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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Tele2 Q3 Interim Report 2019. (Operator Instructions).

I must advise you that this conference is being recorded today Thursday, the 17th of October, 2019. And I would now like to hand the conference over to your speaker today, Anders Nilsson. Please go ahead.

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

Thank you very much, Serena. And good morning, everyone and welcome to the Q3 report call for Tele2. With me here I have Mikael Larsson, CFO; and Samuel Skott, EVP Sweden Consumer. Today we will walk you through the results for the quarter, give you an update on our ongoing initiatives and then move over to Q&A, so we can address the topics that you are most interested in.

Please turn to Slide 2 for a brief summary of the results for the quarter and of the first 9 months of the year. The Tele2 Group end-user service revenue was flat in the quarter and year-to-date. This is in line with our full year guidance of flat growth. Underlying EBITDA, excluding effects of IFRS 16, increased by 5% in the quarter and 4% year-to-date, driven by cost reduction, as we continue progress on the synergies. This is also in line with our full year guidance of mid-single-digit growth.

CapEx excluding spectrum and leases amounted to SEK 0.5 billion in the quarter and SEK 1.7 billion year-to-date.

Since the 5G rollout in Sweden will start later than anticipated, we have decided to lower the CapEx guidance for 2019 to SEK 2.3 billion to SEK 2.6 billion down from SEK 2.6 billion to SEK 2.9 billion previously.

So the conclusion is that we are performing in line with our guidance for the year.

Now let's look at our strategic initiatives on Slide 3. The Sweden Consumer segment continued to make progress on our FMC strategy with 141,000 customers now on FMC benefits. This represents a penetration of almost half of the addressable overlap between the mobile and fixed customer base after less than a year since the offers were launched.

We took a major step by introducing mobile pricing as a new growth driver this quarter, similar to what we have done on the fixed side for years. We believe that we can achieve sustainable growth by monetizing increased customer satisfaction through annual price



adjustments. This is what we call the more-for-more strategy.

As a part of this more-for-more strategy, we introduced a new family offer and new data buckets in the Tele2 brand. Samuel will give you more detail on the strategy in a few minutes.

In the Sweden Business segment, we continue executing on our plan to turn into revenue growth and improve profitability. However, this is still work in progress at this point, as price pressure in the large enterprise market persists, and the strategic changes we have made are yet to have impact on revenue growth.

In large enterprise, our focus is to take high-margin contracts in the private sector, while cutting costs. In SME, we aim to take market share and reduce churn by improving our mobile offering and using our fixed mobile convergence capabilities. One area where we do see sustainable growth is the Baltics, where end-user service revenue grew by 10% and underlying EBITDA, excluding IFRS 16 grew by 6% in the quarter.

We continue to execute on cost reduction, which had an impact of SEK 150 million in the quarter, adding up to SEK 300 million in the first 9 months of this year.

We reached an annualized run rate of SEK 650 million already after 9 months and now raised our year-end target to a run rate of SEK 750 million.

Please move to Slide 4. We maintain our guidance for end-user service revenue. 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 also maintain our guidance for EBITDA. We aim for mid-single-digit underlying EBITDA growth, excluding IFRS 16 in 2019 and over the midterm, mainly driven by front-loaded cost synergies in 2019 and a combination of revenue growth and cost reduction in the coming years.

Like I mentioned, we now lower the midpoint of our guidance for CapEx, excluding spectrum and leases by SEK 300 million this year to SEK 2.3 billion to SEK 2.6 billion, down from SEK 2.6 billion to SEK 2.9 billion to reflect a later roll out of 5G in Sweden. We maintain the CapEx guidance for the midterm at SEK 2.8 billion to SEK 3.3 billion.

This is the model by which we translate low revenue growth into slightly higher EBITDA growth through OpEx reduction. We then achieve even higher cash flow growth through disciplined CapEx spend. In addition, we use our balance sheet to lever up the growth in EBITDA within our target range of 2.5 to 3x to grow the cash available for shareholders even more. This should lead to a very attractive shareholder remuneration profile over time. This year, we have distributed a total of roughly SEK 7.1 billion to shareholders through the ordinary dividend, which was paid out in tranches of SEK 2.2 per share in May and October and the extraordinary dividend of SEK 6, which was paid out in August to distribute the proceeds from the sales in Kazakhstan and the Netherlands.

Now let's take a closer look at the segment starting with the Sweden Consumer on Slide 6. The Swedish Consumer segment continued to deliver strong volumes with net intake at the highest level in several years. Our core services had a net intake of 35,000 RGUs and the legacy service declined -- slowed down further with an outflow of only 11,000 RGUs. It is great to see such momentum in our core services since this is the area where we can really extract value over time through both volume and price, as we execute on the more-for-more strategy and drive FMC in the customer base.

As you can see in the chart to the right, we are yet to execute on the second part of this strategy and monetize customer satisfaction through ASPU growth. As expected, the ASPU pressure continued this quarter as the effect of this year's smaller fixed line price increase remains. This slide paints a good picture of how we use customer satisfaction to drive growth. All of our commercial initiatives this year have been aimed at doing one thing and one thing only, improve customer satisfaction. So far, we have monetized that customer satisfaction through volume growth, as you can see on the chart to the left.

When we look at these charts again next year, you should expect to see the effect of this strategy on the charts to the right, as well as we monetize customer satisfaction through back book pricing.

On Slide 7, you can see the financial effect of the strategy so far. Total end-user service revenue saw the first quarter of growth since Q1 2018 with a slight growth of 0.4%. End-user service revenue in our core services continue to grow up 3%, as you saw on the previous slide this was mainly driven by volume. We also see a lower drag from declining legacy services, driven by great performance in mobile prepaid and slight improvements in DTT ASPU, which is an area where we actually did significant pricing this year.

Continued execution of cost synergies resulted in a 4% growth in underlying EBITDA this quarter.

Now, Samuel will walk you through our more-for-more strategy in more detail.

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

Thank you, Anders. Over the next few slides, I will talk about our new growth driver, mobile pricing, and how we execute the more-for-more strategy to build customer satisfaction, which we then can monetize through volume and price.

I, however, want to make clear and hope that you all appreciate that we will never publicly comment details and exact timing for possible pricing rules before they are implemented. Pricing will always be dependent upon market environment and the more-for-more principle, i.e. increasing customer satisfaction.

But let's start on Slide 8. We have a structured and continuously ongoing approach to watch pricing with the foundation being our focus to create great value for our customer, that's where it all starts. Customer value is created through award-winning network and products, great brands which we position as leaders in the premium segment and clear more-for-more benefits. This then creates value for the customer that we can benefit from in different ways, pricing being one.

We have a yearly pricing cycle that includes both fixed and mobile products, updated front book prices and proactive value given to our customers are then used for gradual back book repricing, the majority of which is done in the first quarter.

On Slide 9, you can see how we implement this strategy on the fixed side. In broadband and TV, this strategy has been in place for several years and after a relatively slower year of pricing in 2019, we have on the back of several product improvements and our FMC strategy, increased the front book prices for broadband.

In the fourth quarter, we will now execute some smaller back book adjustments to optimize our approach as we do the major adjustments in Q1.

Let's turn to slide 10 to look at the mobile pricing plan. For our mobile business, pricing is a new growth driver that we're leveraging. However, the principle and the mechanics are the same as in fixed. In the third quarter, we updated our Tele2 mobile portfolio as we increased front book pricing. At the same time, we launched an advantageous family plan where you can add members for only SEK 199 per line and where everyone in the family gets their own data allowance. The family plan is simple and beneficial to our customers and it will help us on our quest to win the full household. Just like on the fixed side, we will do some smaller back book adjustments in the fourth quarter to optimize our approach, as we do the major adjustment in Q1.

All in all, this is how we aim to achieve sustainable growth in the consumer segment.

Each year we build customer satisfaction by giving our customers tangible benefits that they value and in turn we will be able to translate that increased customer satisfaction into revenue growth through a mix of both volume and price.

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

Anders Nilsson Tele2 AB (publ) - President & CEO

Thank you very much, Samuel. And please turn to slide 11 for our Sweden Business segment. Within B2B, we see no fundamental changes in the market. The price pressure from government contract continues. This is having an impact on our performance, which will likely continue for some time. Our initiative to turn this business into growth are yet to have an effect. And as a result, our performance is similar to previous quarters.

The most important factor here is to turn mobile into growth. As you can see in these 3 charts, the 4% growth in mobile RGUs was offset by the 8% decline in ASPU, leading to a 4% decline in mobile end-user service revenue. Our plan is to refocus the large enterprise segment toward the private sector where pricing is better and go after high-margin contracts and cut costs to keep growing EBITDA.

In SME, we have historically not put enough effort to take our fair market share and as a result we are underrepresented in this segment. Our focus will be to take market share by improving our mobile portfolio, manage our existing customer base better and utilize our FMC capabilities.

On Slide 12, you can see that we are cutting cost in this segment, which resulted in a 4% growth in underlying EBITDA, excluding IFRS 16 in spite of revenue decline.

Please go to Slide 13 for an overview of Sweden as a whole. While we see end-user service revenue inch its way up towards growth, we are still not there, as the decline in the business segment offset the slight growth we saw in consumer this quarter. However, underlying EBITDA, excluding IFRS 16 grew by 4% despite the revenue decline, driven by continued execution on the cost synergies, partly offset by investment into growth initiatives. We continue to see strong cash conversion of 72% as CapEx spend is relatively low, now in between investment cycles.

Before me move on to the Baltics, I will like to walk you through the conclusions of the Swedish network audit, which we started last quarter to investigate the recent network outages. So please move to Slide 14.

We find the conclusions of the audit reassuring for a few reasons. The audit found that the quality of our radio access network is excellent. As further proof of this, we were actually named the best network in Sweden by the recent P3 benchmark test. As you may know, the radio access network is where the bulk of the network CapEx goes, which reassures us that we do not have an under-invested network. The area where we need to make improvements is the core network. And these improvements are mainly related to simplification of processes rather than financial investments.

The good news here is that the recommendations of the audit are in line with our current core upgrade plans, which means that everything is already included in our CapEx guidance. We now have a pipeline of improvements, which have already started and will continue over the next few quarters, including consolidation of our network operating center into Sweden to improve our ability to properly service the complex mobile and fixed networks we have there.

We will also improve the way we work with our suppliers so that we can be strategic, long-term partners and grow together. We look forward to implementing the recommendations of this audit and ensure that we continue to have the best network in the country.

Now let's look at the performance in the Baltics on Slide 16. We continued to see stronger sales both in terms of volume and ASPU this quarter. While Lithuania is the main driver, we are also happy to see that Estonia has maintained positive momentum in both volume and ASPU for a few quarters now. ASPU growth was particularly strong this quarter across all 3 markets. While we do see a great underlying trend, this quarter was somewhat boosted due to the easier comps in Q3 last year, when we unfortunately had roaming outages.

On Slide 17, you can see that we had continued strong growth in end-user service revenue with solid growth in all 3 markets. It's worth noting that Estonia turned the corner and grew revenue for the first time since Q4 2017 and so underlying EBITDA growth for the first time in 3 years.

Underlying EBITDA, excluding IFRS 16 for the Baltics grew by 6%, somewhat lower growth than we are used to due to elevated equipment margins in Lithuania in Q3 last year. Continued EBITDA growth and low capital intensity led to strong cash flow generation, as you can see on the chart to the right. And with that, I'm happy to hand over to Mikael.

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

Thank you, Anders, and good morning, everyone. Please go to Slide 19, group income statement for the third quarter. Revenue reached SEK 6.85 billion in the quarter with a record high underlying EBITDA margin of 41%, or 36% if we exclude the positive effect from IFRS 16 in this year's numbers. In the quarter, we recorded costs related to the acquisition integration of Com Hem of SEK 72 million, which are included in items affecting comparability. The major step up in depreciation and amortization versus last year is explained by additional amortization of surplus value from acquisitions of SEK 298 million, as well as depreciation of right-of-use assets under IFRS 16 of SEK 296 million.

Net profit for the quarter almost doubled to about SEK 1 billion, which is a result of the Com Hem merger and the transaction in Netherlands.

Let's now move to the cash flow statement for the quarter on Slide 20. Equity free cash flow increased by 67% compared to the same quarter last year, reaching SEK 1.8 billion in this quarter, explained by Com Hem being included in this year's numbers and also improved cash flow generation in the rest of the business. EBITDA increased by 70% for continuing operations when excluding effect from IFRS 16 in 2019 numbers. CapEx paid were some SEK 200 million lower in this quarter, mainly explained by the divestments of CapEx done in the Netherlands.

Negative trend in working capital during last year has been reversed with positive development year-to-date, largely driven by introduction of Comviq handset financing arrangement.

Please go to Slide 21, synergy update. In the quarter, we had a positive impact of approximately SEK 150 million of OpEx savings in the books, leading to a total of SEK 300 million year-to-date. At the end of the third quarter, the annualized run rate or realized OpEx synergies reached SEK 650 million, while we have upgraded the target for the end of this year to SEK 750 million, which is mainly explained by faster headcount reductions than we originally planned.

The SEK 900 million 3-year target in total annual OpEx synergies remains unchanged. Also for the revenue synergies, realization goes as planned, with now almost half of the overlapping customer base on FMC benefit packages.

Let's move to Slide 22 for a summary of our financial guidance. And as Anders already mentioned, guidance for end-user service revenue and underlying EBITDA is unchanged, while the CapEx range has been lowered by SEK 300 million for this year, explained by later-than-expected start of 5G investments.

Midterm target range for CapEx is unchanged at SEK 2.8 billion to SEK 3.3 billion during the roll out phase of 5G and Remote PHY in the fixed network.

Please go to Slide 23. Group leverage measured as economic net debt to underlying EBITDA of the leases was at 2.6 at the end of September, up 0.2 in the quarter, explained by payout of extra dividend of SEK 4.1 billion, partly offset against the strong equity cash flow of SEK 1.8 billion. When including the second tranche of this year's ordinary dividend, total amounting to SEK 1.5 billion, which was paid to shareholders in beginning of October, leverage would have been 2.75x end of September, i.e. in the middle of our target range, 2.5 to 3x. And this means that we have year-to-date distributed SEK 10.4 per share or a total of SEK 7.1 billion to shareholders, while we at the same time have slightly reduced leverage from 2.8 beginning of the year down to 2.75 end of September. And with that I would like to hand back to you Anders.

Anders Nilsson Tele2 AB (publ) - President & CEO

Thank you, Mikael. Now please turn to Slide 25 for our key priorities going forward. The key to achieve sustainable growth for Tele2 is to reignite growth in Sweden, especially in our largest segment, Sweden Consumer. We will do this by ramping up FMC penetration in the

customer base to reduce churn and increase pricing power over the long term. This along with a new profile and offering of the Tele2 brand is how we will win this Swedish household. We look forward to executing on the next step of the more-for-more strategy and grow through pricing as well as volume going forward.

In B2B, we have the ambition to turn into growth by focusing our efforts in large enterprise on the private sector and take high-margin contracts while continuing to reduce cost.

We also aim to take market share in the SME market by revamping our mobile portfolio, reducing churn and utilizing our FMC capabilities. On the cost side, we will continue executing on the synergies and aim to reach a run rate of SEK 750 million by the end of this year. In addition, we are investigating the potential for more structural change over time to turn Tele2 into a true integrated challenger. We aim to get back to you with more details when we report our Q4 2019 results.

Outside of Sweden, we will build on the momentum we have in the Baltics and we look forward to closing the sale of Croatia later this year. With that, I hand over to our operator for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Maurice Patrick from Barclays.

Maurice Graham Patrick *Barclays Bank PLC, Research Division - MD*

Maurice from Barclays. Question really on the timing of B2B recovery. You, sort of, talked about the timeline for the recovery in the past, now you're saying it's going to take some time. Looks like mobile and fixed is reasonably tough. I mean -- how -- what do you think about the timeline for stabilization of B2B to be revenues? I mean, where do we see ARPU stabilize? I know you talked about a mix of different segments there.

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

Maurice, it's a very good question and a very tough one. And that it's very hard to answer it because we do not have a crystal ball here that looks into the future. But what I can tell you is that we are going to aim to make this happen some time next year. Whether that is possible or not, it's too early to say but that's what we aim. On the other hand, I mean what we are solving for is to get into growth in Sweden. And there are 2 components, as you know, it's consumer and it's B2B. And consumer is by far the largest part. So the most important thing here is that consumer goes into growth, which we are now where Samuel delivered 0.4% growth in Q3, small but still growth and a nice trajectory there. And we do believe that we will be able to grow Sweden and the company next year even if B2B does not go into growth. So that's what I can give you right now, Maurice.

Operator

Your next question comes from the line of Roman Arbutov from JPMorgan.

Roman Arbutov *JP Morgan Chase & Co, Research Division - Analyst*

My question relates to the cost savings and as the interplay and potential substitution between the synergy-related cost savings from the Com Hem and Tele2 merger and the structural cost initiatives that you talked about as a potential additional lever for cost-saving opportunities going forward. So when you take the Com Hem synergies, right? you're now pretty much delivered on your 900 target and it looks like you'll be almost done by the end of the year. A lot of these benefits will come through in 2020 since that -- because you've achieved the run rate just now, they will be coming through a little bit later. But then what about 2021, when you talk about mid-single-digit growth ambitions for EBITDA in that year as well, with your current guidance, it looks like you have nothing left from the Com Hem merger for 2021. And I guess this is where the structural cost savings can come in quite handy. And ultimately my question is, I had previously thought of the structural cost savings that you talked about as an additional lever that will come on top of the Com Hem the savings and that would mean that you could potentially exceed your mid-single-digit EBITDA growth. But the way the numbers are



shaping up and the way your communication is, it looks like it will just be, kind of, a lever that will allow you to maintain the current momentum, the mid-single-digit EBITDA growth, and not necessarily something that will come on top of it. Any color here will be much appreciated, please.

Anders Nilsson Tele2 AB (publ) - President & CEO

Yes, thank you very much, I think that's an interesting line of thought you have there, Roman. So the way we look at it is that -- I mean if you look at our midterm guidance, obviously, since we don't have much of growth right now, all the EBITDA improvements more or less comes from these synergies we realize on the cost side. Over time, as growth comes into play, we will actually see EBITDA growth coming more and more from the revenue growth. And we can see a scenario, whereby we can deliver mid-single-digit EBITDA growth only by the leverage we have from growing our top line. So I don't think savings is a necessity in near term to actually grow mid-single digits. Revenue growth is, however.

So the way I look upon it is that the -- as the cost savings are phased out, if you will, revenue growth is phased in, and we still should deliver the EBITDA growth. The structural savings we're talking about, those in my mind are also in addition to the plan we have and our guidance. What remains to be seen, however, is what kind of structural savings we can have and that we are not in a position to talk about right now. We're looking into them, we're planning them and planning what to do. And it's something we plan to be able to discuss with you when we release our full year results in the beginning of next year. That's what I can give you at this point in time.

Operator

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

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

I just had a question around the pricing strategy in Swedish mobile environment. You mentioned that in Q3 you saw really strong volume growth, just wondering whether you're seeing any signs of the competition of fighting back to protect that market share? And if not, do you think that when the customer starts to absorb the price increases that you are starting to put through, whether you'll see less churn than was the case when you started to increase prices in broadband and TV?

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

Terence, Samuel here. So I think on this strategy, I mean, the mobile market in Sweden is a competitive one and has been and we see 3 different segments in this market. So it is highly competitive but -- and will remain like that. However, our investment into the Tele2 brand together with having a full product suite with Com Hem makes us a stronger player in the premium segment and therefore less sensitive, I would argue. And on the back of that, we can do pricing but also, of course, we introduced the family plan at the same time so that we can continue to have a good balance of both volume and price going forward. So I think net-net, this should be just a positive -- continued gradual positive move for our mobile business going into 2020.

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

In my book, in addition, this is value for money. And we're actually providing much more value for money now than we have been historically with this new pricing plan. So that should just go hand-in-hand in the premium segment, I think.

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

Definitely, and even if would lose some in, kind of, a single play mobile area, we are definitely winning more by being much stronger as a household player now. And that is our focus going forward.

Operator

Your next question comes from the line of Abhilash Mohapatra from Berenberg.

Abhilash Mohapatra Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst

It's Abhilash from Berenberg. I have just got one on CapEx, please. You've obviously reiterated your midterm CapEx ambition. I guess, you've seen some pressure from one of your peers today on CapEx guidance. Appreciate that obviously they are more, sort of, diversified than you and there are more countries to think about. But just would be interesting to, sort of, hear your thoughts on your 5G plans and then whether you think there's any risk that it ends up costing more than what's your guidance currently envisages?

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

Thank you, it's Mikael here, I will try to respond on your question. For us how we look at on this and our plans and preactions we are having is -- the only thing that has changed since last quarter is that the 5G roll out will start a bit later, it will probably be completed a bit later than we originally planned. So it's just yes that we're pushing CapEx further into the future, the additional funding we will have for 5G. Except for that, there are no changes in what we -- the total envelope for building 5G that is per our original estimate. And those numbers are better confirmed now than they were one year ago when we communicated the CapEx guidance. So it's just that we're pushing CapEx somewhat into the future. At the same time, we are building capacity in the existing network. So from a customer experience -- perspective, it doesn't affect customer experience short-term but we have this slight delay in 5G. I hope that answers your question.

Operator

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

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

I'd like to come back to this question of competition. I mean, you talk about volume growth continuing in consumer. You mentioned the sort of shift towards higher value which you think makes it sort of less vulnerable to a competition. I mean also about outright share gains in SME. Now on the other hand Telia has more or less indicated today that part of the actions they're taking is actually there so -- build budgets for commercial measure. So I'm not entirely sure why exactly do you think that really taking share and increasing volumes in the higher end is somewhat less risky strategy in particular because the FMC capabilities that you now have are not unique to the market. They are new to -- but they are not unique in the market. So could you just explain why in the higher end you expect less of, sort of, market share defense of the sort of -- who have share that you're trying to attack?

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

So Samuel here. Now I think, we can be very open about it, we don't see this as a big market share, kind of, competition in the premium segment. For us it's about gaining trust, satisfaction and loyalty with our own customer base so that we can grow there with additional products that creates volume but also pricing as satisfaction grows. So for us, this is about positioning ourselves as premium and making sure that we give our existing customers even more value so that they buy more and stay longer with us. We don't see this as a big, kind of, a market share war in this segment in Sweden. I would say actually on the opposite, what we've seen in the market the last year is the main brands in general providing more value to the customers and that is something that is beneficial for the customers but also for the market dynamics in general.

Anders Nilsson Tele2 AB (publ) - President & CEO

And for SME, which you also talked about, I think,

(technical difficulty)

what we consider being our fair market share over time and therefore get to higher volume gain when it comes to SME. So that's what we have for you, on this one. I hope that explains our thinking at least.

Operator

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

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

I had a question on the top line as well but may be just slightly more positive on the market growth outlook, including your ability to grow within that. So first question was on the Swedish end-user service revenues, which improved to just under 1% decline, I think, in Q3. You've highlighted in the past that you spent a greater amount of marketing spend in Q2 and Q3 and presumably the benefits from that are backend loaded. So do you think there's an opportunity for your improvement in Q4 to extend and therefore may be since you get



back to service revenue growth in Sweden as early as Q4? That's question one. And then secondly, today we heard Telia highlight great scope for price rises and ARPU uplift in 2020 than 2019, obviously, you can't be specific on what you're about to do, but is that something you can concur with?

Anders Nilsson Tele2 AB (publ) - President & CEO

Thank you very much, Andrew. So on timing, when we're going to go into growth, this is very hard to predict. So I'm going to refrain from doing that. But what we do see is that we are in a position now, we have evidence and we see it happening and we have traction and momentum, so obviously we're going in direction of going into growth. And that leads us to the conclusion that we today think that we will be able to grow this company at low single digits end-user service revenue for next year. I don't want to be more specific than that because it's really, really hard to predict what's going to happen next month and so forth and when you're actually going to tip over. So you have to make deal with that for now at least, Andrew, sorry about that.

When it comes to pricing in the market, I think -- I mean what we do and I think what the company you're referring to do -- are doing as well is that we are loading up our customers with customer satisfaction, as Samuel talked about and by various means and therefore we gain pricing power. And Telia has done this before us, so they have a head start and they have seen the positive effects of that, and we come later and then hopefully we will see the same and we anticipate to see the same. So we're quite bullish from where we sit now on being able to use price along with volume as the 2 measures in order to grow this company for next year and onwards.

Operator

Your next question comes from the line of Nick Lyall from Societe Generale.

Nick Lyall Societe Generale Cross Asset Research - Equity Analyst

It's Nick SocGen. Could I just ask Anders please on the pricing. I'm just interested to see how far you think you can go? I mean, you mentioned on the network review that you thought you had best quality on network. And you're sitting anything between a 15% and 30% discount like-for-like on Telia prices. So how far can you push that? How sustainable does the -- how large does the discount have to be to have such a growth in FMC and growth in family products? Could you talk a little bit about how much pricing you can think about putting through in time, please?

Anders Nilsson Tele2 AB (publ) - President & CEO

Yes, I'm going to -- thank you very much, Nick, I'm going to answer in a slightly different way. What we're trying to do now is to put ourselves in a position, so we can use price consistently over many years. So it's not about having a 1-year mega price increases, if you will, it's having smaller price increases every year that together with a small volume impact we're going to plan for is going to lead to low single digit end-user service revenue growth. That's what we're solving for.

So it's rather doing it for long period of time, small magnitude than doing it in a short period of time with a high magnitude. And now we -- our judgment today is that we are in best position for next year and onwards. We have built a lot of customer satisfaction. I mean, the pricing plan that Sam talked about, the family package and the FMC benefit packs, where you get double data or higher speed tier or both actually if you're an FMC customer, we've more coming up next year in terms of benefits that really are meaningful for customers and that we now have a super duper network quality and got that stamp from P3 will help us and the rebranding of Tele2 is another thing. So I mean, I think, we have built a lot of customer satisfaction that underpins the ability to take pricing in the premium segment over quite many years. And that's actually the aim, that's what we're actually trying to do. So -- and that's -- it's so far so good I would say. We've executed quite well I would add. So Sam executed very well on this. And so that's how I would like to answer it, Nick.

Operator

Your next question comes from the line of Stefan Gauffin from DNB Bank.



Stefan Gauffin DNB Markets, Research Division - Analyst

A follow-up on the earlier CapEx question. First of all, you postponed the 5G CapEx spend, can you just give an indication when do you expect this to happen, to start? Is it first half 2020 or second half? Secondly, Telenor has highlighted the need for modernization or a network swap of the old or of the 2G and 4G equipment in Sweden. Is this already part of your medium-term CapEx guidance? Or could that modernization or network swap come on top of that?

Anders Nilsson Tele2 AB (publ) - President & CEO

Stefan, thank you very much. So I'll start with the second one. The modernization of 2G and 4G is included in our CapEx guidance going forward. So that's not in addition to anything. It's already included, and we'll do that when we do the 5G roll out. When it comes to the timing of 5G roll out, it's a bit unclear today. First of all, what needs to happen is that we need to have a spectrum and there is a spectrum auction coming up, the high band auction, maybe in Q1 next year, the date has not been set, so we need that one, that's one gating factor. The second thing we need to understand is that the network security legislation, which is also due to happen both in Sweden and on an EU level. So when we know what they actually say, we are in a position to choose vendors. Before that it's a bit risky to do so. Because we are making a lot of the investments obviously that should last for a very long time and you don't want to end up in a situation where you have to change while already have invested. So those are the 2 gating factors, which are a bit out of our control, I have to say. So we'll have to watch by the sideline as you and once we get clarity we can move in and actually start building. I hope that answers your question, Stefan.

Operator

Your next question comes from the line of Steve Malcolm from Redburn.

Stephen Paul Malcolm Redburn (Europe) Limited, Research Division - Research Analyst

Two questions please. One just on the wholesale contribution to Swedish B2B. It looks like -- you said that the EBITDA growth came from cost cutting, but what I can see it all -- and more comes from the wholesale revenue growth, I think it was SEK 30 million extra EBITDA contribution in this quarter, there's SEK 40 million loss. Can you just give us a bit more detail on where those wholesale revenues are coming from? And how sustainable the growth you're getting out at wholesale business within B2B is? And secondly on Lithuania, Telia gave a sort of muted warning on their ability to offset inflation in Lithuania going forward you don't seem to have the same concerns, may be just, sort of, outline why you are, sort of, relaxed that you can keep taking price against that inflationary cost backdrop in Lithuania?

Anders Nilsson Tele2 AB (publ) - President & CEO

So I will deal with the Lithuania question to start with and then Mikael will take wholesale. So on Lithuania, I mean we have different positions in Lithuania, Telia and ourselves. We are the market leaders and if you know the story, I think 10, 15 years ago when our current CEO became CEO, we were #3 in the market and since then we have surpassed our competitors, BT and Telia. And now we're #1. In my mind Tele2 in Lithuania is an extremely well run, super duper operator with this very, very strong brand and has outperformed the market consistently for quite many years. And I think we are in such a strong position that we'll be able to continue this going forward. We do not see any of the pressures when it comes to cost and the like that others may see. And I think we will be able to continue the path we're on. When it comes to wholesale, Mikael?

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

Yes, I will try to answer that question, although I can't go into that many details. This is a regular wholesale business we are conducting in Sweden, in the B2B sector. And the both revenue and profit varies between quarters and it's more volatile business than the rest of the business, I will say. Also we have changed the accounting methodology somewhat due to the integration of Com Hem over the past year. You should look at the Q3 numbers now, they are more representative for how we manage this business today and in the coming quarters. I hope that answers your question.

Stephen Paul Malcolm Redburn (Europe) Limited, Research Division - Research Analyst

So is there a sort of one off-ish boost from the accounting change in the EBITDA growth we can see from wholesale and B2B?



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

It can -- you have one-offs in previous periods, yes, if that answers your question? Yes.

Operator

Your next question comes from the line of Peter Nielsen from ABG.

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

Yes, I have just one please, if I may return to the B2B market. Last quarter, Anders, you talked about the intense pricing process in the large enterprise market, which if I recall, might you sort of consider stepping slightly back from this market. You're now talking about taking a high-margin contract in the large enterprise segment, which sounds easier said than done. Are there any high-margin contracts left in this segment to begin?

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

That's a very good question, Peter. So I mean, there are 2 basically segments in the large enterprise market. You have the public market, public customers, and they are all won under tender, and this is where you have -- and where basically price is the only variable that you can predict.

And therefore -- and the outcome of these -- and the price that won will become public as well in the end. So therefore, you had a tremendous pricing pressure on these contracts. Then you have the private sector, i.e. all companies not held by the state or municipalities. And there you have a negotiation and there are no tenders, which means that are -- that you don't see the same pricing pressure at all which is seen in the public sector and this is the difference. So we will then obviously, continue going after the public sector, of which we have quite much in terms of customers and put more effort also into the private companies where we are underrepresented today. And I hope that answers your question.

Operator

Your next question comes from the line of Jörgen Wetterberg from Nordea.

Jörgen Wetterberg *Nordea Markets, Research Division - Senior Analyst of Telecom and IT*

A follow-up question on the CapEx questions from before as it relates to the 5G roll out. So you talked about the uncertainties around vendor restrictions, et cetera and previously you've talked about that it could lead to increases in cost for you that you would have to pass on to customers. Could you give us a sense of the magnitude if you would not be able to continue with your current vendor set up or if you see risk to the CapEx guidance at all? And the second one is also leading to the 5G introduction. How do you see device availability for Sweden going into potentially 5G launches? Is that a bottle neck or do you see that resolving during next year?

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

So thank you very much, Jörgen. So the -- I mean, regardless of which vendor you use, there will be obviously an uptick in CapEx when we build the network and that's what we have been relating to or what we meant when we talked about price increases or cost increases going forward. It was not related to a vendor as such but the phenomenon of investing into new technology. Then as Mikael explained earlier, we now have much more visibility when it comes to the investments needed in order to do 5G from all the vendors than we did a year ago when we actually came out with the guidance. So we, at this point in time, feel fairly comfortable that this is under control, and we will be able to live according to our guidance going forward, regardless of who the vendor in the end will be. So that's what I can say on that one. When it comes to the devices, I'll hand over to Samuel.

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

Yes, I think, I mean, we are seeing 5G devices around the world now and many handset manufacturers are investing heavily into producing newer and more. And I think especially given that we see a postponement of 5G currently in Sweden, there is no worry about having good 5G handsets whenever we launch.

Operator

Your next question comes from the line of Adam Fox-Rumley from HSBC.

Adam M. Fox-Rumley HSBC, Research Division - Analyst, Global Telecoms, Media and Technology Research

Adam from HSBC. I wanted to ask a question about the Tele2 brand perception in Sweden, please. Your advertising has been in place for a bit of time now, as say you're trying to make yourself more premium there. Is there any metric or evidence that you're tracking in terms of consideration, or promoter scores that you can share with us as to how that's going? And then secondly just on the Com Hem synergies, briefly, can you tell us what's left? And how -- what you're expecting there because obviously, you're guiding for that to take another 2 years to come out, if I understand things correctly?

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

Adam, Samuel here. So on the question on the Tele2 brand, I mean we've basically seen improvements across the board since we did this rebranding. It's one of the most light campaigns we have ever had. We're seeing net intake profile of Tele2 brand improving both from more sales but also lower churn. And we also see the net NPS figures improving since launch. So overall, very positive. Of course, we need to continue this. It's about educating the market as well about our new position, but so far, very good, I must say.

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

And your second question is -- Mikael here, the synergies. What remains and will remain for 2020 and 2021 is network and IT-related synergies. We have said from the start that these will come in the later period since it takes time to realize the synergies. It's about combining the 2 networks, mainly and some IT systems. So those remain.

Operator

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

Siyi He Citigroup Inc, Research Division - VP

I just have one please. And I want to circle back to your midterm -- top line and mid-single-digit growth targets. I mean, I understand it's a -- quite a wide range but if I think about you put 8% price increases in both of your fixed mobile front book kind of you're going to pass it to the back book and you have a strong message on your Baltic performance. So I was wondering whether you are now looking at your performance going forward. Would you more confident that top line growth rate could be more geared towards mid or single digit rather than towards 0% in the medium term?

Anders Nilsson Tele2 AB (publ) - President & CEO

Thanks for your question. So this will ultimately be a tactical decision in the end. And I think if history is the guidance of future, I mean look at what's done where we used this strategy before in the Com Hem brand for several years. And I think you ended up with like a 1% to 3% effective price rise every year. And that's probably somewhere in that range we're going to end up here as well, I would guess. But as I said, again, it's a tactical decision and it's something which we then will have to combine with volume growth. If we have stronger volume growth, we'll probably do less on pricing and vice versa. But I don't think we're going to outstretch ourselves to try to short term do very strong revenue growth because that will cost later on. We will need to have sustainable growth over multiple years. I think that is the key here. And it's quite hard also to be very specific on the midterm, more specific than we are given that we are just starting this journey. And as we go along, I think, we will be able to give you better guidance than unfortunately, I can do right now. So that's what I have for you.

Operator

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

Henrik Herbst Crédit Suisse AG, Research Division - Research Analyst

I just wanted to, sort of, follow-up on your pricing strategy and brands strategy, I guess in Sweden. I think you have talked about a potential gap in the market you're seeing at a very low end, you're being (inaudible) rather than potentially launching something for that lower end. Have you -- any update you can give on that? And then also in terms of your back book pricing, I think, in fixed line you've always had quite a big gap between back book and front book which allowed you to raise back book pricing even if you didn't do front book pricing in a year. I guess it's a little bit, sort of, more difficult to -- it's a bit more complex on mobile side, but any thoughts there in terms of how much room you have to raise back book pricing without, sort of, changing your front book prices, is there a material gap?

Anders Nilsson Tele2 AB (publ) - President & CEO

Thank you very much, Henrik. So on the low end of the market there, you're absolutely right, we have identified a segment where -- the low end of the market where we're not present with the brand, Com Hem sits in the middle of the segment and Tele2 and Com Hem on the top. And we are investigating whether that makes sense to actually go into that segment or not. And this is something we're still looking at. We have made no decisions yet. But it certainly something we're eyeing very close.

Then for the second part...

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

Yes, for the second is the back book potential. I mean as you saw in the presentation, we see potential, but both Com Hem and Tele2 have diminished the kind of gap between -- or the historical bigger gap between back book and front book pricing. So I wouldn't say that that's an additional opportunity. The opportunity we have is to continue the journey now gradually with increasing value and by also being able to use pricing as a growth driver.

Operator

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

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

Sorry to come back to CapEx again. I was wondering if you may be could say something about when you expect peak your 5G roll out, is that has also been pushed out in time or if you still expect 2021 should be the peak year? And also if you can say something about price expectations on the Swedish high band licenses compared to the 700 megahertz?

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

Lena, it's Mikael here. I will try to answer the first one. The peak what we definitely can say is that 2020 will not be the peak year, if it's still too early to say, it's a peak year, it's 2021, '22 or '23, we don't have that detailed visibility based given the factors Anders just mentioned, uncertainty around licenses and the political situation. So that's -- it will be later than 2020. That's the only thing we can say. But also this is, as we have said before, we expect this to be rather be somewhat higher CapEx but it will also continue over several years. So you shouldn't expect any sharp increases in any single year.

Anders Nilsson Tele2 AB (publ) - President & CEO

And then when it comes to the spectrum auction, I think, it's -- this is obviously highly sensitive and -- for competitors to discuss. So I think I'm going to refrain from that Lena. I think what you probably should do is that you should look at the rules for this auction and compare it to the rules of previous auctions and may be you can find something there, which will lead you to conclusion.

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

I have done that, that's what indicates that you will have to pay lower prices this time around. So I was just wondering if you also think so?

Anders Nilsson Tele2 AB (publ) - President & CEO

We'll have to wait and see.

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

Okay. Could you maybe say something on the costs of swapping your network if you -- if it would come to that, that you feel like you have to change vendors? If you think that, that would significantly increase your CapEx or if you think that, that will still -- you will keep within the range?

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

Our estimate is that when we go to 5G, we can keep it within the range we have provided the market with.

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

Irrespective of ways you have to swap vendors?

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

Yes, when we go to 5G we expect us to be able to be in that range and there are several ways of getting to 5G. What you're explaining is one and then there are other ones as well. And then some cost more and some cost less. But our estimate is that we will be able to go to 5G regardless of the method within the guidance. That's what we -- and we base that on what we know today.

Operator

There are no further questions at this time. Please continue.

Anders Nilsson Tele2 AB (publ) - President & CEO

Okay, so thank you very much for all the questions and your interest in Tele2, much appreciated. And if there's anything after this meeting, you know where to find us and we're more than happy to discuss whatever with you. And if not, I hope to see you in the near future and by the latest when we release the full year report back on this telco again.

So thank you very much and have a great day.

Operator

This does conclude our conference for today. Thank you for participating. You may all disconnect.

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