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PRESENTATION

Operator

Good morning, ladies and gentlemen, and thank you for standing by. Welcome to today's Tele2 Quarter 1 Interim Report 2019. (Operator Instructions) I must advise you that this conference is being recorded today on Wednesday the 24th of April 2019.

I would now like to hand the conference over to your host today, Anders Nilsson. Please go ahead.

Anders Nilsson *Tele2 AB (publ) - President & CEO*

Thank you very much, Nicole. And good morning, everyone, and welcome to the Q1 report call for Tele2. With me here on this end is Mikael Larsson, CFO and Samuel Skott, EVP Sweden Consumer.

Today we will walk you through the results for the quarter and the outlook, then briefly talk about accounting changes related to IFRS 16 and then move on to Q&A so we can address the topics you are most interested in.

Please turn to Slide 2, for a brief summary of the Q1 results. The Tele2 group revenue declined by 1% percent on an organic basis, including Com Hem in the comparable period. End-user service revenue was flat as mobile services increased by 3% while fixed declined by 3% due to decline in legacy services.

Underlying EBITDA excluding effects of IFRS 16 increased by 8% to SEK 2.3 billion driven by cost reduction as we have started to execute on the synergies.

CapEx excluding spectrum and leases amounted to SEK 0.6 billion in the quarter. As you can see, we are reporting EBITDA differently than in previous quarters, this is partially due to the new IFRS 16 accounting standard and Mikael will walk you through the details later in this presentation.

Now let's look at the strategic initiatives on Slide 3. On this slide, you can see the main strategic pillars that will help us become a true integrated challenger over time.

Let's start with the most important segment, Sweden Consumer, where we added a new growth driver this quarter by launching Com Hem mobile. While it's too early to have a noticeable impact, initial traction looks promising and we believe this could create meaningful growth in the future. We also continued to make progress on FMC penetration in our customer base with 45,000 customers now on FMC benefits. We already see that the FMC customers have higher NPS and lower churn, which reaffirms our view that FMC penetration is a key driver for growth going forward. While it's still early days, progress so far reassures us that we can reach our revenue synergies, which



we expect to add an annual run rate of SEK 450 million in underlying EBITDA over 5 years.

In Sweden B2B, as you know, our goal is to turn around the negative revenue trend and improve profitability. In the quarter, we started laying the foundation for future growth in this segment by setting up the management team with key new hires, tasked to refocus the organization on profitable growth. We have begun restructuring the SME sales organization to focus on execution and reducing lead times, which is key to winning and keeping contracts.

We have changed the large enterprise sales incentive program and already see improved sales pipeline with less low margin and more core network-based customers coming in, while withdrawing from loss-making bits.

We see continued positive momentum in volumes while the price pressure remains. Key here is to reduce churn, which will make us less dependent on changing price and reduce commercial cost. In other words, we see a clear path to growth and we are adjusting the business to get there.

In the Baltics we see continued great momentum, with 7% growth in mobile end-user service revenue and 16% in underlying EBITDA excluding IFRS 16.

While we are working on initiatives to set this company up for long-term growth, we are already executing on cost reductions.

In Q1, we realized SEK 50 million of cost synergies. And we have already reached an annual run rate of SEK 300 million at the end of the quarter, making progress towards the SEK 450 million run rate that we expect by the end of this year and the SEK 900 million after 3 years.

As you can see, we have started to execute on plans, which has helped us reach our financial guidance, which you will find on Slide 4. We are reiterating our guidance for 2019 and the mid-term. Since we expect revenue benefits from the commercial strategy to gradually ramp-up, we expect end-user service revenue to be roughly flat in 2019 and thereafter grow by low single digits.

We aim for mid-single digit underlying EBITDA growth, excluding IFRS 16 in 2019 and over the mid-term, mainly driven by front-loaded cost synergies in 2019 and the combination of revenue growth and cost reduction in the coming years.

For CapEx, we guide to SEK 2.9 billion to SEK 3.2 billion in 2019 and SEK 3 billion to SEK 3.5 billion per year in the mid-term, excluding spectrum and leases. To revenue growth, OpEX reduction and low capital intensity, we will continuously increase our cash flow that we intend to return to shareholders. The Board has proposed to increase the ordinary dividend by 10% and payout SEK 4.4 per share this year corresponding to SEK 3 billion in total. We also intend to distribute proceeds from the sale of the Netherlands and Kazakhstan, once the Kazakhstan sale is final sometime mid-year.

In addition, as we grow EBITDA, we will use our balance sheet to lever up within our target range of 2.5 to 3 and distribute more cash to our shareholders.

Now let's take a look, and a closer look, at the segment starting with Sweden Consumer on Slide 6. We have positive net adds in all core services driven mainly by Comviq mobile postpaid and fixed broadband on both Com Hem and Boxer brands.

Total mobile ASPU grew by 2.5% due to pre- to postpaid migration and postpaid ASPU growth of 1.3% driven by up-sell to larger data buckets and unlimited.

Fixed broadband ASPU grew by 1.8% driven by up-sell and higher speeds. We had an inflow of group agreements this quarter with some negative effect on Digital TV Cable and Fiber ASPU but positive effect on churn.

Volume growth in our core services along with higher ASPU in mobile and fixed broadband led to growth in end-user the service revenue for our core services, which you can see on Slide 7.



End-user service revenue for our core services grew by 3%, this was offset by continued decline in the legacy services of 11%, which led to a total declines of 1% in the end-user service revenue in the segment.

However, while we wait for revenue growth to materialize, we execute on cost reduction, which resulted in a 6% growth in underlying EBITDA in the quarter.

Now let's move to Sweden B2B on Slide 8. We continued to make progress on volumes with a 5% increase in mobile RGUs while ASPU continued to decline by 6% percent due to price pressure in the market.

On Slide 9, you can see that while we are working our way back towards revenue growth, we already see positive momentum in EBITDA growth. We expect cost reduction and focus on high margin revenue to result in EBITDA growth already this year, while revenue growth will come later.

Please go to Slide 10 for an overview of Sweden as a whole. Underlying EBITDA excluding IFRS 16 grew by 5% mainly driven by cost synergies within the consumer segment. This led to stable cash generation with a 12-month rolling cash conversion of 73% excluding spectrum.

On Slide 12, you can see that we have continued great momentum in the Baltics with a 6% growth in ASPU. With ASPU grow in all 3 markets led by Lithuania. Mobile RGUs continued to grow, up 1% despite challenges in Estonia.

On Slide 13, we see the effects on mobile end-service revenue, which rose 7%, while underlying EBITDA excluding IFRS 16 grew by 16% organically.

Lithuania continued to be the best performer, growing mobile end-user service revenue by 11% and underlying EBITDA excluding IFRS 16 by 25%. This resulted in continued strong cash generation as you can see in the chart on the right.

Kazakhstan, on Slide 14, continues to grow very nicely driven mainly by pricing and cost efficiency. We received another SEK 134 million of cash from repayment of the shareholder loan in the quarter and expect further repayments of the remaining SEK 2 billion until we close the sale of the asset. The sale is on track to close by mid-year.

With that I hand over to Mikael.

Mikael Larsson *Tele2 AB (publ) - Executive VP & Group CFO*

Thank you, Anders.

Please go to Slide 16, which includes a summary of the accounting changes we have made from 1st of January, following introduction on the new accounting standard for leases, IFRS 16.

First of all, we have, from this quarter for transparency, introduced reported EBITDA as a metric. This is in line with our industry peers.

In addition to this, we have replaced the metric adjusted EBITDA with underlying EBITDA with the difference being that the scope of items affecting comparability excluded from underlying EBITDA, has been somewhat expanded in order to have this metric fully explaining the operational development in the business between accounting periods, without the starvance of items affecting comparability at multiple stages to current trading. With this change, we may focus more on explaining the underlying business performance to you, while all one-off items excluded from underlying EBITDA or disclosed in our financial reports and may be found on Page 22 in the report for this quarter.

With the introduction of IFRS 16, lease costs are now excluded from EBITDA. While we, in line with some other European players, have introduce a new key metrics, underlying EBITDA of the leases.

As illustrated on Page 16, this new metric includes depreciation of right-of-use assets as well as lease interest. And this will be used for cash flow metrics, such as cash flow -- operating cash flow and leverage.

For compatibility towards previous years, we will -- in this year, in -- throughout to 2019 continue to report underlying EBITDA excluding IFRS 16. Going forward our financial guidance will be based on underlying EBITDA after leases.

After these remarks about accounting changes let us now move on to the reported financials for Q1, starting with group profit and loss on Slide 17. Please note, that Com Hem is included in numbers for this year but not in last year's numbers. While revenue and operating performance on this slide comps the compare between the periods.

In the quarter, we recorded costs related to the integration with Com Hem of SEK 155 million, which are included in items affecting compatibility.

The major step-up in depreciation and amortization is explained by both additional amortizational surplus value from acquisitions of SEK 299 million as well as depreciation of right-of-use assets under IFRS 16 of SEK 303 million.

So net profits with their major uplift in Q1 this year versus last year, up from SEK 343 million to close to SEK 1 billion, explained by the major restructuring the group has undergone over the past 12 months, with the Netherlands operations being March for T-Mobile and the

acquisition of Com Hem.

Let us look at the cash flow for the quarter on Slide 18, where we see a major uplift in EBITDA from continued operation of approximately SEK 600 million net dollar amortization of lease liabilities. The increase is explained by the inclusion of Com Hem in the 2019 numbers as well as strong performance in this continued operations. Kazakhstan in this quarter and Netherlands and Kazakhstan in Q1 2018.

CapEx paid increased driven by the inclusion of Com Hem and also by spectrum payments SEK 799 million in the quarter, including SEK 721 million for this 700 megahertz license in Sweden.

Change in working capital improved to a positive SEK 116 million as negative performance in previous quarters were -- was partially reversed. That's why we have been able to expand our handsets' financing solution in Sweden.

Financial items increased due to lease interest cost of SEK 47 million, included in 2019 numbers. Tax payments were also higher with Com Hem included in this year and also explain by higher profits reported in our non-Swedish operations.

In addition to equity free cash flow of SEK 437 million generated by the group in Q1, we also received the preliminary proceeds from the sale of Netherlands of EUR 190 million pre-closing adjustments.

Please go to Slide 19, Synergy Update. In the quarter, we had SEK 50 million of cost savings included in the profits with an annualized run rate of SEK 300 million of synergies realized at the end of the quarter, of which a vast majority came from FTE reductions, both consultants as well as own employees. This means we are well on track to deliver on the SEK 450 million run rate gold -- goal for the end of this year as well as the SEK 900 million, in total, annual cost synergies to be realized until end of 2021.

Let's move to Slide 20 with a summary of our financial guidance, which is unchanged since previous quarter. Our financial performance in Q1 reflects the the full year guidance for 2019 with end-user service revenue for the group being flat in the quarter. Underlying EBITDA excluding IFRS 16 growing by 8%. And CapEx excluding spectrum and leased assets of SEK 643 million. CapEx is expected to be somewhat skewed towards the second half of this year, as we started the rollout of 5G and Remote-PHY more intensely -- more

intensively.

Please go to Slide 21. At the end of March, we reported leverage of 2.6x measured at economic net-debt-to-underlying-EBITDA of the leases, down from 2.8x at the end of 2018. And this is the leverage ratio we will use going forward, with leased depreciation and leased interest costs deducted from the EBITDA metrics and excluding the lease liability from net debt.

Had we chosen the alternative approach, as shown in the middle column on Slide 21 excluding lease and interest payments from the EBITDA metric and including lease liability, net debt to underlying EBITDA would have been that 2.8, end of March. But as you may see on the right of this slide the entire increase of 0.2 is explained by noncommitted future leased liabilities

of SEK 2.6 billion recorded in the balance sheet under IFRS 16. Excluding these non-contractual liabilities, net debt to underlying EBITDA would also have been at 2.6. This means that our leverage target will remain unchanged after introducing IFRS 16 at 2.5 to 3x economic net-debt-to-underlying-EBITDA of the leases.

The strong cash generation in the business in combination with the cash proceeds from the sale of Netherlands led to leverage decreasing to the lower end of our target range, end of March. This is the health of payment of the first portion of this year's ordinary dividend of SEK 4.4 per share to be paid in beginning of May. As early stated, we intend to inform you regarding additional shareholder remuneration around mid-2019, when the sale of Kazakhstan is expected to be completed.

And with that I would like to hand back to you, Anders.

Anders Nilsson Tele2 AB (publ) - President & CEO

Thank you very much, Mikael.

And please turn to Slide 23 for our key priorities going forward, which actually remain the same as last earnings call.

One of our top priorities is to reignite growth in Sweden, we will do this by ramping up sales of Com Hem mobile and drive FMC in the customer base in the Consumer segment. We expect these initiatives to ramp-up to the run rate of SEK 450 million per year in adjusted EBITDA in 5-years' time. We also aim to turn the Swedish B2B business into growth by taking market share and improve profitability by focusing on higher margin on net growth.

On the cost side, we will continue executing on the restructuring process to reach the SEK 900 million of cost synergies within 3 years with the roughly half already by the end of this year.

In addition, we will investigate the potential for more structural change over time to turn Tele2 into a true integrated challenger. Outside of Sweden, we will build on the momentum we have in the Baltics, and we look forward to closing the sale in Kazakhstan, making a major step towards optimizing our footprint to focus on the Baltic Sea region.

With that I'll -- I'd like to hand over to Nicole for Q&A.

Operator

(Operator Instructions) And your first question comes from the line of Peter Nielsen, ABG.

Peter-Kurt Nielsen ABG Sundal Collier Holding ASA, Research Division - Lead Analyst

Anders, if I read your comments correctly in this morning's report, you seem to be suggesting that by focusing on a fully integrated sort of market approach, fixed and mobile, FMC approach, the market can be turned to growth in a better way than, sort of, combining the 2, fixed and mobile, segments the way it is today, is that correctly understood? You believe that this can spur growth in the overall market.

And and my second question just relates to the Com Hem mobile offering, I appreciate it's very early days but could you give us any indications, Anders, on where the Com Hem mobile customers are coming from, if it all possible?

Anders Nilsson Tele2 AB (publ) - President & CEO

Thank you very much, Peter. So I mean, we believe that by going into focusing on FMC, which we're the only operate doing. As you know, our major competitors are doing the same thing. And by doing it, using the more-for-more strategy, which seems to be the case both for us and for our competitors that will introduce a new growth leader in the market, which has not been present so far, at least, not in the mobile market and that is price.

So we believe that, that will help the whole market, actually, to perform better over time. And there are actually 2 things happening with FMC by -- and we can see that already now from the 45,000 FMC customers we have on the -- in our books by the end of Q1. And we see a significantly higher Net Promoter Score and we see a very, very significantly lower churn rate on these customers, even though, it's early days. And that indicates to me that we have produced pricing power, which we didn't have before and we will have customers staying on for a longer time. Both these things are, obviously, key to driving revenue.

So, yes, I believe that an FMC market on a more-for-more strategy, which the Swedish market seems to be, will have a better growth profile than end markets without these kind of initiatives.

Then when it comes to Com Hem mobile, we -- and I guess, the question is, do we cannibalize ourselves to a very high degree, Peter. That's how I read the question, anyhow. And the answer is, no, actually we have a lower cannibalization than our market share would suggest. So we're happy from that perspective as well.

Operator

Your next question comes from the line of Roman Arbuzov at JPMorgan.

Roman Arbuzov JP Morgan Chase & Co, Research Division - Analyst

I actually had 3 and all of them relate to synergies and your guidance for EBITDA and for costs. So the first one is, you're strongly out of the blocks in terms of your delivery for Q1 and it's very impressive, I was just wondering if you can, perhaps, elaborate on the -- whether you were just delivering faster on what you have initially planned? Or are you, perhaps -- have you discovered additional areas that, that you could be working on in terms of the synergies?

Secondly, given this strong Q1 performance, do you think this is -- this may allow you, late -- in a year or 2, upgrade your synergy targets? And I'm talking about the synergy targets for this year as well as the medium term. And, also, one may observe now that your EBITDA guidance for the year also looked somewhat conservative, would you agree with that?

And then, finally, on one of the slides you also mention investigating additional initiatives related to the synergies, could you please just talk about those? And maybe your broad or high-level thinking on what those may be? And obviously, if you already have some, sort of, a magnitude in mind that would also be extremely helpful.

Anders Nilsson Tele2 AB (publ) - President & CEO

Thank you, Roman, for these questions, I'll try to address them one by one.

So the first one was the synergies, are the synergies -- the SEK 450 million run rate coming faster or have we found additional areas -- actually increasing the magnitude, that was the first kind of question. And what we're doing right now is that we're executing on the SEK 450 million run rate and we have been able to do that faster than anticipated. You're still have to bear in mind that this is not a linear process, we will -- you will not see the same kind of pace in every quarter even though we're trying to do things as early as possible. And I would say that in this quarter, we -- it has been faster than what we anticipated. So we have seen more synergies coming through in Q1 than we originally anticipated.

What will that, then, mean for synergies for the full year and for longer term? I think it's too early to go into that debate. I would like to see how things move on in Q2 before coming back and addressing this question. So right now, I think, we're going to stick with the SEK



450 million number for the full year and then we'll come back and see if we need to address that or update that on the back of what's happening during Q2 or not. So let's keep that for the time being. But there may be possibilities on the upside, maybe, but don't bank on it. That's my take at least.

And then, the third question was, are there additional initiatives which we can investigate? And the answer is, yes, yes, there are. So what we have found is that -- the synergies, basically, the SEK 900 million, they -- that's basically synergies for merging, integrating Com Hem into the Tele2 group and for taking down some group functions [or it doesn't have group functions in Tele2 as we now service less and less countries. So that's the SEK 900 million number. Then we have another ambition and that is to become an integrated operator. And that means that we should, in the future, not work in silos, as we are doing today. And the company, it's basically -- in Sweden, there are our 3 silos, it's the Com Hem silo, it's the Tele2 mobile silo and it's the Tele2 B2B silo. And the idea, then, being to integrate all of these into one basic operation, one company performing the services for all the type of customer groups as far as possible. And that will, then, give us opportunity to both become more efficient, i.e., cost synergies. But I think equally important and maybe even more important, it will make us more agile and make us able to service our customers in a much better way going forward, these initiatives we have not basically put a number on and we have not put a time line on yet because we have been busy in executing the synergies. But we will, for sure, come back to that over time, Roman.

Operator

Your next question comes from the line of Nick Lyall at SocGen.

Nick Lyall Societe Generale Cross Asset Research - Equity Analyst

Just a couple of questions, please, on this, if I could on. First one would be on ARPU in the consumer and business. You talked, I think, in the answer to Peter's question about some pricing power, but it seems as if consumer postpaid ARPU growth is a little slower. This quarter business ARPU seems quite a bit weaker as well. So could you just mention is on the consumer side, is that a little bit of dilution and maybe more discounting from operators, could you maybe just update us on that? Then on business, it felt from the comments used, if things were getting a bit tougher, is that the right the way to -- right thing to interfere from your comments? Or is it, maybe, the effective of certain contracts, could help me out?

Then the second question was, Telia's price rises were very large, have you seen any benefits from any churn coming from Telia in the last couple of months as well?

Anders Nilsson Tele2 AB (publ) - President & CEO

Okay. Thank you very much, Nick. I'll hand over the first question on the consumer ARPU to -- yes.

Samuel Skott Tele2 AB (publ) - EVP of Sweden Consumer

Yes. So, Nick, Samuel here. So on the postpaid

-- post (inaudible). Yes, a bit slower in Q1 but no major items. Yes, there were some, kind of, incoming [ARPU] are lowers, thanks to group agreements, but no, no major items as such. I think, one should also remember that we took a deliberate decision to put through less pricing this year that also has some effect in Q1, even though, the big effect of that would be made here in Q2.

Anders Nilsson Tele2 AB (publ) - President & CEO

Exactly, and then for B2B. I mean, as you -- as we have explained, we are trying to refocus the business on selling more network-based services, including, obviously, mobile. And we're also addressing the segments where we want to have more emphasis on SME going forward. Right now, we see a lot of the action happening in large enterprise and that is where we have the the biggest price pressures. So -- and that is what you see in the ASPU number basically. So that's an effect of price pressure in the large enterprise segment. Whereas we intend to increase our efforts also in the SME market, which is much more resilient and the price pressures it's not as big going forward.

So I think over time, you will see a different kind of story here, but I do expect price pressure going forward on the prices in B2B, which is, I think, a common phase when you have a market -- where you have a market leader and you have challengers like ourselves and other coming in, taking the market share from the market leader, which is a part of the game here going forward.

Samuel Skott Tele2 AB (publ) - EVP of Sweden Consumer

Yes. And if I should conclude then on the Telia price rise, I mean, it took effect on 1st of April, so it would be too early to tell. We continue to deliver solid net adds in the broadband space. But too early to tell the impact of the Telia price rise.

Anders Nilsson Tele2 AB (publ) - President & CEO

Exactly.

Operator

Your next question comes from the line of Lena Osterberg at Carnegie.

Lena Osterberg Carnegie Investment Bank AB, Research Division - Head of Research of Sweden, Head of Technology Hardware & Equipment and Financial Analyst

I have 2 questions. First of all, could you say something maybe on the synergy target, just explaining the SEK 450 million, is that what you're expecting annualized or realized synergies for this year?

The second question is on the 45,000, as explained by conversions customers that you've got in the quarter. Given that you say, you had it so far it was relatively later on to the Com Hem mobile brand and not so many customers in on that, so I assume the majority of those customers came in from the Tele2 brand taking broadband and TV subscriptions, is that correct?

Mikael Larsson Tele2 AB (publ) - Executive VP & Group CFO

Thank you, Lena. It's Mikael here, I will try to answer on the first one. The target we mentioned, the SEK 450 million of synergies for this year, that is the annual run rate at the end of the year, which means that you will not see that number in the P&L for this year, it's the run rate at the end of the year annualized.

Lena Osterberg Carnegie Investment Bank AB, Research Division - Head of Research of Sweden, Head of Technology Hardware & Equipment and Financial Analyst

That's to be compared with the SEK 300 million you had already in this quarter.

Mikael Larsson Tele2 AB (publ) - Executive VP & Group CFO

Yes, exactly, that it is. Not the SEK 50 million, we realized in P&L in this quarter. For the 45,000. I hand over to Samuel.

Samuel Skott Tele2 AB (publ) - EVP of Sweden Consumer

Yes. Lena, Samuel here. I mean, yes, you're correct, since the launch of Com Hem mobile was on the mid of the quarter, the majority of these customers are Tele2 customers. So there are 3 ways mainly you can become an FMC customer, as we count them, either it's cross selling, fixed to mobile, mobile to fixed, or it's the existing overlap where the customers choose to sign up for the benefit schemes. So the majority of these customers, to date, is the existing overlaps signing up for the benefit schemes, becoming as we see it as a full FMC customer.

Operator

Your next question comes from the line of Maurice Patrick at Barclays.

Maurice Graham Patrick Barclays Bank PLC, Research Division - MD

Maurice here. So on the consumer side and the impacts from Com Hem mobile, thanks for clarifying the 45,000 been mostly internal so far. You said in the past you won't use price as a tool to take market share, I just wondered, if you'd to see any change in competitive moves that might change that view? You do talk about ramping-up activities on the conversions, which I guess, linked to that. You start below a churn as well, I mean, do you see a lower churn pull because of FMC, generally? So I guess, it's a 2-part question really. Are you going to change the pricing? And are you seeing a lower churn pull in the market because of the wider activities taking place?

Samuel Skott Tele2 AB (publ) - EVP of Sweden Consumer

Okay. Maurice, Samuel here. So on the Com Hem mobile, I mean, there are so many things we can do operationally still to improve attractiveness and the attraction within our own customer base. So we don't see any kind of need for any price changes in the short term. And that's -- as Anders said in the beginning here, we see a stable market currently and we expect it to continue to be that way.

On the churn pull, we have started to see in the broadband space already last year some diminishing of the churn pull, thanks to FMC. And that's the trend that we continue to see even if it's a - if it's still small numbers so to say, we are starting to see the impact and, of course, we are part of driving that and happily so.

Operator

Your next question comes from the line of Andrew Lee at Goldman Sachs.

Andrew J. Lee Goldman Sachs Group Inc., Research Division - Equity Analyst

I had a couple questions just on Swedish trends.

Just -- firstly, I wondered if you could give us your take on the current competitive dynamics in Sweden, both consumer and B2B. And does it look better than you had expected when you set your revenue growth outlook? Obviously, you've touched upon, it's [Tele2] impact of the Telia price rises, but just how do you see the market dynamics more broadly?

And then, second question, just on the legacy headwinds, so the trends you took -- trends have gone down with -- modestly with the rest of your trends in Sweden. Do you think legacy headwinds have got worse? Or we're just saying the tougher comp effect of the year without price rises more broadly in the Swedish market?

Samuel Skott Tele2 AB (publ) - EVP of Sweden Consumer

Okay. Andrew, so Samuel here. I'll start with competitive dynamics for B2C and then legacy and then maybe on the (inaudible) of B2B. So I think it's -- it is what we expected coming into this year, it's very competitive but stable if we compare it to the situation we had last year. On the margin, we see some changes in campaigns but overall, I would say, it is as expected. And when it comes to the legacy headwinds, we don't see any change in the dynamics or in the market, it's rather our own decisions around pricing that effect this.

Anders Nilsson Tele2 AB (publ) - President & CEO

Yes. And when it comes to the B2B market, I think, it is pretty much as expected, maybe a little bit tougher on the large enterprise side. But that should not really be a material effect to us, given that we have -- I mean, the whole case hinges on us performing differently and setting up our operational and working in different ways, that's what's going to turn this business into growth. So I don't see anything stopping us from doing that. I hope that answers your questions, Andrew.

Operator

Your next question comes from the line of Johanna Ahlqvist at SEB.

Johanna Ahlqvist SEB, Research Division - Analyst

I have 2 questions, if I may. First of all, back to Sweden, again, and the price increases, I'm just wondering, you mentioned previously that there you see scope for slightly lower price increases than last year. And I'm just wondering your strategy here because, obviously, price is an important component for driving growth in the Swedish market going forward. And your strategy here, is it more to, sort of, look upon what Telia and Telenor is doing and react to them? Or will you even be a price leader? Or how to use your counterstrategy?

And the second question relates to Kazakhstan. How is that process as of now? I know you mentioned that you see a closure there in the mid of this year, and are you having, sort of, one price suggestion and the counterpart one and then you're trying to, sort of, meet in the middle? I'm just wondering if you could give an indication of -- if you expect it to end up as you, sort of -- the numbers you have in your books?

Anders Nilsson Tele2 AB (publ) - President & CEO

So thank you very much, Johanna. So on pricing

I will give you the, kind of, broad overlook of how we're looking at that. It's -- pricing is a part of our strategy going forward, we're on the more-for-more strategy, and we intend to build customer satisfaction throughout the year, which we're then, going to translate the part of into higher prices. We do that normally once a year in the case of Com Hem it's conducted in Q1 so you've seen pricing this year happening, which will then come through in Q2. The price increases this year were -- are much smaller, basically, 1/3 of last year. So you're going to see a smaller impact in Q2 than you saw last year, which is going to have an impact on our growth rates, then. Yes, since you're aware of that.

Then we will come back and do pricing every year. And we will try to do it for the mobile side as well. We know that once the customer is on an FMC bundle, we produce a significant amount of NPS, which we can translate into price, so that's why it's so important to go on FMC as far -- as many customers as possible on FMC as fast as possible. So that's basically the broad strategy.

When it comes to pricing versus our competitors, it's quite clear that the market leader in this market has to have the highest prices -- highest headline prices. We do not have the brand strength to go beyond the prices of the market leader yet, at least, but we are working on strengthening our brands, so we can become as close as possible to the market leader. And that will over time, hopefully, be reflected in our headline prices to consumers. So that was the first part on pricing, then that we moved to Kazakhstan, Mikael.

Mikael Larsson Tele2 AB (publ) - Executive VP & Group CFO

Yes. And as you know, Johanna, there is a set process for how this valuation and how to fix the price for the asset. And we are in the middle of this process. So we are in the quarter prepared for the valuations to be made, we are under process of getting the valuations. And then we will see if we meet on the price or we go for a third evaluator. And since we are in the middle of this process right now, I cannot comment on any details, exactly where we are. Yes, but we are as expected in the process. It's going as planned, and we expect to communicate the outcome around mid-2019. And when it comes to value you can -- if you follow the details in the report, you can see that we have more or less the same value for the earn-out liability in this quarter as well in last quarter. And it's been valued on consistent basis.

Operator

Your next question comes from the line of Terence Tsui at Morgan Stanley.

Terence Mun-Sion Tsui Morgan Stanley, Research Division - VP

Just wondered if you could say a few words around

Boxer. I was just wondering about how much of that legacy declined in Boxer is now being offset by a growth in broadband? And whether we're any closer to a revenue stabilization of Boxer? And just related to that, I remember in the past you talked about EBITDA of Boxer being around SEK 300 million. Obviously, the cost cutting at the Swedish group level is going very widely, is Boxer a key component of that as well?

And then, the second question is more like a medium-term question, around shareholder remuneration, in particular, the balance around dividends versus share buybacks. I remember, a Com Hem Investor feedback was important in your decision when you decided to raise the dividend by 50% at one stage, just hoping that you can share with us the rest of feedback that you've received? And maybe which way you are leaning towards when it comes to special returns in the future?

Samuel Skott Tele2 AB (publ) - EVP of Sweden Consumer

Terence, Samuel here, I can start. So if we look to Boxer, I mean, the development more or less looks as if, we have an intake on broadband and we have a declining [TD] and that continues.

And the main priority for us right now is to, going forward, include Boxer in the FMC strategy and during this -- the course of this year integrate Boxer into the Com Hem brand so we are able to offer the full products suite and all the benefits of becoming an FMC customer. So that's the strategy going forward for Boxer.

Mikael Larsson Tele2 AB (publ) - Executive VP & Group CFO

And when it comes to Boxer EBITDA, profitability, I would say that the EBITDA is stable and that comes from -- the vast majority of the costs are variable with revenue and they are reduced. On top of that we also see fixed cost reductions with -- as part of the synergies, so overall a stable EBITDA.

Anders Nilsson Tele2 AB (publ) - President & CEO

And when it comes to dividends versus buybacks, so -- and the feedback from investors so far is that the majority are in the camp of dividends and we have some who like buybacks. So that's the feedback we have got. When it comes to the Board and their view they have not made up their mind exactly on how to treat it going forward, but one indicator may be that in the AGM, which we will hold in the beginning of May, we ask for mandates to be able to do buybacks so at least we will have that opportunity if we would like to do it. And then, the Board will come back and -- with a proposal on what to do with the proceeds from the Netherlands and Kazakhstan and how to distribute them in due course, that's what I can give you right now, Terence.

Operator

Your next question comes from the line of Ulrich Rathe at Jefferies.

Ulrich Rathe Jefferies LLC, Research Division - Senior European Telecommunications Analyst

I have 2 questions, please. The first one is on the solutions lines in your fix business, the growth in -- the revenue growth in solutions stepped down from 4%, I think, in the fourth quarter to 1%. I think you're not counting this is as legacy revenue. So I was just wondering what drove the slowdown in solutions, whether it's just quarterly variability or anything, sort of, more underlying?

The second question is, on the one-offs you mentioned that you have, sort of, predesigned the definition of one-offs. That would leave market expectations more formed before you actually entered a round. So maybe just for the first quarter, would you be able to, sort of, give us some indication, how the EBITDA would have looked under the old definition for one offs? That will be helpful.

Anders Nilsson Tele2 AB (publ) - President & CEO

Thank you very much, Ulrich. So I'll take the first part and then I'll hand over to Mikael for the second one. So on solutions in B2B, well, I mean, this is part of the strategy, so solutions have a significantly low profit margin than the network-based services. And one of the things we're doing here, well, we are reigniting growth in B2B is that we will focus less on solutions and more on network-based services. So very deliberately, we do not sell as much solutions and focus less on that, which is what you see in the numbers.

And will, in the short term, not help growth in solutions, obviously, but it will for sure help profitability because it's -- some of the products are even loss making and those we should absolutely not sell, obviously. So that's what I can give you on B2B and then for one offs, Mikael.

Mikael Larsson Tele2 AB (publ) - Executive VP & Group CFO

For one offs, I may put forward compatibility with last year's, you have all items openly disclosed in the reports. For Q1 this year, if we have applied adjusted EBITDA in this quarter, I would say that the net effect of this change is that it's negative SEK 6 million and that is disclosed on Page 22 in the report in footnote 3. So it's only SEK 6 million minor difference in this quarter.

Operator

Your next question comes from the line of Siyi He at Citigroup.

Siyi He Citigroup Inc, Research Division - VP

I have 2, please. The first one, and it is more about a clarification, I mean, in Q1 you delivered a flat organic service revenue growth but the comps are getting harder in Sweden because you have lower price increases and also harder comps in Baltics as well. And my question is, if I think about -- for full year 2019, do you think there could be a chance where we're really looking at a modest end-user

service revenue decline for the full year?

And my second question is, Sweden fixed, I wonder if you can give us some indication of fixed churn development this year, post your price increases? And whether you're thinking of potential magnitude of the price increases, could potentially change, given the churn development and the Telia's price increase?

Anders Nilsson Tele2 AB (publ) - President & CEO

Thank you, very much. So I'll start with the first one, we -- I mean our estimate is the same, we believe in flat end-user service revenue for the full year of 2019. And nothing that we have seen in Q1 changes that assumption. So that's where we're at. Markets may change going forward, which will have a positive or negative impact but nothing we see right now will change our mind as of now. Then we'll go to the fixed churn.

Mikael Larsson Tele2 AB (publ) - Executive VP & Group CFO

Yes. So if we look on customer churn on both

Com Hem and Boxer it's actually slightly better than compared to Q1, Q1 last year. And in terms of pricing, of course, pricing is an integral part of the strategy going forward but the exact sizing and when and how, that is something we'll have to come back to. Right now the focus is to build the customer satisfaction and loyalty through the FMC scheme and that's the priority for this year.

Operator

Your next question comes from the line of Henrik Herbst at Crédit Suisse.

Henrik Herbst Crédit Suisse AG, Research Division - Research Analyst

Yes. I just wanted to follow-up on the ASPU trends in Sweden, I guess, in particular the fixed broadband ASPU trends, quite a big slowdown. I was wondering if fixed broadband ASPU was also impacted by this group contract or if that's mainly a result of the smaller price increase in 2019? And also if you could repeat, I didn't really get your explanation why postpaid -- consumer postpaid ASPU slow -- growth slowed in Sweden as well. And then, when we think about, sort of, a reacceleration in service revenue growth in Sweden from 2020, should we think about us being mainly volume or ASPU-driven, basically?

Samuel Skott Tele2 AB (publ) - EVP of Sweden Consumer

Yes. So, Henrik, Samuel here. So if we start with the ASPU trends on fixed broadband. The vast majority of that difference is pricing. So, yes, of course, there is an influx of group agreements but at -- on a steady, slow-growing pace with no major impact, so it's about pricing.

On mobile postpaid, I mean, still we had a big change in the competitive landscape during Q1, Q2 last year and, of course, that is still affecting us some. So I would say that is the main driver for that. And then maybe, Anders, you can take the last one.

Anders Nilsson Tele2 AB (publ) - President & CEO

Yes. Exactly so the mix -- I have to think about the mix in 2020 and forward. I mean, if we look at the initiatives we think will make a big impact, starting with consumer, I mean, Com Hem mobile that will drive both volume and, obviously, ASPU on a consumer level. If you think about the FMC benefits that will reduce churn, so everything else equal and that will drive volumes. And then, obviously, we will have price as another tool depending on how much customer satisfaction we're able to build during the year, which will drive ASPU, obviously. So it will be a combination and I can't tell you exactly how much will be in the one camp and how much will be in another camp. That will pretty much be decided on how these growth drivers turn out to work in real life.

Then when it comes to B2B, that will be a volume game, that will not be an ASPU game. I think, we will see pressure on ASPU in B2B going forward, since it's a -- we are a challenger, taking market share from the incumbent and that, ultimately, is done with price to some extent, at least. I hope that answers your questions, Henrik. Thank you.

Operator

There are currently no further questions on the lines.

Anders Nilsson Tele2 AB (publ) - President & CEO

Okay. Anybody else wants to have a question, I think, this is your last chance.

Operator

(Operator Instructions)

Anders Nilsson Tele2 AB (publ) - President & CEO

That doesn't seem to be the case, operator. So I think, I'll -- we'll end there. So thank you very much, Nicole. And thank you, everybody, who has been on the call. And this, then, concludes this earnings call. And I wish you all a very good day. Thank you very much.

Operator

Thank you, that does conclude the conference for today. Thank you for participating. You may all disconnect. Speakers, please stand by.

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