



# NATIONAL EXPANSION ACCELERATES VALUE CREATION

## 2020 - 2025 Business Plan

March 10<sup>th</sup>, 2020



## DISCLAIMER

This presentation (the "Presentation") has been prepared and is issued by, and is the sole responsibility of Euskaltel, S.A. ("Euskaltel" or "the Company"). For the purposes hereof, the Presentation shall mean and include the slides that follow, any prospective oral presentations of such slides by the Company, as well as any question-and-answer session that may follow that oral presentation and any materials distributed at, or in connection with, any of the above.

The information contained in the Presentation has not been independently verified and some of the information is in summary form. No representation or warranty, express or implied, is made by the Euskaltel Group (including Euskaltel, S.A. and R Cable y Telecable Telecomunicaciones, S.A.U., nor by their directors, officers, employees, representatives or agents as to, and no reliance should be placed on, the fairness, accuracy, completeness or correctness of the information or opinions expressed herein. None of Euskaltel Group, nor their respective directors, officers, employees, representatives or agents shall have any liability whatsoever (in negligence or otherwise) for any direct or consequential loss, damages, costs or prejudices whatsoever arising from the use of the Presentation or its contents or otherwise arising in connection with the Presentation, save with respect to any liability for fraud, and expressly disclaim any and all liability whether direct or indirect, express or implied, contractual, tortious, statutory or otherwise, in connection with the accuracy or completeness of the information or for any of the opinions contained herein or for any errors, omissions or misstatements contained in the Presentation.

Euskaltel cautions that this Presentation contains forward looking statements with respect to the business, financial condition, results of operations, strategy, plans and objectives of the Euskaltel Group. The words "believe", "expect", "anticipate", "intend", "estimate", "forecast", "project", "will", "may", "should" and similar expressions identify forward-looking statements. Other forward-looking statements can be identified from the context in which they are made. While these forward-looking statements represent our judgment and future expectations concerning the development of our business, a certain number of risks, uncertainties and other important factors, including those published in our past and future filings and reports, including those with the Spanish Securities and Exchange Commission ("CNMV") and available to the public both in Euskaltel's website ([www.euskaltel.com](http://www.euskaltel.com)) and in the CNMV's website ([www.cnmv.es](http://www.cnmv.es)), as well as other risk factors currently unknown or not foreseeable, which may be beyond Euskaltel's control, could adversely affect our business and financial performance and cause actual developments and results to differ materially from those implied in the forward-looking statements. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements due to the inherent uncertainty therein.

The information contained in the Presentation, including but not limited to forward-looking statements, is provided as of the date hereof and is not intended to give any assurances as to future results. No person is under any obligation to update, complete, revise or keep current the information contained in the Presentation, whether as a result of new information, future events or results or otherwise. The information contained in the Presentation may be subject to change without notice and must not be relied upon for any purpose.

Market and competitive position data in the Presentation have generally been obtained from industry publications and surveys or studies conducted by third-party sources. There are limitations with respect to the availability, accuracy, completeness and comparability of such data. Euskaltel has not independently verified such data and can provide no assurance of its accuracy or completeness. Certain statements in the Presentation regarding the market and competitive position data are based on the internal analyses of Euskaltel, which involve certain assumptions and estimates. These internal analyses have not been verified by any independent source and there can be no assurance that the assumptions or estimates are accurate. Accordingly, no undue reliance should be placed on any of the industry, market or Euskaltel's competitive position data contained in the Presentation.

You may wish to seek independent and professional advice and conduct your own independent investigation and analysis of the information contained in this Presentation and of the business, operations, financial condition, prospects, status and affairs of the Euskaltel Group. Euskaltel is not nor can it be held responsible for the use, valuations, opinions, expectations or decisions which might be adopted by third parties following the publication of this Presentation.

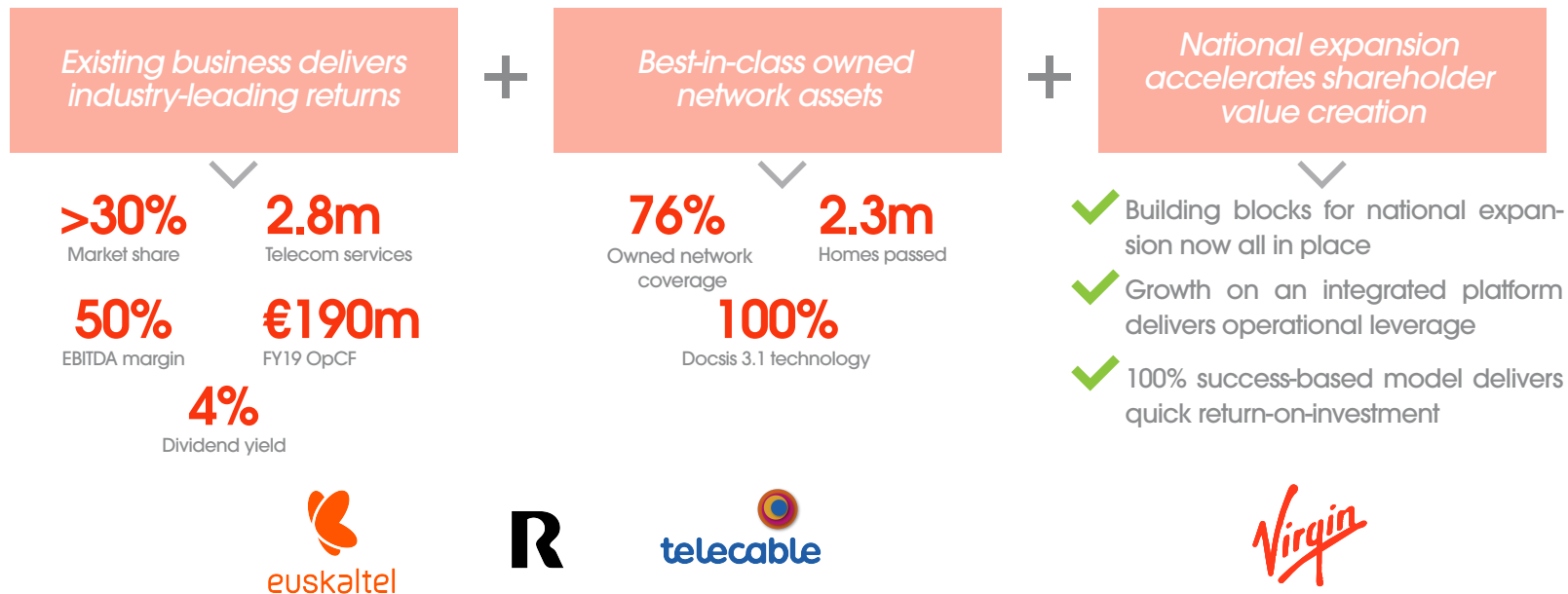
No one should purchase or subscribe for any securities in the Company on the basis of this Presentation. This Presentation does not constitute or form part of, and should not be construed as, (i) an offer, solicitation or invitation to subscribe for, sell or issue, underwrite or otherwise acquire any securities, nor shall it, or the fact of its communication, form the basis of, or be relied upon in connection with, or act as any inducement to enter into any contract or commitment whatsoever with respect to any securities; or (ii) any form of financial opinion, recommendation or investment advice with respect to any securities.

The distribution of this Presentation in certain jurisdictions may be restricted by law. Recipients of this Presentation should inform themselves about and observe such restrictions. Euskaltel disclaims any liability for the distribution of this Presentation by any of its recipients.

By receiving or accessing to this Presentation you accept and agree to be bound by the foregoing terms, conditions and restrictions.



# Euskaltel's solid existing business, network assets and profitable national expansion drive shareholder value creation



**✓ EXISTING BUSINESS**

**NATIONAL EXPANSION**

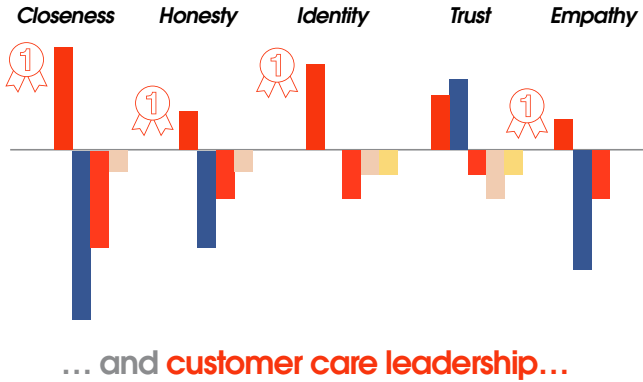
**FINANCIAL PROJECTIONS**





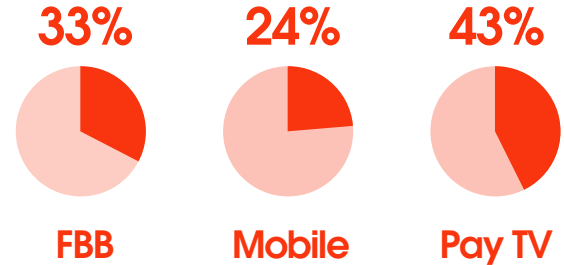
# Euskaltel's brand and service leadership drives market success

Brand attributes market leadership...



... drive market success

Market share<sup>(1)</sup> %



Source: Company estimates based on CNMC data.

(1): Estimated market share in the Basque Country, Galicia and Asturias in Q3 2019

Source: GfK Q4 2019 brand study (for existing regions only)



# Euskaltel's solid B2B business provides advanced services to leading customers



>15k  
Customers

€110m

FY19 B2B revenue <sup>(2)</sup>

>20  
years  
Experience



Digital Services



Hybrid Cloud



Cybersecurity



Advanced  
Telecom Services

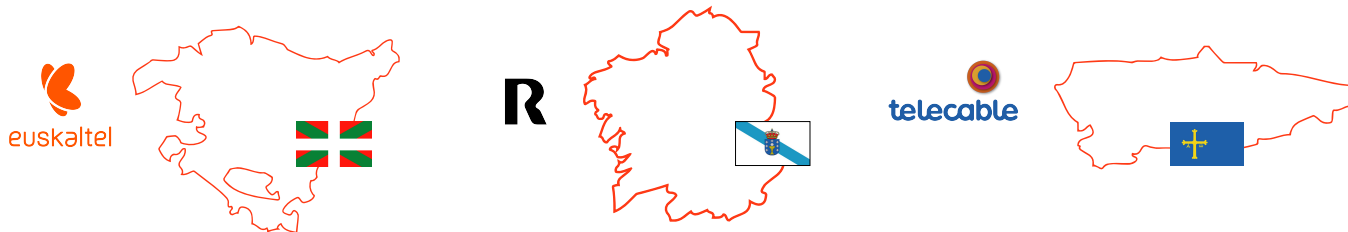


The B2B business continued to experience **customer and revenue growth in 2019**

(1): Existing regions only (2): B2B revenue grew c.3% in Q4 2019 vs Q4 2018



# Euskaltel's best-in-class owned network is a valuable asset



**Owned network coverage**  
(% of households)

**81%**

**71%**

**77%**

**Customers connected**  
(thousands)

**320k**

**215k**

**115k**



**2.3m**

owned households

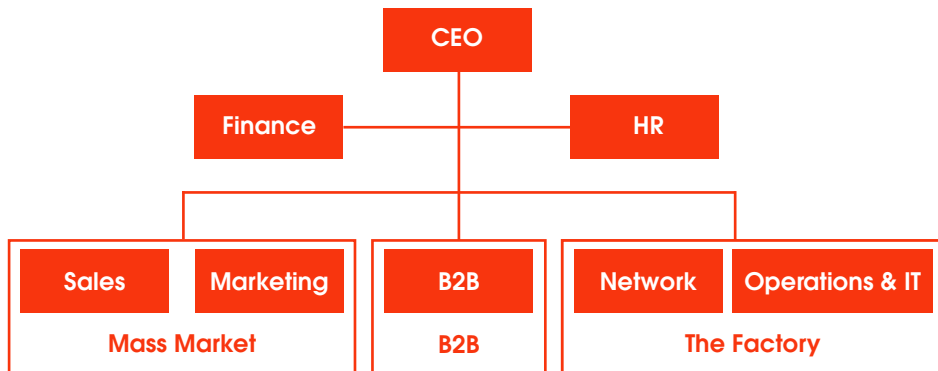


**100%**

Docsis 3.1 technology

# Single efficient integrated organization drives operational leverage

One business, four brands

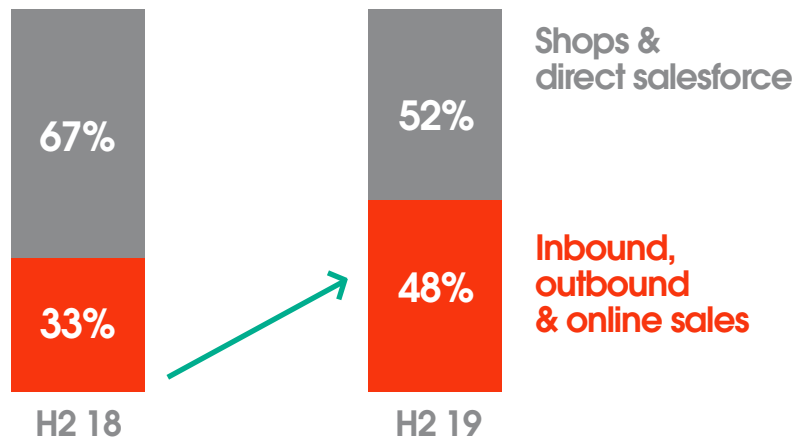


- ✓ **One integrated organization** reduces complexity and delivers increased synergies
- ✓ **A single network and operations hub (The Factory)** creates efficiencies and drives operational leverage
- ✓ **The existing structure designed to support national expansion** creates further operational leverage



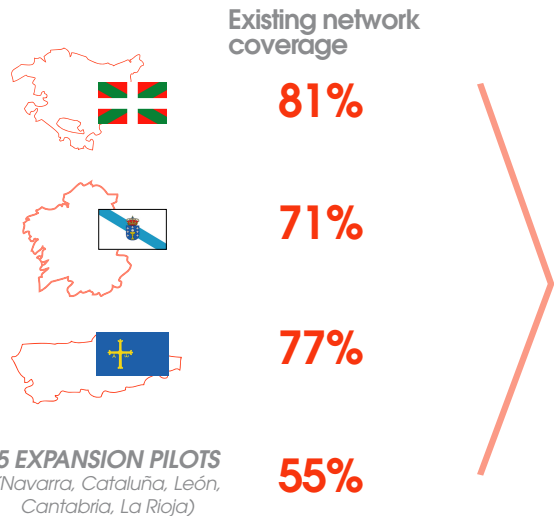
# Change in sales channel mix **increases gross adds and reduces costs**

Sales channel mix

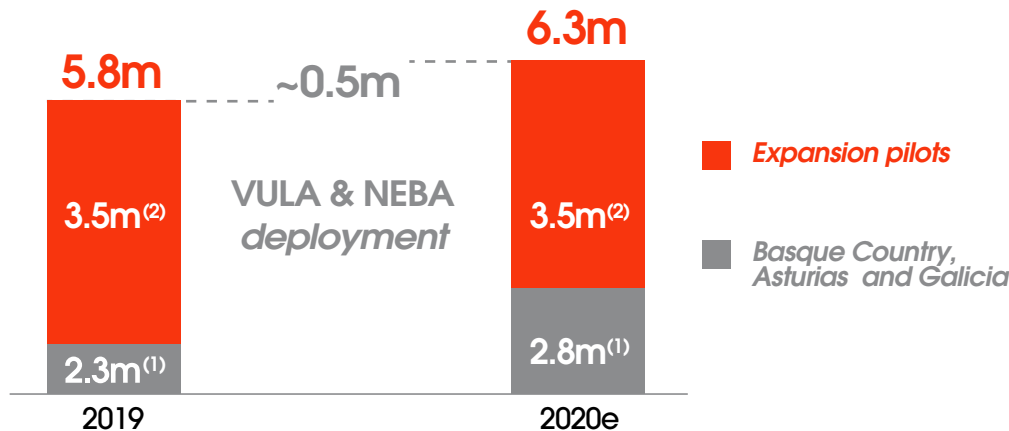


Non face-to-face channels are **50% less costly** than shops and direct salesforce

# Euskaltel's wholesale FTTH agreements result in a significant footprint expansion in existing regions



Addressable footprint in existing regions  
*In million homes passed*



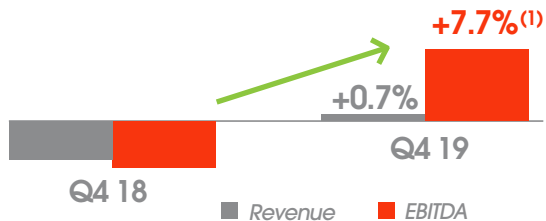
(1): Owned households

(2): Total addressable households including those accessible through wholesale and mutualization agreements

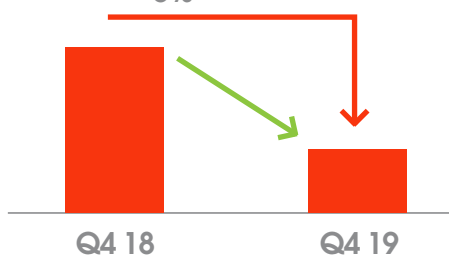


# Existing business is back to growth and highly cash generative

## Revenue & EBITDA growth %



## SG&A savings -6%<sup>(2)</sup>

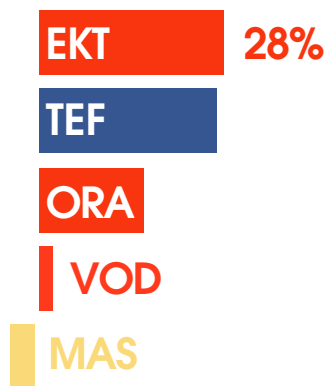


(1): Q4 19 EBITDA includes €6.9 million of positive one-offs mainly from the renewal of the Orange wholesale agreement

(2): Excluding IFRS 16 positive impact from Q4 19 figures

## Industry leading cash generation

FY 2019 OpCF  
% revenue



- ✓ Existing business is back to **revenue and EBITDA growth**
- ✓ **Operational efficiencies progressing and delivering results**
- ✓ **Cash generation is industry-leading**

# Footprint expansion and continuing efficiency will drive growth in the existing business



## Revenue growth ✓

- 1 - 2 % 2020 - 2025 revenue CAGR
- Customer growth from footprint expansion and neighbouring regions



## EBITDA growth ✓

- Further cost reduction and efficiency gains
- Larger scale results in operational leverage



## Operating cash-flow growth ✓

- Sales mix improved
- Focus on capex efficiency

*EXISTING BUSINESS*

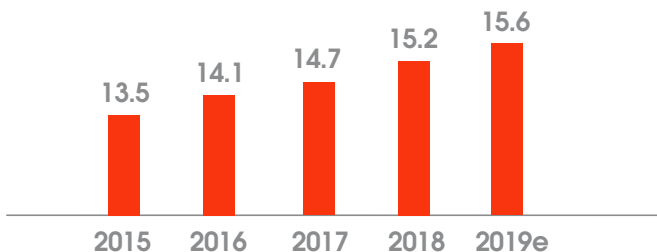
**✓ NATIONAL EXPANSION**

*FINANCIAL PROJECTIONS*

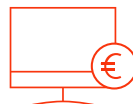
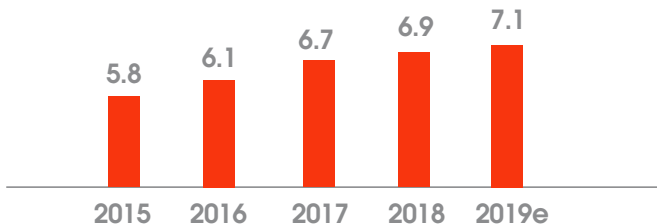


# Spain's FBB and TV markets represent a growth opportunity

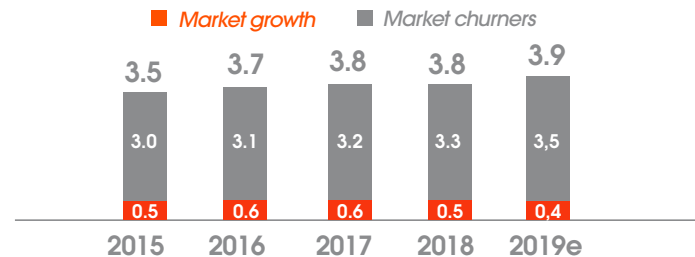
Spanish FBB Market – FBB lines  
In million lines



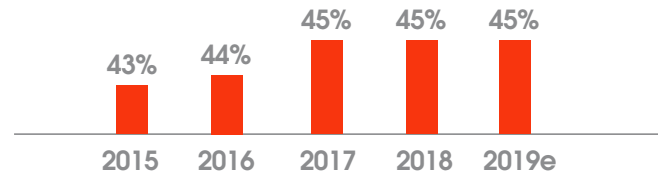
Spanish Pay TV Market – Evolution of subscribers  
In million subscribers



Spanish FBB Market – Opportunity to grow  
In million lines

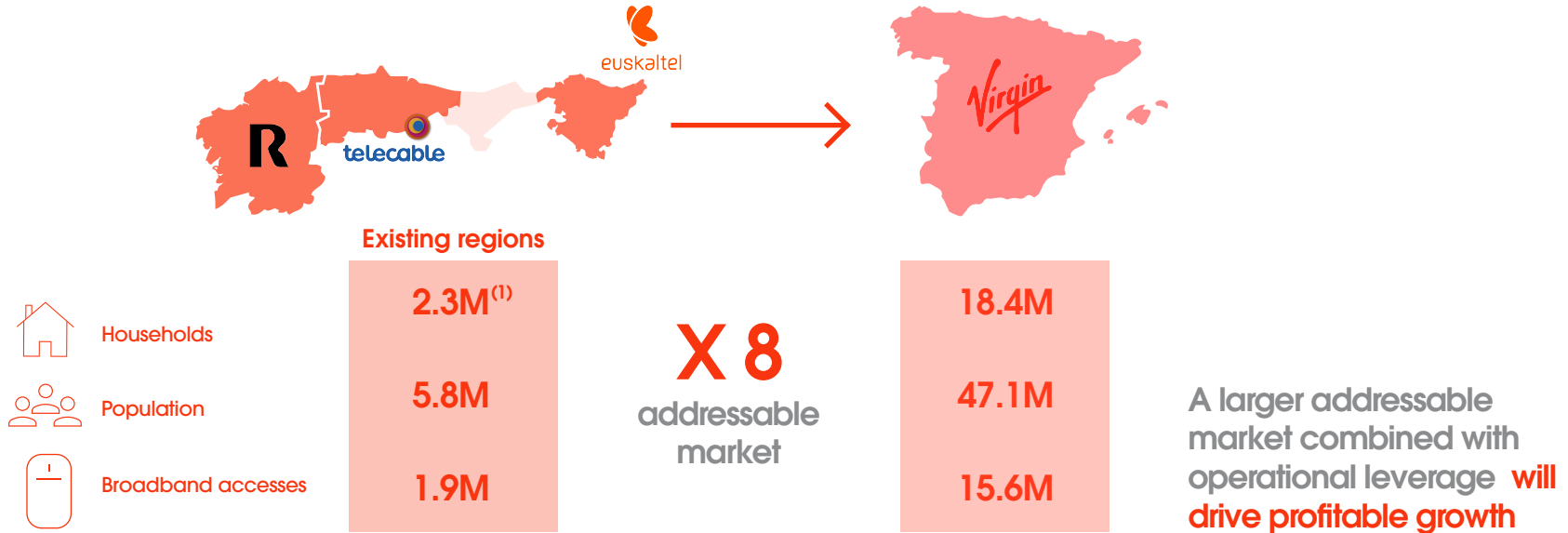


Spanish Pay TV Market – Penetration over FBB  
In % over FBB lines



Source: CNMC, company estimates

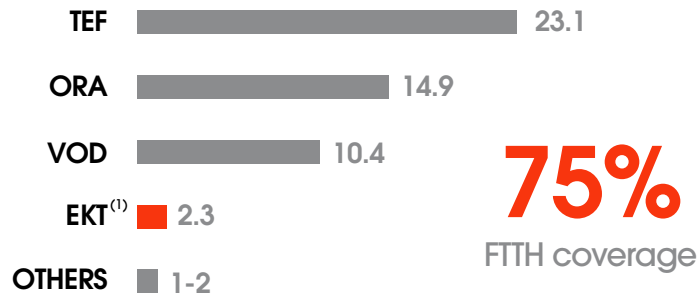
# National expansion multiplies the company's addressable market



Source: CNMC, INE; existing regions includes data for the Basque Country, Galicia and Asturias  
 (1): Owned households

# A large and efficient FTTH market allows **national footprint access** at competitive prices

Spain's Next Generation Networks deployed  
In million households



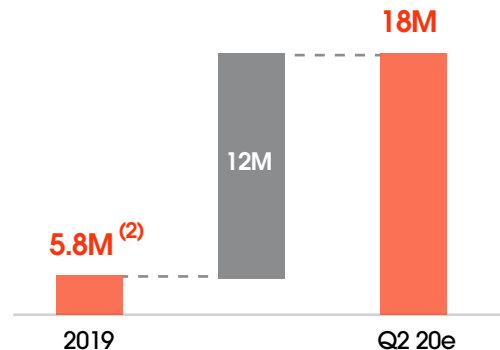
Spain is **the most active wholesale market in Europe**

Source: Companies' data, Xataka

(1): Owned households

(2): Total addressable households 2019 including those accessible through wholesale and mutualization agreements

Euskaltel's addressable footprint  
In million households



**Addressable footprint multiplies** through access to Orange and Telefonica's networks



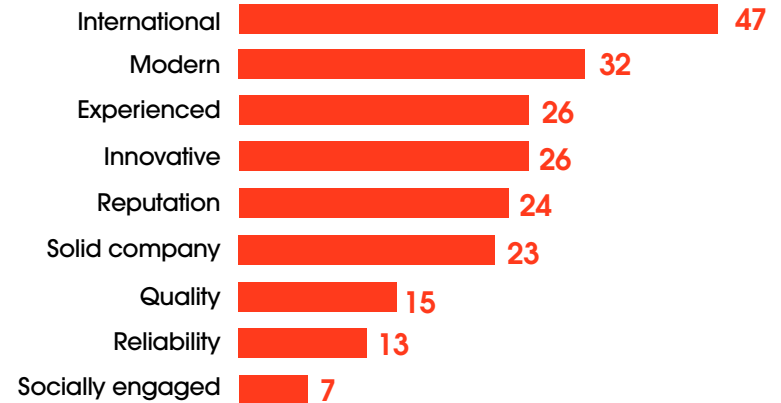
# Virgin brand is a powerful accelerator for national expansion

## Brand recognition



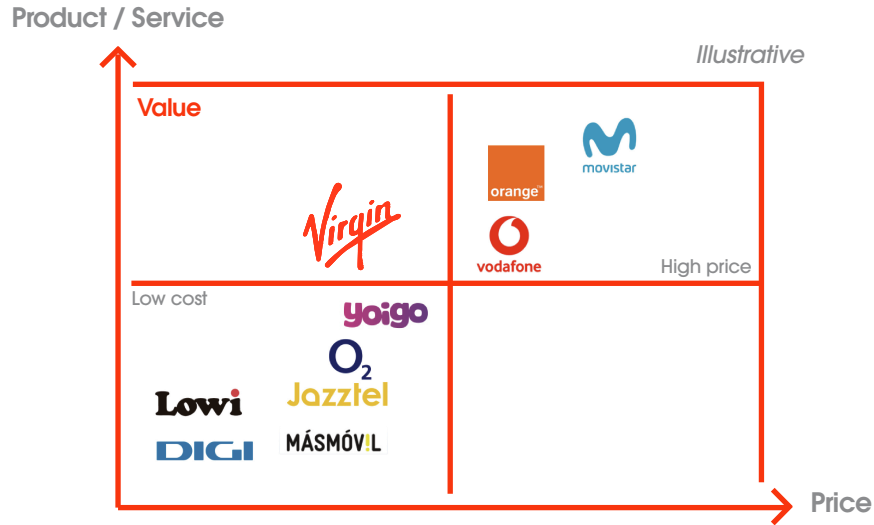
Source: Research Now Ltd market research

## Brand attributes



Source: Virgin brand perception study, GfK, 2019

# Euskaltel's Virgin offer has a clear **value positioning**



- ✓ Euskaltel's **great service**,
  - ✓ **competitive pricing**,
  - ✓ and **Virgin brand attributes**
- equals
- value**

Virgin product attributes will include **high speed FBB, data rich mobile and a strong TV offer**

Source: internal analysis

# Euskaltel's existing high-quality TV offering is an opportunity for growth

## High-quality content offering



## Open platform

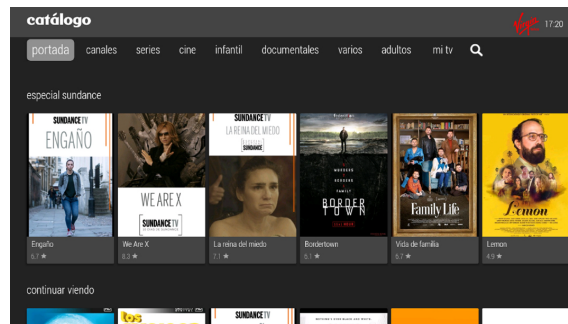


## Advanced hardware

DECO4K



- 4K UHD
- Catch-up TV
- Video-on-Demand
- Network PVR
- Start-over
- Time shift



All our customers will have access to **high quality multi-functional TV services**

# A multi-channel sales strategy drives efficient customer acquisition

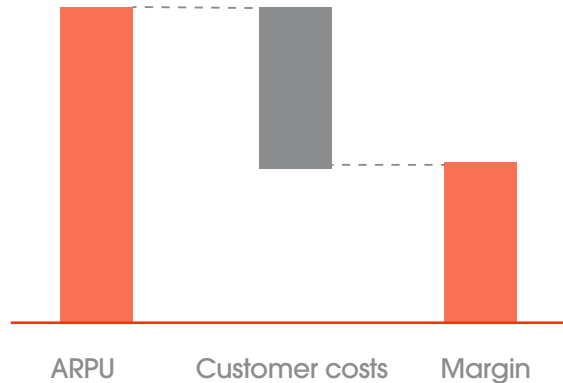


Strong focus on direct sales and non face-to-face channels allows for **maximum efficiency**

(1): Below-the-line channels include member-get-member, friends & family and other

# Success-based “pay-as-you-go” growth model delivers an attractive payback

National expansion convergent customer economics



**€300/350**

Per add subscriber acquisition cost <sup>(1)</sup>

✓ Expansion investment almost  
**100% success-based**

**~40%**  
Margin

✓ Wholesale costs  
**100% variable**

**<2 years**  
Payback

✓ Highly attractive  
**return-on-investment**

**National expansion costs are 90% variable**  
as growth leverages on Euskaltel's existing platform

(1): SAC includes commercial costs, installation and customer equipment (router and set-top-box) for a convergent customer

*EXISTING BUSINESS*

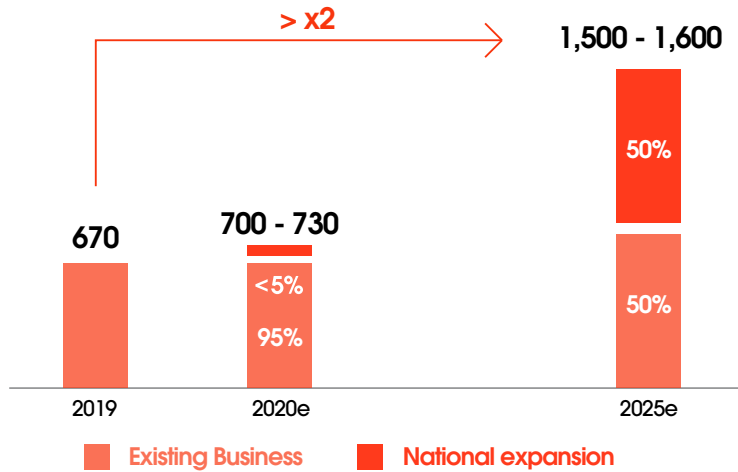
*NATIONAL EXPANSION*

**✓ *FINANCIAL PROJECTIONS***

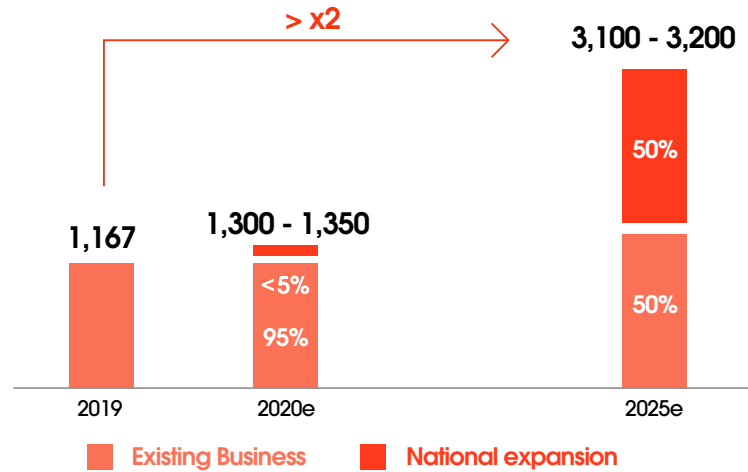


# National expansion will **double the size of the customer base**

**Fixed subscribers (Mass market)**  
EoP in k - % breakdown



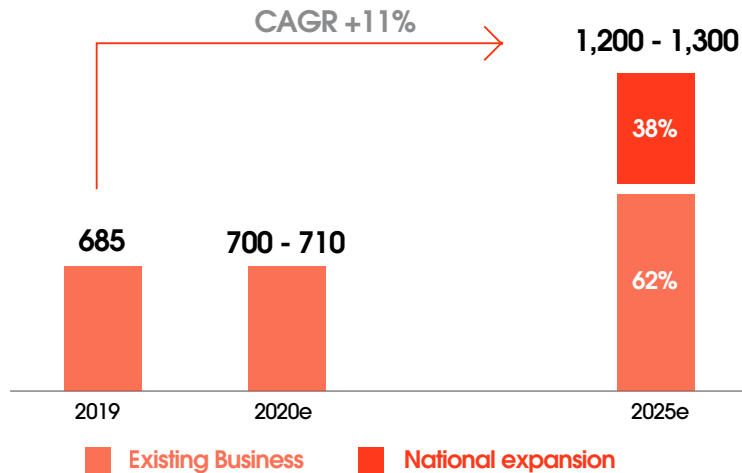
**Mobile services**  
RGUs in k - % breakdown



National expansion customer growth requires **around 5% of the market's FBB gross adds** in the business plan period

# Revenue will increase by more than 80% in the business plan period

Revenue - €m

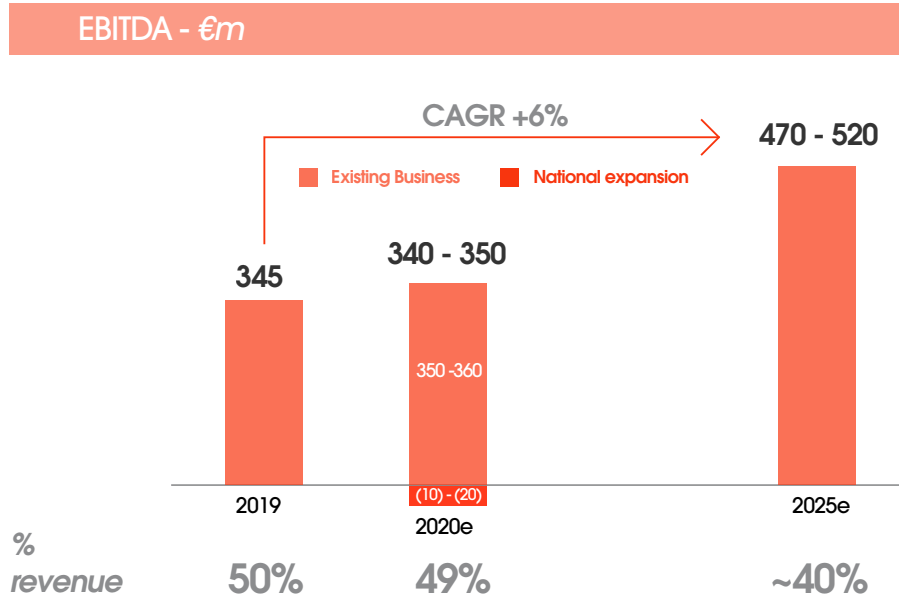


Revenue growth mainly **driven by national expansion**

**Profitable growth** with healthy customer economics

**Existing business contributing positively** mainly through footprint expansion

## EBITDA grows at 6% CAGR in the 2020-2025 period



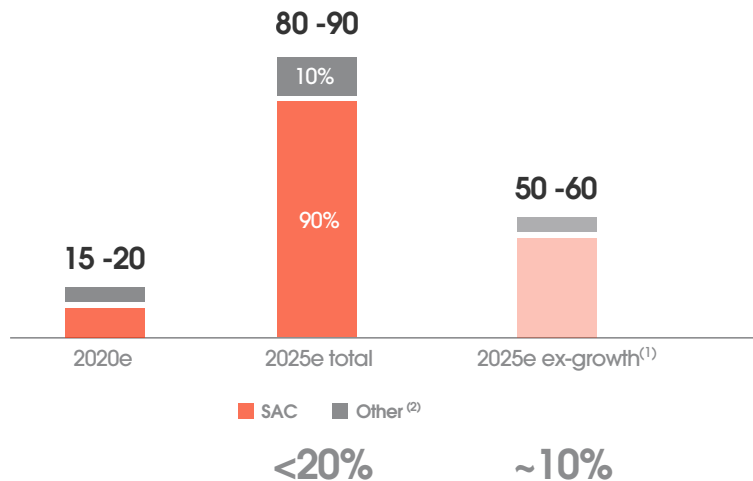
Reaching >25% run-rate EBITDA margin on national expansion

EBITDA growth driven by national expansion, existing footprint expansion and efficiency improvements

Continued focus on improving processes and operations

# Leverage in existing platforms allows for **90% success-based national expansion investments**

## National expansion investments - €m



%  
revenue

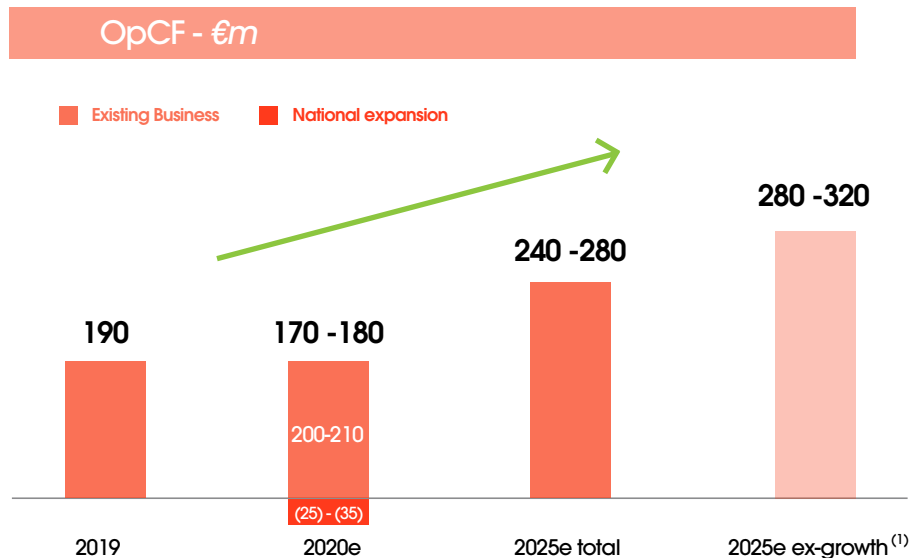
(1): Investments ex-growth calculated as national expansion investments with zero net adds  
 (2): Other capex includes network maintenance and IT systems

National expansion investments **90% customer growth related**

**Ex-growth national expansion investments c. 10% revenue**

National expansion investments with **continuing growth <20% revenue**

# Operating cash flow grows rapidly once national expansion gains scale



2020e OpCF impacted by **customer growth investments** in national expansion

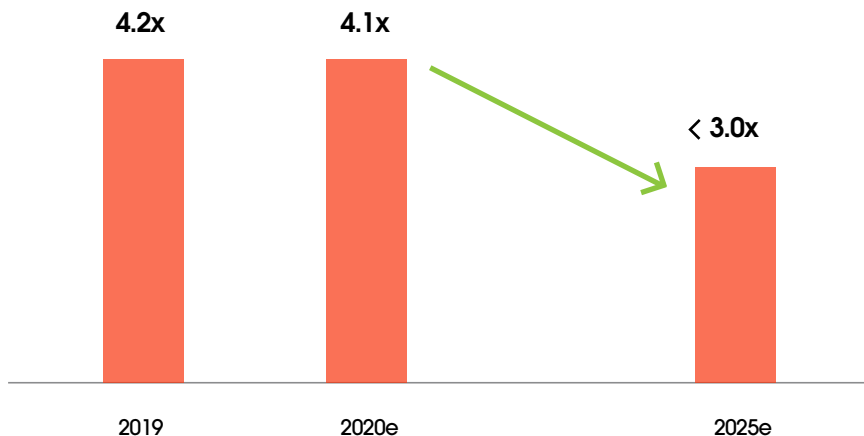
Operational cash flow growth **driven by national expansion and cost efficiencies**

Once growth stabilises **operational cash flow grows rapidly**

(1) : OpCF ex-growth calculated as OpFC of the company with zero net adds

## The company delevers quickly after the initial years of national expansion

Net debt/EBITDA - times



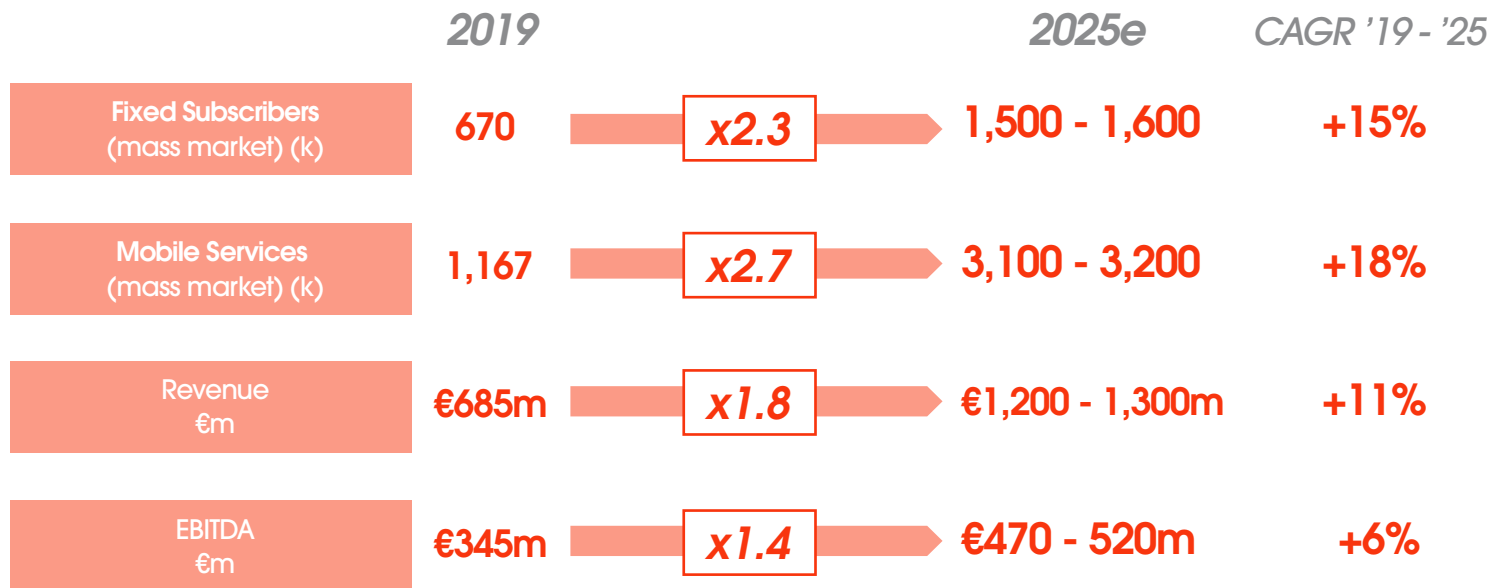
Delivery of operational efficiencies allows to maintain leverage stable during the initial launch of national expansion

Once national expansion EBITDA grows the company delevers quickly

No changes to capital structure nor shareholder remuneration needed to execute the business plan



## National expansion transforms the company into a growth business



# Conclusions

## Euskaltel offers a **unique combination of assets**



A **solid cash-generating and growing existing business** ✓



A **best-in-class owned valuable network** ✓



A **profitable national expansion strategy** ✓

*for the delivery of **growth and shareholder value creation***

EUSKALTEL, S.A.  
Investor Relations Office  
Tel: +34 94 401 15 56  
investor@euskaltel.com  
www.euskaltel.com

# Q&A



Euskaltel **Group**