



euskaltel



The leading fiber and convergence operator in the North of Spain

16 November 2015

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# Transaction summary

## Key terms

- ✎ In October 2015, Euskaltel reached a definitive agreement to acquire 100% of R Cable, the largest cable operator in Galicia and the second largest regional operator in Spain, from CVC and Abanca
- ✎ Enterprise value of €1,190m
  - Purchase price represents a 10.8x FV/EBITDA 2014 pre-synergies, or below 8.5x adjusted for synergies
- ✎ 100% cash consideration, mitigating potential overhang

## Due diligence on the target

- ✎ Satisfactory completion of due diligence process
  - Confirmation of the estimated synergies announced in July following the due diligence process
- ✎ Better than expected operating performance:
  - Increased momentum in customer net additions
  - ARPU improvements resulting from recent price increases in line with market trends
  - Improved churn rate below 2014 levels

## Financing

- ✎ Total consideration to be financed with:
  - €35m of cash on balance sheet
  - €600m of additional bank debt under the existing Facilities Agreement (signed)
  - €300m new institutional debt, underwritten by 4 banks (closed)
  - €255m capital increase fully underwritten by Citi and UBS; €80m commitment from Abanca
- ✎ Envisaged financing structure will diversify Euskaltel's funding sources and contribute to elevating the company's profile within the financial community and, more specifically, investors in the European cable sector
- ✎ Starting leverage approximately at 5.0x and expected to decrease to 3.0-4.0x in the next 18 months, in line with Euskaltel's financial policy and prudent approach towards leverage
- ✎ Shareholder distributions targeted from 2017 onwards, in line with the stated distribution policy at IPO

## Key dates before closing

- ✎ Recommended transaction approved by Euskaltel's Board of Directors
- ✎ Transaction approved by Euskaltel Shareholders Meeting, held on November 12<sup>th</sup>
- ✎ Transaction approved by Spanish antitrust authorities on November 13<sup>th</sup>
- ✎ Capital increase expected to be executed before year end



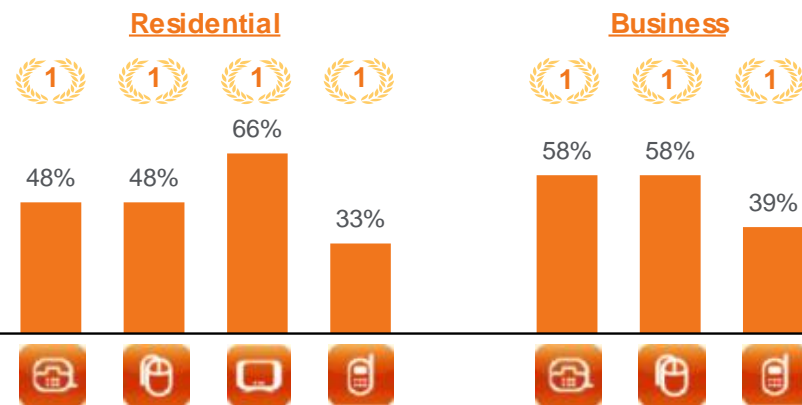
# R Cable: the leading fiber and convergence operator in Galicia



## Key metrics (2014)

Homes Passed ('000s):	748
Residential Subscribers <sup>(1)</sup> ('000s):	251
RGU/Sub <sup>(1)</sup> (x):	3.4x
Revenue (€m):	244
Adj. EBITDA <sup>(2)</sup> (€m):	110
Adj. EBITDA Margin (%):	45%
OpFCF conversion <sup>(3)</sup> (%):	53%

## Leading market position in footprint

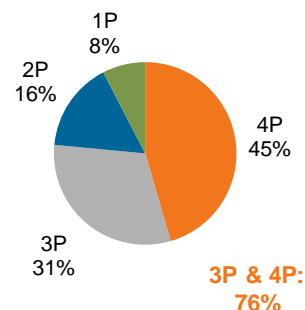


## R Cable at a glance

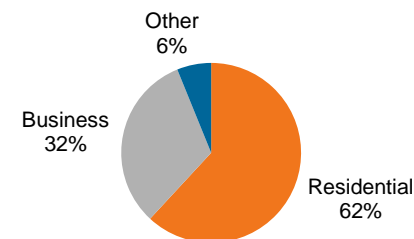
- Sole local cable operator** in Galicia
  - Population: 2.8m
  - GDP/Capita (€'000s): 20.0 (23.8 in R Cable's footprint)
  - Unemployment: 20.9%
- Fully-invested fiber network covering c.65% population** and 51% of households
- Fixed **penetration: 26.4%** (Sep-15)
  - Scattered population providing R's network a natural protection
- Local brand well regarded** in the region
- Highest mobile penetration (76% of fixed customers)** as of Sep-15) in R's footprint (full MVNO) and 4G
  - Targeted mobile penetration already achieved

## Fully convergent offer with significant presence in B2B

Sep-15 residential subs by bundle (%)



2014 revenue Breakdown



Source: INE (Spanish statistical office), market shares based on company estimates based on CNMC data, R Cable Management Accounts prepared under Spanish GAAP (1) RGU/subs calculated excluding mobile-only customers and based on fixed direct clients in order to make it comparable to Euskaltel's reporting. These figures differ from those released on October 6<sup>th</sup>, 2015 (2.8x, 2.9x and 3.0x for 2012, 2013 and 2014 respectively); (2) Adjusted for non-cash accruals and SAC capitalisation; (3) Defined as (EBITDA - Capex) / EBITDA

# R Cable: key operational metrics and milestones

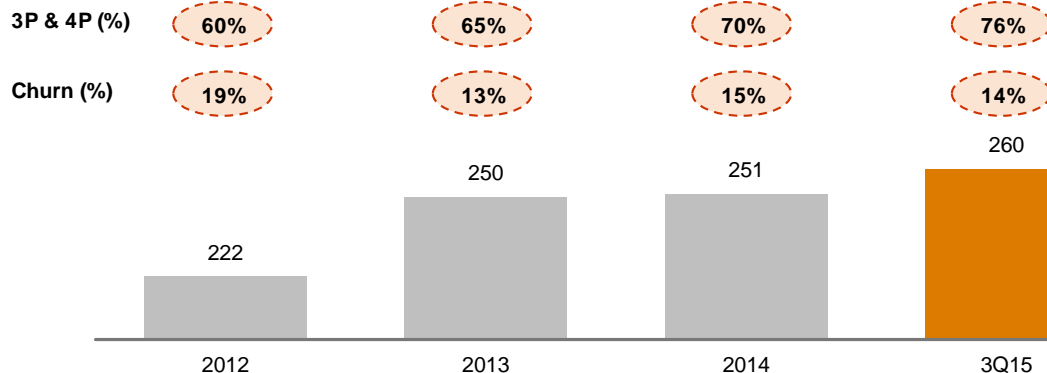
## Key milestones

- 1998 📌 Foundation
- 2000 📌 First Datacenter and Cloud services launched
- 2007 📌 Upgraded all analog TV services to digital
- 2008 📌 Launched mobile offering as Full MVNO (4Play)
- 2012 📌 Catch-up TV and HD
- 2013 📌 >50% of Residential clients with mobile R service
- 2014 📌 200 Mbps available in all R network
- 2015 📌 Launch of Free Wi-Fi areas

**Leading convergent operator, #1 across all segments**

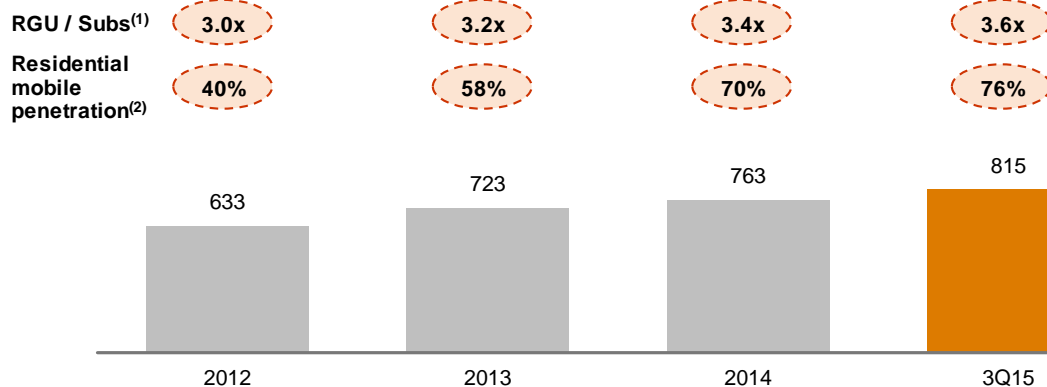
## Steady subscriber increase on the back of successful convergent proposition

### Residential subs ('000)



## Mobile strategy as the key driver for product penetration increase

### Residential RGUs ('000)



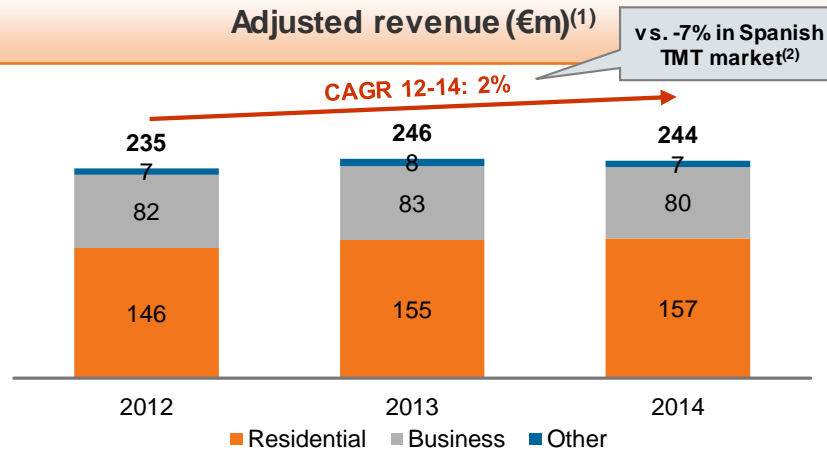
Source: R Cable Management accounts prepared under Spanish GAAP

(1) RGU/subs calculated excluding mobile-only customers and based on fixed direct clients in order to make it comparable to Euskaltel's reporting. These figures differ from those released on October 6th, 2015 (2.8x, 2.9x and 3.0x for 2012, 2013 and 2014 respectively)

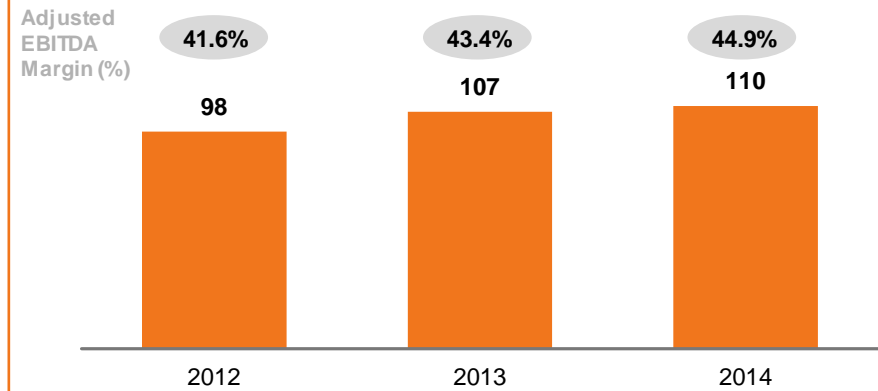
(2) Measured as residential fixed subscriber with mobile (excluding mobile only) over total fixed subscribers.

# R Cable: resilient performance with proven ability to outperform the market

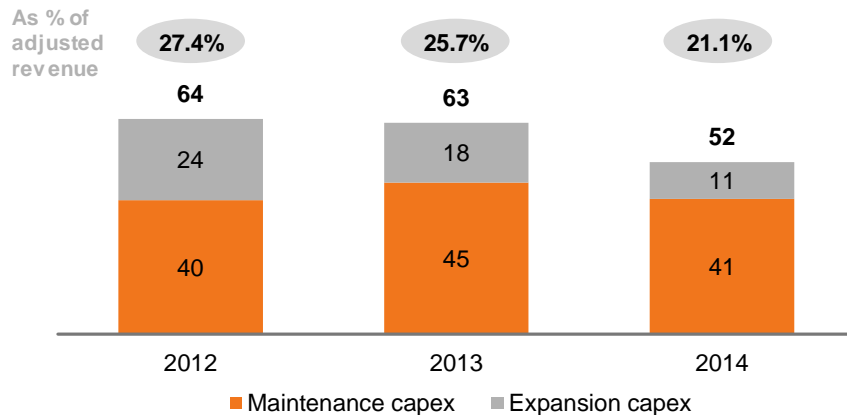
## Adjusted revenue (€m)<sup>(1)</sup>



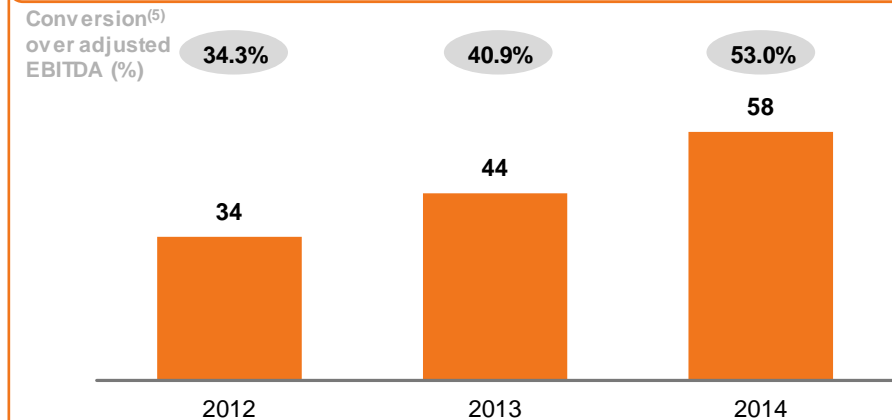
## Adjusted EBITDA<sup>(3)</sup> (€m)



## Adjusted capex<sup>(4)</sup> (€m)



## OpFCF (€m)



(1) Excluding handset accruals effect (+€9.1m in 2012, -€5.4m in 2013 and -€10.0m in 2014)

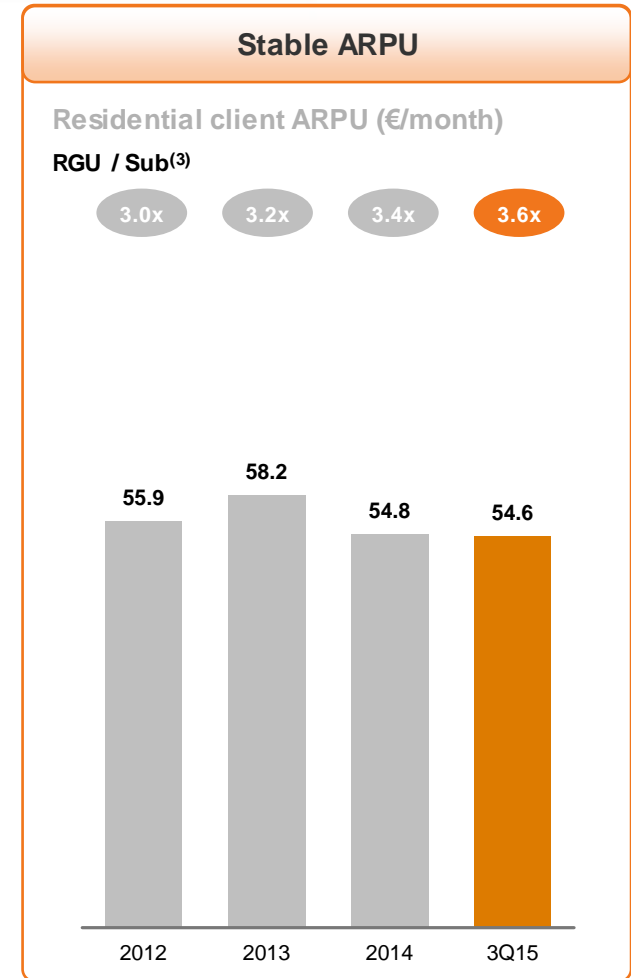
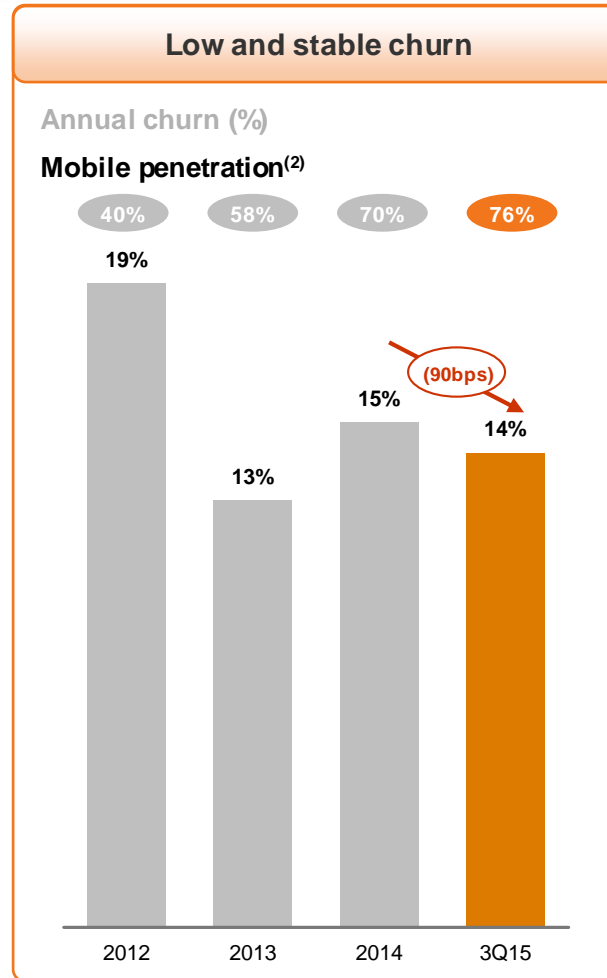
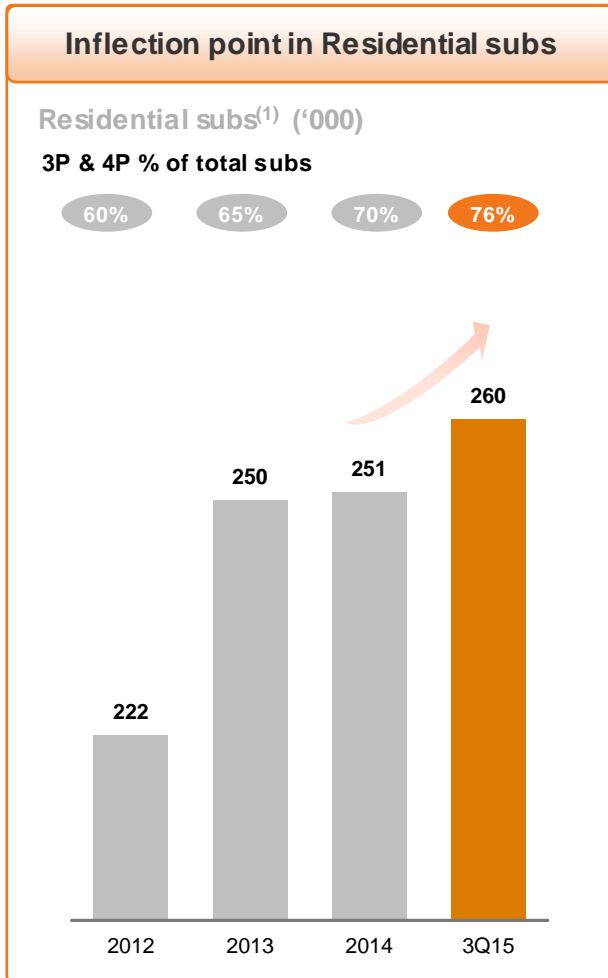
(2) CNMC data, market in which Euskaltel operates. Based on total sector revenue including retail and wholesale revenue

(3) Unaudited figures. Adjusted for SAC activation (+€8.0m in 2012, +€9.6m in 2013 and +€7.9m in 2014), handset accruals (-€9.1m in 2012, +€5.4m in 2013 and +€10.0m in 2014) and one-off items (-€3.5m in 2012, +€0.4m in 2013 and -€0.1m in 2014)

(4) Unaudited figures. Includes SAC activation related capex (+€8.0m in 2012, +€9.6m in 2013 and +€7.9m in 2014)

(5) Measured as (adjusted EBITDA - adjusted Capex) / adjusted EBITDA.

# R Cable trading update – Residential: Continuous growth momentum in 3Q15



As of the date of this presentation, R Cable trading data is in line with our expectations of its performance for the year

Source: R Cable Management accounts prepared under Spanish GAAP. Figures reflect adjustments to convert R Cable financials to IFRS

Notes:

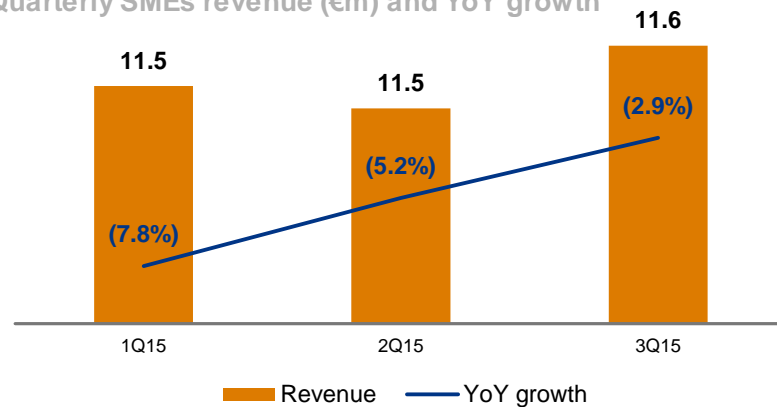
(1) Includes mobile-only subscribers

(2) Residential fixed customers with mobile (excl. mobile-only) as percentage of total residential fixed subscriber

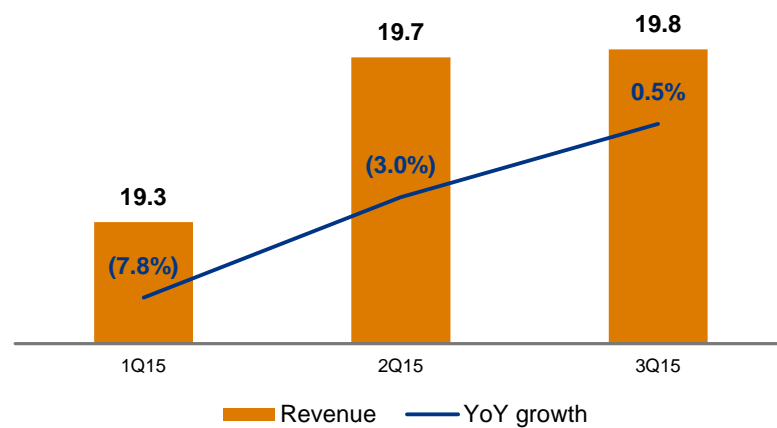
(3) RGU/subs calculated excluding mobile-only customers and based on fixed direct clients in order to make it comparable to Euskaltel reporting. These figures differ from those released on October 6th, 2015 (2.8x, 2.9x and 3.0x for 2012, 2013 and 2014 respectively)

## Accelerating growth momentum in SMEs and recovery in Business segment

Quarterly SMEs revenue (€m) and YoY growth



Quarterly Business revenue (€m) and YoY growth



*As of the date of this presentation, R Cable trading data is in line with our expectations of its performance for the year*

Source: R Cable Management accounts prepared under Spanish GAAP. Figures reflect adjustments to convert R Cable financials to IFRS



# The integration of R Cable is a strategic milestone for Euskaltel...

1

**Complementary fit to increase scale and operating leverage**

- 👉 The transaction **reinforces Euskaltel as the consolidator** of the regional cable in the North of Spain
- 👉 **Increased size and scale to** enhance Euskaltel's and R Cable 's purchase and negotiating power and competitiveness

2

**Customer focused, quality-driven offer on the back of state-of-the-art network and strong local brands**

- 👉 Creation of the **leading regional cable operator in the north of Spain**, with an addressable market of c.5 million people
- 👉 **Fully convergent offer**, increasing customer loyalty with future cross-selling / up-selling opportunities
- 👉 **Broad network coverage** in both regions
- 👉 **Consolidated distribution** channels and **customer service**
- 👉 **Well established local brands**
- 👉 Proven track record and capabilities in the **business segment** in the Basque Country and Galicia

3

**Best positioned to benefit from improving macro trends**

- 👉 **Spanish real GDP growth** to exceed the EU in the near term, with a strong push from **increasing private consumption**
- 👉 Euskaltel and R Cable operate in **attractive regions with higher GDP per capita and lower unemployment** levels compared to the Spanish average
- 👉 **Spanish telecommunications market** is expected to grow in 2015 in terms of total revenues after various years of continuous declines, showing early **signs of price repair**

Source: IMF, INE

4

**Value creation for Euskaltel shareholders through best practices and synergies**

Business processes re-engineering

Sharing of systems and technologies

Optimisation of contractual relationships with suppliers

Increased scale and negotiation capacity

Unified investment strategies

Implementation of efficiencies and sharing of best practices

👉 The integration of both players may lead to the realisation of **significant synergies** based on Euskaltel's preliminary analysis:

- **Direct costs:** mobile host costs, interconnection costs, TV content, purchasing, fixed network operations
- **Commercial & structure costs:** SAC, sales channel mix, IT and other administrative costs
- **Capex:** installation and home equipment, network deployment, 4G roll-out, sales channel mix, new services

👉 Transaction unlocks significant **value for Euskaltel's shareholders**

👉 **NPV** of estimated opex and capex synergies amounts to **c.€300m**

👉 Estimated **EqFCF accretive** deal from first year of operation

5

**Balance sheet optimization through efficient financing structure**








👉 **Efficient financing structure** post acquisition at an attractive cost with no debt maturities in the next 18 months

👉 Business expected to **delever to 3.0-4.0x within the next 18 months**, with shareholder distributions targeted from 2017 onwards, **in line with the stated distribution policy at IPO**

👉 Institutional debt increases Euskaltel's **flexibility and funding sources**

👉 Creation of **distributable reserves** at Euskaltel level

# 1 Complementary fit to increase scale and operating leverage

			 + 
Addressable market ( <i>inhabitants</i> )	2.2m	2.8m	5.0m
Market position <sup>(1)</sup>	 <b>1</b> fixed service operator	 <b>1</b> in footprint	 <b>1</b> in footprint
Residential RGUs ('000)s	982	815	1,797
RGUs / subscriber <sup>(2)</sup>	3.3x	3.6x	3.4x
3P/4P Penetration	63%	76%	69%
ARPU (€/month)	55.8	54.6	55.3
Churn	14%	14%	14%
Fixed penetration <sup>(3)</sup>	32%	26%	29%
Residential mobile penetration <sup>(4)</sup>	63%	76%	68%

**Complementary fit with no market overlap and benefiting from increased size and scale**

Note: Data as of September 2015









(1) Source: Company estimates based on CNMC data

(2) RGU/subs calculated excluding mobile-only customers and based on fixed direct clients in order to make it comparable to Euskaltel's reporting

(3) Measured as residential fixed subscribers over homes passed

(4) Measured as residential fixed subscriber with mobile (excluding mobile only) over total fixed subscribers.

## 2 Customer focused, quality-driven offering on the back of state-of-the-art network...

								
Coverage (%HH)	85%	51%	35%	39%	61%	36% <sup>(1)</sup>	81%	47%
% of EuroDOCSIS 3.0	100%	100% <sup>(2)</sup>	58%	92%	100%	51% <sup>(3)</sup>	100% <sup>(4)</sup>	100%
Access capacity (MHz)	862	862	862	862	600 <sup>(5)</sup>	862	750	862
Households per node (avg.)	c.500	c.280	n.a.	c.580	c.580	n.a.	n.a.	c.500
Fully-owned backbone network	✓	✗ <sup>(6)</sup>	✗	✗	✗	✗	✗	✗
4G license	✓	✓	✓ via SFR	✗	✗ <sup>(7)</sup>	✗	✓ via Optimus	✓ via Vodafone
Fixed assets / cable subscribers <sup>(8)</sup> (€k)	2.3	2.3	1.3	0.4	0.8	0.2	1.1	2.2
Fixed assets / home provisionable <sup>(8)</sup> (€k)	0.9	0.8	0.1	0.4	0.2	0.4	0.5	0.1

**Future-proof network supports success-based capex and 14-15% capex over revenues going forward**

Source: Company filings.

(1) In Core regions (as defined by Telecolumbus).

(2) DOCSIS 3.0.

(3) 94% of households connected fully upgraded for two-way connectivity of which 54% upgraded to DOCSIS 3.0.

(4) EuroDOCSIS NGN.

(5) In August 2014, announced upgrade to 1 GHz in Flanders by 2019.

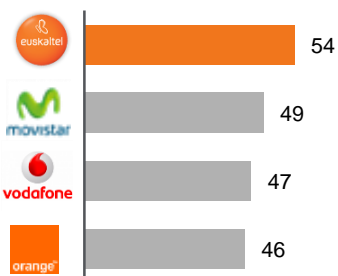
(6) Part of the backbone is rented under irrevocable use rights of use until 2025 with an annual cost of €2.9m, of which €2.4m relate to optic fiber.

(7) Excluding BASE as transaction not completed yet.

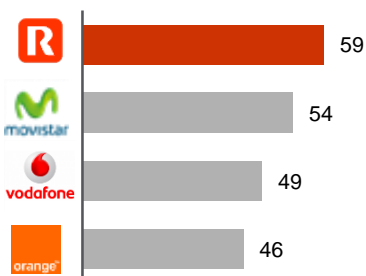
(8) Fixed assets includes Property, Plant and Equipment and Intangible assets; excluding goodwill. Residential and SoHos fixed services subscribers.

Brands attractiveness in respective footprint

Basque Country

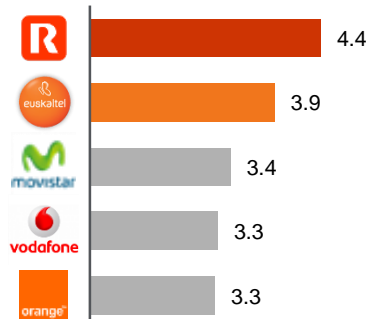


Galicia

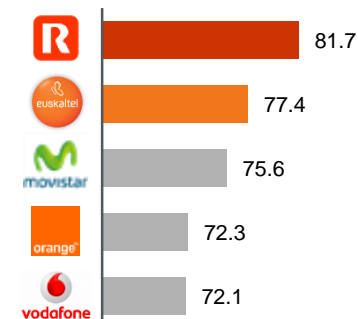


Best customer care and service quality

Customer Care Valuation<sup>(1)</sup>

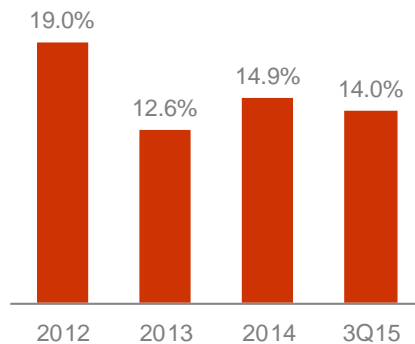
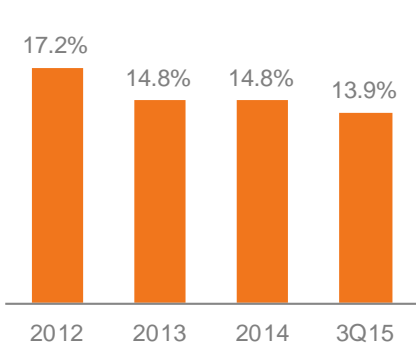


Quality of BB Service



Increasing customer loyalty

Churn (%)



Brand deeply rooted with emotionally attached customers

Proximity to Client

Value for Money

Commitment

Identification

Cultural fit

Innovative

Source: Company information, GFK "Brand Potential Index" (January 2015), Spanish Internet Association.  
 (1) Measured as % of population covered, household coverage of 51%.



### 3 Best positioned to benefit from macro tailwinds and significant penetration upside

Wealthy, fast growing regions with GDP per capita above Spanish average and lower unemployment

Spanish GDP sustained growth expected on the back of increasing private consumption

Rebounding dynamics of the Spanish telecommunication market, with convergence and market consolidation driving market repair

Broadband and Pay TV penetration<sup>1</sup> significantly below European average

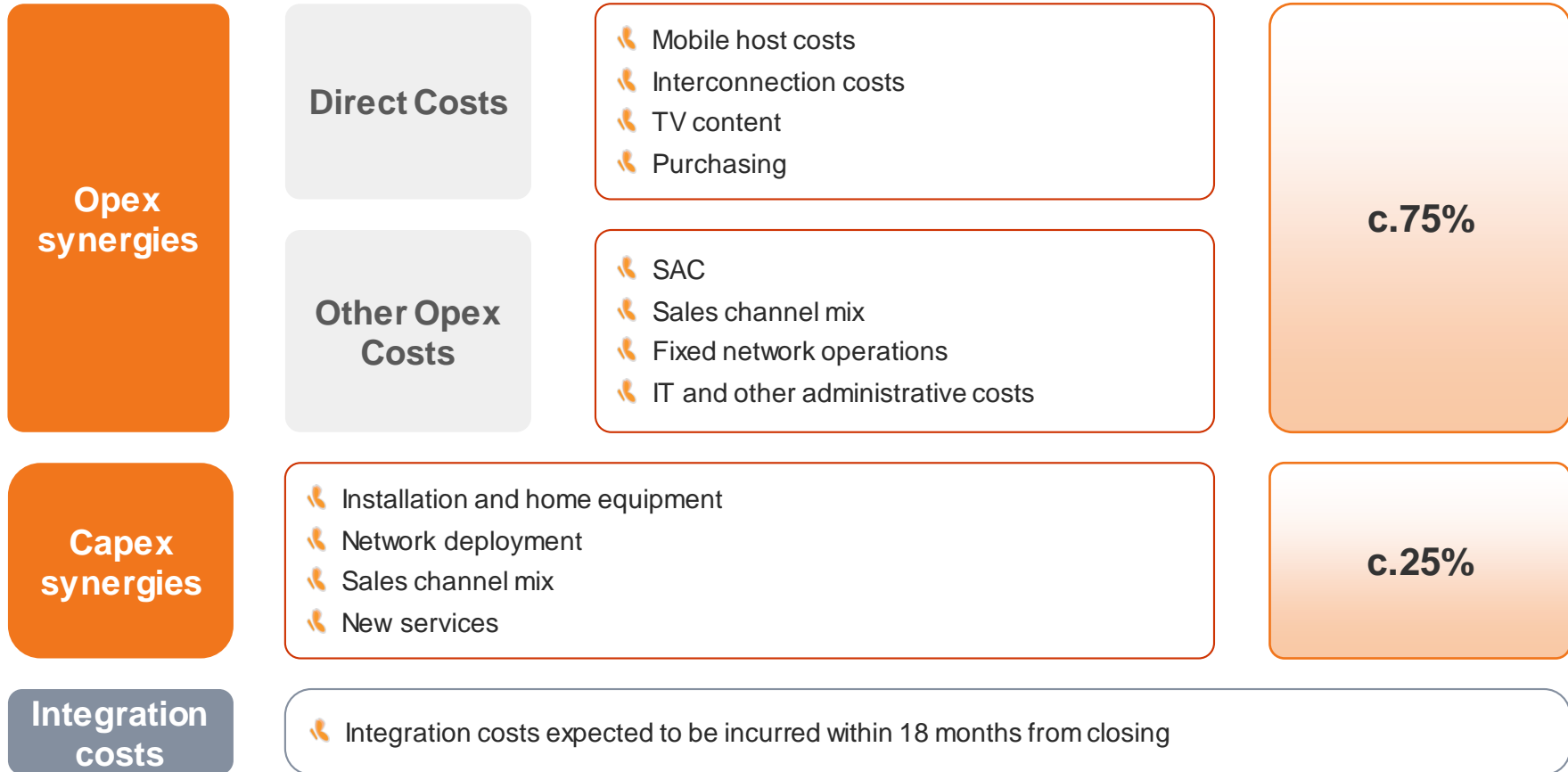
**Significant room for further market development on the back of economic recovery to reach penetration levels in line with other mature European cable markets**

Source: IMF, INE

Note:

(1) In its respective regions

**NPV of estimated opex and capex synergies amounts to c.€300m**



**Acquisition price represents FV/EBITDA 2014 below 8.5x adjusted for synergies**

Source: Euskaltel estimates.

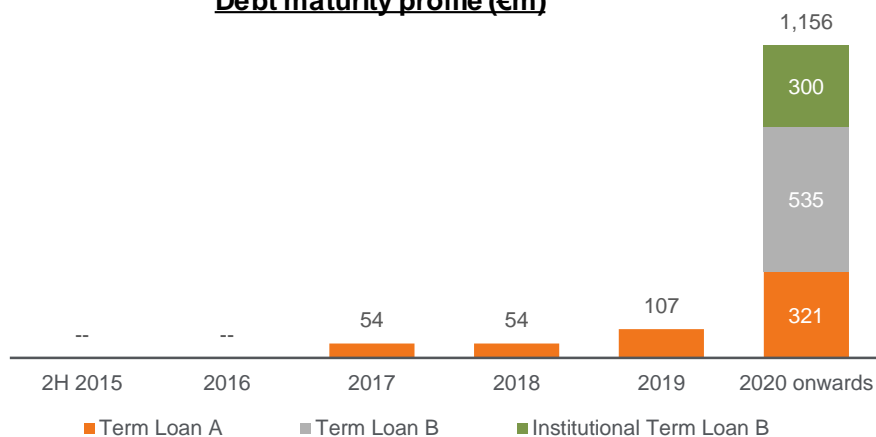
## 5 Balance sheet optimization through efficient financing structure

### Proforma capital structure

- 🔊 **Pro forma debt structure** post-acquisition amounts to €1,370m:
  - 🔊 Existing Term Loan A increased up to €535m (signed)
  - 🔊 Existing Term Loan B increased up to €535m (signed)
  - 🔊 €300m of new institutional Term Loan B (closed)
- 🔊 **Strong liquidity** with available RCF (€60m)

Starting leverage approximately at 5.0x and expected to decrease to 3.0-4.0x in the next 18 months

#### Debt maturity profile (€m)



### Prudent and clear financial policy

- 🔊 **Continue management focus on cash generation**, shifting priority towards balance sheet deleveraging
- 🔊 Approach to leverage as per IPO guidance
  - 🔊 Targeted leverage of **3.0x-4.0x ND/EBITDA**
  - 🔊 **Focus on debt repayment** post acquisition of R Cable
- 🔊 Maintain strong financial **flexibility** through **targeted capex**
  - 🔊 Euskaltel and R Cable have a **fully invested and upgraded network**
  - 🔊 **Success based** future capex to support **strong cash flow generation**
- 🔊 Maintain **strong liquidity** with RCF
- 🔊 **Excess cash** once leverage brought back to 3.0-4.0x to be **returned to shareholders**
  - 🔊 **Shareholder distributions within the target range from 2017 onwards** in line with the stated distribution policy at IPO

# Indicative transaction timeline

	Milestones	Dates	Status
1	Due-Diligence process	3Q 15	✓
2	Preparation of combined BP	3Q 15	✓
3	Preparation, negotiation and execution of all legal documentation	3Q 15	✓
4	Institutional financing completion	11 November	✓
5	Shareholders meeting	12 November	✓
6	Spanish antitrust clearance	13 November	✓
7	Capital increase	Expected before year end	
8	Expected closing	Expected before year end	

# The transaction reinforces our strategy announced to the market

	Bundle	Mobility	New Customers	Efficiency
Strategy	<ul style="list-style-type: none"> <li>Drive bundling to grow ARPU and reduce churn</li> </ul>	<ul style="list-style-type: none"> <li>High-speed access everywhere</li> </ul>	<ul style="list-style-type: none"> <li>Capture latent demand for fiber in underserved areas</li> </ul>	<ul style="list-style-type: none"> <li>Deliver synergies according to plan</li> <li>Continue to improve best-in-class margins</li> </ul>
Action plan	<ul style="list-style-type: none"> <li>Cross- and up-selling</li> <li>New services</li> <li>Tactical price increases</li> </ul>	<ul style="list-style-type: none"> <li>Launch 4G</li> <li>WiFi network roll-out</li> </ul>	<ul style="list-style-type: none"> <li>Go after DSL users with targeted offers</li> <li>+51k new provisionable homes<sup>(1)</sup> in the Basque Country</li> <li>Increase penetration in R network to +30% from current 26%</li> </ul>	<ul style="list-style-type: none"> <li>Own 4G network in Basque Country and Galicia</li> <li>Optimisation of mobility cost</li> <li>Strategic partnerships</li> <li>"Online First"</li> </ul>
Combined medium-term targets (Residential)	<ul style="list-style-type: none"> <li>&gt;€60 ARPU</li> <li>~75% 3P/4P penetration</li> </ul>	<ul style="list-style-type: none"> <li>~75% mobile penetration</li> <li>Continued churn reduction (&lt;13%)</li> </ul>	<ul style="list-style-type: none"> <li>30-35% penetration rate</li> <li>Market share gain in all products</li> </ul>	<ul style="list-style-type: none"> <li>Increase Adjusted EBITDA margin above 50%</li> <li>14-15% capex/sales</li> </ul>

(1) 46k homes already passed + 5k new homes that will be passed (in a period of 4 years). Deployment already started in 1Q15. More than 90% on existing nodes.



# The regional fiber and convergence Champion

1

Leading fiber and convergence operator in the Basque Country and Galicia

2

Supportive macro dynamics in relevant regions and rebounding telecom dynamics

3

Attractive brands with loyal and emotionally attached customer base

4

State-of-the-art fully-invested fiber networks, providing services with high entry barriers

5

Growth momentum underway with further upside from pricing, up-selling, cross-selling and further increasing penetration

6

Balance sheet optimization through efficient financing structure with improved access to debt and equity capital markets increasing financial flexibility

7

High cash flow conversion to support attractive shareholder remuneration in the mid term



# Appendix





# Proforma financials – Balance Sheet

## Proforma Balance sheet

The below unaudited consolidated balance sheet illustrates, on a pro forma basis, the impact of the acquisition of R Cable on Euskaltel's balance sheet as of December 31, 2014 had the transaction been completed on that day:

(Thousands of euros)	Euskaltel IFRS-EU 31.12.14	R Cable IFRS-EU 31.12.2014	Adjustments	Consolidated Pro forma 31.12.14
<b>ASSETS</b>				
<b>NON-CURRENT ASSETS</b>	<b>921,542</b>	<b>500,583</b>	<b>790,597</b>	<b>2,212,722</b>
Intangible assets and PPE	766,289	482,804	790,597	2,039,690
Financial assets	6,332	3,506	-	9,838
Other non-current assets	148,921	14,273	-	163,194
<b>CURRENT ASSETS</b>	<b>56,785</b>	<b>80,668</b>	<b>(46,540)</b>	<b>90,913</b>
Inventories	2,313	2,034	-	4,347
Trade receivables	39,329	25,801	-	65,130
Other current assets	4,493	2,116	1,260	7,869
Cash and cash equivalents	10,650	50,717	(47,800)	13,567
<b>TOTAL ASSETS</b>	<b>978,327</b>	<b>581,251</b>	<b>744,057</b>	<b>2,303,635</b>
<b>EQUITY AND LIABILITIES</b>				
<b>EQUITY</b>	<b>647,490</b>	<b>99,576</b>	<b>152,357</b>	<b>899,423</b>
Capital, share premium and retained earnings	652,037	99,403	152,357	903,797
Other	(4,547)	-	-	(4,547)
Non-controlling interests	-	173	-	173
<b>NON-CURRENT LIABILITIES</b>	<b>212,949</b>	<b>410,763</b>	<b>591,700</b>	<b>1,215,412</b>
Long-term borrowings and other	194,554	342,601	591,700	1,128,855
Other non-current liabilities	18,395	10,844	-	29,239
Deferred income and tax liabilities	-	57,318	-	57,318
<b>CURRENT LIABILITIES</b>	<b>117,888</b>	<b>70,912</b>	<b>-</b>	<b>188,800</b>
Short-term borrowings	49,206	876	-	50,082
Trade and other payables	58,749	65,359	-	124,108
Other current liabilities	9,933	4,677	-	14,610
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>978,327</b>	<b>581,251</b>	<b>744,057</b>	<b>2,303,635</b>

Includes the elimination of the equity investment (net effect of acquired assets and liabilities)

Net effect from proceeds received from : (i) capital increase (net of expenses), (ii) new funding (net of expenses), and (iii) payment for the acquisition of R Cable

Includes mainly net effect of: (i) share capital and share premium from the capital increase, and (ii) elimination of R Cable equity

New funding net of expenses

## Proforma Profit & Loss

The below unaudited consolidated income statement illustrates, on a pro forma basis, the impact of the acquisition of R Cable on Euskaltel's income statement as of December 31, 2014 had the transaction been completed on 1 January 2014:

(Thousands of euros)	Euskaltel IFRS-EU 31.12.14	R Cable IFRS-EU 31.12.2014	Adjustments	Consolidated Pro forma 31.12.14
<b>Revenues</b>	<b>315,109</b>	<b>237,553</b>	-	<b>552,662</b>
Other income	331	4,561	-	4,892
Work performed by the entity and capitalized	5,721	6,174	-	11,895
Supplies	(71,524)	(71,333)	-	(142,857)
Personnel expenses	(30,318)	(14,032)	-	(44,350)
Other operating expenses	(64,612)	(57,343)	-	(121,955)
Depreciation, amortisation and impairment	(81,508)	(51,984)	-	(133,492)
<b>RESULTS FROM OPERATING ACTIVITIES</b>	<b>73,199</b>	<b>53,596</b>		<b>126,795</b>
Finance income	179	643	-	822
Finance costs	(23,443)	(26,132)	(22,900)	(72,475)
<b>NET FINANCE COST</b>	<b>(23,264)</b>	<b>(25,489)</b>	<b>(22,900)</b>	<b>(71,653)</b>
<b>PROFIT BEFORE INCOME TAX</b>	<b>49,935</b>	<b>28,107</b>	<b>(22,900)</b>	<b>55,142</b>
Income tax	(13,152)	(4,058)	6,412	(10,798)
<b>PROFIT FOR THE YEAR</b>	<b>36,783</b>	<b>24,049</b>	<b>(16,488)</b>	<b>44,344</b>
<b>Attributable to:</b>				
The parent	36,783	24,014	(16,488)	44,309
Non-controlling interest	-	35	-	35

Additional financial costs arising from the new incremental funding

Tax deductibility from additional financial costs

## Link to R Cable's audited financial statements

For additional information on R Cable's 2012, 2013 and 2014 audited financial statements prepared under Spanish GAAP, see the following link:

<http://cuentasanuales.mundo-r.com/>