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TNET.BR - Q3 2017 Telenet Group Holding NV Earnings Call

EVENT DATE/TIME: OCTOBER 26, 2017 / 1:00PM GMT

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PRESENTATION

Operator

Good day, and welcome to the Telenet Third Quarter 2017 Results Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Rob Goyens. Please go ahead.

Rob Goyens

Thank you, operator, and good afternoon, everyone, or good morning. On behalf of the Telenet Investor Relations team, I would like to welcome everybody to our conference call for the third quarter results. I trust you that all received our earnings release this morning and were able to download the presentation from our Investor Relations website that will be used for this conference call. There is also an online webcast if you choose to prefer to join that one.

Before we start, 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 speakers. First up, we will have John Porter, our CEO, who will give an executive overview of the main achievements in the quarter. Next, we will have our CFO, Birgit Conix, who will walk you through our financial results. And after the formal presentation, we will gladly open it up for Q&A. So John, the floor is yours.

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

Thanks, Rob. And good day, everyone, and welcome to the call. As always, I'll take you through the highlights, and then Birgit will go into more detail on the operationals and financials. At the end, we'll have plenty of time for questions.

So let's start with the operational performance, which was fairly stable quarter-on-quarter. It reflected both the intensely competitive environment and heavy promos by operators in the market. Nevertheless, our quad-play bundles continued to shine. WIGO showed an accelerated uptake on the back of our renewed offers. To give you some facts, we had over 265,000 WIGO customers at the end of September, consolidated of almost 41,000 net new WIGO customers. As such, we're up to 12% of our cable customers today on our WIGO service and an overall quad-play penetration of around 25%. And that's excluding BASE mobile customers. In fact, our attachment rate is now up over 45% overall.

Speaking of mobile, we had a major launch in the quarter with the introduction of Based on you, a revamped tariff lineup at BASE. We had a first telco operator in Belgium to provide customers with maximum flexibility tailored to their individual needs. From this moment on, customers can allocate their bundle to either data, voice or SMS or a combination thereof, depending on their usage. What is more, unused data or minutes are carried over to the next month. And finally, we've opted for simple and transparent pricing for customers as all out-of-bundle rate equals the in-bundle rate. Although Based on you was only introduced at the end of Q3, we have high expectations for this revamped mobile tariff plan going forward.

Our mobile postpaid subscriber base continued to grow, having added just over 40,000 postpaid subscribers in the quarter as Birgit will take you through in a couple of minutes. As you can see, our mobile network upgrade program is running at full steam with 72% of modernized sites by end of Q3 and with some 130 newly deployed sites. On the right-hand side of the slide, you can see the high level of 4G penetration we've achieved so far. As such, we decided to accelerate the onboarding of our full MVNO customers to the Telenet mobile network. And we're now aiming for full completion by the end of Q1 next year versus our previously announced end to 2018. As this decision impacts certain contractual commitments under the full MVNO agreement with Orange Belgium, we've taken a EUR 29 million noncash restructuring charge below the line in the third quarter.

Our EUR 500 million network upgrade project, the Grote Netwerf, is on track to reach about 2/3 of upgraded nodes by year-end. At the end of the third quarter, we'd upgraded around 3,700 nodes or around 58% of the total. As per our latest planning, we aim to complete this major upgrade program by mid-2019. As a reminder, through this gigabit program, we're upgrading our spectrum capacity to 1 gigahertz, enabling data download speeds well in excess of 1 gigabit per second in the future as we implement EuroDOCSIS 3.1.

Innovation has always been in the DNA of this company. And I was really pleased to be part of the recent opening of our innovation center in Brussels. As an innovative telco, we will focus on new and exciting opportunity, such as 5G and IoT, or Internet of Things. Telenet with participate in the City of Things, together with imec, and deploy narrowband IoT technology in a prespecified smart zone located in the city of Antwerp.

While Europe and Belgium are keen to impose new legislation around nonfinancial reporting for listed issuers as of early 2019 -- '18, we at Telenet are already some years a top performer in this space when it comes to CSR and sustainability. This is underpinned by our top quartile ranking in the Dow Jones Sustainability Index as we've been included in this well-known benchmark for 7 years now.

So with that, I will hand it over to Birgit for a review of our operational and financial performance.

Birgit Conix - *Telenet Group Holding NV - CFO*

Thanks, John. As John already mentioned, our operational performance in the third quarter continued to be impacted by the intense competitive environment with on top, a tough promotional quarter by all of our direct competitors. Against this backdrop, the net subscriber trend for substantially all of our services remained broadly stable quarter-on-quarter.

Zooming in on our fixed multiple-play penetration, two things stand out. And that is firstly, our share of multiple-play customers continues to increase with triple-play being at almost 54%. And secondly, the ARPU per customer relation, which is one of our core operational metrics, was up 4% over the first 9 months to just over EUR 55.

Going to the next slide, and our individual products and starting with broadband Internet. You'll see a modestly improved net additions run rate in Q3 with an underlying strong result in the business segment. As a result of the competitive environment, which I just alluded to, our churn rate continues to be higher compared to last year. Then the next slide, we see a broadly similar picture for fixed-line telephony with a stable sequential loss of 1,500 RGUs as a result of the competitive environment and an overall declining market trend.

Then moving over to mobile telephony. There are a few interesting things to note here: and firstly, the stabilizing performance in the prepaid segment following the mandatory prepaid registration in June 2017; second, a solid performance overall on the postpaid side with just over 40,000 net additions in the third quarter. This was mainly the result of our improved WIGO offers and was achieved despite a tough promotional quarter by our direct competitors. As John just mentioned, we've decided to accelerate the onboarding of our full MVNO customers to our own mobile network in order to accelerate the synergies from the BASE acquisition. While at the end of September, around 54% of the customers have been onboarded, we are now aiming to complete by the end of the first quarter next year versus our initial plan of end 2018.

Stepping over to entertainment. On the video side, which include both analog and digital TV, our net loss in the third quarter was fairly stable compared to the preceding quarter and reflects the impact from increased competition. On the digital side, we see roughly the same trends with a broadly stable loss rate quarter-on-quarter. And at the end of the third quarter, around 88% of our customer base have been converted to digital TV.

To conclude my operational review, I would like to spend a few seconds on our premium entertainment offers. First, we continue to see solid growth for our premium video-on-demand packages, Play and Play More, which is driven by our improved user interface, wide access to local content and exclusive access to obtaining international content through a partnership with HBO. On the sports side, we've seen a pickup in the number of Play Sports subscribers as the major domestic and European football leagues have kicked off again in the meantime.

Let's now have a look at our financial performance. For the first 9 months of 2017, our revenue reached almost EUR 1.9 billion, which was up 5% year-on-year on a reported basis and impacted by the acquisition effects of both BASE and SFR BeLux and also the sale of our direct subsidiary Ortel to Lycamobile as of March 2017. On a rebased basis, our year-to-date revenue was up 1% with an improved rebased growth rate in the third quarter to 3% on the back of higher wholesale and B2B revenue with the former being driven by the onboarding of the Lycamobile full MVNO subscribers, which was achieved at the end of July this year. Our revenue performance continued to be impacted by lower mobile telephony revenue and lower revenue from the sale of handsets.

Zooming in on our revenue performance for the first 9 months. Our cable subscription revenue was up 2% on a rebased basis, driven by our WIGO bundles and the benefit of the February 2017 rate adjustments. Our B2B business continued to perform well and added EUR 6.4 million to our rebased revenue on the back of higher security-related revenue and higher revenue from our core connectivity products in the SME segment. Finally, our other revenue was up EUR 3.4 million as lower revenue from the sale of handsets and interconnection was more than offset by a higher revenue contribution from our commercial and regulated wholesale partners, including Lycamobile.

Moving over to our operating expenses. Now I'm pleased to see the 3% decrease in our overall cost base and our direct costs were down EUR 11 million or 2% on a rebased basis as a result of lower costs associated with handset sales and subsidies and much lower MVNO-related costs. Our other indirect expenses showed a 12% decrease, driven by our continued focus on managing our overhead expenses.

Moving to the adjusted EBITDA slide. The sum of our revenue and the operating expenses brings us to adjusted EBITDA. And this was up 7% on a reported basis for the first 9 months to EUR 911 million. On a rebased basis, our adjusted EBITDA was up 5% year-to-date with a similar rebased growth rate in Q3 to EUR 319 million. As such, we are on track to deliver on our full year outlook and will be at the upper end of our guidance.

Let's then have a look at our CapEx profile. Our accrued CapEx in the quarter was impacted by the recognition of the Belgian football broadcasting rights as we successfully renewed these nonexclusive rights for 3 seasons as of the current 2017-2018 season. Under EU IFRS, these rights have been capitalized and will be amortized as the season progresses. Ignoring this impact, our accrued CapEx represented around 23% of revenue for the first 9 months, which is in line with our outlook. And then looking at the pie chart, you can see that nearly half of our investments are dedicated to the upgrade of both of our fixed and mobile infrastructure, as John mentioned earlier.

This brings me to our adjusted free cash flow doubling compared to both Q3 and the 9 months of last year. Our adjusted free cash flow growth was driven by robust adjusted EBITDA growth, as mentioned earlier, lower cash interest expenses as a result of our recent refinancings, the successful contribution from our vendor financing program and an improved working capital trend. Having achieved just over EUR 345 million of adjusted free cash flow year-to-date, we are now expecting our full year adjusted free cash flow to come in towards the upper end of our outlook.

On the next slide, you can see the evolution of our net leverage ratio, which decreased to 3.1x at the end of September. The quarter-on-quarter improvement is, however, fully driven by the adoption of our 2017 amended senior credit facility as any lease-related liabilities have now been left out of the calculation whereas there were still included EUR 466 million in the second quarter. As for our debt profile, no major changes, although we've almost fully repaid the short-term maturities we drew for the SFR BeLux acquisition through our excess cash balances. In early October, the remaining EUR 45 million has been repaid and canceled, leaving no debt maturities prior to August 2024.

To conclude, we've reconfirmed our full year outlook, as I'm sure you've all seen from this morning's release, and to note that EBITDA and free cash flow will be at the upper end of our guidance. At the same time, we continue to be on track to deliver on our 5% to 7% adjusted EBITDA CAGR for the 2015-2018 period.

So with that, let me hand back to the operator for the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will take our first question from Vikram Karnany from UBS.

Vikram Karnany - *UBS Investment Bank, Research Division - Director and Research Analyst of Telecommunication*

I have 3 questions from my side. Firstly, on the BASE network migration, could you give us a bit more color in terms of your investment plans of EUR 250 million that you've talked about at BASE at the time of integration. Now with customer onboarding going ahead of the plan, are there any potential savings from lower investments going forward? And then on your medium-term outlook post-BASE migration in Q1 '18, should we see the underlying growth rate of the business of mid-single digit going forward? And secondly, in terms of your shareholder remuneration, in your assessment that you talked about of shareholder payout, are there any other considerations like future M&A, cable regulation and any tax rulings that could hold you back from announcing significant cash returns? And then finally on cable regulation, just wanted to get an update, what is the latest in terms of timing? What are your expectations going forward? And secondly, in terms of your negotiations with the authorities, have you had any success wins that you can highlight?

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

You've got the big 3 there, Vikram, so...

Birgit Conix - *Telenet Group Holding NV - CFO*

Shall I start? Investment plans, so in terms of the investment plans for our networks, so both in mobile and fixed, we remain on target because actually, we continue to invest in '18 as well, as we mentioned earlier, for '17 and '18 will be the high CapEx years, as we mentioned several times. And it is as of 2019 that our CapEx will actually drop below 20%. So that is kept at the same level. And then on your other question of the medium-term outlook. So through the accelerated onboarding of the full MVNO customers to our own mobile network, so we're clearly accelerating synergies from the BASE acquisition. But when we bought this in February 2016, we set ourselves very ambitious targets for the medium term. And the accelerated onboarding will help us to reach our goal. So what is key here is that we keep on delivering upon our targets. And that is with that, that's all set. So we keep the 5% to 7% CAGR from 2015 to 2018.

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

Yes, the second question on shareholder remuneration, I think I said at the last result that although we continue to be engaged in the market for the potential of accretive M&A transactions that we didn't see anything imminent that would impact the board's decision relative to actively managing the balance sheet. Even if something of the scale of the south of the country came up, that would still be a long journey to -- and we would have no guarantees of success there anyway. So the board will be moving ahead. We have a lot of clarity and transparency around our cash liabilities over the next few months and year. So the board will be giving serious consideration to how it's going to handle the excess capacity on the balance sheet over the next couple of months. And then we'll be transparent about the intent after that. In regards to cable regulation, it's an ongoing process as it has been virtually perpetually since I arrived on these shores 5 years ago. The market analysis of the BIPT has been published. There have been responses, substantial responses, to the BIPT's analysis. There is a lot of engagement in the regulatory process, both at the national level but also at the European level. And this will continue to crawl along for a bit longer. And in the meantime, we are -- it's impossible to make predictions. But suffice it to say that the access regime is something which we have proven that we can deal with. And we've been in very good faith sort of helping shape that operationally over the last 1.5 years. And we'll continue to do so. In terms of any adjustments through the regulation, we'll just have to wait and see as we work through the process.

Operator

And we'll take our next question from Roshan Ranjit from Deutsche Bank.

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

Just regarding the vendor financing, in your release, you're currently saying that, that is now perhaps just under EUR 119 million. Can you just tell me how that reconciles with the previous guidance, I think it was EUR 130 million to EUR 150 million, and if there's any change here, please? And secondly, just on some news that, I think, was in the local press last night regarding investment in Flanders. Now Birgit, you clearly said investment levels from Telenet could be elevated this year and next year. But there seems to be some pressure to further enhance investments on the fiber network. How do you think about that, given the upgrade which you're currently putting through? And is there any pressure to further enhance the network more?

Rob Goyens

Okay. So Roshan, let me take the question on vendor financing. So at the end of Q3, so the short-term liability that was on the balance sheet with regards to vendor financing has been EUR 189 million. Of course, that is a bit of a moving number because as we add new suppliers and repay suppliers, that number actually gets changed. If you are looking for the net contribution overall to free cash flow for the first 9 months, that would be closer to EUR 150 million, which is actually going to be a good run rate compared to what we previously indicated. What we see for vendor financing is that we continue to have a good momentum and good results overall. As we outlined in our initial call on vendor financing, the goal here is to build a long-term sustainable plan that would lead to an improved working capital performance over time. So therefore, even though the next year, we will need to repay a substantial part of the vendor financing commitments, we're still looking for growth in the platform that will help our free cash flow also in 2018, of course, to a smaller magnitude as this year we will have fewer repayments, which will be larger going forward for next year and also the years thereafter.

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

And on -- I'm assuming you're alluding to the Minister Muyters mooting the possibility of a publicly funded fiber network in Flanders with the intent of having the best digital infrastructure in Europe. And we agree that Flanders and Belgium should have the best digital structure in Europe. And that's why we're building the network that we're building. I think there was some misunderstanding about the quality of the network and capabilities of a hybrid fiber coaxial network. There are no limitations once we've built a 1-gig network to taking speeds up to 10 gig. Certainly, the architecture of these networks compete at parity with or better in some cases than fiber directly to the premise. So infrastructure is not the problem in Belgium. It's digital skills. It's the digital economy. And it is digital education. These are the areas which we would encourage investment. Infrastructure is the least of Belgium's problems. So coming from Australia, I can tell you the National Broadband Network in Australia is a complete disaster in political football. So we've heard about these kind of things here and there. I'm not sure it's the role of government to be building a multibillion-euro plant where we already have very capable infrastructure. So to meet or match the ambition of the minister, he needs only to look in his backyard. And he has that network already well underway and will be complete by 2019.

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

Okay, that's clear. And whilst I have the opportunity, sorry, I've just seen from the headlines now on wholesale cable tariffs -- sorry, I haven't got full (inaudible). I assume it was referring to some historic. Are you able to elaborate on that, please?

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

Sure. So there has been a running court case, where Telenet has challenged the BIPT's decision on the retail minus. The court has decided in our favor and has annulled the decisions on retail minus from 2013 and by connection, 2016. There was rule that the BIPT didn't take into consideration the commission's comments on the justification implementation cost for cable resale, amongst other things. They have delayed the implementation of the annulment until April 2018, which certainly gives the BIPT an opportunity to take into consideration the court's position leading up to its market -- the implementation of its current market review. We think that at the very minimum, it's a very strong decision in instructing the Belgian regulator that it needs to pay attention to the commission's comments relative to these kind of things as well as Telenet's comments, which it ignored in the last go-around. So it's a very important and, we think, ultimately influential decision, which should very much help us in regards to the next implementation. The European Commission generally is not in favor of a highly fragmented nationalistic regulatory approach. So they tend to be quite interested in these things. And we expect that they are very much in a pro-investment mindset relative to these types of this regulation. So it was a good decision for us. And we'll see where it goes. But it will play out over the next 6 months.

Operator

From Crédit Suisse, we will take our next question from Paul Sidney.

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

I just had 3 questions, please. Firstly, on the reassessment of the balance sheet structure at the full year results, just a point of confirmation, could this also result in a change to your targeted leverage range, obviously as well as coming up with something which will again get you back into that range? And the second question, you now had SFR BeLux for a few months. I was just wondering, what are your key observations on the quality of the network and the opportunity to up-sell the products at the SFR BeLux space? And just lastly, are there any updates on the potential tax restructuring of the Telenet Group?

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

Okay. Do you want to talk about the balance sheet?

Birgit Conix - *Telenet Group Holding NV - CFO*

So we currently do not have any change to our net leverage ratio target. But as John alluded to earlier, so we will have a board discussion as well. That will be in the end of this year, like around December. And so we'll communicate more afterwards.

Rob Goyens

Maybe one word, Paul, with regards to either balance sheet in itself. So Birgit, in her presentation, alluded to the fact that our net leverage ratio decreased from 3.4 to 3.1, which was due to a mechanical factor. So as a result of the fact that we have some refinancings, we entered into new bilateral agreements with our lenders. And therefore, certain lease-related liabilities are no longer included in the calculation of our net leverage ratio. Obviously, they have not disappeared from our balance sheet, so arguably the 3.1 is maybe a bit flat and should be 3.4 if you add back all these lease-related components. So I think that the 3.4 that you then have on a kind of a rebased basis is probably a good starting point to start from. And as Birgit mentioned, the target leverage range from the board, which they expected in 2012, has not changed over time. So it still remains the 3.5 to 4.5x.

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

Yes, I can talk to you about the SFR network, just got a briefing on that yesterday as a matter of fact, so right up to date. The good news is that in the Brussels part of the SFR network that electronics and the fiber-to-coaxial ratios are reasonably okay. Also because they switched our analog off, they have extra capacity. And our intention is that within 12 months that the Brussels SFR network will essentially be able to support all of Telenet products and the performance that we've come to associate with the Telenet network and even ultimately with the 1-gig Telenet network. So we have some -- a little bit more difficulties with the part of the network that's in the Walloon region. And also the Luxembourg network, they're going to take a little bit more remedial action. But the issues in Brussels are really relatively minor, relating to a lack of maintenance over the last 2 or 3 years, which can be corrected by our team fairly quickly.

Birgit Conix - *Telenet Group Holding NV - CFO*

And then on the tax question, I can be relatively brief. So our group restructuring that had been taking place in August 2016 will have a favorable impact on our ETR going forward. And so that is something that we reconfirm at this stage.

Operator

We'll take our next question from Ruben Devos from KBC Securities.

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

I got 3 of them. The first one, on the business market. So would it be possible to provide an update there? How much progress have you made compared to the 15% market share, indicated at the Capital Markets Day last year? You've managed to connect 265,000 to WIGO subscribers since the launch, so what is the impact being of WIGO on the SoHo and SME markets? So any operating statistics on that would be helpful. And second question, regarding the statement that you are operating in a tough competitive environment, which I -- which I believe is true for both mobile and the fixed market. You've been successful on the mobile end, launching WIGO, or raising data allowances. But on the fixed end, subscriber trend is somewhat different. Now we're approaching year-end, how comfortable are you to keep increasing prices systematically? You believe that a price increase in fixed will be less well absorbed by the markets than last year? And then lastly on BASE, so you've launched the flexible postpaid subscriptions mid-September, so only half a month affect is shown in the numbers? So could you just give some color on the revamp of the mobile lineup, and what has been the feedback of the market so far?

Rob Goyens

Okay, so maybe the first question is on the -- if we understood well, Ruben, is on the B2B market, and how that has been performing so far. So as you've seen from our revenue results, you clearly see that B2B continued to be an important growth driver to our rebased revenue growth. That is actually driven by a couple of components. And so first of all, there is the security angle, where we have security business that is still growing very nicely. In addition, we also have this connectivity parts, where, essentially, on SoHo and SME, we are accelerating our growth momentum. If you look underlying at the subscribers numbers that we reported this morning, and it ties in, but with your second question, you see that on the residential part, subscriber growth is clearly being under pressure as a result of the increased competition, including the new entrant in the market. In B2B, however, given the fact that we have clearly been focusing on this market segment. Good to see a pickup in the overall growth rate. Now there are very few reliable statistics -- market statistics, that is we can use to essentially estimate what our market share is at the current moment. But for sure, it will have increased as a result of the new plans that we have put out. So you already mentioned, WIGO -- WIGO business, which is clearly taking its fair share of the net ads. And also our FreePhone business product has been revamped. It's kind of a replacement for the ISDN protocol in the Belgian market, which, typically, is a bit of a legacy product for most of the internet operators and are quite expensive for customers to use. And so this new FreePhone business concept is actually mimicking the ISDN, but they are cheap prices to our customers. So that's clearly where growth is coming from. And then, we'll let John answer your second question with regards to pricing and then Birgit will tackle the question on the BASE line up.

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

Yes, I mean, the fixed trend you have to remember that on the wholesale access front that we're actually moving revenue from the top line to wholesale. So to the extent that our good friends at Orange can bring us one Proximus or Scarlet customer for every Telenet customer, we're more or less breakeven from growth profit standpoint. So it's -- although it looks from an operational KPI standpoint not fantastic from its actual impact on the bottom line, it's a little bit more muted. Certainly, we are in a more competitive space. But we do have -- we do have some growth pillars certainly around B2B, around our premium content and certainly wholesale. So we have growth drivers in our business. They're just -- the sort of triple-play offer is a bit muted. In terms of our rate strategy, I mean, I thought your language was a little bit over the top, but because we have -- our increases have been more or less in line with the increases in CPI, many of our products and services have remained flat to down. We were a major impact -- had a major impact on driving down prices in the mobile industry. We've increased flexibility and customer experience in the mobile industry dramatically, with the launch of WIGO, and we've launched a BASE for use. So it's a big mixed bag and you can believe what you read in the newspaper, or you can get it in a little bit more detail because it's -- rate adjustments are very minor part of our EUR 2 billion of revenue. So okay? Did I answer your question?

Birgit Conix - *Telenet Group Holding NV - CFO*

Yes. And Phil, then on BASE -- yes, on BASE on you, so this new lineup was launched mid-September, and just to explain it again, so customers can allocate or bundle to either data, voice or SMS, and also what is important, the unused data minutes are carried over to the next month. So since it has been launched only mid-September, it is a bit early to see because this is a totally new product. We are the first in the market to launch such a product. But the first signs of it are positive. We also saw, in the month of October, we see pre-to-post migrations. And for instance, that also post-to-post migrations. So we expect it to be successful also in the fourth quarter. So now it's a bit early.

Operator

We will now take our next question from Marc Hesselink from ABN Amro.

Marc Hesselink - *ABN AMRO Bank N.V., Research Division - Analyst*

First question is on the synergies, sort of EUR 220 million. Can you indicate how far you are at this stage? Or how much of the synergy you already got? And how much -- where will you be at the end of the first quarter when you transfer all those MVNO clients? And how much of the synergies still to go after, and then what time frame? And the second one is, when you have the migration done, is that also the time to speed up on the sales synergies? So giving extra push on the business segment? And the second part is on the competitive outlook. So yes, we've seen the return moving up, the last few quarters on the fixed side. Is that something that given those -- that WIGO remains very successful and there probably the churn is pretty low. How do you see that dynamic going forward, with more into your quad-play versus the competitive dynamics?

Birgit Conix - *Telenet Group Holding NV - CFO*

So first, on the synergies so here as you can also see from the number, where we are well on track with our synergies and definitely also our MVNO synergies. If I just take the MVNO synergies, they're around -- you can include around EUR 20 million for the full year 2017. And if you then think of 2018, you can almost multiply this by 4 for 2018 and then for the remainder synergies in 2018, let's think of around EUR 30 million. So this is really been on track. We are very happy with the results on the synergies and the cost base, overall, as you can see.

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

And on sort of ramping up some of our market strategies once the migration is completed. I mean, I think we're not really holding back already in the consumer space. As you can see from the new BASE customer value proposition, and from our continued push on WIGO. I can't give you any specifics, but of course, we do see B2B as one of our major growth pillars, and we will be investing in B2B to, again, essentially be able to enhance the end-to-end relationship that we can deliver to customers. I mean, B2B and cable, generally, started out being, "Hey, we got some fiber past your building, you want some, do you want the connection?" And in order to continue to be even more competitive, we need to be able to give -- we need to be able to play a part in it where B2B is today, which is really about convergence between ICT and connectivity. So we'll be investing in that. We'll be innovating in products, and we expect to be able to continue to push our B2B business of high single-digit, low double-digit growth over the next few years. In regards to churn, no question. I mean, WIGO churn is well below half of our average churn, and we are confident that it is a very compelling value proposition that cannot be beat in the marketplace. And certainly, the complexity of leading, when you have that many products is some -- another thing that causes people to choose to stay with, as long as you don't do any -- as long as your customer service is not poor and our customer service is excellent. So the law of numbers -- small numbers, you should see churn coming down over time. It's a question of how aggressive our competitors want to continue to be and whether we can continue to innovate around products and services, which we think we can, to attract our share of new customers. So overall, we say churn's up, but churn's up an annual 1 point. So if we're able to drive it down another point, get back to the sort of 8.5, 8.6 that we had before the access regime kicked in then we would all be laughing. And once again, I'll point out that those customers do come back to us in the form of a wholesale relationship. So it's not quite as impactful as it might seem in first glance. Okay?

Marc Hesselink - *ABN AMRO Bank N.V., Research Division - Analyst*

Yes. That's clear.

Operator

Question from Guy Peddy from Macquarie.

Guy Richard Peddy - *Macquarie Research - Head of Telecommunications, Media, and Technology*

Just a quickie. In your explanation of why your ARPU grew so strongly, clearly you've got multiple factors in there. The one thing I would have wanted, can you sort of try and give us a sense of how important price was as a driver of the ARPU? The reason I'm asking is I'm wondering whether also you think you'll be able to take price again in 2018, given your -- the challenging KPI dynamics and competition you've got in your core business?

Birgit Conix - *Telenet Group Holding NV - CFO*

I can be very short on that one. It will be less than 1% on this fixed ARPU.

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

On the price, the rest is mix. It's where we move -- we continue to move people up from 2P to 3P and 4P, and we also continue to move them from Whop to Whoppa, and that's what's driving the ARPU growth. It's not rate adjustments so much, which is less than 1% of the increase, 4 point something percent increase. Did you follow that?

Guy Richard Peddy - *Macquarie Research - Head of Telecommunications, Media, and Technology*

Yes. Yes. That's perfect. That was absolutely perfect.

Operator

We will take our next question from Stefaan Genoe from Degroof Petercamp.

Stefaan Genoe - *Banque Degroof Petercam S.A., Research Division - Head of Research*

Stefaan Genoe, Degroof Petercamp. I've got 3 questions left. First is a follow-up on the churn, go out to previous churn question and answer. Have you seen an acceleration in churn since the implementation of the Easy Switch? It's the first one. And then there are some 2,000 net additions in the broadband, could you break these down on the business segment and on the consumer segment? And then the third question, taking the EUR 29 million provision, related to the early onboarding from the MVNO, should we see that you will still need add some EUR 10 million -- around EUR 10 million MVNO charges in Q1 next year? And that from Q2 onwards we should see no P&L cost from the MVNO anymore?

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

Yes, I'll let Birgit answer the last one. But on the Easy Switch, there really hasn't been that much impact. We -- I mean, Easy Switch was originally contemplated quite a while ago, and it was complex and expensive to implement. But over that period of time, we have worked through a lot of operational components with Orange and Proximus. And switching -- complexity of switching is not a barrier to competitive acquisition of customers in either direction. So it hasn't helped us. It hasn't hurt us particularly. So on the internet net ads -- sorry, what did you want on that?

Stefaan Genoe - *Banque Degroof Petercam S.A., Research Division - Head of Research*

Yes, there were 2,000 -- the breakdown between the business and the consumer segment.

Rob Goyens

Okay. You can find them, Stefaan, in the investor tool kit, but also in the release that we send across. Now that you saw in -- like in the second quarter, you see actually in the underlying results you see some pressure on the residential side, which ties in with the competitive environment that we discussed early in the call, which is then offset by the fact that we have an overall good performance on the B2B side and also not to forget that in the third quarter, our results also include the performance of SFR, which has also been fully consolidated in these numbers and actually, at this point in time, as we are still getting our hands on the SFR business, that business is still modestly declining from an RGU perspective. So therefore, underlying the performance at Telenet would have been somewhat better. Now this is just temporary, as John mentioned that, because we are looking into improve the network experience, but also the customer experience overall. So that will be like a temporary impact.

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

Right. On the MV -- MVNO surface?

Birgit Conix - *Telenet Group Holding NV - CFO*

Yes. So on the number -- the exact number for the first quarter 2018, I would have to look that up. I have to get back to you later on. But I can confirm that as of the second quarter, that we do not plan MVNO costs that are related to any Telenet products, of course. We are also an MVNE with VOO, and there still will be some costs related to the MVNE with VOO, but that is, of course -- that's not a cost because it's a net of revenues. So yes, I can confirm. And the total will be around EUR 10 million for the first quarter '18.

Operator

We will take our next question from Louis Citroen from Arete Research.

Louis Citroen - *Arete Research Services LLP - Analyst*

I had 3. But the first one is on content CapEx. I was wondering, how should we think about cash payment and receipt for sports content going forward? The second question is on the growth, the 5% growth on the adjusted EBITDA. I was wondering if you could break it down a little, between the underlying components that are maybe the MVNO migration, the contract with Lycamobile, and maybe any other factor. And the last question is more philosophical. So you're only 3.1x levered and you're generating lots of cash to fund investments and thinking about large cash returns. I was wondering, why are you raising more debt in the form of vendor finance, when you could effectively fund your capital investments, that is your costs?

Rob Goyens

Okay. Louis, so let me take the first question on the CapEx, which is actually the sport-related CapEx. So maybe to step back a bit. So in the third quarter, you've seen that our accrued CapEx has been impacted by the recognition of the Belgian football rights, which we renewed in May for a 3-year period. So that buyer contract was capitalized on the balance sheet under EU IFRS in the third quarter, and will be amortized as we move forward. Now, obviously, we didn't pay for the football rights in one go. So from a cash flow perspective that will follow a different pattern. Historically, we are paying for those rights, typically, twice a year. So prior to the start of the league, somewhere in July and then the remainder to be paid in January. And essentially, that hasn't changed. The only change to it is that we are also relying on our vendor financing program for this specific bit, so the cash outflow will only, therefore, take place next year rather than this particular quarter. So that was it on the content side. Now with regards to the vendor financing in itself, so if you take a step back and think about the specific call we had on vendor financing, about a few months ago, we clearly said that we consider vendor financing to be an attractive instrument for us for a couple of reasons. So first of all, there is the attractive cost of financing, which from our perspective is going to be lower than the overall cost of debt that we have today. Even though that cost of debt has been materially decreasing, over time, as a result of the refinancings, it is still a much cheaper way of funding. And also, and of course, providing an attractive diversification compared to the traditional financing that we have in place. I will say that another important reason is, of course, the fact that in the platform that we have set up, there is a possibility for suppliers to be paid early. So meaning that they are being paid ahead of the regular payment term. And in that case, actually, we rely on discounts coming from suppliers and so we have been quite successful in negotiating some of these discounts, especially with some of our subcontractors that we have on the vendor financing platform. So it's a bit of a win-win situation for both sides of the equation to improve working capital. So that's what we see with vendor financing. Now, of course, as we move forward there are always going to be massive investments in projects that we need to fund and so typically, Birgit, talked about the cash -- to the investments in the network in itself that will still be pretty high for 2018. So there also vendor financing can obviously help to bridge. It was an important bridge also for the cash flow because we are going to reap the synergies on the BASE acquisition in an accelerating way. However, the investments that we needed to do for the network will also be done in a more gradual way. So that's also a way to bridge from a cash-flow perspective.

Birgit Conix - *Telenet Group Holding NV - CFO*

So -- and you asked also about can you talk about the components of the 5% OCF growth? So yes, there is, of course, a bit of pricing included, as we've mentioned earlier. It's to a very limited -- it's a limited amount of the growth. But then we also see growth in -- and I'm not talking about the top line B2B, and also wholesale. Wholesale is both regulated and commercial. So I can definitely not disclose any numbers around that. And then you'll see it from our P&L is the significant cost reduction in cost of goods sold. That is mainly MVNO related and then you see also on the operating expenses, you also see a steep decline and that is, for a small part, synergies related to the BASE acquisition, but for a bigger part it is...

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

The management.

Birgit Conix - *Telenet Group Holding NV - CFO*

Yes, it's substantial cost savings that we did in 2017 on our overhead base, and we plan to continue to do that in 2018 as well.

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

You didn't answer the CapEx part. You did. Sorry. Okay. Sorry. Carry on.

Operator

We will now take our next question from Vivek Khanna from Deutsche Bank.

Vivek Khanna - *Deutsche Bank AG, Research Division - Research Analyst*

Just a very quick question, a point of clarification. Just going forward, neither financial leases nor vendor financing will be included in your reported leverage target, I just wanted to confirm that? And I was also wondering if you could give us the hard number as to what the financial leases were at the end of the last period, please.

Rob Goyens

Okay. Vivek, it's Rob here. So yes, I can confirm -- I can confirm both points. So first of all, vendor financing-related liabilities have never been included in our covenant. For the reason that our lenders actually considered it to be short-term maturities of less than 12 months, so therefore, they are fine to exclude this. Lease-related liabilities were previously excluded from the calculation to a certain point, and they are now being removed entirely as a result of the new credit facility that we entered into with the lenders. The difference is actually EUR 166 million, which is the debt that was still included in Q2, which is no longer there in Q3. So that, in itself, explains the mechanical decrease in the net leverage ratio. The total leverage, however, of the company and that is when you look at all the debt-related liabilities. So all the debt instruments, vendor financing-related liabilities and also the leases, as compared to our consolidated annualized EBITDA, will be closer to 3.9x rather than the 3.1.

Operator

(Operator Instructions) We will take our next question from Nayab Amjad from Citi.

Nayab Amjad - *Citigroup Inc, Research Division - VP*

I have 2 questions, please. Can you please help us understand the size of the B2B market in Brussels. In particular, what is the potential share of market that Telenet can gain, after the acquisition of SFR Belgium? And my second question is on regulation. The EU's changing the definition of tight oligopoly, in particular, the parliament has suggested changes with reference to joint dominance. Do you expect this to have an impact on the BIPT's decision on cable regulation?

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

Well, I'll do the second one first. I mean, I wasn't aware that there's been any decisions made on -- in the Article 50, regarding oligopolies or joint dominance. It's a very controversial issue and there's a lot of separation between countries within EU about their view on that. Southern countries of Europe are very intent on spreading very investment-friendly regulation. Certainly, the Benelux is because they have very mature and very high functioning networks, there is a little bit more considering, sort of the oligopoly-style regimes, but there is a lack of rationality, if not legal basis for declaring a copper line operator and a hybrid-fiber coaxial operator developing this -- delivering the same products to be separate markets. That's the only way that that kind of regulation could be considered. There's a lot of people in Europe that are very concerned about the idea that you can -- if you have oligopoly regulation, where does it end? Who doesn't get regulated? So it's a complete change in fundamental competition law authority principles and everything else, and I think, it's got a long way to go. Although it is being discussed in certain corners of Europe. On the Brussels B2B market, it's a very robust market. SFR has quite a small good old business in Brussels. There is not a lot of competition in the government market in Brussels, and there hasn't been. And we know anecdotally that they're very excited about the fact that there will be more competition. And I can't tell you off -- none of us here quite know exactly what the size of the Brussels B2B market, but when you consider the B2B market overall is in the low 2 billions, you can be assured that probably at least 1/3 of that might somewhere close to 1/4 to 1/3 of that would be Brussels based, with a lot of upside. Oh, yes, single-digit market share in Brussels.

Operator

We will now take our next question from Matthijs Van Leijenhorst from Kepler Cheuvreux.

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

Yes, just a quick one. What I understand is that the board is okay, with the leverage ratio of around 3.5 to 4.5x. But what I understand is that currently you have actually 3 leverage ratio, of 3.1x, excluding the leasing. If I include the leasing, it's 3.4, but if I include everything, it's 3.9. So what is the number, what the board will look at? Is it the 3.9 or the 3.1 or the 3.4? That's my question.

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

3.4. That's the number.

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

3.4. And what is your expectation that the number will be at by the end of the year?

Rob Goyens

It will be fairly stable, Matthijs, for the reason that presumably on the EBITDA side, there you take the last 2 quarters and then you annualize. Q4, typically, has a bit of a low EBITDA contribution generally. And so the way actually the -- the previous definition was set is that our EBITDA also takes into account certain unrealized synergies, so as they become realized they just move from one bucket to the EBITDA bucket. So from a leverage perspective that should not move materially by year-end. So that will be in the vicinity of the 3.4.

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

And as a follow-up, what I understand is that in case the board will decide that we will see a shareholder distribution, most likely this will be in the form of a dividend, not a share buyback, right?

Birgit Conix - *Telenet Group Holding NV - CFO*

Yes. The share buyback is capped at 1%. It is the typical range that we do every year and that's around EUR 50 million.

Rob Goyens

That also has to do, Matthijs, with the liquidity of the stock. So if you look at the buyback rules in Belgium, there are quite strict. So you cannot buy back more than 25% of the daily volume. So if you want to buyback an awful lot of shares that will keep you busy for some time, so we would concur with your view.

Operator

That concludes the question-and-answer session today. At this time, I would like to turn the call back over to Rob Goyens for any additional or closing remarks.

Rob Goyens

Okay. Thank you, operator, and thanks for joining, ladies and gentlemen. This concludes the conference call of today. Dennis and I will be standby, in case you would have any further follow-ups after this call. Preferably, we all look forward to meeting you during one of our future road shows and conferences. You can find the updated calendar on our Investor Relations website. So I will say thank you for now and goodbye.

Operator

That will conclude today's conference. Thank you for your participation and have a good day.