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PRESENTATION

Operator

Good day, and welcome to the Q3, 2015, conference call. Today's conference is being recorded.

At this time, I'd like to turn the conference over to Rob Goyens. Please go ahead, sir.

Rob Goyens - Telenet Group Holding NV - VP Strategic Planning, Treasury & IR

Thank you, operator. Ladies and gentlemen, on behalf of the Telenet Investor Relations team, Thomas and I would like to welcome everybody to our investor and analyst call for the third quarter of 2015.

I trust you all received our earnings release this morning and were able to download the PowerPoint presentation that will be used this earnings call; and that you're also able to join the online webcast.

Before we start, as usual, I'm obliged to advise you that certain statements in this conference call are forward-looking statements. These 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.



Let me now briefly introduce today's program and speakers. Based on feedback we received from investors and analysts, and also since we are quite keen to win, again, the award for best financial communication and investor relations in Belgium next year, we have decided to shorten the plenary part of our presentation to allow for more qualitative Q&A time.

So we'll first start with an executive overview by John Porter, our CEO, on the operational highlights for the quarter. After that, Birgit Conix, our CFO, will guide you through our financial results. After this formal presentation, we will immediately open it up for Q&A.

So, John, the floor is yours.

John Porter - Telenet Group Holding NV - CEO

Thanks, Rob; good afternoon, to everybody, or morning, wherever you may be.

Before providing you with some color on the developments in the quarter, I wanted to take the opportunity to step back for a minute and have a look at the impressive trajectory our Company has been on.

As you might know, 10 years ago, back in September 2005, Telenet was the first to pioneer digital TV in Flanders. Today, 10 years later, we're quite proud to say that 83% of our video-base is now enjoying digital television.

Of course, we have to continue to skate where the puck is going and that's exactly what we've been doing in the interim. We launched our 360 degree Yelo Play OTT platform and we have increasingly been focusing on premium entertainment across all platforms through the launch of our SVoD packages, Play, Play More and most recently, the completed overhaul of Play Sports, which is -- all of which had a great result in the third quarter.

In parallel, we have invested and will continue to invest heavily in our network, the bread and butter of our business, in order to guarantee superfast and reliable connectivity for Flemish businesses and consumers, both in the home and beyond through our Wi-Fi and wireless solutions.

We do all this while staying close to our customers and being focused on providing them an amazing customer experience.

More recently, we have invested in customer proximity and are contributing to the infamous Belgium traffic situation by sending our Yelo Telenet service truck proactively on the road to, amongst others, improve indoor connectivity for our customers; an unprecedented move in the European cable industry.

This effort, which we call the Helemaal Mee Tournee, is important as Flemish households are increasingly pivoting to a digital and more connected lifestyle, as you can see on the next slide.

The increased usage of the Internet means that every 18 months volumes are doubling. The reasons are threefold.

First, the number of connected devices is growing heavily. Currently, more than half of Flemish households have at least four connected devices with most of these hooked to the Internet via Wi-Fi.

Second, the times where we use the net for occasionally checking mails or information gathering are far behind us. With the overall move to over the top, we clearly see increased multimedia consumption through our pipes. In other words, the nature of our activities on these connected devices has also changed dramatically.

60% of Belgians, for example, say that they regularly consume online video, which, of course, demands extra capacity of every network.

Finally, the occasional consumption of IP networks has shifted to a 24/7 mentality. Just to prove that with some data points, 60% of the Belgium population streams music on a daily basis and about 1 million views of YouTube are streamed daily.

These three factors, more connected devices, changed usage patterns and a much higher frequency of usage, are the drivers behind the exponential growth in data traffic, which we counter by investing in the growth of our capacity through programs as De Grote Netwerf.

Moving to slide 6, you can see, looking at our operational performance for the quarter, it seems that we're still firing on all cylinders. The number of triple play subscribers grew 7% year on year, and is now comfortably over 1 million, representing nearly half of our total customer base, or two-thirds of our broadband base.



Net subscriber growth for our broadband Internet services took off by more 50% compared to the second quarter, thanks to successful promotions and targeted campaigns in the back-to-school quarter.

Fixed line telephony is also still growing steadily with more than 40% of homes passed, taking the service from us.

In digital TV we are exceeding the 1.7 million subscriber mark, in part fueled by continued traction for our premium subscription video-on-demand services, which we market under the Play umbrella.

Moving away from fixed and into mobile, I'm glad to see that initiatives, such as our family deal and our recently launched handset financing program, are helping to deliver decent mobile net add growth.

Our net adds performance in the quarter was impacted by the intensely competitive environment and timing variances in some of our campaigns, including generally lower spending on handset subsidies compared to last year. As such, three years after launching King and Kong, we are still posting double-digit year-on-year subscriber growth rates.

Finally, our B2B business also had a couple of exciting product launches, FreePhone Business, a virtual PBX solution for SOHO and SME customers. The B2B team also launched an upgraded corporate fiber net product, which now has speeds of 240 megabits down and 25 megabits up, with the added reliability of a VDSL back-up line.

So with that overview, I'll now hand it over to Birgit for a short summary of our financial performance.

Birgit Conix - Telenet Group Holding NV - CFO

Thank you, John. Telenet can, indeed, yet again look back at a strong quarter with solid operational trends translating into healthy fully-organic financial growth across the board.

For the first nine months of 2015, we generated revenue of approximately EUR1.35 billion, which was up 6% year on year. This growth was underpinned by four drivers.

Firstly, we achieved solid multiple-play growth with the number of triple play subscribers up 7%. Secondly, our revenue growth reflected the benefit from the selective price adjustments in January 2015. And thirdly, our mobile activities contributed EUR19 million, more versus last year. Finally, B2B continued its success from last quarter and was able to increase revenues by 13%.

As you may have read in our earnings release, we have implemented a handset financing program, starting in July 2015. As customers under the handset financing program need to find two different contracts, one for the airtime and one for the handset, we are now able to fully recognize the sales price of the handset upon delivery to the customer versus the gradual revenue recognition previously.

The overall introduction of our handset financing program in the third quarter had a small beneficial impact on our top-line growth.

For the first nine months of 2015, adjusted EBITDA was up 5% to EUR724 million, which, excluding one-off favorable impacts in both this and the prior year period, was driven by accretive multiple-play growth, including the benefit of the aforementioned price adjustments and our continued focus on carefully managing our overhead expenses.

This was partly offset by higher content-related costs, higher interconnection costs and higher costs associated with handset sales and subsidies.

Accrued CapEx for the first nine months was down 4% year on year to almost EUR249 million. This was due to significantly lower set-top box expenditures and 10% lower capital expenditures for customer installations, partly offset by higher network-affiliated investments. Excluding the recognition of the Belgium football broadcasting rights for the current season, they represented around 16% of our revenue.

Over the last nine months, we were able to generate free cash flow of EUR225 million, up 7% year on year. As such, we were able to fully absorb the negative EUR78 million impact from cash taxes paid in the first quarter of this year.



Free cash flow was driven by solid adjusted EBITDA growth; an improvement in our working capital as a result of our tighter working capital management; and, substantially lower cash interest expenses.

To wrap up this short summary of our third quarter results, I think it is safe to say that we are in good shape to hit the top end of our 2015 outlook, as presented and upgraded at the time of our half-year results.

With that, let me hand back to the operator for Q&A.

QUESTION AND ANSWER

Operator

(Operator Instructions). Vikram Karnany, UBS.

Vikram Karnany - UBS - Analyst

I've got two questions. Firstly, on mobile, I wanted to understand the dynamics you are having compared to the rest of the market in terms of data and subscriber growth.

I understand clearly Telenet is having a different starting point versus the competitors. But if I look at the ARPU trend, they seem to be still under pressure from these legacy tariffs and out of bundle. So when should we expect these trends to moderate?

Secondly, in terms of subscriber growth, in Q3 was there a specific strategic move over here to not be so aggressive in terms of subsidies and keep some ammunition maybe for Q4, depending on the market dynamics?

Secondly, in terms of the accounting change, I just wanted to understand how much was the benefit from this handset financing program in your revenue and EBITDA numbers for Q3? And was it broadly neutral on a free cash flow basis?

Birgit Conix - Telenet Group Holding NV - CFO

So maybe, firstly, I will answer the question on the handset financing, on the impact. So let me first give you a bit of flavor on what changed from a cost perspective and from a revenue perspective.

So from a cost perspective, nothing changed with the handset financing, because we expensed the handset at the time of the delivery of the handsets to the customer.

Then if you look from a revenue perspective, so previously what happened was that the recognition of the handset revenue was based on the initial cash received. The rest of the handset value was recognized over a 12 to 24 month period, so that was the past.

Now, since the contract is split in two, you have both airtime and then the handset revenue and the full revenue of the handset is recognized at the time of delivery to the customer.

In terms of value, and you can see that from our numbers, because it's in the toolkit as well, so you see that our mobile handset revenue increased with [EUR7 million] in the quarter year over year.

But it's only a proportion of this [EUR6 million] that is attributed to the handset financing and not all of it. Well, I'm not going to disclose how much exactly that is, but it's only a portion of the EUR6 million that you see there in terms of increase.

And then as far -- I think there was a question on subsidies as well. And yes, the third quarter last year, 2014, was very heavy on subsidies. We had a very aggressive quarter. This quarter, in 2015, is more normalized, so that's why you see less subsidies this time round.



So then there were some other questions on ARPU, maybe Rob you can take that.

Rob Goyens - Telenet Group Holding NV - VP Strategic Planning, Treasury & IR

Vikram, Rob here. So I guess overall if you look at the net adds performance we had in the third quarter, I think it's still fair to say that compared to the numbers we have seen so far from our direct competitors that we continue to do well in the market.

Not to forget that we are only active in the postpaid segment and predominantly selling within our current Flemish and Brussels footprint, so that's, of course, if you compare for that, I think it's a strong performance for mobile overall.

Then the somewhat deceleration of net adds compared to the previous quarters, is more linked, as Birgit mentioned, to timing variances in the campaigns, and especially in terms of subsidy approach.

Of course, we all know that the fourth quarter is coming, also the iPhone 6s and the 6s Plus have been launched recently in the Belgian market as well. I think that all looks promising for yearend.

With regards to ARPU from Mobile, we actually see that ARPU is actually slightly down year on year, 3%. What's actually driving that is a couple of elements.

I think first of all, there is still the conversion that we do of certain legacy customers that we are moving to our King and Kong rate plans, but also the fact that the King Supersize segment is doing well.

And we have some -- I think this is more like a sector-general trend, also some continued pressure on SMS usage that we are seeing. Then, due to the fact that we have increased some of the specs some time ago, also the out-of-bundle revenue per user actually coming in somewhat lower. But other than that, these should be the main drivers.

Vikram Karnany - UBS - Analyst

Okay that's clear. Thank you.

Operator

Ruben Devos, KBC Securities.

Ruben Devos - KBC Securities - Analyst

I got two questions. The first one on cash taxes, do you have more clarity on timing in terms of the fiscal year 2014 cash taxes? I recall the latest update said that it was unsure yet whether this would come through in the fourth quarter of 2015 or the first quarter of 2016.

Following up on this, at what point in the future do you think cash tax payments will normalize? I mean that roughly P&L tax and cash taxes of a given year will both be paid in that same year.

The second question, in terms of video, this one basically has been the laggard of the business revenue-wise. I recall from last conference call that you weren't too upbeat on video, indicating that the activity will continue to shrink with the rise of OTT and IP services.

However, you've been making quite some headway in terms of premium TV and entertainment. You've been revamping Play & Play More, Play Sports; you've nearly doubled your subscription video on demand customer base.

So I'm just wondering how you see the impact of premium TV and video, in general, on your business going forward. Thank you.



Birgit Conix - Telenet Group Holding NV - CFO

First, on the cash tax, we still expect the cash tax out on the fiscal year 2014 to be in 2016. So nothing changed there, Ruben.

Also, please note that this year we were able to fully absorb the additional cash taxes, because for the first time we paid such a significant amount of cash tax, and you hardly see it in our cash flow performance, because we were able to fully absorb due to our improved working capital and all the measures that we took there.

But we still do not see any change there going forward. We believe that, for the time being, the payment terms towards the Belgian Government will remain the same until further notice.

Ruben Devos - KBC Securities - Analyst

So how will that evolve exactly? You basically pay the cash taxes of the fiscal year 2015 in 2017, or how will that evolve?

Birgit Conix - Telenet Group Holding NV - CFO

Yes, that's how it currently evolves. Yes, we see no change for the time being.

Ruben Devos - KBC Securities - Analyst

Okay.

Birgit Conix - Telenet Group Holding NV - CFO

But I just wanted to highlight that we were able to absorb it fully this year without you even noticing.

Ruben Devos - KBC Securities - Analyst

Okay.

John Porter - Telenet Group Holding NV - CEO

I'll address the question on video. As you would see, the majority -- our video losses come substantially from the analog segment, which is where we have our least engaged customer. In fact, many of the customers there are single-play customers, and we're going through some, shall we kindly call it, generational impact of the analog subscriber base.

We're not connecting DTV subs fast enough to preclude some small net losses, although with the exception of Q1 2015, those losses have been reducing on a quarter-by-quarter basis for the most part.

We're more than compensating for that with our emphasis on premium video. The statistics on customers in our Whop en Whoppa package with an entertainment -- or a play option are very, very good; churn is very, very low; NPS is very, very high.

By, shall we say, de-emphasizing the investment in content in our basic DTV and putting more of the value into the premium layer, we think we're delivering a more high value and more sustainable customer.

Fundamentally, when we research customers overall, they ascribe very little value to typical cable TV programming in the DTV bundles. It is our strategy to work the growth segment of the video market, which is the premium end. As you can see by the substantial net adds in Play and Play Sport, we think it's paying off for us.



Ruben Devos - KBC Securities - Analyst

All right, clear. Thank you.

Operator

Michael Bishop, RBC.

Michael Bishop - RBC - Analyst

Just one question from me really. As you go into next year, and you have to give customers potential notice of any price changes, I was just keen to get your latest thoughts around how you view pricing going into 2016.

Also, picking up on that in terms of a wider point, it looked like the broadband churn ticked up slightly, and in the slides you're citing very intense competition. Could you just elaborate and give us a little bit more color on that? Presumably that's just from Proximus, but I'd be keen to hear your thoughts. Thanks very much.

John Porter - Telenet Group Holding NV - CEO

Well, first of all, on the pricing strategy, we're not going to give anything away there.

Let's just suffice to say that right now we're focusing very much on the increase in value that we've delivered to our customers with no price increase over the year. We've added a lot of features and functionality. We've increased speeds. Our average speed now is up over 100 megabits per second.

Really right now, the communication, the focus is on value improvement and memorable experiences are the foremost -- our Yelo house visits, which we've done close to 60,000 year to date, unsolicited visits to customers' homes who may or may not have Wi-Fi distribution problems in the house and/or an up-to-date converter and these kind of things.

We think we're adding a lot of value. Whether that gives us some headroom to look at rates or not will be something that we'll determine over the next six weeks.

In terms of broadband churn, to some extent I guess we're victims of our own success. Yes, right now we are being targeted fairly aggressively by Proximus. They're even going back to some throw-back tactics, like door-to-door sales and things like that, which we haven't gone down that slippery slope ourselves. They certainly are committed to try to make some headway in Flanders.

I don't know that there's anything happening there that we need to overreact too dramatically to. I don't see it as a tit-for-tat battle with Proximus. I think if we focus on doing what we do best, that we will continue to do very well.

We're also gearing up -- obviously, we will have Mobistar accessing our network in the not-too-distant future. So we're not really jumping at shadows at this point.

We still have pretty much the lowest churn in the cable industry in Europe and some of the highest penetration levels. So it would be foolish of us to get -- to overreact to slight variability in those areas.

Michael Bishop - RBC - Analyst

Could I just follow up actually on the Mobistar point? Have you got any initial expectations around whether there'll be any big changes in the pricing formula proposed by the regulator and then submitted to the EU?

John Porter - Telenet Group Holding NV - CEO



No, we'll have to wait until they come out with their formal position on that. The Walloon regulator has declined to, I guess, accept the current proposals, so that's probably pushing things back a little bit longer. Wherever it comes out will be made public when all three Belgian regulators have come to an agreement -- regional regulators, so I can't give you any insights there.

Michael Bishop - RBC - Analyst

That's perfect. Thanks very much.

Operator

Marc Hesselink, ABN AMRO.

Marc Hesselink - ABN AMRO - Analyst

The first one is on broadband. You see that despite maybe some lower growth in your customer numbers, actually the growth on the revenues is accelerating. Is it because of upselling? Is it also has something to do with your pro-active house visits and maybe also on the pro-active house visits what's -- what are you doing? Is it just increasing the service there or also trying to upsell some of your products?

And then second point is on your digital TV penetration is now at 83%, also now that you're really visiting your customers at home is there also maybe a possibility to in the not-too-far future switch off the analog network and try to make some extra capacity there?

And then finally, for BASE, if it's been clear that the end of March next year, obviously now you've already started the integration. But is there -- you're already working towards it and preparing your own system, so that you can do the integration relatively fast? That's it.

John Porter - Telenet Group Holding NV - CEO

Those are some big questions. First of all, on the broadband ARPU, do you have some insights on that, Rob?

Rob Goyens - Telenet Group Holding NV - VP Strategic Planning, Treasury & IR

Yes, on broadband and also on the pro-active house visits, Marc, so the pro-active house visits, as we discussed in the beginning of the call, it's really an exciting journey that we are embarking on with our customers, because we are doing them proactively.

So we have some sources of -- to see which type of customers should we address and should we actually help to target proactively, and that is just a matter of making sure that they have the right in-home connectivity, so if we see that, for instance, they have recurring calls, because of their Wi-Fi connectivity or we see that sometimes their signal drops, we send a technician proactively to their home to fix the issues.

So that's one set, but also we help them along to make sure that they use our products and services in the best possible way; and also, with some of the passwords to our additional services like Yelo Play to make sure that they can also use that -- the opportunity.

So it's not like you have an immediate upsell to the Helemaal Mee Tournee, but, of course, from an NPS perspective, so net promoter score there is a degree of positive effect. So they will become real Telenet ambassadors. Of course, from time to time we'll need to attractive promotions on additional adjacent products that can, of course, help for that customer group.

John Porter - Telenet Group Holding NV - CEO

I will add that we have sold a lot of power line extenders to help distribute Wi-Fi. We have done some upgrades and we are certainly amenable to discussing -- although an improvement or an upgrade in the service that might better service the customer's needs.



The biggest thing, as Rob mentioned, is the fact that the NPS score of a household has had a Yelo house visit increases around 25 points following a visit and that's turning detractors into supporters, and that is extremely valuable to us.

On the BASE integration we have had a full time team led by Patrick Vincent who has been our COO and is now our Chief Transformation Officer, working on 17 streams of various components of ensuring that when we are able to close on the BASE acquisition that we hit the ground running.

So we have taken what I would say is a very customer-centric approach, however, and we are reluctant to move customers from one network to the other until we are confident that the customer experience and the signal propagation in the area that is generally used by that customer is the same or better.

To do that we will be making some capital investments in both the existing transmission network but also in incremental sites, and that's essentially a two-year project.

But we are obviously building a basis of knowledge about the business. We're very focused on business continuity. We have agreed strategies for on-footprint versus off-footprint. I believe that we are approaching this integration in a very high-quality way.

That being said, I wouldn't be holding my breath for a lot of synergies to come online in 2016. This is a journey which is going to require some investment in the front end, but ultimately when we are in a position to start moving customers over, the impact is going to be substantial, very substantial on the growth profile of the combined business.

So you'll really see the benefits of that flow through in the second half of 2017 and 2018.

Rob Goyens - Telenet Group Holding NV - VP Strategic Planning, Treasury & IR

And then, Marc, I think there was one final question that you had on the switch-off of analog TV, given the fact that we now have an 83% digital penetration.

Of course, the penetration number doesn't necessarily say it all, because there is still analog TV at least at the importance of people having it in the home, because of the plug and play readiness of the product. So in that sense, it still has a certain value for customers.

But also note that due to the investments we are doing in the older network, so the five-year, EUR500 million investment program, we will actually be ramping up the capacity of our network from currently 650 to 1 gigahertz. Therefore, we believe to have ample capacity to cater for the growing demand in traffic, as so mentioned in the beginning of the presentation.

Marc Hesselink - ABN AMRO - Analyst

Okay, that's clear, thanks.

Operator

Frank Knowles, New Street Research.

Frank Knowles - New Street Research - Analyst

Actually, my questions have largely been answered. I just did have one follow-up question on the impact of the dual handset contracts, where they're given the sort of more robust selling season you usually see in Q4 you would expect a significant change in the impact you saw in Q3 from the revenue recognition being brought forward. Thank you.

Rob Goyens - Telenet Group Holding NV - VP Strategic Planning, Treasury & IR

Yes, so I think, Frank, the impact in Q4, of course, is hard to say up front, because it will depend also on the good market tactics for mobile that we haven't been disclosing on.



Therefore we can't really give any forward statements other than to say that it's included in the guidance. As Birgit mentioned, we actually have reconfirmed our guidance, which we upgraded at the half-year stage, and actually feel quite comfortable that we will be able to achieve the top end of that outlook range.

Frank Knowles - New Street Research - Analyst

I understand. Thank you.

Operator

Emmanuel Carlier, ING.

Emmanuel Carlier - ING - Analyst

Four questions from my side. The first one is on the guidance for 2016. So typically you give guidance at the full-year results. Will that still be the case next year or do you think you will wait a little bit longer, because of the BASE transaction and also because of the cable regulation that will come into effect in the beginning of the year?

Secondly, on mobile, could you give an indication on the current profitability of the business and how it has evolved over the last couple of quarters?

Third question is on customer visits. Could you there maybe quantify the cost associated with that in 2016 and if that will recur in 2017?

And then the last one is on the network of BASE. If I understood it well, said that it will take two years to have the network ready. So do you mean that by end 2017 you expect the BASE network to be as per its peers? Thank you.

Birgit Conix - Telenet Group Holding NV - CFO

So in terms of the profitability of the Company, and you have the results there, you can see that we actually continue to remain our margins.

This is despite growing mobile and also increased content expenses, and even this what is called Helemaal Mee Tournee, which is the Yelo house visit. So we are able to absorb that, because we have a very tight overhead management and that's how we are able to do that. So you see that the margins on Telenet remain stable so far.

Now, we do not exactly disclose the amount of the Helemaal Mee Tournee of the Yelo house visits in -- for 2015. We didn't do that, I guess that Rob no, we don't.

But as I said we have able to fully absorb it. We also plan to do that for 2016 and continue to have a very tight overhead management.

So I think that these were the questions on the cost, right?

John Porter - Telenet Group Holding NV - CEO

On the BASE network, it's certainly our ambition to have our wireless network, be at parity with our competitors. That being said, it's a wide open area. There's some areas where we may be superior; there's some areas where we're going to be inferior.

Typically, the incumbent in any market has a tremendous advantage, because they were essentially gifted all their transmission sites by their generous 100% government owner 15 to 20 years ago. So they tend to have a better density.

But we also have a very robust Wi-Fi network. We're able to provide value-added experience to customers by providing seamless connectivity between Wi-Fi and LTE.



So there are pluses and minuses to every network, but, for us, the main investment is to accommodate the 1 million-plus customers that we'll be moving over to the BASE network. It's not something we can do overnight without impacting the performance of the network.

Also, we're not going to be just throwing a switch and doing it all at once. There may be areas, in 2017, which we would feel are either superior or enough at parity where we can start adding new customers to the BASE network or even starting to switch customers over.

So it's sometimes more art than science and we're going to have to get into it to figure out what we can really do. But given the project, like I said, is a two year-plus project, but it is not binary; it's not going to just happen at all once. It's going to happen over time and some will be in advance of the yearend 2017 and the majority will be at or after.

Birgit Conix - Telenet Group Holding NV - CFO

Then on the guidance, obviously we still hope for closure this year, which would make a difference, of course, because then we would have a combined entity.

But, say, suppose that the transaction is not closed this year, then we typically provide guidance at the full-year stage, and we will continue to do that. So at yearend when we present the results to you we will also provide guidance as we always do.

Emmanuel Carlier - ING - Analyst

Yes, and if I may add up to the last one, excluding BASE and taking into account the current [retail] minus, do you then still expect that you could grow the business mid-single digit, on sales and EBITDA, as you mentioned one year ago? I guess?

Birgit Conix - Telenet Group Holding NV - CFO

So we normally do not provide guidance at this stage, but let's say --

John Porter - Telenet Group Holding NV - CEO

Birgit's is kicking me under the table. But our views haven't changed.

Birgit Conix - Telenet Group Holding NV - CFO

No. So it remains the same as what we always said before.

Emmanuel Carlier - ING - Analyst

Okay. Very clear. Thank you.

Operator

Paul Sidney, Credit Suisse.

Paul Sidney - Credit Suisse - Analyst

Just two questions please. Just following on on the BASE theme. I was just wondering, the recent delay or pushing out of the deadline for the close of the transaction. Should we read anything into that? And maybe could you give us any color in terms of how the discussions are going?



And just secondly on triple play. Your mix is almost 50% and I was just wondering where you think this could go over time. And perhaps flipping it the other way, 28% of your customers are on single play and how do you target those customers to upsell them to double and triple play going forward? Thank you.

John Porter - Telenet Group Holding NV - CEO

In terms of our work with commission we are entering a very constructive, but delicate, phase. So we really can't provide any additional color, although it's -- this phase is very constructive and we remain supremely confident that we will work through it and be able to close the transaction.

A lot of it, in terms of deadlines and extensions and these kind of things is it's more about internal process management than it is about anything that anybody should get alarmed about.

So that's about all we can say about that, other than we're still very, very confident if not more so.

On the triple play it's 50%. But, also, of the 50% we don't have a substantial portion is, like I said, analog TV customers, who -- that's where essentially Proximus' legacy, fixed line base, sits, because, as we also mentioned, we only have 40% of the fixed line market.

As that analog base continues to decline we think there's continued upside for us in the 3P space. We expect that penetration to continue to grow and that market share of 3P, and then ultimately 4P, also continue to grow. So we're not sitting still.

That being said, I think we have some of the highest multi-product penetration in the industry already. So I think it's around 65% of our broadband subs are in a triple-play package. So that takes the analog TV base out of the equation.

It's pretty high, but as DTV replaces analog TV, and we see more and more generational shift, we think there's going to be more and more opportunities. Of course, having an LTE network, of course, creates a whole new dynamic for us in terms of growth potential.

Paul Sidney - Credit Suisse - Analyst

Very clear. Thank you.

Operator

Stefaan Genoe, Degroof Petercam.

Stefaan Genoe - Degroof Petercam - Analyst

First, I've got a question on the video revenues, actually, which are up about 1% year on year. You've got -- of course, on the basic cable you've got the price increases that are taking place. If we take that into account, it looks like the ARPU on the digital television or the premium cable is not rising, perhaps even slightly down. Is that correct, and could you highlight a bit the dynamics behind this? That's my first question.

The second, going into the BASE acquisition process, and you talked early in the call about tax situation, would you already have somewhat more visibility on the future tax impact from the BASE acquisition?

And then thirdly, finally, the high growth in mobile data, and the impact on profitability of your mobile business. Could you indicate whether this is relatively material on the numbers at Group level today? Thank you.

Rob Goyens - Telenet Group Holding NV - VP Strategic Planning, Treasury & IR

First I'll tackle the question on the video revenue, Stefaan. So indeed, as you see, video revenue was actually the combined revenue that is generated by both basic video and enhanced video customers; it's slightly increasing. What you see here underlying in the mix are a couple of elements.



You see that the -- what we used to call analog TV is actually still declining somewhat. This has to do with the fact that, as was mentioned earlier, we have a slight reduction quarter on quarter in the number of active customers. So that is actually translating into a drag on revenues.

And this is then being offset by growth in the overall digital TV space, where you see that if you then further break down the digital -- the growth of digital TV, that you have a recurring part that is growing, and that is coming from what we see here, on the one hand, being subscription view the -- so Play and Play More, and Play Sports; but also the rental component that is included in here.

That is then being offset to some extent by the fact that, okay, you have the bundle discounts for the bundled customers, but also the -- what we call the transactional video on demand. That is also being impacted as well.

Stefaan Genoe - Degroof Petercam - Analyst

Okay. Is this -- if this ladder -- is this ladder the result of increasingly customers paying the subscription on a monthly basis?

Rob Goyens - Telenet Group Holding NV - VP Strategic Planning, Treasury & IR

You mean for the -- for the -- yes, so the subscription VoD is on a monthly basis. That's recurring, so that that's more positive. The transactional part all has to do, of course, with the availability of appealing titles in the library.

It's also this -- the window that pops up early in conjunction with the DVD release, and that is more transactional, so it's more an ad hoc type of revenue.

But there is some cannibalization impact, but we don't really mind, as we push the subscription VoD packages into the subscriber base.

Stefaan Genoe - Degroof Petercam - Analyst

Okay.

John Porter - Telenet Group Holding NV - CEO

We also reduced our entry level [start] package from [EUR]15 to [EUR]10 at the beginning of the year.

Stefaan Genoe - Degroof Petercam - Analyst

Yes, indeed.

Rob Goyens - Telenet Group Holding NV - VP Strategic Planning, Treasury & IR

Then on the -- (inaudible) with regards to your question on BASE, and so the financing part of how that actually boils down to taxes.

It's hard to say at this point, since we are still in the process of implementation and the integration, so it's too early. So suggest we come back on that as soon as we have more visibility on the band line.

Stefaan Genoe - Degroof Petercam - Analyst

Okay.

Operator



Stephane Beyazian, Raymond James.

Stephane Beyazian - Raymond James - Analyst

I have only two left, regarding video and media. Can you update us on your plans, and of planned initiatives, with De Vijver Media? What sort of synergies you're starting to see now?

And do you think that over time you could be able to replace more and more some of the content that you buy with a home-produced content?

And my second question is, it's a bit tricky, so do -- perhaps do your best on this one. But what is, do you think, the percentage of your customer viewing time that you think is content, that Proximus and Mobistar don't have access to, because of exclusivity, or because they are highly priced? Thank you.

John Porter - Telenet Group Holding NV - CEO

Okay, well, I'll take that one on. On De Vijver Media, we're already seeing a range of benefits in the relationship.

First of all, we have worked very closely with De Vijver on the relaunch of Play Sport. We have been -- Woestijnvis, which is the production arm of De Vijver media, has been instrumental in the relaunch of the Look and Feel, and the magazine shows, and the fixed studio that we have to host sport through the weekend.

We've seen the highest growth in Play Sport that we've basically ever seen, since its launch, and it's continuing to deliver for us. Satisfaction levels are very high.

The theory being that we're trying to take a channel that was dedicated to just hardcore football fans, and turn it into a real general entertainment sporting destination, and Woestijnvis is very instrumental in that.

We have moved a lot of Woestijnvis and SBS library content into our [SVoD] package. In fact, classic Woestijnvis programing was the highest streamed content in our Play SVoD offering over the summer. So that's clearly seen some benefits there.

We have shared some -- the second most popular sport, some would argue the most popular sport, is Flanders is cyclo-cross and we have shared some content across the broadcast platform, including VRT, by the way, not just De Vijver, but onto Play Sport as well.

So we're working on a number of, shall we say, joint (laughter) efforts on original content and content strategies which, unfortunately, I can't be more specific about. These things will take a little bit of time to kick in, because the program schedule we're running now, for example, was conceived and, in fact, a lot of it produced even prior to us closing on De Vijver. So the impact of our role on the schedule will probably not be seen until spring 2016.

But we're pretty happy with where we're headed there. You'll see more and more of the impact of De Vijver, both on our schedule, but also more impact of our ownership in content and our investments in content on SBS as well.

In terms of our premium content strategy versus the competitors, I think it's -- personally believe that it's less and less about exclusivity. Certainly, three, four, five years ago, everybody was paying premiums for exclusivity.

I think Proximus, certainly, has taken more of a big tent approach to content and said, come one, come all, you can be on our platform; whereas we, I think, invest a lot more heavily in first-run, at least, relationships with the studios.

We have more output deals. We have more rights in terms of network PVR and SVoD rights and better windows. But straight out and out exclusivity is -- it's a part of your strategy, but it's not fundamental to your strategy.

If you can take an example of Netflix for -- they've had a massive impact in some markets with tent pole original content. But three, four, five, six, I know they have a lot more shows now, but when they had a big impact, it doesn't take a lot to make an impact in original and exclusive content.



So I think it's not any one thing any more in terms of the content. For me, it's how you acquire it, sure, but it's also how you curate it. It's the user interface; it's ensuring that it's accessible from a pricing standpoint for a mass market deployment; and it's getting all those things right that mean you have the penetration that you do.

Of course, I don't know every cable system in Europe, but I can tell you, having close to 30% penetration of an optional premium video service in our footprint is a terrific result. It's a very strong penetration level by European standards and -- so I think we're getting it right.

Stephane Beyazian - Raymond James - Analyst

Thank you.

Operator

Matthijs van Leijenhorst, Kepler Cheuvreux.

Matthijs van Leijenhorst - Kepler Cheuvreux - Analyst

I've got one more left. I was wondering whether you have some more visibility on the expected revenue synergies from the BASE acquisition; whether you are willing to share this with us.

John Porter - Telenet Group Holding NV - CEO

No (laughter). No, I'm kidding. No, of course, we do, but I can't tell you too many of them, because they go right to our strategy. It's really -- let's see, what could I talk to you about?

The most obvious thing is BASE has a customer base where not 100% of the customers take a service from Telenet and we have a customer base where only 17% of them take a mobile phone from us. So right there, you've got an instant opportunity that cuts both ways.

The mobile market and the fixed market are quite different. The competitive dynamics are quite different. There's certainly more downward pressure on ARPUs than there is upward opportunity.

But the one thing where there is real revenue synergies for us, and I can't be too specific about it though, is having the pro-mobile B2B product that BASE has in the market, which derives a fair bit of revenue from; it plugs a major hole in our B2B lineup.

So that's something that we're already getting a lot smarter about and B2B's a big business for us. It's over EUR350 million per year, so to -- but we're quite low penetrated in the SME category and this has been the major barrier for us; not being able to have a mobile product that can be delivered in the way that SME clients want it, i.e., split billing; some private; some on the Company; by department; uses tracking; etc., etc. has been probably our biggest barrier in the SME space, and this will overcome that from day one. So that's a pretty big one right there.

Matthijs van Leijenhorst - Kepler Cheuvreux - Analyst

And if I may ask, when do you expect to target these B2B customers?

John Porter - Telenet Group Holding NV - CEO

Well, as soon as --

Matthijs van Leijenhorst - Kepler Cheuvreux - Analyst



It's not after 2017 I assume?

John Porter - *Telenet Group Holding NV - CEO*

No, it's -- we could even put them on the MVNO. The barrier has not been the network. The barrier has been the OSS/BSS environment and that gets fixed very quickly.

Matthijs van Leijenhorst - *Kepler Cheuvreux - Analyst*

Okay, thanks a lot.

Operator

James Britton, Nomura.

James Britton - *Nomura - Analyst*

Two questions on mobile really. Firstly, can you give us what percentage your mobile contract connections this quarter took up the handset financing option? And do you, ultimately, see all your contract customers going down this route in the future?

And then secondly, have you given any statistics on how your mobile customers are taking to data and to what extent they are moving up through the tiers, please?

Birgit Conix - *Telenet Group Holding NV - CFO*

So just on the handset financing, so the split contract, this is a relatively small portion of our handset revenues today. So we also still have another program, which is where you get a discount on the handset itself when you get a mobile subscription of Telenet. You also have the standalone handsets as well, so it's still relatively small.

And whether we move the entire base, we believe it's comfortable to have various options for our customers, so far.

John Porter - *Telenet Group Holding NV - CEO*

Nine out of 10 transactions we do are SIM only. We don't have fixed-term contracts for service, so we don't have that natural contract transition period, where you would sell somebody a new mobile phone.

Birgit Conix - *Telenet Group Holding NV - CFO*

Yes, so if this went also from -- in other countries you see that model more frequently. For Belgium this is different; as John says, mostly SIM only.

James Britton - *Nomura - Analyst*

And on mobile data?

John Porter - *Telenet Group Holding NV - CEO*

Yes, mobile data we have a -- we skew somewhat higher than at least a couple of our competitors that we're aware of on mobile data. That's because we have 100% postpaid customers. So we don't have any prepaid customers that drag down. Prepaid customers tend to be more voice only.



Also, the growth rate, everybody knows what the average growth rates in mobile data are, anywhere from 50% to 100%. We would be no different on that one, at least 50% compounded annual growth.

As we described when we announced the BASE acquisition, that's very much something that has driven us to feel like we needed to acquire a network, because when you're buying data on a per megabit basis and you're selling it on a flat rate basis that's a margin squeeze. That's something that moving from renter economics to owner economics we solve.

James Britton - Nomura - Analyst

Great, thanks.

Operator

David Wright, Bank of America.

David Wright - BofA Merrill Lynch - Analyst

I was intending to ask a little about the remedies, but I understand you guys don't really want to talk about that too much. I thought I might ask a slightly different question.

Just with the BASE deal in mind and the results and guidance you've given for this year that looks pretty secure now, how are you guys thinking about near and mid-term shareholder remuneration?

John Porter - Telenet Group Holding NV - CEO

I think we've said that the focus on our capital is going to be pretty intensive post the BASE acquisition. We will be concentrating on understanding, I guess, and validating the free cash flow profile of the combined entity, given the fact that we have two very substantial network upgrades going on: one on the fixed and one in mobile at the same time plus, obviously, a substantial integration.

I think it's prudent, like I said, to really take the full-year 2016 to validate the free cash flow profile of the combined businesses.

Then, of course, we've got to pay for BASE and that's going to take our leverage ratio up to about 4.2 times, and that isn't going to give us a lot of wiggle room from there.

So I would say -- I wouldn't rule out our typical level of buyback that we've done annually over the last few years and we'll put that something -- the Board will consider that at the full year.

But beyond that, I think it's there's a big focus on having two world-class networks, fixed and LTE, and that's where most of our capital is going to be deployed.

David Wright - BofA Merrill Lynch - Analyst

That's clear, thank you.

Operator

Guy Peddy, Macquarie.

Guy Peddy - Macquarie - Analyst



Just a couple of quick technical questions, one for my own benefit in reality. When you changed your guidance at Q3, was that already assuming the change in your handset policy and, therefore, the revenue and EBITDA benefits you were going to get from that?

Secondly, Mobistar talk about getting a 5% share of the Belgian broadband market as soon as possible and then target 10% to 15% in the mid-term. Do you agree that you're going to have cede market share up to those levels to avoid any further regulatory headwinds in the mid-term? Thank you.

Birgit Conix - Telenet Group Holding NV - CFO

I'll, firstly, take the question on the handset financing. Yes, we had included that in our guidance, because in order to set up handset financing, it takes a couple of months, so we already knew that obviously.

Guy Peddy - Macquarie - Analyst

Thank you.

John Porter - Telenet Group Holding NV - CEO

So obviously, we have a continuous cycle of regulatory review on the access situation and if we gave up no share, then it would be more granular than probably we would like or we think is appropriate.

So it's not that we're going to lose nothing, but the whole speculation is management by excel. So we can all make our best guesses as to how it's going to go. It's not all coming out of Telenet, by the way, because Proximus has about the same number of broadband customers we have. You've got VOO and the Brussels operators as well; so good luck to them.

We're just going to take it month by month and see how we go. I would say, from what I know we have the lowest churn and the highest NPS of any cable system where I see the statistics on a regular basis.

So I like our position but, obviously, they're going to be aggressive and think they can win some customers somewhere. Once again, they need to and they should. Otherwise, we'll be doing the mystery dance with the BIPT for the rest of our lives.

Guy Peddy - Macquarie - Analyst

Thank you.

Operator

Nicolas Cote-Colisson, HSBC.

Nicolas Cote-Colisson - HSBC - Analyst

It's a question on BASE. Back to the migration process, I understand you don't want to rush it, but I was wondering if you could have some of the traffic of a customer on Mobistar network being offloaded to the BASE network when the capacity is locally available. Or does a client have to be 100% of the time on one or another network?

John Porter - Telenet Group Holding NV - CEO



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I'm getting way out of my depth here, but I do think you could create some roaming between the networks to balance them out in the way that you're describing. That's about the limit of my knowledge there.

But if you're more interested in following up on that, as we get closer to closing the deal, we'll be happy to give you some insight into how we're going to handle that.

Nicolas Cote-Colisson - HSBC - Analyst

Okay, thanks.

Operator

Thank you, as we have no further questions, I'd like to turn the conference back over to Rob Goyens for any additional or closing remarks.

Rob Goyens - Telenet Group Holding NV - VP Strategic Planning, Treasury & IR

Okay, thank you, operator. I guess that wraps up our Q3 earnings call. Ladies and gentlemen, we look forward to seeing you soon and please reach out to Thomas or myself in case of any follow-ups. For now, I say thank you and goodbye.

Operator

Thank you. That will conclude today's conference call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.

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