capital to be negative in all years except in 2019 as it's the only year when the current ratio is bigger than 1.

Table 38. Values of Working Capital.

	2018	2019	2020	2021
Working Capital	-266,633	33,834	-362,531	-330,295

Source: Own elaboration.

The increase in 2019 was due to the big increase in non-current liabilities. In the next years, the non-current liabilities increase at a slower pace than non-current assets, especially in 2020, as these go from 1,244,548€ to 2,014,512€.

The operating working capital requirements, are negative throughout the whole analyzed period and experience a decreasing trend until 2021, when they increase again.

Table 39. Values of Operating Working Capital Requirements.

	2018	2019	2020	2021
OWCR	-288,669	-296,374	-461,079	-321,167

Source: Own elaboration.

The decrease in 2019 is due to a bigger decrease in operating current assets than in operating current liabilities. In 2020, there is a very big increase in operating current liabilities due to an increase in account payables, which makes the OWCR decrease at a fast pace.

Activity ratios

The collection period is smaller than 48 days throughout the whole analyzed period, reaching the smallest amount in 2020 (41 days). The values for the collection period are a lot smaller than those from the other companies. The increase in the collection period in 2021 was because there was a bigger increase in the average account receivable turnover than in the net turnover.

As for the payment period, the values show that it takes the company nearly five times more time to pay its suppliers than to collect from customers. Knowing that the company is not experiencing any liquidity issues, the company should monitor this issue closely, as it could worsen the relationship with its suppliers

Table 40. Values of Accounts receivable and payable turnover, and days receivable and payable outstanding.

	2018	2019	2020	2021
Account Receivable Turnover	7.83	8.56	8.75	7.46
Days Receivable Outstanding	46	42	41	48
Account Payable Turnover	1,56	1,79	1,91	1,59
Days Payable Outstanding	230,99	200,77	188,23	226,90

Source: Own elaboration.

Coverage ratios

Table 41. Values of Coverage Ratios.

	2018	2019	2020	2021
Coverage of FL with CFO	3,00	0,64	0,95	2,35
Coverage of FL with FFO	0,59	0,31	0,30	1,19

Source: Own elaboration.

The coverage of financial liabilities with the CFO decreases in the first year due to a big decrease in financial liabilities. The next year it increases slightly as financial liabilities increase again when it experiences a big increase in the financial liabilities. As for the coverage of financial liabilities with the FFO, it decreases until 2021, when it experiences a big increase due to a big decrease in FFO. The FFO are able to cover the current financial liabilities in less than a year every year, except in 2021, when it would take them a little over a year. As for the coverage with CFO, it can only cover them in 2019 and 2020, while for the other two years it would take a lot longer.

Preliminary opinion on liquidity.

As mentioned above, the values for the current ratio are higher than those of the other two companies, and break the assumption that we had about the low amount of current assets. We mentioned that this might be happening as the company is not investing enough of its current assets in infrastructure, research, innovations, and development. Apart from that, the coverage ratios show that the company is having a harder time covering its current liabilities with CFO and FFO in the last year, so it should monitor it so that the ratios do not continue increasing in the next years. Another thing that the company should monitor closely, is the payment period, as it is a lot higher than the collection period, and could lead to bad relationships with suppliers.

5.4. SOLVENCY OF XFERA.

The total assets to total liabilities ratio has been decreasing until 2021, when it increased slightly.

Table 42. Values of Total Assets to Total Liabilities Ratio.

	2018	2019	2020	2021
Total Assets to Total Liabilities	115.20%	106.99%	105.41%	117.47%

Source: Own elaboration.

The decrease in the first years was because the total assets grew at a slower pace than did the total liabilities, while in 2021, the total assets increased at a faster pace than the total liabilities. The significant increase in total assets in 2021 was due to the increase in both current and non-current assets, especially the increase in non-commercial debts and long-term investments in associated and affiliated companies.

The equity to total liabilities ratio is decreasing in the first year, increases slowly in 2020, and then experiences a big increase in 2021. The decrease in the first year is mainly due to the decrease in equity and a slight increase in total liabilities. We can expect the value to continue increasing.

Table 43. Values of Coverage Ratios.

	2018	2019	2020	2021
Equity to Total Liabilities	15.20%	6.99%	5.41%	17.47%

Source: Own elaboration.

Solvency flow measures.

The interest coverage ratio is fluctuating through the analyzed period, increasing in the first year as EBIT increases, but decreasing in 2020 due to the increase in interest and decrease in EBIT. The last year, the EBIT increases at a very fast pace, while interests decrease by 35%.

Table 44. Values of Interest Coverage Ratio.

	2018	2019	2020	2021
Interest Coverage ratio	2.92	3.01	1.15	3.00

Source: Own elaboration.

The cash flow ratio is decreasing continuously throughout the analyzed period.

Table 45. Values of Cash Flow Ratio.

	2018	2019	2020	2021
CF ratio	84.09%	67.84%	36.29%	23.63%

Source: Own elaboration.

The constant decrease in the cash flow ratio is due to the increase in total liabilities and the decrease in CFO.

Coverage ratios.

Table 46. Values of Coverage Ratios.

	2018	2019	2020	2021
Coverage of FL with CFO	7,59	5,74	4,57	10,91
Coverage of FL with FFO	1,50	2,74	1,42	5,51

Source: Own elaboration.

The coverage ratios for the total financial liabilities are drastically higher than for the current financial liabilities. The coverage with CFO decreases until 2021 when it experiences a very big increase due to the big decrease in CFO. The coverage with FFO increased in 2019 and 2021 because of a decrease in FFO, while the decrease in 2020

is due to the big increase in FFO. This means that the company is having difficulties repaying its financial liabilities with its core operations.

Preliminary opinion on solvency.

Xfera's ability to repay long-term debt is good. Just like Orange, the solvency stock measures show that the company has a good ability to remain operational in the long run, which will help investors and lenders see the company's financial wealth. The only thing that should be worrying is the coverage ratios, as they are constantly increasing. This could mean that even if the company is able to repay its debt in the long term, it is having problems with its cash flow from operations, as explained in the cash flow statement analysis, as it decreases in the last year.

5.5. FINAL OPINION.

After analyzing the financial statements of Xfera, we came to the conclusion that the company is profitable, and should be expected to increase its profitability even more in the following years. As mentioned in the preliminary opinion on profitability, the company did experience a decrease in its profitability in 2020, but this should not be worrying as it was able to increase it back in 2021, and will probably continue increasing.

As for liquidity, the values for current ratios are higher than those in the other companies, which makes us believe that the company is not effectively deploying its assets to generate revenue or investing in growth opportunities.

Xfera's solvency analysis shows a good image of the company, which will attract investors, stakeholders, and creditors. The company should monitor closely its CFO and ensure that it does not continue decreasing. Because the company is profitable, we should expect the CFO to increase again in the next years, as all companies have experienced some sort of side effects from the health crisis.

Xfera is a profitable, liquid, and solvent company. Out of the three companies, it is the most stable, as it was able to maintain somewhat constant ratios through the analyzed period. Even if it experienced a small fall because of the pandemic, it was able to increase its ratios back, as opposed to what happened with Orange.

6.- ANALYSIS OF THE SECTOR AND COMPARISON WITH THE COMPANIES.

6.1. INTRODUCTION.

The telecommunications sector in Spain has experienced significant growth in recent decades, becoming a fundamental component of the country's economy and society. Telecommunications play a key role in connectivity, information transmission, and technological development, driving progress in various sectors.

This sector is critical to the Spanish economy. It is a critical facilitator for other sectors, promoting digitization and increasing production. The sector's rapid expansion generates job possibilities, propelling economic activity and contributing to Spain's labor market. Telecommunications attracts major R&D expenditures, supporting technical improvements and innovation. A robust telecommunications infrastructure boosts Spain's worldwide competitiveness by facilitating global communication, trade, and cooperation. Overall, the telecommunications industry is an important contributor to the Spanish economy, helping to shape the country's digital transition and economic environment.

The future expectations of the telecommunications sector in Spain are focused on the implementation of 5G, digitization, the convergence of services, IoT, and smart cities, as well as cybersecurity as an increasing priority. These developments will open new opportunities for growth and transformation in the sector.

6.2. PROFITABILITY ANALYSIS.

The ROA is positive in the first three years but experiences a big decrease in 2021.

Table 47. Values of ROA.

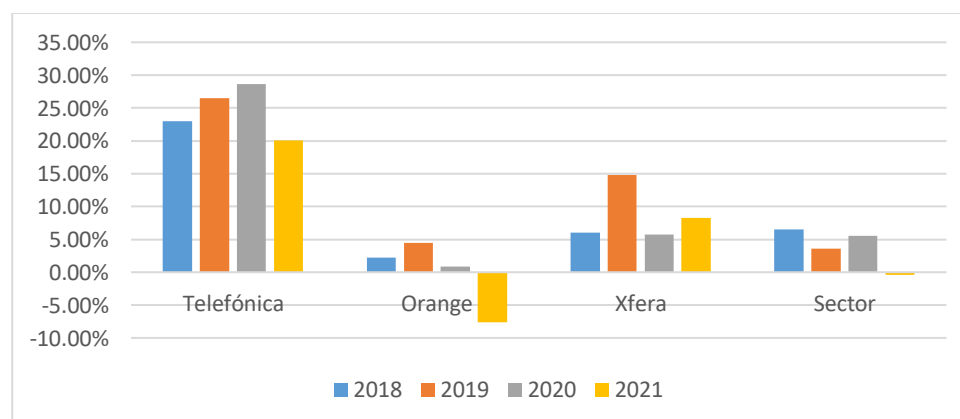
	2018	2019	2020	2021
ROA	6,47%	3,61%	5,57%	-0,41%

Source: Own elaboration.

The assets turnover suffers very small variations, so, what makes the ROA vary is the profit margin, as EBIT fluctuates from 115,606.22 in 2018 to 62,336.55, 95,226,22, and -7,098.04 in 2019, 2020, and 2021 respectively.

The trend followed by the sector is different from that of any of the analyzed companies, as we can see from the graph below.

Graph 21. Comparison of ROA values.



Source: Own elaboration.

We can see that the values of Xfera in 2018 and 2020, and Orange in 2019 are the most similar to those of the sector. Telefónica's values are the highest, which shows that it's the most efficient company in generating profits, which gives it a competitive advantage over its competitors. These values show that Telefónica has an increased investor confidence, stock price appreciation, and greater access to capital. In the preliminary opinion on profitability, we commented that the ROA values showed that Telefónica was profitable, but, now that we are able to compare the values to the sector's we can clearly notice that Telefónica's ROA is a lot higher, which means that the company is generating profit at a faster pace than any of the other companies in the sector.

As for Orange, the values for ROA were slightly higher in 2019, but for the rest of the years, were lower than those of the sector, which shows that Orange has a very poor ability to generate profit, especially in 2021, when the value fell drastically. As commented in the preliminary opinion on the profitability of Orange, these values show that the company is not effectively using its assets, and has not been doing so for a very long time.

Xfera's values are higher than those of the sector every year, except in 2018 when the value is nearly the same. This shows that the company is effectively using its assets, maybe not at the same rate as Telefónica, but still better than the mean of the sector. We see that the company follows the opposite trend as the sector (when the sector's ROA increases, Xfera's ROA decreases, and so on).

ROE is positive and bigger than 10% in the first three years, but falls to 1.09% in 2021.

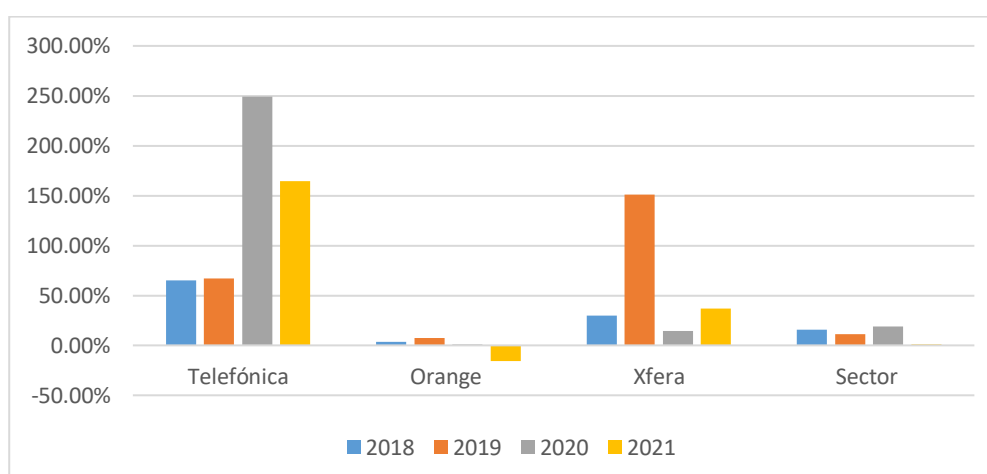
Table 48. Values of ROE.

	2018	2019	2020	2021
FLEV	1.31	1.53	1.91	2.07
AIR	-0.79%	-1.18%	-1.45%	-1.13%
ROA	6.47%	3.61%	5.57%	-0.40%
ROE	15.97%	10.97%	18.99%	1.09%

Source: Own elaboration.

ROE is following the same trend, but the values are higher than those of ROA. The values decrease in 2019 and 2021 due to the decrease in both ROA and the Average Interest Rate of Debt.

Graph 22. Comparison of ROE values.



Source: Own elaboration.

Again, Telefónica's values for ROE are way higher than those of the sector. This again, show that a company has a competitive advantage and is attractive to investors, as it

has a greater ability to generate higher returns on invested capital. The company did experience a fall in 2021, but the same trend was followed by the sector, but it shouldn't be worrying as the values are still a lot higher than those of the sector.

Orange has values smaller than those of the sector, which means that the company is inefficiently utilizing capital, which could indicate inefficient capital allocation or poor operational performance. All of this puts the company at a competitive disadvantage. As mentioned in the preliminary opinion on the profitability of Orange, this is concerning as the company could struggle to attract new investors and may find difficulty raising capital.

Xfera's values, on the contrary, are higher than the sector values, except in 2020, when the value is slightly lower. This shows that the company is getting a bigger return on its capital, than the mean of the sector, especially in 2020. Once again, the values of Xfera's ROA follow the opposite trend as the sector's values. The company was able to adjust to the situation after 2020, as opposed to the rest of the companies, which experienced a slight decrease.

6.3. LIQUIDITY ANALYSIS.

The current ratio is maintaining its values somewhat constant, only experiencing a bigger change in 2020, when it decreases to 0.53.

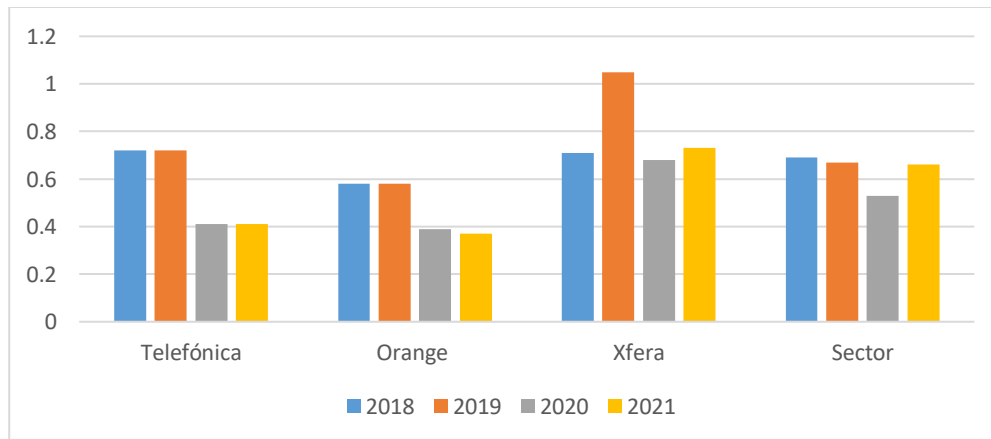
Table 49. Values of Current Ratio.

	2018	2019	2020	2021
Current ratio	0.69	0.67	0.53	0.66

Source: Own elaboration.

The decrease in 2020 was due to the big increase in current liabilities. This increase is normal, as many companies suffered big disruptions in their business operations, which may have made some companies take additional debt to cover expenses.

Graph 23. Comparison of Current Ratio values.



Source: Own elaboration.

Telefónica's values are slightly higher than the sector's in the first years, but slightly fall the last two years, while the sector's values experience a smaller decrease in 2020, and increase again in 2021. The decrease in the value in 2020 and 2021 could mean that the company is facing some cash flow issues, which could limit the company's ability to respond to unforeseen events.

Orange's values are, once again, lower than those of the sector. This indicates that the company has a higher risk of liquidity shortages and difficulties in meeting short-term obligations, which could mean that the company may face difficulties in managing its working capital, paying bills, or covering unexpected expenses.

Xfera's values are, to a small extent, higher than those of the sector. In 2019. The difference is more noticeable. This shows that the company holds a strong liquidity position, as it is better equipped to pay off its short-term obligations when they become due.

The working capital is negative throughout the whole analyzed period, reaching the lowest value in 2020.

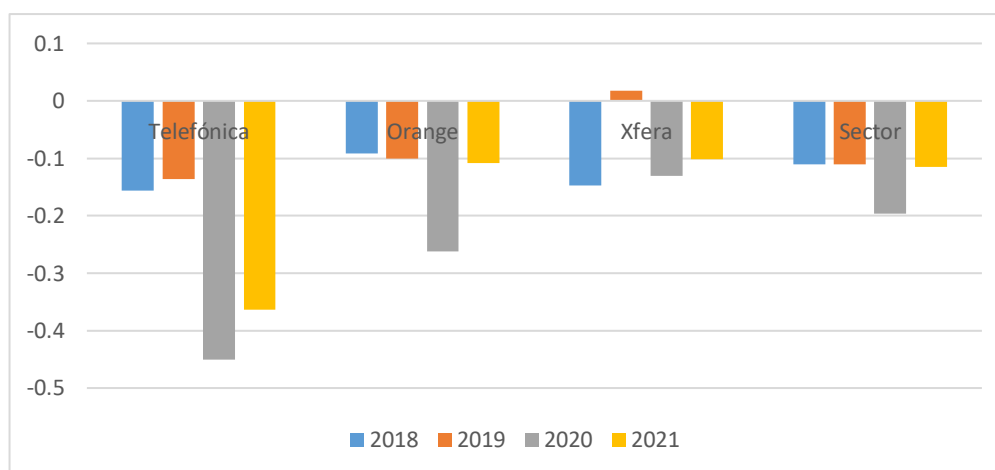
Table 50. Values of Working Capital.

	2018	2019	2020	2021
Working Capital	-197,190.66	-189,812.11	-335,685.79	-202,304.16

Source: Own elaboration.

The slight increase in the working capital in 2019 is due to a slight decrease in non-current assets and a slight increase in non-current liabilities. In 2020, the decrease is due to a big decrease in both non-current liabilities and equity. In 2021, the value increases again because of a big increase in non-current liabilities.

Graph 24. Comparison of Working Capital values.



Source: Own elaboration.

To not be influenced by the size of the company, we decided to do the comparison by dividing the working capital by the total assets.

Telefónica and Orange have values similar to those of the sector in the first two years. Later, the values decrease exponentially, especially for Telefónica, as Orange is able to get the value close to that of the sector in 2021. Xfera has values slightly similar to those of the sector, except in 2019 when the working capital of Xfera is positive.

This shows that Telefónica has an increased risk of experiencing financial difficulties or that it may have to rely on external financing sources to meet its obligations. This also shows that the company may have trouble responding to unforeseen events.

Orange had some trouble in 2020, but quickly got its values down to the sector mean in 2021.

As for Xfera, its values are similar to those of the sector, in some years higher, and other years lower. This shows that the company held, in 2019 for example, a stronger financial position.

The values of both the current ratio and working capital confirm our assumptions about the low values of the current assets in the telecommunications sector.

6.4. SOLVENCY ANALYSIS.

The equity to total liabilities ratio follows a decreasing trend and is higher than 48% throughout the analyzed period.

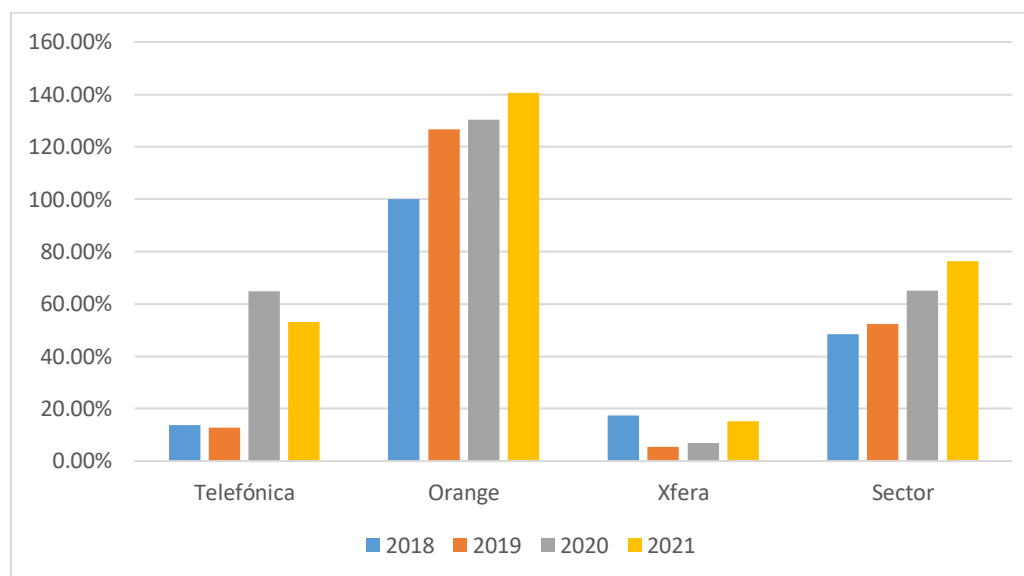
Table 52. Values of Equity to Total Liabilities Ratio.

	2018	2019	2020	2021
Equity to Total Liabilities	76,38%	65,16%	52,29%	48,33%

Source: Own elaboration.

The value is continuously decreasing as equity decreases and total liabilities increase.

Graph 26. Comparison of Equity to Total Liabilities.



Source: Own elaboration.

Xfera's values are drastically smaller than those of the sector, which shows an increased dependency on debt. This increase in debt lead to increased interest expenses, which, at the same time, constrain the cash flow.

Telefónica's values, even if low in the first two years, increase in the last two years, becoming closer to the values of the sector.

As for Orange, the values remain higher than those of the sector, and are continuously increasing. This provides the company with more financial flexibility and it can allocate a larger portion of its earnings towards growth initiatives.

The Interest Coverage Ratio is drastically decreasing through the analyzed period.

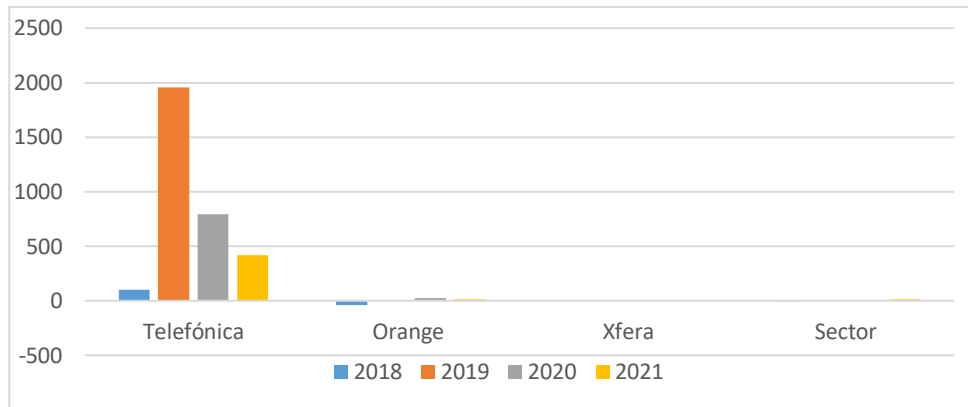
Table 53. Values of Interest Coverage Ratio.

	2018	2019	2020	2021
Interest Coverage ratio	14,388	5,061	5,861	-0,532

Source: Own elaboration.

The values experience such drastic fluctuations as EBIT decreases very fast while interests increase continuously, except in the last year when interests decrease slightly, but EBIT becomes negative.

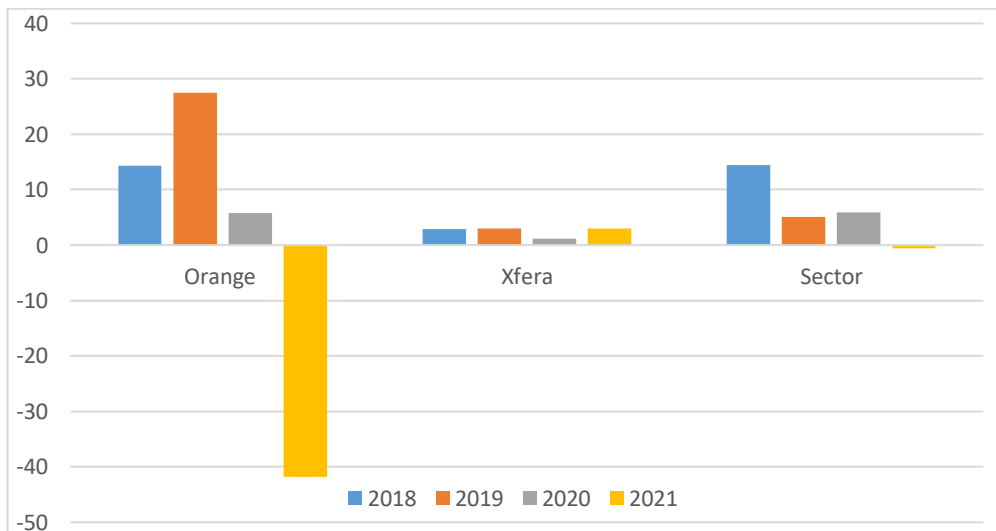
Graph 27.1. Comparison of the Interest Coverage Ratio.



Source: Own elaboration.

From this graph, we can not properly see the values from the companies except for Telefónica as the values are very high. This is happening because, as explained earlier, Telefónica's EBIT is high while its interests are very low. We will create a second graph to properly see the comparison between the other companies and the sector.

Graph 27.2. Comparison of the Interest Coverage Ratio.



Source: Own elaboration.

The values of the interest coverage ratio of Orange for the first two years are higher than those of the sector. In the third year, the value falls to a value similar to that of the sector, and in the last year, it suffers a big drop due to negative earnings.

Xfera maintains lower values than the sector through its period but in the last year, the value is higher than the sector.

7.- CONCLUSIONS.

The telecommunications industry is expanding rapidly over the world, and Spain is no exception. In recent years, the telecommunications industry has developed as an important component of Spain's economy, playing a crucial role in driving economic growth, promoting innovation, and improving societal connections. The sector's rapid growth has established it as a vital actor in Spain's digital transformation path.

On the final opinion of Telefónica, we got to the conclusion that even if the company is very profitable and solvent, it showed low values for liquidity. After the comparison, we can say that the company is the most profitable out of the three companies, as it has values way higher than any of the three companies and even the sector. It is true that the company is experiencing a slight decrease in 2021, but, as mentioned in the management report, "the year 2021 has been characterized by the recovery of commercial activity once the effects of the Covid-19 pandemic have been largely overcome".

We should also mention that Telefónica was the only company to experience an increase in its profitability ratios, which means that the company offered attractive deals to attract new customers and that its customers were more likely to change to better rates than those of the other companies.

Orange showed very poor values for profitability. Orange's liquidity is lower than that of the sector, but it's very solvent. As mentioned in the final opinion of Orange, it has had a very low ROE and ROA for a long period of time. The company should study all of its expenses and decide which expenses are unnecessary in order to reduce costs and increase revenue by introducing new services or new mobile phone rates. In 2020 and 2021, Telefónica and Orange did increase the risk of experiencing financial difficulties, as the liquidity ratios decreased drastically, and did not increase back again in 2021, like the sector's values.

Xfera has values very similar to those of the sector, sometimes experiencing values higher than those of the sector, especially in liquidity and profitability. Solvency analysis, on the contrary, shows that the company has slightly lower values than that of the sector and the other analyzed companies. This should not be concerning, as the values do not differ in concerning amounts. The only ratio that does differ from the sector and the other companies would be the equity to total liabilities ratio, which shows an increased dependency on debt, which, as explained before, constrains the cash flow.

From this, we get to the conclusion that Xfera is the most stable company, as it does not experience drastic variations from one year to another, and it has similar values to those of the sector. The only thing we think the company should focus on is its dependency on debt.

With Telefónica, even if very profitable, we do have some concerns about its liquidity in the last two years. We know that those two years were very complicated because of the health crisis, but the company was unable to bring the ratios back up in 2021, like the sector or Xfera. The same thing happened to Orange.

Orange is the most worrisome company, as it has always had very low values for its profitability. As mentioned before, the company blames the low levels of profitability on the increased rivalry between the three big companies (Telefónica, Orange, and Vodafone), but also on the low-cost subsidiaries like those of Group Más Móvil.

We should expect Telefónica to continue leading the sector in Spain in terms of profitability, but it should not underestimate the strength of the new low-cost companies. Orange should monitor closely its profitability as it's worrisome, and we can expect the profitability to continue decreasing if the company does not address it. As for Xfera, we

have a positive outlook on the company's future and anticipate its sustained growth and profitability.

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