Telenet Q1 2019 Investor & Analyst Call

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Operator: Ladies and gentlemen, welcome to the Telenet Conference Call. Let me introduce John Porter, CEO; Erik Van den Enden, CFO; and Rob Goyens, VP Treasury, Investor Relations and Structured Finance. Sir, please go ahead.

Rob Goyens: Good afternoon, everyone. My name is Rob Goyens, Head of Treasury and Investor Relations at Telenet. I would like to welcome all of you to our Q1 earnings webcast and conference call.

I hope you have been able to have a look at this morning's earnings release. The release and the presentation for this call can be found in the results section of our Investor website. We'll start today with a presentation of the main strategic and operational highlights by John Porter, our CEO. Next, our CFO, Erik Van den Enden, will guide you through our quarterly financial results. Afterwards, we will be taking questions from the audience.

As a reminder, certain statements in this earnings presentation are forward-looking statements. This may include statements regarding the intent, belief or current expectations associated with the evolution of a number of variables that may influence the future growth of our business. For more details on these factors, we refer to the Safe Harbour disclaimer at the beginning of our presentation. So John, the floor is yours.

John Porter: Thanks Rob. Hi, everybody. John here. Let's first go through the key highlights of the first quarter of 2019.

As I already mentioned at the end of last year, we are now fully stepping up our commercial initiatives and you have seen the first proof points. At the start of the year, we introduced a new Kong Unlimited offer for both residential and business customers. We also launched a similar unlimited data proposition under the BASE brand. We boosted mobile data allowances for our converged WIGO offers in December last year, and launched the first 100% family proof campaign.

On top of that, we continued our commercial push in the City of Brussels with some very good results. The latter delivered great results with particularly strong sales in the SOHO segment. This underpins the potential of Brussels to increase our market share and capture more B2B customers.

Finally, we also introduced the first set-top box-less FMC offer, YUGO, targeting millennials and digital-savvy entertainment lovers. We have established two distinct FMC ecosystems, one for families called WIGO, and one for customers with new digital habits called YUGO. Our WIGO and YUGO FMC bundles continue to be successful against the competitive market backdrop, reaching just over 429,000 customers at the end of Q1 2019. This represents an accelerated net inflow of over 29,000 in the quarter on the back of our improved product line up, our best quarterly achievement since Q1 2018.

Our operational performance in the first quarter improved as the migration of SFR customers in our Brussels footprint was finalised by the end of March and thus diminishing this headwind. Excluding the impact of the SFR customer migration, net subscriber trends for our

fixed Telenet products slightly improved in the first quarter, thanks to the attractive promotions and spec increases of our WIGO bundles.

In mobile, we drove a big step up in net adds of almost 34,000, thanks to both our FMC push and the introduction of unlimited offers on Telenet and BASE standalone mobile products. I'm pleased to see that our revamped product portfolio, supported by our leading fixed and mobile infrastructures, and ongoing investments into our IT platform, are leading to improved operational results. This will underpin our return to growth trajectory, as outlined during our December 2018 Capital Markets Day.

A crucial cornerstone of our strategy is to offer our customers a top-notched rich entertainment experience with the best content available. We underpin this proposition by exclusively premiering the final season of Game of Thrones available in our Play and Play More packages since mid-April. We enhanced our brand as the place for premium entertainment, building a full experience for our customers, such as a fully dedicated pop-up bar in Antwerp where people can enjoy the latest episodes.

We continue to focus on local content, launching two brand new series Grenslanders and Ceub[?] available exclusively in Play and Play More. Our Play and Play More packages continued to show healthy growth reaching 434,000 customers in Q1 2019, up 9% compared to the prior year period.

I am thrilled with the launch of our latest next-gen set-top box, which we launched last week. Our new box includes several new features such as voice control, cloud storage, and integrates both Netflix and YouTube. All of this is underpinned with a new app and dedicated website. This again puts us at the vanguard of innovation and marks a clear differentiation versus our competitors in the market.

Together, with the launch of YUGO, our continued focus on IoT, and a launch of the third location of our VR gaming venue, The Park, in Hasselt, will clearly confirm that innovation continues to be a hallmark of our strategy.

With that, let me hand it over to Erik for a snapshot of our Q1 financial performance.

Erik Van den Enden: Thanks, John, and welcome everyone to our first quarter 2019 earnings call. I will now walk you through the financial highlights of the first quarter. And I'm happy to see that whilst 2019 is somewhat of a transition year, we are off to a good start underpinned by strong commercial and operational momentum.

If we start with revenues, you will see that we achieved revenues of €626 million for the first three months of the year, up 1% compared to the same quarter of last year, and mainly impacted by the acquisition of NEXTEL on May 31st 2018, which is fully contributing to our Q1 2019 results, and hence not yet included in our Q1 2018 results.

On rebased basis, our revenue was broadly stable as a result of lower interconnection revenue, following a regulatory decrease of fixed termination rates, and a mobile wholesale partner's transition from light to full MVNO also impacting our interconnection revenue.

Our cable subscription revenue on the other hand, which is one of our core metrics, was up 1% year-on-year, as a result of the favourable impact of the July 2018 price adjustments and continued growth in the small business segment.

Secondly, let's take a look at operating expenses. We managed to reduce our total operating expenses by 2% on rebased basis, mainly driven by a 4% decline in our direct costs due to lower MVNO related interconnection costs. We also managed to lower staff-related expenses by almost €8 million, which reflected the transfer of our network field services to a joint venture called Unit-T. The latter is the main driver for the increase in outsourced labour and professional fees, as we know be recurring services fees to the JV, in which we are a 30% shareholder.

Our sales and marketing expenses increased 6% in the quarter, as a result of our latest marketing campaign to support the launch of a new product propositions, leading to an improved operational performance in the quarter.

If we then move on to EBITDA, you will see that on a reported basis, our adjusted EBITDA increased 4% year-on-year to €320 million in Q1 2019, reflecting the aforementioned inorganic impact from NEXTEL. But more importantly, also included the application of the new IFRS 16 lease accounting standards as of the January 1st, 2019. The latter had a €10 million benefit in our reported adjusted EBITDA versus the same period of last year.

On a rebased basis, which means airing out both for NEXTEL and IFRS 16, our adjusted EBITDA remains broadly stable year-on-year. A decrease in direct costs as a result of lower MVNO related and interconnection expenses and lower staff-related expenses were almost fully offset by, firstly, higher sales and marketing in the quarter, and secondly, higher costs related to outsourced labour and professional services following the transfer of our network field services to the Unit-T joint venture, as I just mentioned.

On the rebased basis, we managed expanding our underlying adjusted EBITDA margin by 40 basis points in the quarter to just over 51%, again driven by continued tight cost control. Due to the loss of the Medialaan MVNO contract and certain regulatory headwinds, we do expect a more outspoken impact on both our rebased revenue and adjusted EBITDA as of the second quarter of 2019, fully in line with our full year 2019 outlook as presented mid-February.

Let’s now zoom in on our accrued capital expenditures. We succeeded in substantially reducing our investment intensity as compared to last year. Our accrued capital expenditure reached €173 million in the first quarter of 2019 and reflected the recognition of the UK Premier League broadcasting rights, which we successfully renewed for another three seasons in the first quarter of this year.

Excluding this impact, our accrued capital expenditure decreased 16% year-on-year, which is a strong performance and in line with our ambition to bring the capital intensity in our business back to around 20% versus around 26% for 2018 as a whole.

As a percentage of revenue, our accrued CapEx was around 21% of revenue in the quarter as opposed to around 25% for the same period of last year. The substantial decline in our accrued capital expenditure drove a 25% year-on-year increase in our operating free cash flow to €189 million, as you can see in the bottom chart. Our adjusted free cash flow reached €20 million in Q1 2019, including a €44 million contribution from our vendor financing programme, which will be unwound throughout the remainder of the year. This represents a 76% decrease versus the €83 million we generated in the same period of last year.

Our adjusted free cash flow for the first quarter of 2019 reflected, firstly, €53 million higher cash tax paid versus last year. Secondly, €49 million higher cash interest expenses and cash derivatives versus the same period of last year, due to phasing. And thirdly, a €36 million lower contribution from our vendor financing programme as compared to the first quarter of 2018.

Our adjusted free cash flow performance in Q1 is generally softer relative to the rest of the year. As such, we remain confident in our ability to generate robust adjusted free cash flow over the whole of 2019, as included in our full year 2019 outlook. We continue to enjoy a solid and healthy financial profile, characterised by strong liquidity and well spread debt maturity profile.

Excluding a short-term debt commitment under our vendor financing programme, we face no debt amortisation prior to August 2026, with a weighted average maturity of 8.2 years at the end of March, and a weighted average cost of debt of around 3.6%. Including the available cash on our balance sheet, we also had full access to €492 million liquidity at the end of the quarter.

In terms of financial leverage, at the end of March 2019, our net total leverage ratio reached 4.4 times versus 4.1 times at the end of 2018. The relative step up in our net total leverage reflects, firstly, our seasonally lower adjusted free cash flow in Q1, as I just mentioned before. Secondly, a relatively softer consolidated annualised EBITDA, which is based on the last two quarters. Thirdly, continued share repurchases under our €300 million share repurchase programme 2018bis, which is expected to be completed by the end of June 2019. And fourthly and lastly, a further increase in our vendor financing programme, which we expect to reverse throughout the remainder of the year.

As of December 2018 Capital Markets Day, we reconfirmed our leverage framework maintained at 3.5 times to 4.5 times net total debt to consolidate annualised EBITDA. In absence of any material acquisitions and/or significant changes in our business or regulatory environments, we intend to stay around the 4.0 times midpoint to an attractive and sustained level of shareholder disbursements.

And before opening up for Q&A, I would like to come back on our medium-term and 2019 financial outlook just as a reminder. At our Capital Markets Day in December of last year, we presented our ambition to deliver sustainable profitable growth over the next three years. Over the 2018 to 2021 periods, we target a rebased operating free cash flow CAGR of 6.5% to 8%. This excludes the recognition of football broadcasting rights and mobile spectrum licenses, and it also excludes the impact of IFRS 16 on our accrued capital expenditures.

Based on our first quarter 2019 performance, we fully reaffirm our outlook for the full year 2019. Due to the loss of the Medialaan MVNO contract and certain regulatory headwinds, we do expect a more outspoken impact on both our rebased revenue and adjusted EBITDA as of the second quarter of 2019, in line with our full year outlook, as presented mid-February.

In 2018, we consistently delivered on our anticipated shareholder remuneration timeline. At the end of June last year, we started a €300 million share buyback programme. At the end of March 2019, we had repurchased just over 5.7 million shares under this programme for just about €250 million. On April 24th of this year, the Extraordinary General Shareholders

Meeting granted another five-year authorization to the company to acquire its outstanding shares up to the maximum number as set forth in the applicable legislation.

As a result, the company will be able to fully complete the €300 million share repurchase programme, 2018bis, by the end of June 2019, as previously communicated. At the same time, the EGM also approved the cancellation of nearly 1.9 million treasury shares, lowering our total share count by the same amount. Subject to compliance with our objectives to remain around the 4.0 times midpoints of our net total leverage framework, and excluding any material acquisitions and/or significant changes in our business or regulatory environments, we consider to pay an intermediate dividend in the last quarter of this year, subject to both Board's And shareholders' approval.

And with that, let me now hand over to the operator for our Q&A session. Thank you.

Operator: Thank you. We now start the Q&A session. Ladies and gentlemen, if you wish to ask a question, please press zero and one on your telephone keypad. The first question will be asked by Mr. Paul Sidney from Credit Suisse. Sir please go ahead.

Paul Sidney (Credit Suisse): Yeah, thank you very much. Good afternoon. Just three quick questions, please. Firstly, on subscriber churn. We saw churn fall sequentially in Q1 2019 for all your major segments but obviously so impacted by SFR. I was just wondering if it's possible to give us an idea of what the churn rates would have been and without the SFR effect, just trying to get a sense there and the direction of travel. And also following on from that, and with churn likely to fall again sequentially in Q2 2019, does that open up the prospect of Telenet considering price increases at some point in 2019? And then just thirdly on tax. We've had many discussions on tax within the Telenet Group in the past. And I was just wondering sort of where we stand at the moment. Could you remind us of any NOL and deferred tax amounts that sit within the Telenet Group? And also with respect to the new Belgian tax rules, I was just wondering if you could update us on any potential options and future tax benefits for Telenet? Thank you.

John Porter: I'll handle the first two questions, Paul, thank you very much. And then I'll hand over to Erik.

On the churn, as you pointed out, sequentially the churn has been decreasing across the board. It certainly – there's no material difference with or without SFR, I believe. Not overly material. I think what's really driving it is what you'll see is, of course, a very good step-up in terms of the bundled WIGO customers in the quarter. And as you know, the WIGO customer base of getting close to 450,000 now, churn is at extremely low rate. It varies a little bit but well below 4% annually.

On the price increase, I can't speak to our plans for this year. We're not prepared to say anything about that. It's always gratifying to see the churn come down to historically low levels. And I would just say that history is a reasonably good guide. When it comes to our plans for rate adjustments, we are – we have made rate adjustments throughout the year last year. There was a rate increase. There was a repositioning of Play where we – later in the year where we took it from €10 to €12 quite successfully. So we are constantly evaluating opportunities to adjust our prices up or down. And in fact, we have over the years, made some readjustments to our pricing.

Generally speaking, we try to have a pricing strategy that is reasonably aligned with the increase in the consumer price index. And because this is a – one of the few markets that have a labour indexation. In other words, the – every employee in the – in Belgium, salaries are adjusted based on the consumer price index, there is a reasonably okay environment or context to take price. But history is the best guide and I have nothing to say about what exactly we will or we won't do this year. Erik?

Erik Van den Enden: Yeah. So on the tax side, you probably know that in terms of total deferred tax assets for the Group, we have €1.3 billion. And out of this €1.3 billion, we have recognised more or less €820 million as deferred tax assets, which means that these are assets that we plan to use going forward, which also means that at the holding company, there is around €0.5 billion of tax assets that we do not plan using for the future and for which we have put up a valuation allowance. And of course that €820 million sits at different levels in the Group.

Then in terms of the fiscal consolidation, this is something that will only kick in for incoming year 2020. So it's still quite a bit ahead of us. I want to stress that in terms of tax planning, we don't do – we never do kind of artificial tax planning. So I think what we do is always following the operational reality of the Group. And of course, in light of the new consolidation and fiscal consolidation rules, we look at that. But it's also important to know that this fiscal consolidation rules only apply to future tax assets, so they do not grow retroactively.

Paul Sidney: That's very helpful. Thank you very much.

Operator: Thank you. Next question from Michael Bishop from Goldman Sachs. Please go ahead.

Michael Bishop: Thank you and good afternoon. Just three questions for me. Firstly, picking up on a couple of the Play More comments. So it looks like you are delivering sort of continued strong growth despite raising the pricing. So I was just keen to get a sense of the gross adds or even the net adds on Play More. Are they coming from customers increasingly moving into bundles with the content already included, or is it more customers just paying the extra €12 to spin up? And I was just keen to ask that question, because I'm just trying to think further down the P&L about the drop through in terms of profitability as you add more customers. And then secondly, I was just keen to get a sense on the latest competitive dynamics in the market. It feels like potentially it's a bit more of a pricing equilibrium in the Belgium market between the operators as you've restructured your tariffs, particularly on the mobile side as everyone is now €40 for unlimited. Do you think that's a fair assessment, or are you still seeing a lot of competition around the edges in terms of promotions? Thanks very much.

John Porter: So, yeah, Michael, thank you for the question. And the growth in Play and Play More, actually the volatility, so the growth connects and churn is all happening on the Play side. Play More is a very stable customer base with not a lot of movement. We did have an increase in Play More leading into the HBO seasons before. But now that the HBO output packages is available in Play, there's even less volatility in Play More.

So we are sort of coalescing our strategy around the Play offering. It scores very well on an NPS basis. It's quite a robust product down with the Play that – with the HBO output deal, and more unique assets going into it. So as we develop these products, I think you'd see Play

More stable. Really a product that is attractive to the true believers. But probably going into the sort of hyper-charged OTT environment of Disney and Warners and HBO and everything else, it's probably under pressure over time. We still think Play will continue to be able for the foreseeable future, represent a really unique space in the pay TV world here in Flanders, because it is a really great blend of local and international product that really can't be found and won't be found anywhere else. I hope that answers your question to some degree.

In terms of the competitive dynamics, yeah, I think as you point out, what we found even – probably even more so than we expected that as we – and towards the end of Q4, as we aligned our products closer to the sort of competitive median with spec increases, in particular, we saw sort of the – us getting back to our fair share, particularly in the mobile and in the bundle space.

So, as I pointed out before like once you go unlimited, you've played the nuclear card and all you can do from there is make your unlimited cheaper. So we'll sort of wait and see what happens there. But generally speaking, this is a market that is very attractive to end-to-end bundle FMC solutions. That's why as we innovate and as we invest, we're doing it around things like YUGO and more focused on the FMC solutions than individual stand-alone product solution for customers.

So I think there is a – as there is sort of less variability and there's less sort of room to move on the price value front, you will see more stability, hopefully a little bit lower churn, lower flux in the market generally and more satisfied customers in a more rational environment. So that's the way I see it anyway.

Michael Bishop: Thanks. So maybe if I could just quickly follow up on YUGO specifically. Is the addressable market that you predicted, is that in line with what you're actually seeing now you've got a few months under your belt with that in the market?

John Porter: Well, on the acquisition front, it's sort of exactly as the way we've seen – we expected it. So it's certainly attractive to the segment that we expected and from the standpoint of new connects, it's where we thought it would be. What we're not seeing is a lot of the migration or down spin that we had actually anticipated. So in a way that's a good thing.

But stay tuned. We're going to – we'll continue to think about that ecosystem, and if we're ticking all the boxes from a price value standpoint within that ecosystem. It's an ecosystem. I said it's an ecosystem, but right now it's an ecosystem with one solution. So it's the beginning of a journey in the YUGO ecosystem, and stay tuned we'll see what else comes down the pike.

Erik Van den Enden: Maybe I just one – Michael, maybe just one element in terms of your request with Play and Play More. So of course in terms of profitability, it's somewhat less favourable than our fixed broadband business. But what is very important is that we see the customers that do take Play and Play More, the churn that they have on the full bundle and also on the DTV product is even way lower. So it's a very important asset in terms of churn and stickiness of customers.

Michael Bishop: Great. Thanks so much.

Operator: Thank you. Next question from Roshan Ranjit from Deutsche Bank. Sir please go ahead.

Roshan Ranjit (Deutsche Bank): Hi, great. Thanks for the questions. Two for me, please. Can you just remind us what the absolute headwind is from the Medialaan contract which you flagged out at the end of last year? I think one of your competitors last week suggested that it was in the tune of around €20 million benefits that they were looking to book. And secondly, is it possible to just get a bit more detail around the working cap movement this quarter? I know you have previously flagged headwinds for the full year given the decreased CapEx expected. But this quarter it seemed to spike a bit versus what we've seen before. Thanks.

John Porter: Erik?

Erik Van den Enden: Yeah. So firstly, probably on the Medialaan contract. So we do not disclose that individual item. Of course, as you well know, I mean – that is Medialaan is moving from our network into the Orange network. That migration has started basically last month, so it is underway. And as we said before, that – that's, of course, going to impact our Q numbers – Q2 numbers. So, yeah, I mean – and again, I think we see that still being fully in line with our full year outlook, so no real surprises from that angle in terms of the Medialaan migration. Okay?

And then secondly, on the – there was a question on working capital. So in terms of why working capital was little bit more negative? So, first of all, we have of course, the capital intensity that is coming down in the business as you can see, and I think there was a very important point in the Q1 OFCF[?] number. We have reduced the CapEx as a percentage of revenue from around 25% to 26% last year to around 21%. But, of course, CapEx typically has long payment terms, so to that extent as you reduce CapEx that is hitting the working capital. And then secondly also – we also mentioned that we acquired the rights for the UK Premier League broadcasting rights and those also had to be prepaid. So these two effects indeed affected the working capital somewhat unfavourably.

Roshan Ranjit: All right, great. Thanks. And can I just ask a quick follow-up, sorry I'll tag. The gains on the vendor finance for – vendor financing for this year is still expected to be neutral. I know incremental vendor finance, and so we should expect to reversal of the vendor financing and take in this quarter, later in the year?

Erik Van den Enden: Yes, absolutely. So in Q1 there was still €44 million uptake that came as we run the business. So we are not managing the guidance – the flat guidance on a quarterly basis. So it's on a full year basis. So I can confirm that it is still very much the plan going forward. So by the end of the year over – on a year-to-year, say Q4-to-Q4 basis, it will be flat or very close to it. Of course, not going to be exactly zero, but it's going to flattish.

Roshan Ranjit: Great. Thank you.

Operator: Thank you. Next question from David Vagman from ING.

David Vagman (ING): Yes, good afternoon, everyone. Following up on the YUGO comments. Can you give us your view on Epic Combo? And do you see it as a more aggressive shift towards unbundling? Do you planned any adjustment to the YUGO offer as you've referred to maybe an extension of the family – you've described it as a family. So do

you plan something similar to Epic Combo? That's my first question. And then second question on basically the BIPT customer and the pricing. Could you tell us a bit your latest thoughts on what is basically coming next in this regard on wholesale cable rates? Thank you.

Erik Van den Enden: Yeah, we don't normally comment on our – offers of our peers. It's quite clear that Epic Combo is responding to the same market needs that we saw with the development of YUGO. We said when we launched YUGO that it would continue to evolve. As I just mentioned in my previous comment, I say – I call it an ecosystem and ecosystems tend to have more than one thing in them. So we'll see exactly where and how we need to meet the needs of customers in other ways.

Right now the YUGO offer has two SIMs and 30 gig of data. It maybe – there's other configurations that are attractive to other types of households with more or less people in them. So, we'll continue – we are – now that we have the platform up and running and we have – what the real USP of YUGO is the user interface and we back ourselves always on the entertainment front to have the best user interface. So we'll continue to evolve product where we see the market needs. And the other question was on the –

John Porter: On the BIPT.

Erik Van den Enden: BIPT pricing cost. That situation continues to evolve. I think we saw some preliminary pricing that's being market tested, which gives us comfort that the end result is going to be reasonably in the range of the interim pricing. And we've accommodated in our plans for some variation to the interim pricing, but nothing overly material.

David Vagman: If I may add a quick follow-up on regulation. We've seen recently the BIPT come up with a potential, let's say, a better opening of the B2B market in the sense that they would want to give access – competitors being given access to – a passive access to Proximus' high-quality networks. Do you – could you give us your view on what could be the consequences of you, for instance, having a passive access to the Proximus' high-quality network on –

Erik Van den Enden: You mean their fibre network?

David Vagman: Yeah. Regarding the business market?

John Porter: Yeah. As a sort of high-level principle, I don't agree with over regulation in access of high-quality networks, because where's the incentive to invest in high-quality networks?

So I'm – I certainly don't think that is particularly good industrial policy when it's quite clear that we're in the very early days of technological revolution on how much data needs to come in and out of these businesses and to the cloud and everything else. So anything that disincentivises the construction of fibre or 5G or other high-end access networks, I think, is not particularly smart regulation.

David Vagman: Okay, thank you.

Operator: Thank you. Next question from Emmanuel Carlier from Kempen. Sir, please go ahead.

Emmanuel Carlier (Kempen): Yes, hi. Good afternoon. Three questions from my side. First, a quick one on YUGO. Would you disclose the net adds that you made and how do you see subscriber uptake evolving into the month of April? Secondly, on your EBITDA margin. I think consensus is flattish over the coming years. I'm just wondering if EBITDA margins should not continue to grow up, can you expect to go back to top line growth in your high margin businesses or expect this to continue to grow? And then finally on the tax side, so you have around €800 million of deferred tax assets. So when will we start to see the benefit of that on the free cash flow line?

John Porter: Okay. On the YUGO front, I think I've said what we can say, which is that it's still early days. We're not giving out absolute numbers. We're happy with the amount of new connects that are coming into YUGO and we're seeing much less of the sideways movement and downgrades than we had expected into YUGO. But once again, YUGO is an ecosystem that will continue to evolve. You can be sure there will be the other price points and other product configurations within the YUGO landscape that will create more flux in our SMC base.

On the EBITDA margin, I mean, there is an enormous amount of puts and takes that go to making up your margin. I think some of the drivers at gross margin, marginal expansion in some products, but also the cost to content continues to go up. Some of the – a lot of the – probably very high margin ancillary and usage revenues continue to go out of the system.

We still have – usage revenue still – despite all the regulatory headwinds and usage that we've had is still a significant component of our mobile revenue. And I mean, if I had to make a call today, I'd say in three years there’s barely going to be any usage revenue and that revenue is at very high margin. So there's a lot of marginal revenue at high margins coming out. There's new revenues that are coming in at lower margins, so it's a mixed bag.

And then we also are reasonably efficient company already. You use – just as a proxy, you can compare our headcount, which is about 3,400 with other companies – whether they are incumbents, whether it's Proximus or even a company like Virgin Media, which is twice as big as us, but has four times as many employees, we are a reasonably efficient organisation right now. So there's not a lot of step change in our cost base. So that's kind of a general statement on where we see. We don't see any significant potential expansion in the EBITDA margin percentage.

Erik Van den Enden: I would just add that in terms of the managing the company, operating leverage is a very important concept for us. So I think 2018 was a very strong year, probably an exceptional year, where we turned the flattish top line into an 8% EBITDA growth year-on-year. But also this year, despite being a transition year and then despite us investing quite heavily in our IT and back-office system, we will still do an operating leverage higher than one in the sense that the minus 2.5% top line guidance will be offset to a certain extent at EBITDA level and definitely at OFCF level.

As you all know, we are going to be growing that between 16%, 18%. But to John's point, I think, already our margins are very high. There is a lot of uncertainty, but again it's a key focus for us to make sure that we manage the company from a cost perspective as efficiently as we can.

John Porter: Yeah, and we've already pointed out, we're losing the MVNO revenue which is extremely high margin. So, yeah, pluses and minuses. And then the tax question. Can I take that, Erik?

Erik Van den Enden: Yeah, I didn't quite capture the tax question. Can you perhaps just repeat the tax question please?

Emmanuel Carlier: Yes, sure. So you booked, I think, around €800 million of deferred tax assets. So I think this year you will pay something like €150 million in cash taxes. I am just wondering when you will start to benefit from these tax assets, so when will the cash tax rate start to come down?

Erik Van den Enden: Sure. So the taxes that we are paying this year is, of course, based on the income of 2017. So there is always a time lag in terms of when the tax is calculated, when the cash out comes. I mean, we have done quite a bit of work internally to – as I said, to make sure that our tax structures follow the operational reality of the company, which means that as of income year 2018, so last year, which we will be paying next year, you will see that positive impact. So very practically next year the tax bill will be – will start to go down.

Emmanuel Carlier: You don’t – so you don't need fiscal consolidation for that and you also don't need any M&A activity for that?

John Porter: That's correct.

Erik Van den Enden: Yeah.

John Porter: I mean, it's going to go down with – based on the status quo. If there are other incremental opportunities like that you described to effect more consolidation, then we will pursue them. But nothing to say right now about that.

Emmanuel Carlier: Okay. Maybe a final question from my side. Could you give an update also on how you think in terms of share buyback, because the current €300 million plan is coming to an end soon? Yeah, do you intend to renew that or do you not have made up your minds yet on that?

John Porter: Well, the actual status at the end of Q1 was we had executed €250 million of the announced €300 million plan and we effected cancellations as well. At the AGM, we received approval last week for an additional –

Erik Van den Enden: Five years.

John Porter: Five years to continue to buyback – is there any specific number on it?

Erik Van den Enden: No. I think, again, the approval that we got last year is obviously – sorry, last week – not last year, is obviously very important to keep the flexibility that we've always tried to have in our shareholder disbursement mix. So I think to John's point, we have largely concluded our current mandate of the €300 million. There is still however €50 million to go, which we do expect to complete before the end of June and we'll take it from there.

Obviously, any new mandates would have to be subject to the Board's approval, but of course, don't forget that we have announced last year also in our recurring dividend policy, so we will have a look at that in due time.

Emmanuel Carlier: Okay, thank you.

John Porter: Just a last point. Of course, we also said that we would not lever up to do either dividend payouts or a share buyback payout. So what we said is that at the end of 2019, we would consider to pay a first intermediate dividend subject to the fact that our leverage would be around the midpoint of our guidance. That is still the case. So I think the views have not changed since our Capital Markets Day. But, of course, in terms of doing additional share buyback that is also something that we will take into account.

Emmanuel Carlier: Thanks.

Operator: Thank you. Next question from Matthijs Van Leijenhorst from Kepler Cheuvreux. Sir, please go ahead.

Matthijs Van Leijenhorst (Kepler Cheuvreux): Yes, good afternoon. First question on SFR. Could you give some colour on how many subscribers you expect due to the quite aggressive promotions you've launched late 2018? And the second one is, if I am correct, there were some instalment issues in – especially in the Brussels footprint. I was wondering whether these instalment issues have been resolved?

John Porter: Well on the installation front, those issues were resolved in the last quarter of last year. We think we have a two to three-day backlog in Brussels for installation, so that was probably at the beginning in the fourth quarter. So we're in good shape on that front. I can't exactly give you – I mean, I know the number, but I'm not going to give your exactly how many connects we got on the back of the campaign, because that's comparatively sensitive issue.

But I will say that it is – it was – it did what we needed to. It was very effective. You can see from the numbers that we have turned around commercial momentum in Brussels and we're going to do what we need to do to keep it. The more people experience telling it, the more they're going to like it because it's a superior product experience.

And we're confident that based on what we're seeing to-date that there's a lot of – still a lot of upside in Brussels, particularly in – on the B2B front. We have extremely good traction in the SOHO market in Brussels, which is a substantial market that is – was virtually untapped by SFR Coditel. So, yeah, I think we're on track and I think what you'll see, there's still a little bit of overhang from the SFR migrations. We're – we certainly migrated less than a 100% of the previous SFR customers.

There's a little bit of overhang in this quarter, but it will be completely washed out of the system and we'll return to a positive profile in Brussels in Q2.

Matthijs Van Leijenhorst: Okay. Clear. Thank you.

Operator: Thank you. Next question from Nicolas Cote-Colisson from HSBC. Sir, please go ahead.

Nicolas Cote-Colisson (HSBC): Well, thank you. I've got two questions on products and pricing strategy. I was wondering on YUGO, which channels are you using to proceed to the customers? Another way to ask the question, are you pushing the brand with the same intensity or pushing the WIGO brand? And what is the difference in profitability between YUGO and WIGO? And my second question is around your very aggressive promotional offers

in Brussels with everything at €30 for the first month. You have much less discount anywhere else in the country, so I know you are rebuilding your franchise in Brussels. But can you tell us a bit more about the rationale for the different approach there? Thank you.

John Porter: Sure. On the YUGO front, we are doing no above the line campaign on YUGO with the exception of outdoor. The issue is that, of course, the target segment is a segment in the market that doesn't like advertising and doesn't watch television in a traditional fashion. So I mean this is a product that doesn't include a set-top box, and it doesn't include – it includes a video entertainment ecosystem that had – that draws assets from free-to-air as well as from our Play product etc., etc., but presents them in a non-linear and integrated platform with web-based products etc.

So it doesn't lend itself to being advertised in traditional ways. So our channels to market are essentially viral, which is why we produced the free styling video, which I think is over 10 million streamers and trending very rapidly right out of the box generating a lot of interest in the target market. But we'll see. We'll see how we go.

As we expand the ecosystem of YUGO, we'll need to probably communicate more and more about it. But – so anyway, I guess that's a long way to answer to a question, but we're not really above the line aggressively with YUGO at this point.

Nicolas Cote-Colisson: And in terms of profitability?

John Porter: Profitability is similar to WIGO, so marginal profitability is – I mean, it's quite similar to WIGO. Obviously, we're giving a lot more data capacity away. But we're not amortizing a set-top box. So that's a significant offset to the amount of data that we're giving these customers.

And then the fact that we're not rating all of the Telenet video streaming streams as well as certain over-the-top social apps, is also a big strong differentiator in the YUGO – for YUGO products. What I'd say is that, YUGO is an evolution, not a revolution. So – I mean, WIGO was a revolution. We were having tens of thousands of WIGOs coming – streaming over the trends every week. And this is going to be build – this is something that's going to build over time, and it's also something that is levered towards, not a huge segment today, but the most rapidly growing segment of our market. So it's something that we expect to be very, very strong over time.

On the Brussels promo front, I kind of answered a little bit of it in the previous – to Matthijs previously. But we are – I can't say exactly how long we will have the offer, but it's not going to be indefinite for competitive reasons. But it's – this is a business of momentum and traction. And clearly we didn't have the traction or the momentum that we were looking for in the second half of last year, and we said we're going to do whatever it takes to turn that around, and we've done that.

That being said, we're still sitting at a little bit less than 30% market share in Brussels when we have two-thirds of the market in Flanders. So we think there's some ground to be made up there and we will do whatever campaigning or promoting that we need to do to underpin the power of the brand and get people to try the products, and that's what we're going to do. So we think we can get Brussels' market share maybe – certainly not to where we are in Flanders, but we can improve it dramatically with the right campaign.

Nicolas Cote-Colisson: Okay. That makes sense. Would you mind if I ask just a very short question on B2B? You mentioned the price reason in your comments that you are gaining market shares in the SOHO segments in Brussels. What is happening in – for the medium, large enterprises across your footprint? Are you also gaining shares?

John Porter: Well, SMEs across our footprint are a target for us. We – and with the acquisition of NEXTEL, ICT integrator, we've positioned ourselves to provide end-to-end solutions, particularly for small and medium enterprise and that is going according to plan. We certainly have seen good business at NEXTEL, but more importantly good integrated sales between Telenet connectivity solutions coupled with NEXTEL solutions in the edge of the network that are very attractive to SMEs. And Flanders, in particular, is a very strong SME market.

Brussels is not an SME, LE market. All of the – most – the vast majority of Brussels-based SMEs and LEs are in the, what we call the RAN, so they're in the edge and outside of Brussels ad Brussels, essentially government NGOs and SOHO. So SOHO is the game in maybe some more government business over time, but SOHO is really the game in Brussels, and that's where we're headed.

Generally, we have said and we will continue to support the thesis that B2B, overall, is one of our major growth pillars for the next cycle of growth in this business and we're doing everything we can to position it and support it and invest in it to ensure that it delivers on that front.

Nicolas Cote-Colisson: Thank you very much.

Operator: Thank you. Next question from James Ratzer from New Street Research. Sir, please go ahead.

James Edmund Ratzer (New Street Research): Yes, thank you very much indeed. Two questions, please. Firstly, just wondering if you can talk a little bit more about your plans for the set-top box upgrades that you've talked about rolling out this year? I mean, what would be the CapEx impact of that in this year's numbers? Is that something that will be fully completed this year? I'm just trying to kind of think about – I mean, the CapEx next year can potentially fall as that upgrade comes out of the numbers? And secondly, I'm interested in the kind of comments you made about ARPU, where ARPU was strong and you talk about that being driven by more video customers are driving to premium entertainment service. What can you say about the incremental margin, please, that you're getting from that ARPU compared to your current gross margins? Thank you.

John Porter: Okay. On the set-top box rollout, I can't be overly specific about it, but it is a multi-year project. We are targeting 150,000 set-top boxes. We already have 20,000 out there, but another 150,000 in 2019. And that's only 10% of our total base which will be swapped out in year one. So it's a multi-year project there. It's reasonable to assume with the exception of 5G that capital intensity – we don't see a lot of things impacting capital intensity over the next few years.

It's quite the contrary with a lot of things moving to the cloud and with us completing our IT – full IT stack upgrade by the middle of next year and having just modernised both our fixed and mobile network. We think there's more opportunity to the down – to see CapEx continue

to lighten over the next few years. But the set-top box situation is, A, we'll continue to do it. B, we don't see a lot of drivers to say to accelerate it, because ultimately – probably we don't need a proprietary video platform in the long run. It's going to be – I think it's going to be full IP within five years. So we're just going to be prudent as we roll it out over the next few years.

On the ARPU front, there's a lot of fixed costs in our premium offering. So – like for example, the output deals with the studios, the HBO output deal, the – what we pay the broadcasters for – as far as assets, these kind things. These are all fixed costs. So the marginal contribution on a €12 Play customer is pretty good because of the level of fixed cost. I'm not going to say exactly what it is. But it's above – it's well above our EBITDA margin, let's put it that way.

So it's accretive at EBITDA for us to continue to grow that customer base. There's a lot of other things that are moving ARPU to the upside. In both of our SOHO business and our consumer business, as people – as customers opt into fixed mobile bundles, the incremental ARPU per household goes – tends to go up, because it makes more sense for them to consolidate, particularly their mobile – their household mobile expenses under one account, because we give – we have sort of product offerings of up to €0.05 or up to €0.10 even.

So it's smart for both consumers and small businesses to move their mobile over. So that's also where we're seeing household ARPU increase. But in the – just in the fixed line ARPU, it's really a question of the – the customers that we're losing tend to be at a lower – marginally lower value customers. And the customers that we're gaining tend to be the marginally higher value customer. So that's another thing that's impacting the ultimate number.

James Edmund Ratzer: So it sounds like you are kind of sounding reasonably confident about the ARPU trends for the rest of this year at least?

John Porter: Yeah, the only thing that's negative – has been a downward pressure on ARPU has been loss of usage revenues here. Everything else is heading in the right direction. And as the intensity of usage revenue loss decreases, we get even more confident in the future of ARPU and also with the strong performance of our television product. I mean, you guys cover a lot of different countries and I know this is not the case. So a lot of countries are feeling the pinch on ARPU, but we're bucking the trend there.

James Ratzer: Great. Thanks very much.

Operator: Thank you. Next question from Stefaan Genoe from Degroof Petercam. Sir, please go ahead.

Stefaan Genoe (Degroof Petercam): Yes, thank you. Just first a follow-up question on the business service revenues, where I think press release indicates more – that they are more or less stable, excluding M&A. Could you indicate, despite your positive comments, what could be a trigger there for accelerated growth coming quarters? Second question on Orange, Belgium, in its previous conference call indicated that they're really targeting the Telenet and VOO customers to – for net new customer wins. They have also stopped subsidising the cable access to Proximus customers. Do you see an impact there? And the third question, of course, everybody believes with the elections coming up that the VOO file could be dead for

the next couple of months for this year. Do you feel this is the case, or do you still see things potentially moving in – on the VOO front? Thank you.

John Porter: On the business question, business is having – is going through a similar cycle as consumer business where there's a lot of usage headwinds in business as – with fixed termination rates and fixed international calling fees and elimination of roaming and all these things have been headwinds for our B2B business, probably even more intensively than for the consumer business.

But the underlying growth in the subscription element of the B2B business has been very strong. So we've increased our share. We're seeing really good net adds in Brussels. We're seeing – starting to see some very strong, integrated sales with NEXTEL for its monthly revenue rates at levels that we really need to see them and – but haven't seen them in the past.

So once the overhang of this rotation out of usage and into subscription starts to tail off, we expect to see acceleration in the business revenue. So everything that is about sustainable revenue profiles, even churn, which is at, I think, less than 6% in B2B annually is – everything is looking great. And once we get out of this sort of the usage trend, we'll be growing very nicely. Thank you very much.

Orange, once again we don't really talk about what our competitors are up to. We haven't seen any particular shift yet in where wholesale customers come from, and but we'll sort of stand by and wait and see. So, obviously it's nice if they come from Proximus and Scarlet, and we'll welcome those customers with open arms. But we’ll see how they continue to grow.

The VOO file is – we really basically are where we always are, which is to say that, we of course, are interested. We remain intrigued about opportunities to do more things together. And if there is an official process, we would be front and centre. I can't – I've given up speculating on what VOO is going to do and when and everything else. So like you say, the election is an inflection point and that's three to four weeks away, so we'll see what happens there.

Stefaan Genoe: Okay, thank you.

Operator: Thank you. Next question from Steve Malcolm from Redburn. Sir, please go ahead.

Steve Malcolm (Redburn): Yeah, good afternoon guys. I’ll go for three. I wanted to follow-up on some of the ARPU questions, if I could, specifically on the broadband piece of the ARPU. I also had a question on the Unit-T on civil engineering workforce outsourcing that you've done. And finally, just wanted to clarify on the cash tax comments that you've made? First of all, just on – looking at broadband specifically, the ARPU trend is – it seems to be getting better and better. And broadband, it looks like your sort of rate of revenue per broadband customer is increasing. It was up, I think, 7% year-on-year. In Q1, it was up 6%, in the previous quarter 4%, and the previous 1%. So it looks like it's sort of moving well beyond the pricing. Can you just help us understand, some of the moving parts in obviously this business? Is this a level that's sustainable? Can you keep growing at that rate? Is there a ceiling on where you think broadband pricing or ARPU can be, I mean, you're charging – you're getting €36, €37 a customer which by any standard is huge on a European context.

Just give us a sense of how that moves forward? Secondly, on the Unit-T civil engineering outsourcing, I think you moved about 300 employees into that unit. Can you just sort of let us know what the EBITDA benefit this year is of sort of losing those employees netted against the costs that you pay to those network services delivered by the new entity? And also, how you think about the 30% stake in that business going forward? And finally, on cash tax, just to sort of to avoid any confusion, I mean, the consensus, I think, for cash tax next year and year beyond is €120 million, €125 million, so reasonable to expect €150 million this year. Is that what you're saying it should be given the sort of fiscal optimization you've talked about, or is there a scope for it to go below that level? Thank you.

John Porter: Okay, on the ARPU front, I mean, this is something I could talk about for a long time because it goes right to the sort of structural integrity of the profitability of these kind of businesses going forward. I mean, the more that we can move our customers into subscription-based relationships where they have some stability and predictability and at the same time meet their requirements for more and more data and more and more better performance in the home and outside the home, the more sustainable our business model is. So what we're going through right now is, is like I said, it's a rotation out of customer builds that used to be a combination of subscription and transactional costs to the customer revenue to us, going much more to fixed. So what you're seeing is that, as customer demand for more data, and tolerance for blown data caps and things like that, the demand for more data increases and their tolerance for variable costs decreases. That some of the revenues that were in these transactional costs are moving into bigger, fatter, fixed bundles. And the fact of matter is that the NPS and customer satisfaction on these fixed bundles – even though these – we have €120 and €150 a month, the satisfaction with these is very high because consumers are in control of the data. They can move them from one SIM to another. They can be unlimited on their fixed.

And basically if they sign up for €150, it's going to be €150 every month, unless they go to Australia and start using a lot of data or something. So it's – some of it is – some of those increases are really coming out of that movement from the transactional, and a combination of that, but also a need for customers to move up the value chain.

We have now a much bigger mix of WIGOs and Whoppa customers than we had before. So it used to be – the 100-megabit product speed with – that had a data cap, was quite popular and quite able to serve the average consumer's needs and that's less and less the case. And they're moving into unlimited data, and under fair use policies and bigger, fatter bundles, and they're more satisfied with them. How long can it go on for? I don't know. I hope a while. But that's kind of the way it is. And then ultimately we have to decide – every cable company needs to decide how aggressively they want to be in the content business.

I mean, I think we are quite committed to it. We think it's an important part of – it's a tent pole part of our strategy. We think we do it better than our competitors, and that we'll always do it better than our competitors. And whereas some cable companies they're just saying, "What the hell, I'm going to sieve that all over to the OTT guys and maybe I'll put the ticket on the way through but fundamentally I'm just selling broadband to people." And if you go that route, ultimately you're in the commodity broadband business, which to me is not a great business to be in.

Steve Malcolm: I guess, specifically looking at the broadband trend this quarter, which seems to be – I get all – everything you're saying, it makes sense. But it seems like the pricing and the yield improvement in broadband is accelerating. And I was just curious as sort of what was specifically that's driving that sort of increase in the second differential if you like. It was up 5% to 6% in Q4. It was up 7% in Q1. I'm just – does that in particular with this reallocation? New products you're selling. I understand everything you're saying on the ARPU. But it just seems it's particularly picked up again this quarter.

John Porter: Do we have any ideas on that? I think the underlying trends I described, including probably, a more even accelerated version of that, just over last two quarters. I mean, you say we gained 30,000 WIGO customers in the quarter. So I don't know. We'll go check it out. We'll see if there's any other reason.

Steve Malcolm: Okay, thanks.

John Porter: On Unit-T, yeah, there are definitely cost benefits associated with going to that structure. We're moving fixed labour costs, and as you know, dozens of very expensive labour markets. We're moving those into a variable profile. And hopefully we're gaining some synergies and some scale, because the Unit-T organisation doesn't just work for us. They work – they do a lot of things, smart metering. They do smart home installations and these kind of things.

So we are gaining some scale there. It's going to improve every year that they're operating for us, because we'll get more and more scale. But right out of the bat, I think we're looking at somewhere around €7 million to €9 million in year one of savings. It's more?

Erik Van den Enden: No, little lower. It's little lower, yeah. No, I mean, as John says – I mean, over time the run rate will improve because it will get more scale. And so the overhead to the technician ratios is improving over the period. So within the guidance that we just gave for the three years, the benefits will increase before 2019. It is just going to be a couple of million, so a little lower than –

And then maybe the last one on the tax question. Maybe I don't understand it clear, but just to reiterate. So next year we will pay the taxes over income year 2018. Some of the planning that we do is kicking in as of income year 2018. So you're absolutely right that the tax bill will come down. I would say now stay tuned for what it will be next year. But I think broadly we'll probably be around €130 million, €135 million. So I think you're probably a little optimistic but that's where we see it.

Steve Malcolm: Perfect. Thank you.

Operator: Thank you. We don't have any more question. I give the floor back to Rob Goyens for the conclusion, sir.

Rob Goyens: Okay. Thanks, operator. Ladies and gentlemen, this concludes today's earnings call. Feel free to reach out to the Investor Relations team should you have any further follow ups or queries after this call. We hope to see you soon during one of our investor conferences and road shows. And as always, you can find the detailed schedule on our Investor Relations website. So thank you for joining. Have a nice day. Bye-bye.

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

[END OF TRANSCRIPT]