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EDITED TRANSCRIPT

TNET.BR - Q2 2018 Telenet Group Holding NV Earnings Call

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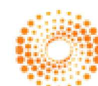

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PRESENTATION

Rob Goyens - *Telenet Group Holding NV - VP of Treasury, IR & Structured Finance*

Good afternoon, everyone. My name is Rob Goyens, Head of Treasury and Investor Relations at Telenet. I would like to welcome all of you to our Q2 earnings webcast and conference call.

I hope you have been able to have a look at this morning's earnings release. The release and the presentation for this call can be found on the results section of our Investor Relations website.

We'll start today with a presentation of the main strategic and operational highlights by our CEO, John Porter. Next I will guide you through our quarterly operational and financial results, and at the end, we'll gladly open it up for Q&A. Given the potential regulatory questions you may have, Ann Caluwaerts, Senior Vice President Corporate Affairs and Wholesale at Telenet, will gladly join the Q&A session.

As a reminder and before we start this call, let me remind you of the fact that certain statements in this earnings presentation may present forward-looking statements. This may include statements regarding the intent, belief or current expectations associated with the evolution of a number of variables that may influence the future growth of our business. For more details on these factors, we refer to the Safe Harbor disclaimer at the beginning of our presentation.

So John, the floor is yours.

John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

Thanks, Rob, and welcome, everyone, to our earnings webcast and conference call.

To start, let's have a quick look at our key growth drivers, starting off with converged connected entertainment. In May, we upgraded both our WIGO and WIGO Business offers by including significantly more data in the FMC bundles, and thus making them even more attractive. Our second

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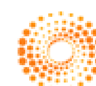

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own local production, De Dag, which we launched in March, is well received and tops the download ranking of our Play More catalog. We've registered an impressive 815,000 downloads so far.

Offering our customers a topnotch experience has always been key for us, and our latest "Go with the Good Flow" campaign, which we started in March, is a nice example. It's our #1 priority to fully optimize the in-home wireless connectivity experience and have great WiFi assets to capitalize on. So far, we distributed 120,000 WiFi boosters, a tremendous success, significantly improving customer satisfaction and experience.

We're progressing well on the upgrade of the acquired SFR network in Brussels and parts of Wallonia, making sure the network mirrors Telenet's high-quality standards, and allowing us to capture the expected synergies from the SFR transaction. Given the solid progress, we have fine-tuned our commercial strategy, which we are now executing. In that respect, we opened in July our first flagship store in the heart of Brussels.

Following the completion of our mobile network rebuild and migration of our full MVNO customers, we continue to tap the growing FMC segment. In a highly competitive market, FMC now represents around half the total market in Belgium. FMC is at the core of our strategy, and the total number of WIGO customers was up 56% year-on-year. This translates into a penetration of 21% of our broadband customer base, but with an overall 4P attachment rate of close to 50%.

Moving now to B2B. I'm excited that we've gotten the green light at the end of May to acquire Nextel, and we are now able to offer end-to-end ICT solutions in that segment. A study by Beltug showed that over 70% of the businesses want a single point of contact for their telecomp needs. Nextel offers, today, all telephony and network solutions, such as telephone exchanges, on-premise or in-cloud; advanced communication services such as Skype Business; IoT, Internet of Things; and LAN/WiFi solutions; camera surveillance and access control to buildings. Nextel already offers those services to more than 5,000 customers and 10,000 sites of large companies, SMEs, healthcare institutions, nonprofit organizations and public authorities. Combined with Telenet's leading connectivity and value-added services, we are now able to offer a robust array of services for both the SME and LE segment that respond to the needs of Belgian companies and public institutions.

We are also looking into new avenues of growth, scanning the market for new business opportunities, be they organic or inorganic, through partnerships and smaller targeted acquisitions. We recently created Telenet Tinx to kick-start our ambitions in the IoT sector. Secondly, we entered into a partnership with Solutions 30 to join forces in the growing area of technical field services. In the growing market of new digital technologies such as IoT, technical services are becoming increasingly critical in the home and in businesses. By joining forces and merging our field operations, the new company, Unit-T, will be able to address customer needs in both business and consumer segments in the most efficient way. And finally, we recently opened our first VR gaming venue. It's called The Park, and it's all about phygital entertainment -- for example, the intersection between physical and digital -- and offers a truly new entertainment experience to people. As such, Telenet will strive to continue to be the best leading provider of converged connected entertainment experiences whether at home, on the go or in The Park.

Digital transformation is an imperative for any company, and Telenet is no exception. We are currently fully modernizing our IT stack and moving to a digital-first strategy in crafting customer journeys. We will further detail our digital-first strategy during our December 5 Capital Markets Day, and I'm really excited about the efficiency gains and customer experience improvements it will bring.

We aim to deliver the fastest and most reliable connectivity, both fixed and mobile. At the end of June, we nearly finished the modernization of our mobile network, having added another 18 antennas in the second quarter alone. The results are clear, as we top the mobile download speed rankings as measured by a leading Belgian consumer organization. As for fixed, we have built around 81% of our HFC nodes so far, and as such, we are fully on track to be 100% gigabit network by mid-next year.

We continue to face a challenging regulatory environment, as I'm sure you've seen from the market headlines over the last couple of weeks. We are disappointed by the commission's take on cable wholesale regulation, as their letter clearly indicates they do not agree with technology-defined markets as the BIPT has done, whether they agree in the end, based on the joint dominance analysis, which the BIPT added afterwards. However, no thorough analysis and no market consultation was ever done on this, and for this reason, Telenet will be appealing the decision.

A lot has been said already about the fourth entrant in the Belgian mobile market. The BIPT has published the details of the spectrum auction at the end of last week, which we expect will take place in the second half of 2019. The market is already very competitive and very functional, and

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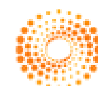

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data specs are increasing almost every month, with new offers on the market. We should know next year before the start of the auction whether a fourth player will decide to enter the market.

And finally, we entered into an agreement with the Flemish government for the further deployment of an ultra-high-speed network throughout Flanders.

Consistent with the board's previously stated commitment to revert on additional forms of shareholder remuneration in the second half of the year, we announced this morning our intent to propose to proceed with an extraordinary dividend payment of EUR 600 million, equivalent to approximately EUR 5.20 per share. We will convene an extraordinary general meeting at the end of September and will proceed with the effective payout as early as October 2018 pending shareholder approval. The board's decision was supported by a series of elements, including and amongst other factors the board's assessment of any meaningful short-term M&A opportunities within the markets and segments it operates, and secondly, the confirmed decrease in the company's net total leverage from 4x at the end of March 2018 to 3.8x at the end of June 2018 on the back of a robust 9% rebased adjusted EBITDA growth in Q2. The proposed extraordinary dividend comes on top of the earlier communicated EUR 300-million share buyback program. Finally, Telenet will host a Capital Markets Day on December 5, 2018, focusing on the strategic value drivers and financial outlook for the company in the medium term and on the future capital allocation framework in pursuit of sustainable growth and shareholder value.

Back to you, Rob.

Rob Goyens - *Telenet Group Holding NV - VP of Treasury, IR & Structured Finance*

Thank you, John. Let's home in on the operational performance. Looking at our fixed [multi-play penetration], two things stand out. First, our share of multiple-play customers continues to modestly increase, with triple-play being at almost 55% of cable households versus around 54% the year before. Second, the output per customer was up 1% year-on-year to EUR 55.2 in the first quarter, despite the absence of a price adjustment in the first half of the year. Growth in the output-per-customer relationship was underpinned by a higher proportion of multiple-play customers in our overall customer mix and a larger share of enhanced-video customers subscribing to our premium entertainment services, which was partially offset by competitive headwinds and larger [bill] discounts and fixed-term promotions.

On the next slide, you can see the progress we have made on broadband internet. We served nearly 1.7 million broadband internet subscribers at the end of Q2. Net subscriber growth for our broadband internet service in Q2 improved on a sequential basis to just over 3,000 net adds, and this was driven by our successful "Go with the Good Flow" campaign, which will (inaudible) be impacting both our churn and sales. This translates into an improved annualized churn of 80 basis points relative to Q1 2018, bringing annualized churn broadly back to last year's average. In Q2, our fixed-line telephony subscriber base continued to contract amidst intense competition in the residential markets and an overall declining market trend. As for broadband, we also saw an improved annualized churn trend in Q2, resulting in a smaller net loss of 2,700 net subscribers.

On the next slide, which is Slide #19, you can see that mobile continues to be a dynamic growth segment of our business. We are very happy with the almost 35,000 net post-paid additions in the second quarter, which we believe is a solid performance compared to our direct competitors. Our performance was directly driven by the continued strong uptake of our WIGO offers. Our prepaid customer base further declined modestly, in line with the overall market trend.

On the next slide, you can see that subscribers to our basic and enhanced video services reached around 2 million at the end of June. Relative to previous quarters, we lost fewer net video subscribers in the second quarter, and this was mainly a result of a better trend in our digital TV subscriber base.

On the next slide, you can see that our subscription VOD packages, Play and Play More, reached a total of 400,000 customers. Telenet has been having a strong focus on local content for several years now, which is something that now gets recognized by other players as well. We always look at changing consumer needs and we continuously adapt our products. We are currently actively working on new developments, including looking at how we can make all content even more accessible to the consumer.

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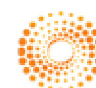

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On sports, there is a seasonal impact of the end of the football championship in Q2, which was further strengthened by the availability of major sport events on free-to-air channels. With the new Belgian football competition just having kicked off again, we would anticipate a sequential pickup in line with last year.

With that, let me now spend a few moments on our financial highlights, starting with our revenue performance. For the first 6 months of the year, we generated revenue of EUR 1.25 billion, which was slightly up relative to the prior year period on a reported basis. On a reported basis, our revenue movements were mainly inorganic, including the acquisition impacts of both SFR Belux and Nextel, as well as certain disposals and the impact of the new IFRS 15 accounting framework, which we have adopted as of January 1.

On a rebased basis, which means that when we adjust our prior year revenue for the aforementioned factors, our top line modestly contracted by 0.7%, and this was due to continued competitive and regulatory headwinds, lower usage-related revenue following the success of our flat-fee bundles and the absence of a price adjustment in H1 this year, which was largely offset by higher wholesale and small businesses revenue. In the second quarter, we generated revenue of EUR 632 million, representing a modest decrease versus last year and reflecting the same drivers as I just mentioned.

Relative to the first half of the year, we anticipate our rebased revenue growth to modestly improve. This is driven by a growing contribution from our wholesale and small business segments, and the benefits from the July 2018 rate adjustment, partially offset by continued competitive and regulatory headwinds, including a 17% reduction in the cable wholesale rate as of August 1, 2018.

On the next slide, which is Slide #24, you can see the good progress we have made on our operating expenses. As in previous quarters, we have continued to demonstrate tight control of our overhead and indirect expenses. Our operating expenses for the first half of 2018 therefore decreased 18% year-on-year on a rebased basis. This solid achievement was predominantly driven by a EUR 41-million deduction in direct costs as a result of the accelerated onboarding of our full MVNO customers to the Telenet network, a 24% year-on-year decrease in outsourced labor and professional services and lower indirect costs as a result of our continued focus on tight cost control.

Moving over to the next slide, you can see the strong progress on adjusted EBITDA. For the first 6 months of 2018, we realized adjusted EBITDA of EUR 645 million. This was up 9% compared to the prior year period on a reported basis. Our adjusted EBITDA for the first half of the year includes a full 6-month contribution of SFR Belux and a 1-month contribution of Nextel, as I mentioned earlier.

On a rebased basis, we achieved robust 7% growth in our adjusted EBITDA, which resulted in the 370-basis-point margin improvement year-over-year to close to 52%. Relative to Q1, when we generated 5% rebased adjusted EBITDA growth, our rebased adjusted EBITDA growth accelerated in the second quarter. This acceleration was driven by a variety of factors, including a continued reduction in MVNO-related expenses, lower sales and marketing expenses compared to last year and overall tight focus on our overhead expenses. This all conflated into a 9% increase in our adjusted EBITDA on a rebased basis. The margin of 53% was our best quarterly achievement in 3 years' time and implies an improvement of nearly 500 basis points relative to Q2 last year on a rebased basis.

Telenet has always been at the vanguard of investing, so let's have a look now at the accrued capital expenditures. Accrued capital expenditures reached EUR 302 million for the first 6 months of 2018, and they were up 8% versus the prior year period. Our higher accrued capital expenditures reflect continued investments in the upgrade of both our fixed and mobile infrastructures with a view to create a leading converged network for the future, and that also accelerated investments in our new digital IT platform with a view to create additional digital capabilities, as John alluded to earlier. Consequently, our accrued capital expenditures for the first 6 months of the year represented approximately 24% of revenue versus approximately 23% for the first 6 months of 2017.

As in recent quarters, the vast majority of our capital expenditures continued to be geared towards targeted investments in both our fixed and mobile infrastructures, as mentioned before. At the end of June 2018, we had modernized approximately 98% of our mobile microsites, and we had deployed to almost 240 new sites, while upgrading around 81% of our HFC nodes within the footprint. As such, we succeeded in substantially completing the mobile network modernization as scheduled at the end of June, and we expect to be able to complete our (inaudible) HFC upgrade project by mid-2019. Consequently, we anticipate our investment levels to decrease relative to this year's peak.

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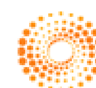

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Let's have a look now at our adjusted free cash flow. For the first 6 months of 2018, we generated adjusted free cash flow of EUR 257 million. This represented a marked 88% improvement versus last year's adjusted free cash flow. Our adjusted free cash flow growth was primarily driven by a robust increase in net cash flow from operating activities, but also thanks to lower cash capital expenditures due to continued net increases in our vendor financing program, partially offset by scheduled repayments of such short-term commitments. With that, we are well on track to deliver on our full year outlook.

Net [total] revenue really defined our leverage framework, maintained at 3.5x to 4.5x net total debt to consolidated annualized EBITDA, and based on net total leverage, as opposed to net covenant leverage previously. As such, our consolidated annualized EBITDA excludes certain unrealized OpEx synergies with regards to the Base and SFR Belux acquisitions. Our net total debt includes both lease-related liabilities and vendor financing related to short-term liabilities. At June 30, our net total leverage ratio reached 3.8x, versus 4.0x at March 31 this year, with the decrease being primarily attributable to the strong EBITDA growth we achieved in the second quarter.

As far as debt maturity profile, which you can see on the right-hand side, we have succeeded in refinancing both our euro- and U.S.-dollar-denominated debt in the first quarter of this year, resulting in an all-in weighted-average cost of debt of 3.6% and improved weighted average maturity of 9 years. Post-refinancing, we face no debt maturities prior to August 2026, and this excludes short-term liabilities related to our vendor financing program. At the same time, we have full access to EUR 445 million of undrawn commitments under our revolving credit facilities, with certain availabilities up to June 2023.

Let me now spend a few moments on our full year 2018 outlook, which you can see on Slide #30. Following our achievement of a modest rebased top line decrease and a solid 7% rebased adjusted EBITDA growth for the first 6 months of 2018, we are on track to deliver on our full year outlook. For the remainder of the year, we are confident our rebased adjusted EBITDA growth rate will remain robust against a competitive and regulatory market backdrop. This puts us on track to achieve 7% to 8% adjusted EBITDA growth for 2018, leading to an adjusted EBITDA CAGR of 6% to 7% over the 2015-2018 period.

With that, let me now hand over to the operator for the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

We will now take our first question from a Daniel Morris from Barclays.

Daniel Morris - *Barclays Bank PLC, Research Division - Research Analyst*

I've got 2, please. First question on how the price increases landed, please. Can you give us a little color on whether the churn levels were as expected, and also how that's landed? I mean, I guess what I'm thinking about is that all else equal, it should be about a 100-basis-point tailwind versus last year's price increase, but of course there's retention, discounting, et cetera. So could -- if you can give us any color around how that landed, really. Second question is just, can you give us a little more color on the M&A discussions? Is it simply that there were 2 sets of elections, and so mid-'19 is the earliest anything could really happen, or is there more to it than that?

John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

Yes, thanks for your questions, Dan. On the price increase, the way it's rolled out is about 5 weeks ago, we did the notification. And we didn't really see much pushback at that point. The headlines were dominated by other issues in the telecommunications universe, so we didn't hear much from government or regulators or consumers when -- at the notification period. People would have gotten their -- would have received their bills starting

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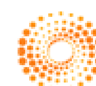

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about 8 days ago, and so far, so good, knock on wood, but it is early days. I think it's been 18 months since we did the last increase. That's a positive. And our increase was very aligned with inflation, and what we find here is that when we do keep it within the framework of inflationary pressures, which Belgium has a -- essentially a market that's geared towards the consumer price index with mandatory wage inflation and these kind of things, so increases aligned with inflation are pretty much standard operating procedure. So when we're able to keep it in that range and we execute it well, we don't get a lot of pushback. So there's some good learnings from that, which we'll bring to bear in the future. On the M&A and the reason why we're confident that we won't require any cash for M&A for the foreseeable future is -- starts with the, of course, the period leading up to the election, the regional election in October, followed by the federal election in May of next year, means that we're essentially in a lockdown period on any major decisions by the political parties for at least 10 or 11 months. I think another thing to note is that despite sort of repeatedly saying we're going to have a plan, we'll be announcing something, or whatever, from the board of Nethys, we really didn't see anything leading up to the closedown period. So I think they've still got a lot of work to do to decide what they want to do. As for Telenet, we don't think time is necessarily on their side from an evaluation standpoint, and we have to get on with our lives. So once again, if you combine sort of the machinations of the Nethys board with what probably would be an extended regulatory period, we think we're -- at a best case, we would be close to 2 years away from a transaction. Does that answer your question?

Daniel Morris - *Barclays Bank PLC, Research Division - Research Analyst*

It does.

Operator

We will now take our next question from a Roshan Ranjit of Deutsche Bank.

Roshan Vijay Ranjit - *Deutsche Bank AG, Research Division - Research Analyst*

Just 2 quick ones, please. Just regarding the commitment to the Flanders government on the next-generation network. Could you provide a bit more detail there on how that would reconcile with your CapEx profile, CapEx sales expected to trend down in the coming years? And secondly, just on the potential new fourth entrant, is it possible just to detail how we should think about the tight emissions ruling in Brussels? And I know there's previously been issues in putting active equipment near each other. And what the BIPT has said or what you guys think about for potential active equipment in the area?

John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

Ann can take the first one.

Ann Caluwaerts - *Telenet Group Holding NV - Chief Corporate Affairs & Senior VP of Corporate Affairs*

So on the agreement we've had with the Flemish government, basically what we agreed there is that we would complete and finish our (inaudible) net worth, our investment in the fixed infrastructure. That's according to the plan. So we are at 81%, almost done there. And the only relevant incentive is that we would fit together with the Flemish government on a yearly basis to ensure that our network also stays future-proof. It does not change our CapEx profile for the future, so it is within the plans that we've always had, and we're at the peak of that CapEx investment, as you are aware. And so, we have a commitment -- we've committed to the Flemish government that we will continue to ensure that the network in Flanders is top of Europe and, as a consequence of that, they do not see the need anymore to roll out their own fiber-to-the-home network in Flanders.

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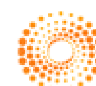

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John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

It's a good example of when public and private get together to work towards a common goal, and then when the regulator doesn't act unilaterally in an area where they're not fully informed and fully engaged with the existing operators. So very constructive relationship with the regional government. In regards to the fourth entrant, I mean, you mentioned radiation norms. There is certainly a range of challenges for a potential fourth entrant, starting with the fact that we already have a very highly functional market here. We have 3 MNOs and over 30 MVNOs, including some significant ones with hundreds and thousands of [SIMs]. You can get a mobile phone for EUR 8 here and you can unlimited data and unlimited voice for EUR 35. There's not a lot of room for pricing disruption. Half of the market -- more than half of the market is already in a very, very low-churning FMC quad-play profile. Civil engineering and administration is a massive challenge here. We're averaging 400 days to get new sites approved, and the fourth entrant is going to be required to build 20% of their network before they get national roaming. The radiation norms is also a threshold issue; 5G will not be possible in Brussels under the current norm regime. And yes, radiation is -- and antenna proximity is a very major issue in Brussels, and they seem to be a bit deadlocked on that issue and not able to react constructively. So I think it's certainly a challenge from the outside looking in if you are a telco operator. I'm not sure Belgium would be at the top of my list from places I'd want to go do business. Add to that an unpredictable and volatile regulatory environment and it just doesn't look that attractive. But we are where we are, and we'll deal with whatever comes our way.

Operator

We will now take our next question from a Paul Sidney, Credit Suisse.

Paul Sidney - *Crédit Suisse AG, Research Division - Research Analyst*

Just a couple of questions as well from me, please. Just on the decision to pay this extra EUR 600-million special dividend, I mean, earlier this year you mentioned that there was a potential problems with Liberty upstreaming cash in a tax-efficient way, and that was cited as a reason for not paying a special dividend earlier in the year. I was just wondering, has anything changed in that respect? And just maybe a bit of a follow-on from that, is there anything else, any other factor that would prevent Telenet from putting in place a more robust dividend policy in the medium-term? And then just secondly, on the fourth license discussion, you previously indicated that CapEx sales could fall towards 20% in full year '19. In light of the potential fourth entrant coming in, would Telenet consider cutting CapEx further until the spectrum auction's played out? And would you actually even consider not bidding in the auction?

John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

Yes, okay, let me start that. So first of all, I'd like to bring everyone back to the February full year result when the board declined to announce a dividend at that time. Our leverage ratio at that point was 4x. As you could see from our Q1 result, we were entering a fairly volatile period in the business, which we've since gotten well in hand. We have hit all of the financial targets that we set ourselves and that we've communicated to you. And so, we've also rapidly delevered -- in fact, in just the last quarter alone, 20 basis points from 4x down to 3.8x, also very encouraging. The markets are still, although moving, are still fairly favorable for us to go and upsize our existing facilities. Also, during -- in February, the Nethys/VOO file was extremely active. I would say that we've had a 180-degree turnaround from where we were there -- then, on that file. It's essentially dormant at this point. And we have the full support of our board to move forward with the special dividend expeditiously. So I mean, those are the things that have changed. We always said in February that we would be addressing shareholder remuneration in the second half of the year; that's exactly where we are. In June, we announced the EUR 300-million buyback, and now we are announcing the special dividend. In relation to a policy, we have -- we think we were prudent. We've been prudent up till now on shareholder remuneration. We will continue to be prudent. In regards to a policy, it's something that would need to very much align with our 3-year view on operating cash flow and operating free cash flow and free cash flow, and we are working diligently on that to come to a good understanding of where the growth will be in our core business, what we will be able to do with CapEx, and where the growth will come from incremental strategies, which we have not yet communicated. So we have also said that we will be having a Capital Markets Day to communicate those -- our view on the next 3-year cycle, and at that time you can expect us to align our remuneration policy to our view of what we see going forward. So step by step, and we think it's prudent to have all the facts on the table when we make those decisions. In terms of our CapEx profile and the auctions, I don't think it would be wise for us to sit out the auctions, first of all,

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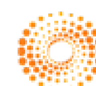

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because it's all about -- the spectrum will be licensed for the next 20 years. This is a once-in-20-year event; we need to be there. And we also, although we're not happy with the fact that the idea of the fourth entrant requires us to give back some spectrum, essentially, in certain frequencies, and not -- we will still be participating and we still have access to a very good range of frequencies, those that support our current business and those that will cover future technologies such as 5G. So we will certainly be participating. I think CapEx to sales is going to be an area of focus for us. We're certainly dialing up our focus dramatically in this environment on operating free cash flow and free cash flow versus where we had a much more singular focus on OCF in the past and we were in a heavy investment cycle upgrading our fixed-line plant and the wireless plant on the back of the Base acquisition. So we're coming out of that period. We're confident that we can hit the 20% target that we've communicated to you before, and we'll see where it goes from there. There certainly is potential for us to dial back, and if this fourth entrant thing ends up being -- happening and being exceptionally disruptive, you can be assured that it will impact our willingness and desire to invest in the future of our network. So, hope that answers your questions to the best of my ability.

Paul Sidney - *Crédit Suisse AG, Research Division - Research Analyst*

Yes, it does. That's very helpful, John.

John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

Thanks.

Operator

We will now take our next questions from a Matthijs Van Leijenhorst from Kepler.

Matthijs Van Leijenhorst - *Kepler Cheuvreux, Research Division - Analyst*

The first one is on the Capital Markets Day. I'm a bit surprised, to be honest, on the -- regarding the timing because you will have a lot of uncertainties regarding regulation. First we have cable wholesale regulation, and on top of that we may have a possible fourth new entrant. So how do you incorporate these items before the actual outcome in -- so, could you just shed some, I guess, more light on those 2 items? And secondly, it's regarding your outlook. If you look at the current run rate of rebased EBITDA, it's 7%. In the second half, you will see the positive impact from the implemented price increase. It will be partly offset by cable wholesale regulation, but we will also have the lapping of roaming regulations, so my main question is, is the 7% to 8% rebased EBITDA growth, is that not too conservative? Those are my questions.

John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

Yes. So on the Capital Markets Day, I mean, I don't think there's ever, like, a perfect time to have it. Certainly we are working -- we're working in a sort of 2-prong way, I would say. First of all, we're building -- we have built our base case. We have a good understanding of what that looks like. And we're looking at, also, the incremental opportunities that we see in the market, given the level of investment that we've made in our fixed network, our wireless network and our customer -- our CRM stack, in which we're investing heavily to move to a digital-first transactional environment. So there's a lot of -- that presents a lot of interesting opportunities for us, and I'd say our work on the incremental opportunities will probably bear fruit sort of in the October-November time frame. On the regulatory front, we have 5-year cycles on market reviews and regulation. We know what the next cycle essentially looks like. We're reasonably -- I think from a materiality standpoint, we're reasonably comfortable that we know enough to move forward and to make some strong predictions and commitments. We -- I mean, I think we're certainly -- our confidence builds as we see our churn get back down to sort of pre-Orange access levels, still some of the best -- lowest churn in the industry at 8.5%-ish, a little bit over; very, very gratifying. We know that our FMC strategy continues to bear fruit with churn below 4% in our FMC base and as low as 2% in certain segments. We also have a good idea of what we have in the pipeline and what our platform's going to be able to deliver. So I think it is a good time, actually. I mean, it's the end of our last 3-year cycle. We're confident that we will tick all the boxes of what we committed to over the last 3-year cycle and give a great incentive to put together a plan that we can a, communicate, and b, know that we can achieve. So I think it is the right time, and we

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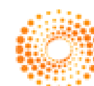

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look forward to spending a good half day communicating that to you in December. In terms of the outlook, I mean, it's a tricky one because what everybody tells me is, Telenet has a reputation for being modest, shall we say, if not conservative on our guidance. And so we get marked up anyway. So to give you -- to reach out any stronger guidance or anything, I think is slightly premature at this time. But doing the math that you're doing, I can also see that if you come to the conclusion that we'd be at the higher end of the guidance, you probably wouldn't be far off. So it's a hard one to answer. I think we've kind of made our bed of being a prudent-guidance company and it's hard to unravel that. But in the meantime, you can come to your own conclusions.

Operator

We will now take our next question from Emmanuel Carlier from Kempen & Co.

Emmanuel Carlier - *Kempen & Co. N.V., Research Division - Analyst*

A couple of questions: First of all, on OpEx, could you quantify how much OpEx savings you should still realize from the Base and SFR acquisition? Secondly, on the dividend, could you answer the question on the implications on Liberty Global? And by that, I mean will they not be taxed on the dividend that you will pay out? And also related to the dividend, what is the main reason not to implement a recurring dividend policy? And should we expect that to be announced at the Capital Markets Day? And then finally, once more, question on Nextel. I was a little bit surprised to see a EUR 7-million contribution for just 1 month. Is there some seasonality into that business? That's it

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Rob Goyens - *Telenet Group Holding NV - VP of Treasury, IR & Structured Finance*

Okay, Emmanuel, Rob here. So let me tackle the last question and the first question, and then John will tackle the dividend questions. So with regards to Nextel, so we included a 1-month contribution of Nextel in our results because we acquired it on the 31st of May. Total impact on revenue was EUR 7 million; EBITDA was EUR 1.3 million for the month. Actually, Nextel, there is indeed some seasonality in that ICT-integrating business, especially to the extent that they sign large contract deals, which happened to be the case in June. So therefore, the run rate that you saw in the month of June is not necessarily indicative for the run rate that you should expect going forward. When you look at 2017, the overall contribution of Nextel from a revenue perspective was around EUR 50 million, so it's a smaller number, basically, that we anticipate. With regards to the first question, which is the synergies, so first of all, with regards to SFR, so as John mentioned in the beginning of the call, we are currently making good progress on the optimization of the network and we are doing all the necessary things to do the customer migration. So in that sense, it's a bit early-day to tell on the synergy front. So we actually do confirm the overall synergy outlook that we gave at the time of the acquisition, which is actually to achieve EUR 16-million run rate on the SFR base. With regards to the Base synergies, so you will have seen from the release as well that from a pure P&L perspective, we are making sure that we have savings coming in through the onboarding of customers, and by the end of March, we migrated all the customers to the Base network. So therefore, we are paying lower charges in rental charges to Orange, so they have come down quite substantially. If you look at the overall run rate for (inaudible) synergies, we will indeed still be in a position to achieve the EUR 220 million by 2020, which is what we communicated. And for 2018, we expect to be more or less at the middle of that point. So we are . . .

Emmanuel Carlier - *Kempen & Co. N.V., Research Division - Analyst*

You expect to be at what?

John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

Midpoint, 2020.

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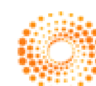

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Rob Goyens - *Telenet Group Holding NV - VP of Treasury, IR & Structured Finance*

The midpoint, yes, midpoint.

Emmanuel Carlier - *Kempen & Co. N.V., Research Division - Analyst*

Okay. And Nextel, what is the organic growth rate of that business?

Rob Goyens - *Telenet Group Holding NV - VP of Treasury, IR & Structured Finance*

Well, normally, so they have been growing quite rapidly as the market that they're operating in is a growth market. When you look at some of the results that have been published by our peers last week, more specifically also that the ICT market is a market that does impair growth, and as John also mentioned in the presentation, we do believe that the tie-up between Nextel and Telenet will result in a stronger combination, so we do expect that even though the revenue is now perhaps only EUR 50 million, that the combination of Nextel into Telenet business will actually lead to a stronger pickup in revenue.

John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

They're very complementary businesses, the ICT and -- the Nextel and Telenet business. And so I believe there are tops-of-line synergies out of the tie-up of those 2 companies, so. And on the dividend, the impact on Liberty, the impact is there. Going to get 56-point-something percent of the EUR 600 million. In terms of its impact on their tax, I can't tell you the answer to that. They have a very complex situation, and I'm not sure how it's being handled in any way, shape or form. So you can ask them, and I'm sure they'll shed some light on it. As far as dividend policy, I'd take you back to my comments re the evolution of our position on shareholder remuneration. We -- it's very important to our board, all of them, to have a very clear profile in what is a -- clearly a changing market on free cash flow profile. There are also -- we're in a period where we're going to be potentially drastically reducing CapEx, where our top line in our core business is certainly challenged. I think the board feels that it's important to have a much clearer picture, and also a much clearer picture on markets and on the right level of leverage for the company to commit to, because -- on a multiyear basis for committing to a dividend policy. I think there's -- the board is clearly committed to making that evaluation over the next few months, and when they're -- when we have all the data points that they require to support a decision in one way or another, we will be telling you about it. And the likelihood is that it will align with the Capital Markets Day, but if something happens before then, then we won't hesitate to inform you.

Emmanuel Carlier - *Kempen & Co. N.V., Research Division - Analyst*

And then I think in terms of M&A, it's only VOO that you can still acquire? In terms of large M&A, at least? But related to the dividends and the leverage, I think the leverage is now at 4x. I think in the past you mentioned that just doing VOO would of course increase the leverage but not massively. So from that perspective, why would you not commit to, I don't know, a percentage of free cash flow and pay that out as a recurring dividend?

John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

That could possibly be the outcome, but what I've said is that the -- we're taking it one step at a time. We've -- in the last 6 weeks, we've committed to EUR 900 million of shareholder remuneration, and in order to take another step, the board requires more data points and more clarity on a number of moving parts. M&A is not one of them.

Operator

We will now take our next question from a Ruben Devos, KBC Securities.

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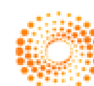

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Ruben Devos - *KBC Securities NV, Research Division - Equity Analyst*

I have 3 questions, 3 smaller ones. The first one just on Solutions 30, your joint venture. I believe they're active in the new digital technologies market. They've been growing by 25% per annum in the last 10 years, which is quite impressive. So could you maybe walk us through the rationale of the transaction, your ambitions and how we should look at it from a financial perspective? Then regarding vendor financing, I was wondering whether you could share the latest updates on your ambitions in terms of onloading new contracts versus repaying them? I think the short-term debt rate of vendor financing suggests already the net free cash flow impact is already above EUR 300-million guidance for the year. So is it safe to assume we'll see a slight negative cash flow impact coming through in H2? And finally, just on business services, so I mean, in the past, you've experienced solid growth there, except in the last 2 quarters you've seen a slight decline. I understand the growth from security revenues and fixed-line telephony was somewhat down. But yes, could you give some flavor on the moving parts and whether the element that has happened in the last 2 quarters is recurring in nature, either as something that will continue to play?

John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

I'll take the first one and then hand it over to Rob. Ruben, thanks. Yes, we're quite excited about our partnership with Solutions 30. The structure of that is that we are currently a minority partner. We own 30% and we have an auction on some more of it. But for the near term, we -- essentially what we've done is we've spun out our field service organization and field maintenance organization, and together with Solutions 30, we're looking to expand the portfolio of activities that this new co can undertake. So instead of just doing modem connections and set-top box connections and managing an HFC network, we will be looking to expand their activities into end-to-end, shall we say, digital home solutions. I can't be too much more specific on that for competitive reasons, but suffice it to say that we're seeing exponential growth in the complexity and in the volume of digital home solutions requiring hardware connection and software connected to a network. So there's clearly an opportunity to provide a much more comprehensive service and a much higher quality of customer service. So, if you will, sort of more digitally driven apps where you can -- if you require certain types of support then you can schedule it at convenient times for yourself, sort of the Uber of home technology support, if you will. And that's the ambition of the new company. Also, this new company will take on clients outside of Telenet, and in that way, lower the cost of service for -- of these services to Telenet. So we think it's a real win all around. We think we have absolutely the right partner. As you point out, they've had a tremendous amount of growth, they are really innovative, they already have an app, a home service app where you can book and trace the service provider to your home. So those kind of things are what attracted to us in the first place, and we have very ambition for that business. Rob?

Rob Goyens - *Telenet Group Holding NV - VP of Treasury, IR & Structured Finance*

Yes, okay. So Ruben, with regards to your question on the vendor financing, so in the first half, as also mentioned in our earnings release, the contribution of vendor financing on the total free cash flow numbers was around EUR 110 million, so we are indeed running a bit ahead of the total plan for the full year, although there is some seasonality at play here as well because there is -- there are certain suppliers, including a supplier who is doing network modernization at the mobile network who's actually -- whose spend is going to decrease, as we have already modernized 98% of the tower sites. So there's going to be some seasonality in the overall scheduling. At the same time, don't forget that there will also be some repayments coming through. And so we still target for the full year to more or less at the EUR 100 million that we guided for at the beginning of the year. So there is some seasonality between the quarters, but on an annualized basis, it's pretty consistent. And as we have said before, vendor financing is for us a way to get diversified, cheaper financing to make sure that we can actually tailor our cash outflows with synergies that we may see from acquisitions. And so it's a scalable program that will allow us to continue to grow. And the ambition is also for next year to still have a positive inflow from vendor financing that will be lower than the current year, but we will shed more light on it when we present our 2019 outlook. With regards to B2B, let me first remind everyone on this call that the way we report B2B revenue externally in our reporting is perhaps a bit different from the way you look at B2B in total. What I actually mean is that the revenue that is generated by [solo] customers is actually captured within the residential lines and therefore is not part of the B2B revenue as we recorded. So what is actually in the B2B business, as you then see from our reporting, is really the performance coming from everything that is related to large enterprises. There is a security revenue which is in there, which is always a bit of a volatile component because it is willing to contract wins, but also security, hardware-related sales, which typically has a lower margin to it as well. So what you actually see is that there is still good growth coming from the connectivity segment, which is what you would expect, as this is our planned focus. But given some of the price trends we see, and also some of the usage trends, fixed-line telephony is somewhat

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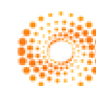

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impacted, and so therefore that translates into a bit of a more negative growth profile in the short term. But the underlying growth (inaudible) pretty solid.

Operator

We will now take our next question from a James Ratzer, New Street Research.

James Edmund Ratzer - *New Street Research LLP - Europe Team Head & Analyst*

2 questions, please. Just the first one regarding cost-plus wholesale regulation. I mean, I know this in principle is something that you strongly disagree with, but does seem kind of BIPT is going down this route, so I was wondering if you could please give us your view on what you actually think the appropriate price out-turn should be for cost-plus regulated level compared to the current rate that is in place from August. And secondly, just looking ahead into 2019, I mean, consensus numbers forecast only 3% growth in EBITDA, but it does seem as if you are going to have quite a tailwind from the July price rise feeding through, certainly through H1 of next year. As you said, you're only halfway through your synergy program, or still got some way to run, supporting costs next year. I mean, what do you think could be some of the headwinds that could bring that EBITDA down to only 3% growth, or do you think there could be room for that to move upwards?

Ann Caluwaerts - *Telenet Group Holding NV - Chief Corporate Affairs & Senior VP of Corporate Affairs*

Yes. On the first question, and good afternoon. Ann Caluwaerts, I will take them. So we expect there to be a movement towards a cost-based regulation somewhere mid-2019. The regulator is developing those models. It's very soon and very early days to say what the impact could be, but if you look at the interim pricing, you see that currently broadband and broadband and TV are taxed the same as interim pricing. So we actually expect the movement mainly to be on the broadband pricing and less on the bundle. And we'll see what it brings, but we expect that there will be a few euros' decline from where the pricing on broadband standalone currently is.

John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

Okay, and on 2019 . . .

James Edmund Ratzer - *New Street Research LLP - Europe Team Head & Analyst*

Do you think that's actually the fair calculation to take a few euros off that level based on your current cost base?

Ann Caluwaerts - *Telenet Group Holding NV - Chief Corporate Affairs & Senior VP of Corporate Affairs*

Based on our analysis, that would indeed be where we'd come out, but it is very hard to predict, of course, because the model is not built yet. So the regulator is building the model as we speak, so until then it will be -- it's early days.

James Edmund Ratzer - *New Street Research LLP - Europe Team Head & Analyst*

Okay, clear. Sorry, John, I interrupted.

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John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

No problem, and 2019 -- there's one sort of very significant headwind that I think we've mentioned before but we haven't quite sized it, which is the fact that the MEDIALAAN contract is moving from -- MVNO contract from -- first of all, it's going from a light MVNO to a full MVNO, and second of which, it has done recently, which has impacted the economics. And then secondly, that full MVNO is moving over to Orange. So I think they said in their results that it could be a tailwind for them of EUR 10 million to EUR 15 million, and it's more than double that a headwind for us, so that gives you a little insight into the fierceness of the negotiations on MVNOs. So that's something that we're going to have to subsume. We had some tailwind from the -- certainly a full year impact of the price increase. There are a few other synergies. I would definitely not be guiding upwards on consensus at this point in time. I think it's going to be a tough year. It's going to be kind of the flat part of the S-curve year, and we'll see where we go from there. I expect that in December, we'll be communicating some exciting opportunities for you, but some of which will not really bear fruit in 2019, but more towards the end of '19 and into '20, because like I said, we're a bit locked until we complete our digital transformation on new products and services. But yes, just take into account the headwind of losing the MEDIALAAN Mobile Vikings contract when you start to think about 2019.

Operator

We will now take our next question from a David Vagman, ING.

David Vagman - *ING Groep N.V., Research Division - Research Analyst*

First a question on savings. Do you see the need, as the, let's say, the CEO of Proximus said, to accelerate your transformation, and should we basically expect significant cost savings given what's happening on the regulation side? And that's my first question. Then on the impacts on competitive dynamics, what kind of impacts would you expect from the cut in regulatory prices for wholesale cable access in Q3-Q4 this year? Then obviously next year will, I guess, depend on the cost-plus model. Then my third question is, do you expect the CapEx requirements to change given the coverage requirement for the next spectrum auction? So will the coverage requirements lead you to increase your mobile CapEx?

John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

So I think -- there's not a telco on the planet that is not committed to some form of business transformation, digital transformation, given the technologies that are available to us today. The average management consultant will come in and tell you you can save 10% to 20% of your indirect costs if you do it right. I think that -- a lot of that relates to the fact that more and more of your customers every day don't necessarily want to talk to somebody. They don't necessarily want to drive to your retail store. They're perfectly happy to transact with you either through an app or through an online solution. We certainly -- I mean, the way we look at indirect costs, for us they're around $650 million per year, so you can do the math. We will go into that in some granularity at the Capital Markets Day, but suffice it to say that we are pursuing that strategy, we have been and we will continue. We have to, in light of the very competitive market that we're in and in light of the regulatory regime that we are facing, that we do need to significantly address our cost base. And we will do that. Whether we can do it fast or a little bit less fast, we can -- we'll have a very clear idea of that by the end of the year. We're already well down the road on lifting and shifting the old stack -- IT stack out and getting the new state-of-the-art IT stack in. I can tell you that our strategy on that is being endorsed. We've had many other telcos, incumbents as well as challengers come in and look at the architecture of what we're doing, and then heartily endorse it. So we're pretty excited about what that can do for us. The coverage ratio is not an issue. We are currently -- the spectrum auction requires a coverage of 99.8%; we're currently at 99.7%. So, and adding, as we did -- we added 18 towers in the last quarter, so we're clearly going to blow through the 99.8% coverage requirement. The competitive dynamics, the second question, can you repeat that?

David Vagman - *ING Groep N.V., Research Division - Research Analyst*

Yes, on -- in -- yes, sure. So given the cut with the -- on the cable wholesale access price (inaudible) . . .

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John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

Yes, okay. Now I remember.

David Vagman - *ING Groep N.V., Research Division - Research Analyst*

Do you expect any chance, let's say, in Q3 and Q4? And I guess obviously it's even more -- it's difficult to forecast what could be the competitive dynamics in next year given the cost-plus model. But you might have something obvious.

John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

You guys may know better than I, because you probably talked to Orange, but they consistently -- what I'm hearing from the market is that they're telling people that they're going to take that additional margin to the bottom line, that -- so we don't expect them to be more disruptive than they have been. They have been quite aggressive on bringing the cost of unlimited data and unlimited voice down to consumers. And they've been pretty aggressive in the fixed bundle as well. I mean, we certainly, in terms of share of voice and being out in the market, I think they kind of run neck and neck with us. So I think they, not for lack of trying, they are -- they may be more successful in some areas than in others. I don't know. But I don't expect to see much of a shift from where we are today. I'm sure they maybe have a few tricks up their sleeve, but so do we, so we'll see what happens.

Operator

We will now take our last and final question from a Louis Citroen, Arete Research.

Louis Citroen - *Arete Research Services LLP - Analyst*

I had 2 on the fourth mobile license and then a more philosophical one. The first one is, do you have any legal recourse against this decision that you might be considering? The second question, on the licenses, I know it's still early days, but have you had any thoughts on whether you'd be willing to offer roaming agreements, and also I'm curious if your network -- does your network have the capacity for it? And then the more philosophical question is, you're driving -- you're changing your focus from EBITDA growth to EBITDA less CapEx, and I was wondering, do you think there's a risk that by doing that, you might be creating a regulatory risk, especially as BIPT and the CRC in general are thinking about pushing prices down in both fixed and mobile?

Ann Caluwaerts - *Telenet Group Holding NV - Chief Corporate Affairs & Senior VP of Corporate Affairs*

On the first one, legal action with regard to the fourth mobile player, today that's not -- the royal decrees have not been voted yet, have not been confirmed yet. Once they are, and once they're final, we will look at all options, and one of them is, are there any options we have on the legal front? I think it's good practice to do that anyhow, in particular because the conditions for the fourth operator are quite favorable compared to what's happening in other European countries. So we will investigate that, but no decision has been taken, and first of all, the techs need to be final. On will we offer roaming agreements, too early to say, and it's commercially sensitive, of course, as well, so not something we will go in. The specifications of the royal decree are that the fourth operator can get mandatory roaming, but you first have to have coverage of 20% before he gets access to that. Once he gets 20% and he requests roaming, we will be obliged to give it. Before that, it's a commercial choice of ours. On the third question, the third?

John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

You go ahead.

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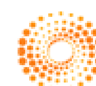

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Ann Caluwaerts - *Telenet Group Holding NV - Chief Corporate Affairs & Senior VP of Corporate Affairs*

Oh, yes. The third question was -- could you repeat it, please? I think it was on the EBITDA.

Louis Citroen - *Arete Research Services LLP - Analyst*

Yes, sure. I mean, it's more -- I mean, by shifting your focus from EBITDA growth to EBITDA less CapEx, do you think there's a regulatory risk that by seeing the margins increase, I guess, the regulator might find itself justified by its -- in its drive to push prices down in fixed and mobile?

John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

Yes, I think the short answer is "no." I mean, we have -- we are completing what is a sort of 5-year regulatory cycle in terms of market reviews, et cetera, so I think we can have some degree of certainty that things will be stable for the next period. Also, I mean, I'm not sure what else they could do here in Belgium. I mean, we are the market leaders in regulation. So we already have a cost-plus regime for broadband and broadband plus video. We have --

Ann Caluwaerts - *Telenet Group Holding NV - Chief Corporate Affairs & Senior VP of Corporate Affairs*

I don't think it will have effect. As I said earlier, the cost models are still being built, but I do not think that will have a major effect on -- that element on its own on the wholesale pricing.

John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

Yes. I don't think it'll change the wholesale pricing. I don't think it'll also stimulate the regulator to up the ante, because I think -- I'm pretty sure they've done what they can do. At the end of the day, you still have to win in the commercial marketplace, and the fact of the matter is, we've had every hunk of junk from a regulator that can be thrown at us, thrown at us. And the bottom line is, is that customers are very loyal to Telenet. They're getting more innovative services from us all the time. They're getting innovation around price and packaging and quality, and they're quite satisfied. So, so far, despite regulatory headwinds, we're winning in the marketplace.

Operator

It appears there are no further questions at this time. I'd like to turn the conference back to you for any additional or closing remarks.

Rob Goyens - *Telenet Group Holding NV - VP of Treasury, IR & Structured Finance*

Okay. Thank you, operator, and thanks, everyone, for joining this call, with record attendance, so it seems from the stats I just saw. So we can conclude today's conference call. We hope you all enjoy some summer downtime after the quarterly earnings cycle, and post-summertime, we look forward to catching up during one of our future roadshows and conferences. You can find all the dates on our Investor website, so feel free to get in touch to schedule (inaudible) post-summer. So thanks for joining, everyone, and goodbye for now.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.

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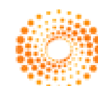

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