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 $Tele2\ AB\ (\textit{TLTZY.SE})$

Q3 2017 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the Tele2 Q3 Interim Report 2017 Conference Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Erik Strandin Pers. Please go ahead.

Erik Strandin Pers

Head-Investor Relations, Tele2 AB

Thank you, operator. Welcome everyone to Tele2's third quarter 2017 results call. I have with me our CEO, Allison Kirkby; and our CFO, Lars Nordmark. We'll do the usual routine, management presentation and Q&A. You have the slides at our website, tele2.com. And we have a slight time constraint this morning, so we'll try to finish the call in about 50 minutes. So we'll try to be extra short and efficient this morning.

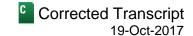
So, without further talking from my side, I leave the word over to you, Allison. Please go ahead.

Allison Kirkby

President and Group Chief Executive Officer, Tele2 AB



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Thank you, Erik, and good morning, everyone. And welcome to our third quarter result presentation. As you know, liberating a more connected life remains our ultimate priority, and we saw this drive solid growth in the third quarter as customers really resonated with our Fearless Brands and our great value for money proposition.

Mobile end-user service revenue as a result grew 7% on a like-for-like basis despite the impact from Roam Like at Home, with double-digit and sometimes very high-double-digit growth in our Dutch, Baltics and Kazakhstan businesses.

Net sales amounted to SEK 7.5 billion, up 1% on a like-for-like basis, and EBITDA was up by 12% to SEK 1.8 billion, mainly driven by the revenue growth in the aforementioned market, but also contributing are Challenger program and synergy benefit.

Having agreed to sell Tele2 Austria in the quarter, all our financials now exclude the Austrian operation. Exiting Austria is completely consistent with our strategy to focus more on the markets where we believe we will win over the long term and be a true champion of connectivity on our own infrastructure. And within the context of this more focused strategy that we are continuing to see great momentum in our business. As a result, we are today raising our full year guidance despite the divestment of Austria, and Lars will explain our guidance changes in a bit more detail towards the end of the presentation.

So let's get into the key highlights of the quarter. Our Positively Fearless Brands fueled strong progress, both financially and towards our customers. Last quarter, we launched new commercial propositions in all of our key markets. These continue to be embraced by customers with strong uptake across the group and solid progress on brand preference and customer satisfaction metrics.

For example here in Sweden, Comviq was awarded the strongest telecom brand by Evimetrix based on customer satisfaction and brand awareness, evidence of the strength of our price fighter brand position in a fast-growing segment of the market. And in the Netherlands, we were awarded best telecom retail chain and webshop.

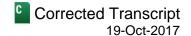
This was indeed the first quarter where we saw the full effect of Roam Like at Home. And for the group, the impact on mobile end-user service revenue was as expected around 2 percentage points and on EBITDA, again in line with the expectation, the impact was in the SEK 100 million to SEK 150 million range.

Sweden, again as expected, was particularly affected by the new regulation. As a result, mobile end-user service revenue was down 1.5% and EBITDA was down 6%. However, we were less affected in Baltics and continued to deliver great double-digit mobile service revenue growth and EBITDA growth of 12% and 18%, respectively.

Despite headwinds, our Baltic Sea Challenger businesses collectively achieved a 22% increase in operating cash flow on a rolling 12-month basis as our mobility for our strategy continues to serve us well with outstanding cash conversion.

In our Investment Market, we have great momentum on the back of increased brand awareness, improved satisfaction and increased scale. In the Netherlands, mobile end-user service revenue growth was 27%, and data and voice on-loading continue to progress well. We now have 93% of data usage and 54% of voice usage on our own network, and this is contributing to a significantly improved financial profile for our Dutch business. And in Kazakhstan, we also delivered another strong increase in mobile end-user service revenue, up 19%, resulting in an EBITDA margin for the quarter of 26%.

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Our Challenger cost structure was also again strengthened in the quarter, with group margin improving by 2 percentage points to 25%, a key contributor to this being the significant reduction in Dutch mobile losses, down by almost three-quarters versus this time last year. And we have another strong quarter for the Challenger program which is well ahead of plan to reach the SEK 1 billion target in 2018 with an estimated level of benefit of at least SEK 850 million for this year.

So moving onto our markets, let's look at the Baltic Sea Challenger businesses first. In line with recent quarter and putting Roam Like at Home aside, the Swedish market continues to be stable but competitive, particularly in the price side of segment of the main brand, largely focused on adding additional value to their offering. As mentioned, our Swedish business was particularly impacted by Roam Like at Home and a decline in legacy fixed revenue.

Excluding the Roam Like at Home headwind, mobile end-user service revenue was up by around 1% with continued growth in the consumer segment partly offset by expected decline in the business segment. Excluding Roam Like at Home, EBITDA was basically flat year-on-year as synergies realized from the TDC integration and Challenger program benefit compensate for the declining fixed revenue.

Despite, however, our EBITDA being down year-on-year in the quarter, Sweden continued to perform very well in cash conversion, which reached 80% on a rolling 12-month basis, significantly ahead of all of our telco and cable peers in Sweden.

Looking at the Swedish consumer business, mobile end-user service revenue showed an underlying trend and solid growth of around 3% with Roam Like at Home impacting it by 2 percentage points. This was very much driven by strong growth in Comviq postpaid due to our continued and successful migration from prepaid and good ASPU development in Tele2.

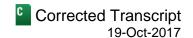
Our Positively Fearless Brand strategy continues to retain and attract new customers. For example, our double data campaign launched to celebrate the five-year anniversary of Comviq postpaid resulted in increased sales of smaller data bundles and particularly targeting the youth population.

At the same time, demand for larger data buckets continued and data consumption on the Tele2 brand grew by more than 50% to an average of 6.9 gig per month, leading to solid ASPU growth.

Our focus on growth through customer satisfaction is maintaining satisfaction levels for both brands stable, but at very high levels, as measured both internally and recognized externally. I've already recognized that Comviq won the best telecom brand by Evimetrix; and we are continuing to rank extremely well in the SKI quality index ranking.

Moving on to B2B, as expected, the market continue to be price competitive also within the mobile segment. We are, however, well ahead of expectations on the synergy realization plan now just under SEK 140 million year-to-date from the terminated MVNO contract and head count reduction. However, we have not yet recovered from the weaker sales that we had in large enterprise segment in prior quarters, resulting in a decline in net sales of around 2% like-for-like.

The combined product offering of Tele2 and TDC enables us to be a full-service provider to our customer. And we remain excited about potential of some of the new contracts that we signed in the quarter, including the University of Gothenburg and the extended and renewed contract with Attendo and the Swedish transport agency, to name just a few.



Looking towards Q4, while we expect the B2B trends to continue – and there will continue to be some impact from Roam Like at Home. And so, we'll see similar dynamics in mobile end-user service revenue. As we saw this quarter, we do believe that we'll be in a better position to compensate this [Technical Difficulty] (00:09:11) an EBITDA level in Q4.

Moving on and slightly east and south to the Baltics, commercialization and monetization of our 4G investments continue to drive really strong top and bottom line momentum. Net sales growth of 11% was excellent, thanks to an ever-increasing demand for data and increased premium handsets in our customer base.

Mobile end-user service revenue grew 12%, largely driven by the higher data consumption and growth in mobile broadband. And EBITDA increased 18%, driven by profitable revenue growth and benefits from the Challenger program as we continue to drive operational efficiency and consolidate certain tasks and skills into our shared operation organization.

In the quarter, we saw again a very strong ASPU development of 11% as the transition from prepaid to postpaid subscriptions continued and customers traded up to larger data buckets; very much encouraged by the new proposition that we launched in anticipation of Roam Like at Home.

Smartphone penetration continued to increase, which is supporting the uptake of the larger data bundles and is allowing plenty of room for further growth in the future. Additionally, the investments that we put into mobile broadband is feeling continued great revenue improvement of 37%, and establishing Tele2 as a liberator of connectivity both in the home and on-the-go in parts of the Baltics where broadband speed lag that of our excellent 4G networks. In general, we continue to be very proud of our Baltic team and excited about the growth opportunities that we see ahead across our three Baltics business units.

Now, looking into our Investment Markets and, first, is we look at the Netherlands. And first some context, this is the first quarter in which we had the entire quarter impacted by the new consumer credit regulation, Roam Like at Home and, of course, the first full quarter of our new disruptive proposition that we launched in May.

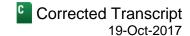
Competition remains intensive, especially in the low-end segment, but we remain highly competitive within the market. Although net sales declined mainly due to changes of accounting rules with respect to third-party handset sales and WFT and of course our lower fixed revenues, more importantly, mobile end-user service revenue was up 27% with our mobile customer base increasing by 18% and our ASPU growing by 6%.

Our mobile network economics just continue to improve, providing a virtuous circle of increasing offloading, higher volume, higher ARPU and improved operational efficiency. And we're achieving this at lower subscriber acquisition cost than we expected and at a faster pace than we've previously expected. In the absence of anything extraordinary, we now expect a small but positive EBITDA for Netherlands also in the fourth quarter this year.

Disruptive Fun Rebel campaigns and propositions, and an increased focus on customer satisfaction is definitely improving our brand awareness, our brand consideration and NPS. We continue to take more than 20% of the switchers market. In fact, it was 23% in August.

And you can see here, we're taking 30% of handset sales and now 18% of SIM-only sales. This is great progress on both accounts. Net intake on mobile for the quarter was, therefore, up again to 57,000.

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Data on-loading, as I said, reached 93% and we now have more than 550,000 VoLTE users who are active and took our data, our voice traffic on our own network to 54% in the month of September.

Finally, our unique omni-channel position where we have less than 20 retail stores complemented by a fast-growing online presence was awarded the best among all Dutch telecom by the ABN AMRO Retail chain of the Year and Webshop Award, evidence of us building a uniquely digital challenger presence in the Dutch market.

And now, let's move further east to our investment market of Kazakhstan, where market competition in the quarter was largely focused around time-limited proportion of extra data. For our part, net sales were up 14% year-on-year as we continued our strong momentum in mobile end-user service revenue growing by 19%. This momentum was built as a result of strong customer growth and increasingly large data bucket.

EBITDA more than doubled year-on-year as we reap the benefit of these higher ASPU levels, improved scale and integration synergies. And if we look into these results in a bit more detail, you'll see our customer base grew by 7% to reach more than 6.8 million customers, driven by an expanding distribution network and our success with dual brand strategy. ASPU was up 13%, driven by higher-margin product mix, including two new speed-differentiated unlimited offerings for mobile broadband launched in the quarter.

Finally, with just over 1,700 sites merged, our network integration was completed in the quarter, which will now enable us to focus on further expansion in the months ahead, and we'll obviously get margin expansion from that and CapEx efficiency as a result. We can now focus on network rollout going forward so that we can tap in to further untapped customer demand.

And with that, I'd like to now hand over to Lars, who'll take you through the financials.

Per Lars Nordmark

Executive Vice President, Group Chief Financial Officer, Tele2 AB

Thank you, Allison, and good morning. Let's turn to the next page for an overview of the mobile end-user service revenue development. The reported year-on-year increase came in at 9%. FX effects were insignificant this quarter, but as you know, some mobile revenues came in with TDC, and the like-for-like growth was at 7%.

On the right-hand side, looking at the individual operations, we have seen positive trends across all our markets. Sweden's increase of SEK 54 million was generated mostly by the TDC acquisition offset by the effect of Roam Like at Home, resulting in a like-for-like decrease in mobile revenues of SEK 29 million. This was in line with our expectation.

The Baltics contributed SEK 61 million, representing a growth of 12% despite the roaming impact.

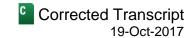
The biggest contribution this quarter came from the Netherlands, which increased top line by 27% or SEK 112 million as a result of a combination of strong growth in both customer growth and ASPU.

Kazakhstan was up an impressive SEK 80 million, a growth of 19% versus Q3 last year.

Moving on to EBITDA, we note that this quarter, we had a rather clean EBITDA without any significant extraordinary items. As compared to Q3 last year, though, we had a contribution from TDC. So behind that 21% reported increase, it's a like-for-like growth of 12%.



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As is the case for mobile revenues, the biggest contribution came from the Netherlands with more than SEK 100 million improvement year-on-year. This is the result of strong mobile revenue growth, better network economics and efficient investments into expansion costs.

Kazakhstan delivered a growth of SEK 90 million to large extent driven by the increased scale of the business.

Turning to CapEx, we saw a decline of 31% versus the same period last year to a level of SEK 532 million in the quarter. There are several reasons for this modest level where the decline is spread across our geographies. Firstly, it has to do with lower sales within B2B in Sweden and the Netherlands leading to lower customer-driven CapEx.

Secondly, we have not had the need to invest as much in capacity this year as we had initially assumed. We expect this will partly spill over into the next year.

Thirdly, we're also in a phase of digital transformation in preparation for 5G. Both of these things take time and in the case of 5G preparations, the equipment and systems are not always developed to the level we want it to be before we want to pursue the investment.

Lastly, we have also improved our financial discipline when it comes to CapEx investments.

So, all in all, there are different reasons for this year being a year of low investments. However, I think it is important to stress that we are not holding back on anything that we think is accretive from an ROI perspective or makes good business sense.

Looking at free cash flow on the next slide, we saw an increase by more than 50% versus the same quarter last year. As discussed, the strong increase in EBITDA together with lower CapEx was the main contributor to the improvement. The only significant negative item was net working capital. However, please note that this still made a positive contribution for the quarter although lower than last year due to less handset financing activity in Sweden.

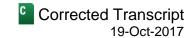
As you know, we also like to look at the evolution of cash flow from a longer term and more operational perspective. So, if we turn to slide 21, we have the rolling 12-month operating cash flow which we define as EBITDA less CapEx. The picture shows the cash flow split into our Baltic Sea Challenger markets and our Investment Markets.

Baltic Sea Challenger and other group units, including Germany and IoT, continue to grow its operating cash flow to a very strong SEK 4.2 billion, reflecting both higher EBITDA and lower investment levels. As a company, we always have a focus on cash conversion, which is EBITDA less CapEx divided by EBITDA.

And I would like to highlight Sweden here, which has produced 80% cash conversion on a rolling 12-month basis. This reflects consistent improvement over the past year as well as clearly outperforming our local peers.

Looking further at the operating cash flow, a substantial positive development has been made in our Investment Markets, which we define as the Netherlands, Kazakhstan and Croatia. These geographies combined actually report a positive operating cash flow this quarter, although driven partly by low investments.

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On a rolling 12-month basis, you could see that almost three quarters of the negative operating cash flow we saw at the peak investment period a little more than a year ago has not been reduced as cash consumption from Investment Markets in the last 12 months was just a little more than SEK 600 million.

We do expect to increase investments in the coming quarters, especially in Kazakhstan, where we plan to expand the network. However, I think the slide makes it quite evident that we are in much different position in our Investment Market today than we were a year ago.

Moving on to debt and leverage, our economic debt to EBITDA decreased compared to last quarter to SEK 1.7 billion and overall, the balance sheet we have is quite healthy. Moreover, depending on the closing of the sale of Tele2 Austria during the fourth quarter, the possibility of returning these proceeds to our shareholders in an appropriate form will be assessed.

On slide 23, we have a quick update of the Challenger program, which has been a major contributor to our performance during 2017. We are well on track reaching at least SEK 850 million of full year benefits that we announced last quarter, and we're also confident that our run rate will be at SEK 1 billion at the end of the year to reach the target for that program.

Finally, I would like to touch on our upgraded guidance on page 24. Having now seen three quarters of the year with 10%, 12%, 7% growth, respectively, in mobile end-user service revenues, we're upgrading the guidance to high-single digits.

For total revenues, our new guidance is at SEK 30 billion to SEK 31 billion to reflect the sale of Austria. We raised our EBITDA guidance to SEK 6.4 billion to SEK 6.6 billion, reflecting over-performance in the Netherlands, Kazakhstan and the Baltics. This is an increase from the previous guidance, which was at SEK 6.0 billion to SEK 6.3 billion if we exclude an annual contribution of approximately SEK 200 million from the Austrian operation.

Finally on CapEx, which has been very low this year, we do not expect to catch up with the previous guidance with only three months left to the year, and we are therefore adjusting the guidance downwards to SEK 2.9 billion to SEK 3.2 billion.

With this EBITDA and CapEx development, cash flow has been strong and year-to-date, we have had free cash flow of SEK 2.3 billion, which obviously puts us in a good position to reach dividend cover earlier than expected.

And with that, I'd like to hand back to you, Allison.

Allison Kirkby

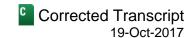
President and Group Chief Executive Officer, Tele2 AB

Thank you, Lars. So, as Lars touched on, as you all know, we have previously assumed dividend cover which only happen in 2019. But on the back of this year's strong momentum and low CapEx, it's now looking highly likely that we'll cover our previously committed dividend of SEK 4 per share already this year. We were, therefore, pleased to announce this morning that our board will review our dividend policy for 2018 and beyond in connection with our full year results in February.

In addition, with the proceeds from Tele2 Austria due to be received during the fourth quarter and the strength of our balance sheet, they will also review at the same time means beyond our ordinary dividend to return these proceeds to our shareholders.



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So let me finish with our priorities moving forward to ensure that we can continue to deliver the sustainable and growing shareholder value that we aspire to always have. First and foremost, it all starts with our purpose: to fearlessly liberate people to live a more connected life. And as a result, we will continue to monetize the data that the connected life consumes.

And our four key strategic pillars of Positively Fearless Brands, Connecting Things our Customers Love, a Digital First Customer Experience, and a Challenger Cost Structure are intended to, first, return Sweden to growth despite the headwinds from Roam Like at Home; few industry-leading momentum in the Baltics, Netherlands and Kazakhstan that you've been seeing this past few quarter; and drive excellence in financial discipline and operational execution in order that the top line momentum continues to flow down to bottom line momentum and excellent cash generation.

Our upgraded guidance reflects all of this, but most importantly the confidence we have that our focus on monetization of connectivity will deliver long-term value for our shareholders, our customers, and our employees.

And just touching on employees, I'd like to close on a big thank you to all of the Tele2 employees and colleagues for their challenger spirit and many contributions without which we would not have been able to deliver yet another set of winning results.

So that completes our presentation. And Lars and I and Erik would be very happy to take your questions now.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] We will now take our first question from Irina Idrissova from RBC Capital Market. Please go ahead. Your line is open.

Irina Idrissova

Analyst, RBC Capital Markets

Hi. Thanks for taking my question. So just on capital guidance for this year, could you please give us more color around how much of that is kind of a sustainable lower run rate for the improved financial discipline? And how much of that is more with timing impact and how much we should perhaps expect to come back in 2018 or later? Thank you.

Per Lars Nordmark

Executive Vice President, Group Chief Financial Officer, Tele2 AB

Yeah. So we're not going to give the guidance for next year. We'll come back on that on the 2nd of February when we give the Q4 results. But I think there are some elements around capacity that I mentioned in my introduction that the portfolio will spill over into year. And then, also the customer-driven CapEx around B2B, that obviously depends on the volume that we get through on the sell side.

Irina Idrissova

Analyst, RBC Capital Markets

Right. Thank you.

Operator: Our next question comes from Victor Höglund from SEB. Please go ahead. Your line is open.

Victor Höglund

Analyst, Skandinaviska Enskilda Banken AB

Yeah. Sorry. I also had a CapEx question, so thank you very much. It's the same. Already taken.

Operator: Our next question comes from Nick Lyall from SocGén. Please go ahead. Your line is open.

Nick Lyall

Analyst, Société Générale SA

Yeah. Morning, all. It's Nick at SocGén. Just a couple of questions, please. On the enterprise business, Allison, most comments seem to be a little bit weaker than you'd given before. So I think before you had said big contracts were going to be slow to come through in terms of revenue, whereas now it seems a bit more pessimistic. So are you losing existing share or maybe just not gaining on tenders that are coming up, or is price proving tougher? Could you give us a little bit more guidance given you've made that comment for 2018?

And also, just on the dividend. Can I just confirm, it's obviously – you're talking about an increase or an incremental payment being considered potentially for asset sales, but also looking at the underlying ordinary dividend policy as well with the board? Thanks.

Allison Kirkby

President and Group Chief Executive Officer, Tele2 AB

Okay. Thanks, Nick. No, I didn't intend for my tone to be more pessimistic than last quarter. We haven't seen anything to change our point of view. Price competition is still tough and we're still suffering from a week, say, of sales during the early integration of TDC. And as we said last quarter, the sales cycle, when you win a new account, it takes sometimes three quarters for you to actually benefit from that.

So no change in our tone. It will be several quarters before we return our large enterprise business to growth, but very happy with the progress we made on new customer acquisitions and retention and extension of contracts in the quarter. But the new customers won't benefit us until into next year.

In terms of the dividend, it's great. Our operational momentum will now cover our ordinary dividend already this year which was the first ambition that we had when we reset our new dividend policy. And as I said, the board will now reflect on that.

And our balance sheet strength, which is now below 1.7 leverage and the proceeds coming in from Austria we should expect during the fourth quarter when they review next year's dividend policy alongside our fourth quarter results. And as we hinted in the release, they will look at both extraordinary dividend or potentially buyback because we have the option to do up to 10% share buyback.

Nick Lyall

Analyst, Société Générale SA

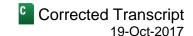
Okay. That's great. Thank you.

Allison Kirkby

President and Group Chief Executive Officer, Tele2 AB

Thanks, Nick.





Operator: Our next question comes from Sunil Patel from Bank of America. Please go ahead. Your line is open.

Sunil Patel

Analyst, Bank of America Merrill Lynch

Yes. Hi. Thank you for taking my question. I just have two. One is, can you just remind us regarding Netherlands and the transferability of spectrum? Is that a possibility in 2018? And do you foresee any combinations in that market to maybe give you existing business and scale?

And just heading into Q4 in Sweden, I mean EBITDA margin declined in Sweden this quarter which was a little bit lower than at least what I was expecting. What's your view as we head into Q4? You mentioned the roaming drag would be less, but enterprise still seems to be an issue. Do you think underlying, if you exclude the impact of TDC, can grow EBITDA? Thank you.

Allison Kirkby

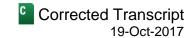
President and Group Chief Executive Officer, Tele2 AB

Okay. So on our transferability of spectrum, our license restrictions end in December. But as you can see, we have great momentum in our Dutch business at the moment. We are accelerating faster than we expected towards EBITDA breakeven and so it's not our current intention to be transferring that spectrum to anybody but to be using more of it for our Dutch customer base. And that we're very much focused on it at the moment, Sunil. It's continuing to build a great position, a digital challenger presence in the market that is unique and taking more than 20% market share month-after-month.

In Sweden Q4, yes, EBITDA was down this quarter. The Roam Like at Home impact was around SEK 75 million, which is pretty much the whole amount that we were down quarter-on-quarter. We don't expect revenue trends to have improved in Q4 versus Q3 for both Roam Like at Home and B2B reasons, but we expect the EBITDA profile to be better than this quarter. Unlikely to be back to growth, but it's more likely to be stable year-on-year.

Sunil Patel Analyst, Bank of America Merrill Lynch	Q
Thank you.	
Operator: Our next question comes from Maurice Patrick from B	arclays. Please go ahead. Your line is open.
Maurice Patrick Analyst, Barclays Capital Securities Ltd.	Q
Yeah. Morning, guys. Maurice here. Just on two	
Allison Kirkby President and Group Chief Executive Officer, Tele2 AB	A
Hi, Maurice.	
Maurice Patrick Analyst Barclays Capital Securities Ltd	Q

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Hi there. Just a couple of questions. One very, very simple one, which is can you give us the mobile data volumes – gigabytes first off in Netherlands and Sweden, please. I'm not sure you have it at hand, but it could be quite helpful.

And the second question, just on digital transformation. I mean, you do pick up on it and made the point about the investments that you've made. I get interested that the incumbents are talking about digital transformation as a way to reduce their cost base, be more agile. You've been doing this for years. Do you see this as an advantage as a challenger that you already have made these steps towards simplifying a business having that digital journey sorted compared to incumbents in your key markets? Thanks.

Allison Kirkby

President and Group Chief Executive Officer, Tele2 AB

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Yeah. Thanks, Maurice. So, your first question, Sweden Tele2 average consumption was 6.9 gig in the quarter, which was up from 4.4 gig in this quarter last year; Netherlands, 3.6 gig, up from 1.1 gig in the same period last year; and Lithuania is 1.4 gig; Latvia is 2.4 gig; and Estonia is 4 gig.

In terms of transformation in the digital journey, yes, we are a challenger and so we've got less legacy than others, but we're still a telco that's been around from a number of years. And we still got a journey to go on from a transformation point of view.

We are, first and foremost, thinking about digital transformation in the customer experience because that's where we built this. Our customers are increasingly demanding for us to be present in all channels and for digital to be a simple and easy channel to interact with, but for all the channels to be able to talk to each other. So it doesn't matter which channel the customer comes to, they'll get the same experience, and that channel will know who they are and what they want and how we can help them.

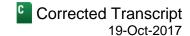
So, first and foremost, we are focusing on the customer experience, and they're obviously our Challenger program and all of the work we've done on back-end operational efficiency is embracing new digital tools to continue improved operational efficiency going forward.

So, are we ahead of others? Possibly, but there's still a journey to go on. We're making great progress in the Netherlands. Almost 50% of our sales are online now. We have less than 20 stores. So, we really are building a unique digital presence there.

We've always had a very unique digital presence with Comviq in Sweden because we didn't have stores from the beginning. And we've just launched a digital-only product in Estonia called [ph] Snap (00:33:41) to see what we can learn from only making a product available digitally. So, lots going on from a customer experience point of view and lots going on to improve operational efficiency as a result as well.

Maurice Patrick Analyst, Barclays Capital Securities Ltd.	Q
Very clear. Thank you very much.	
Allison Kirkby President and Group Chief Executive Officer, Tele2 AB	A
Thanks, Maurice.	

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Operator: Our next question comes from Henrik Herbst from Credit Suisse. Please go ahead. Your line is open.

Henrik Herbst

Analyst, Credit Suisse Securities (Europe) Ltd.

Q

Yeah. Thanks very much. I just wanted to ask about Swedish mobile and the unlimited plans. If you could share anything in terms of how popular they are and whether they've sort of – you've seen larger increase since you've launched them.

Then the second question is on Comviq, where I think it's part of your anniversary promotion, you've offered double data, if that had any material impact on your top-up revenues at all. Thanks very much.

Allison Kirkby

President and Group Chief Executive Officer, Tele2 AB



Henrik, Tele2's unlimited campaign in Sweden is very attractive to a particular segment of the market. It's still a niche product, but it is certainly selling very well and is one of the key contributor to our ASPU growth developing and our underlying data growth going up to 6.9 gig per month.

In terms of Comviq, the double the data campaign has had a fantastic impact on retention in the quarter and has really helped a very successful prepaid-to-postpaid migration in a period, obviously, where prepaid continues to be under decline. So, we really use that to target the kids market and to target those consumers who were previously just using prepaid.

So, has it had a material impact on top-ups in the quarter? Not really. I didn't spot that. Comviq just goes from trend to trend. So, if we did lose any top-up volume, we're certainly compensated for that with underlying ASPU and great underlying customer growth.

Henrik Herbst

Analyst, Credit Suisse Securities (Europe) Ltd.



Thanks. When you're saying that the unlimited plan is selling very well, I mean can you give any more details on that in terms of numbers, I think?

Allison Kirkby

President and Group Chief Executive Officer, Tele2 AB



So previous 50-gig, 100-gig, 200-gig buckets used to be about low-single-digits on a monthly intake. Our unlimited plan basically absorbed all of those plans and we get into double-digits in terms of intake.

Henrik Herbst

Analyst, Credit Suisse Securities (Europe) Ltd.



Okay. And have you seen that share of uptake growth since you launched it? So has it sort of been – it jumped up and have been pretty steady.

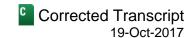
Allison Kirkby

President and Group Chief Executive Officer, Tele2 AB



It remained fairly steady, spiked a little bit in the summer when there was a lot of campaigns on it. We've got some poster campaigns again in Swedish streets and bus stops at the moment that's probably driving that again, but it's fairly stable.

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Henrik Herbst

Analyst, Credit Suisse Securities (Europe) Ltd.

Q

Okay. Thanks very much.

Allison Kirkby

President and Group Chief Executive Officer, Tele2 AB

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Thank you.

Operator: Our next question comes from Thomas Heath from Danske Bank. Please go ahead. Your line is open.

Thomas Heath

Analyst, Danske Bank

Thank you. Thomas here. Two questions, if I may. Firstly, just to clarify the comment there on profit contributions from Netherlands in Q4, did you say that you should expect the positive contributions from Netherlands mobile in Q4, or did I mishear that?

And then secondly, on Sweden and growth ahead, you're running into much tougher comparables on revenues and there, perhaps, it gets a little harder to grow EBITDA. Should we expect EBITDA relatively flattish for a few quarters in Sweden mobile now or do you expect to take up more Challenger synergies or anything else to move EBITDA upwards if revenue growth is perhaps a little subdued ahead? Thanks.

Allison Kirkby



President and Group Chief Executive Officer, Tele2 AB

Yes. So on the profit contribution on Netherlands in the fourth quarter will be slightly positive for the total Dutch business and not yet Dutch mobile. It will be total Dutch business. But we're ahead of – we expect it to be breakeven for the total company for the whole year and we're definitely ahead of plan on that, and that's one of the key reasons for us adjusting our guidance upward this morning.

In terms of Sweden growth ahead, yes, you're right. We're now coming up against some tough comps. EBITDA was down this quarter. We expect it to be fairly flattish next quarter. And obviously, looking forward, the B2B turnaround from a sales point of view will really start kicking in until – into 2018. So, I think, yes, Sweden flattish EBITDA for the next quarter and we'll explain more about next year when we report in early February.

Thomas Heath

Analyst, Danske Bank



Thank you. And could say – just to get some sense of the relative size of the large enterprise business in Sweden mobile?

Allison Kirkby

President and Group Chief Executive Officer, Tele2 AB

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It's about 40% of revenue roughly, I think, but relatively less from an EBITDA point of view.

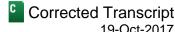
Per Lars Nordmark

Executive Vice President, Group Chief Financial Officer, Tele2 AB

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For the Tele2 business, Thomas, it's about 40% Sweden.

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Thomas Heath Analyst, Danske Bank	Q
Okay.	
Per Lars Nordmark Executive Vice President, Group Chief Financial Officer, Tele2 AB	A
A little bit less on mobile side. Yeah.	
Allison Kirkby President and Group Chief Executive Officer, Tele2 AB	A
Yeah, a little bit less on mobile. Yeah.	
Thomas Heath Analyst, Danske Bank	Q
All right. Helpful. Thanks.	
Operator: Our next question comes from Ulrich Rathe from Jefferies. Please go ahead. Your line is open	-
Ulrich Rathe Analyst, Jefferies International Ltd.	Q

Yeah. Thank you. I have two questions. The first one is on Swedish mobile and specifically the consumer segment there. Excluding the Roam Like at Home impact, it has slowed down a bit. If I read your commentary correct, it's sort of around about 5% for the last two quarters at least to maybe 3%. How do you interpret that slowdown? Is that sort of just a variability or is this is really something more meaningful in terms of trends?

The second question is with regard to the guidance upgrade. Could you sort of just talk a bit more about what drove this, in terms of, obviously, you can decide to invest less or you could benefit from actionalities which help you and therefore you upgrade. I'm not sure it's always such so clear-cut, but if you could just sort of explain a bit how much sort of comes because you think that certain investments that you had planned before aren't so reasonable anymore or there was really progress in the market and the revenues that made you raise the guidance quite so closely to the same quarter.

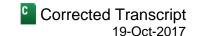
And if I may sort of add to that, what makes the visibility so low if you decide to touch the guidance for the second quarter, then you follow with this in the third quarter? What sort of changed in that relatively short period of time? Thank you.

Allison Kirkby

President and Group Chief Executive Officer, Tele2 AB

Okay. So firstly your Swedish question, yes. Excluding Roam Like at Home, we went down to 3%. We've previously been at 5%. We're coming up against tougher comps now, Ulrich. And we've always said 2% to 3% mobile end-user service revenue is a fair objective for a highly competitive market such as Sweden.

And certainly, we've still got a big prepaid business and that was down on the quarter. But when we get 3% growth on our mobile end-user service revenue in Sweden, we generally flow a huge amount of that down to the bottom line. And as we both touched on our cash conversion in Sweden at 80% is just truly outstanding, despite it was a quarter of negative revenue development.



In terms of the guidance upgrade, maybe I'll let Lars touch on that because I guess you were focusing merely on CapEx. So, Lars, do you want to give more color?

Yeah. I think on the current upgrade, you were talking about the EBITDA, is that correct?

Per Lars Nordmark

Executive Vice President, Group Chief Financial Officer, Tele2 AB

Ulrich Rathe

Analyst, Jefferies International Ltd.

There was a comment on the EBITDA, specifically.

Per Lars Nordmark

Executive Vice President, Group Chief Financial Officer, Tele2 AB

So we're not slowing that one down.

Yeah, right. So I mean I think if you look at the main contributors - Kazakhstan, Baltics and the Dutch performance – I mean, we are not holding back investments as far as expansion costs when they are accretive.

So I think if the Dutch business has, obviously from an expansion cost perspective, been impacted positively because of the stronger SIM-only share that we're seeing. So it's having less subsidy. I think Baltics is doing a fantastic job on data monetization driving the top line, and we see good benefits coming through from the efficiency programs that we have in those three countries as well.

Latvia's EBITDA margin this guarter was at a very high level at 40%, as you've seen. And the Kazakh business, they are just continuing to drive also profitable growth. So I think those are the three components that are driving the upward momentum in the guidance that we took in.

Allison Kirkby

President and Group Chief Executive Officer, Tele2 AB

And as Lars said, definitely not holding back on investment. We were cautious on Netherlands at the end of Q2, because we were yet to still see what was the sustained impact of the WFT regulation on handset subsidies in the market. We haven't seen an acceleration in this quarter.

We don't expect it in the fourth quarter, but we need to keep – the market could shift back into handset subsidies. And so, that's why we've been holding back on taking the Dutch guidance up. And certainly for this year now, we have visibility all the way through to the end of the year. And we're very comfortable that we have enough investment within our guidance to keep fueling the great momentum that we have across our footprint.

Ulrich Rathe

Analyst, Jefferies International Ltd.

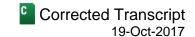
Thank you.

Per Lars Nordmark

Executive Vice President, Group Chief Financial Officer, Tele2 AB

This is Lars. But I am sorry, I also Roam Like at Home factor is also Roam Like at Home where when we came up with Q2, we're in the middle of July. And now, we have better visibility on what we're going to end the year.

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President and Group Chief Executive Officer, Tele2 AB

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Yes. That's true.

Ulrich Rathe

Analyst, Jefferies International Ltd.

That's helpful. Thank you.

Operator: Our next question comes from Johanna Ahlqvist from SEB. Please go ahead. Your line is open.

Johanna Ahlgvist

Analyst, Skandinaviska Enskilda Banken AB



Yes. Hello. Two questions, if I may. First of all, on Kazakhstan, if you can update us given the sort of strong performance on your view on the current sort of option value and the value of the shareholder loan plus interest?

And then, just sort of a detailed question on the Netherlands. If you can give us any sort of view on – I mean, you mentioned this SIM-only focus right now and the handset subsidies are quite limited. But where do you see the sort of biggest uncertainty ahead? Is it the subscriber intake or is it the ARPU level in the Netherlands? And then lastly, if I may, just a confirmation that, as I interpret it right, that CapEx will increase 2018 from 2017 guided levels? Thank you.

Allison Kirkby

President and Group Chief Executive Officer, Tele2 AB



Right. Why don't I take Netherlands, and then Lars will take Kazakhstan CapEx?

Netherlands, yeah, the market is still disproportionately pushing SIM-only more than handset subsidies at the moment. And as we look forward, we don't see that changing. Although what we have seen in October is that the low-tier price fighter brands, mainly MVNOs, are fighting back from a pricing point of view. And T-Mobile have done again they're [indiscernible] (00:45:26) where based through a bunch of subsidies on a promotional level.

Where do I see the risk going forward? Well, it just really depends if the competitive situation were to suddenly shift, we seem to have done a very consistent job of taking around 20% of the available market and we're consistently in that 55,000 to 60,000 net intake per quarter. And we've been achieving that either under a SIM-only strategy or a handset subsidy strategy. And ARPU continues to develop very nicely.

So I guess the one that is the least difficult to predict is how ARPU will develop. The Dutch consumption is very much still a lot lower than you get in our Swedish and some of our Baltic markets. And so, the question will be how quickly it will be continue to trade up over time because their average consumption is still only 3.6 gig where we have Sweden at 6.9 gig. But in the short term and what we're seeing at the moment, we've got no reason to believe that the continued momentum can't continue further.

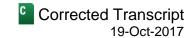
And on Kazakhstan and CapEx, Lars?

Per Lars Nordmark

Executive Vice President, Group Chief Financial Officer, Tele2 AB



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Yeah. On Kazakhstan, some of the option value at the end of Q3 is around SEK 390 million, Johanna. So we took in another SEK 170 million there, which reflects the good performance of the business.

The shareholder loan is currently at around SEK 2.8 billion, obviously, that is tangy base as you know. So that's kind of wrapped on the performance on the earn-out implication towards Asia now, which is 18% obviously.

Allison Kirkby

President and Group Chief Executive Officer, Tele2 AB

Yeah. So that SEK 390 million is equivalent to an 18% stake and we have a fully diluted 31% stake.

Per Lars Nordmark

Executive Vice President, Group Chief Financial Officer, Tele2 AB

Yeah. And refresh me again on the CapEx, Johanna.

Johanna Ahlqvist

Analyst, Skandinaviska Enskilda Banken AB

Yes. The CapEx question was basically, if I interpret you right, that CapEx 2018 should increase on the guided level in 2017.

Allison Kirkby

President and Group Chief Executive Officer, Tele2 AB

Yeah.

Per Lars Nordmark

Executive Vice President, Group Chief Financial Officer, Tele2 AB

Yeah. It will be an improvement or a slight increase in balance sheet CapEx. Yeah. Remember that the cash flow/CapEx that we have at the end of Q3 is around SEK 2.4 billion.

Allison Kirkby

President and Group Chief Executive Officer, Tele2 AB

But, yeah, we had a particularly low CapEx here in Sweden this year and I would expect that that would go up next year to support continued data growth and capacity growth in the market.

Johanna Ahlgvist

Analyst, Skandinaviska Enskilda Banken AB

Thank you very much.

Allison Kirkby

President and Group Chief Executive Officer, Tele2 AB

Over the two years, 2017 and 2018, the progress that we've made on operational efficiency – Challenger program, synergy benefit – means that over the two years, the CapEx will be lower than we previously expected.

Erik Strandin Pers

Head-Investor Relations, Tele2 AB

Operator, we will need to finish the call in a couple of minutes. So can we have one more question, please?

FACTSET: callstreet
1-877-FACTSET www.callstreet.com

Operator: Certainly. Our final question comes from Lena Österberg from Carnegie. Please go ahead. Your line is open. Lena Osterberg Analyst, Carnegie Investment Bank AB Yes. I also have a question on the Dutch business, of course. I'm trying to figure out your OpEx pace. How much of the year-over-year lower OpEx is related to lower network cost and how much is related to lower stock? And then also on the Challenger program, how much do you have to extract out of the SEK 100 million for the full year into the fourth quarter? Allison Kirkby President and Group Chief Executive Officer, Tele2 AB Okay. Per Lars Nordmark Executive Vice President, Group Chief Financial Officer, Tele2 AB Yeah. We haven't mentioned the quarter. What I can say on the Challenger program, we're on track to get to the SEK 850 million. So, that was SEK 600 million, so that's SEK 250 million. So, we're on track on getting to that level. And I would say it's fairly even over the quarters, especially coming – as of Q2 and Q3 onwards. Lena Osterberg Analyst, Carnegie Investment Bank AB Okay. Per Lars Nordmark Executive Vice President, Group Chief Financial Officer, Tele2 AB And on the network cost in the Netherlands, Lena, this is a combination of us driving the roaming costs down, which we don't disclose any more separately, and the increase in basically the other kind of site rentals and so forth, which comes from an increase in network, and basically the rollout that we have in the country where we're now at 3,100 sites compared to last year. Look, I don't want to give you a wrong number here. Let me get back to you on that one. Allison Kirkby President and Group Chief Executive Officer, Tele2 AB But I'd expect the vast majority is lower stock because we've got significantly lower handset sales because I said we're getting the benefit from lower roaming, but we've got more sites now this year than we had last year. So, one probably offsets the other. So, the vast majority will be lower stock, Lena, but Lars will get back to you. Lena Osterberg

Analyst, Carnegie Investment Bank AB

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Corrected Transcript
19-Oct-2017

Okay. Thank you.

Allison Kirkby

President and Group Chief Executive Officer, Tele2 AB

Thanks, Lena.

A

Erik Strandin Pers

Head-Investor Relations. Tele2 AB

Thank you, operator. So, we need to finish the call here. Thanks, everyone, for listening and we will talk again in three months' time on the 2nd of February.

Allison Kirkby

President and Group Chief Executive Officer, Tele2 AB

Thank you, all. Have a good day.

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

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