BRYAN, GARNIER & CO

INDEPENDENT RESEARCH

11th April 2016

TMT

Altice

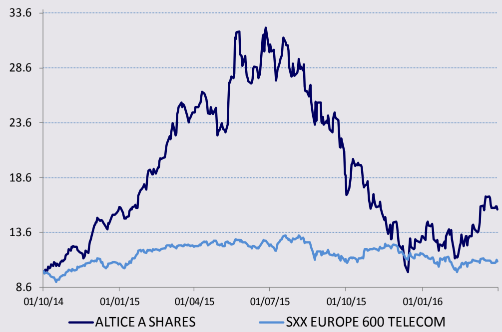
Diversification is key.

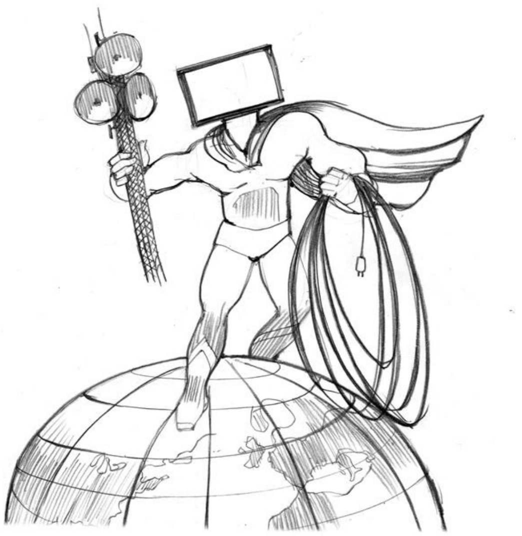
Fair Value EUR16.3 (price EUR13.80)

BUY
Coverage initiated

Bloomberg	ATC NA
Reuters	ATCA.AS
12-month High / Low (EUR)	32.2 / 10.0
Market capitalisation (EURm)	15,101
Enterprise Value (BG estimates EURm)	50,662
Avg. 6m daily volume ('000 shares)	2,706
Free Float	41.5%
3y EPS CAGR	
Gearing (12/14)	375%
Dividend yields (12/15e)	NM

YE December	12/14	12/15e	12/16e	12/17e
Revenue (EURm)	3,935	14,550	20,086	23,173
EBITA EURm)	177.4	1,221	3,613	4,705
Op.Margin (%)	4.5	8.4	18.0	20.3
Diluted EPS (EUR)	-1.80	-0.28	-0.02	0.74
EV/Sales	8.80x	3.48x	3.24x	2.75x
EV/EBITDA	23.1x	9.2x	8.3x	6.9x
EV/EBITA	195.1x	41.5x	18.0x	13.6x
P/E	NS	NS	NS	18.5x
ROCE	0.2	1.0	2.0	5.6





We are initiating coverage of Altice with a Buy recommendation and a Fair Value of EUR16.3. We believe the share price over estimates the uncertainty on the French market and does not reflect opportunities prompted by expansion in Portugal and the US sufficiently well. Altice is highly indebted, but it can prove the efficiency of its model by levering up the diversification of geographical locations and markets where it operates.

- Following a first set of mixed results for France and the first trends in Portugal, we expect a **reaction from the group** testifying to its ability to **create value over the long term**. In particular, we are **very confident in its expansion in the US**, which in our view helps the group diversify operating risk by investing in a market close to its historical core business.

- We are forecasting pro-forma sales down **1.4% over 2016**, vs stable in 2015, due to Portugal and France especially, followed by a **return to sales growth as of 2017**. We estimate adjusted pro-forma EBITDA growth at **4.5% for 2016** (in line with guidance), and expect **an adjusted pro-forma EBITDA margin of 43.1% to be reached in 2018**, **500bp** higher than the 2015 rate.

- **The group's net debt is high** at EUR35.5bn (**before Cablevision) at 5.3x 2015 EBITDA**, and presents a **significant refinancing risk** that we have factored into our valuation and which therefore weighs on our Fair Value.

- We have calculated a **Fair Value for Altice of EUR16.3**, stemming from a **DCF valuation of EUR18.6** and an **SOTP valuation of EUR14.1**, driven especially by a valuation of the North-American business at 10x EBITDA.

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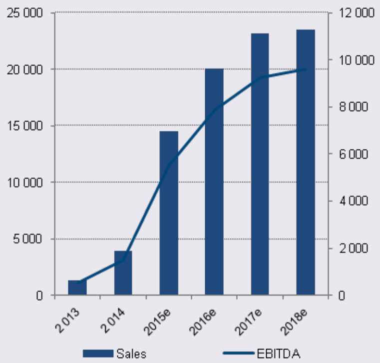

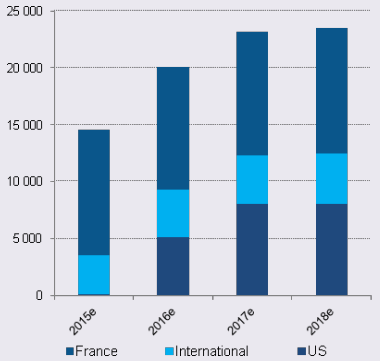

Company description

Altice NV. Altice NV is a multinational cable, fiber, telecommunications and content provider company. The Company provides cable-based services, such as pay television, broadband Internet and fixed line telephony, and, in certain countries, mobile telephony services, to residential and corporate customers. The Company offers its services in four regions: USA, Western Europe, comprising France, Belgium, Luxembourg, Portugal and Switzerland; Israel; and the overseas territories of the French Caribbean region, including French Guyana, the Indian Ocean region, including Reunion and Mayotte, and the Dominican Republic. Its subsidiaries include, among others, a cable operator based in the United States.

Simplified Profit & Loss Account (EURm)	**2012**	**2013**	**2014**	**2015e**	**2016e**	**2017e**	**2018e**
Revenues	1,092	1,287	3,935	14,550	20,086	23,173	23,466
Change (%)	*39.3%*	*17.8%*	*206%*	*270%*	*38.0%*	*15.4%*	*1.3%*
Adjusted EBITDA	403	518	1,496	5,494	7,865	9,231	9,621
EBIT	(41.9)	41.6	177	1,221	3,613	4,705	5,230
Change (%)	*-140%*	*-%*	*326%*	*589%*	*196%*	*30.2%*	*11.1%*
Financial results	(174)	0.0	(880)	(1,215)	(2,985)	(2,946)	(2,849)
Pre-Tax profits	(216)	41.6	(703)	6.4	628	1,760	2,381
Tax	26.0	(7.4)	165	(262)	(413)	(485)	(602)
Minority interests	(40.9)	(22.2)	(139)	99.5	248	438	503
Net profit	(190)	49.7	(533)	(220)	223	1,282	1,787
Restated net profit	(190)	49.7	(533)	(220)	223	1,282	1,787
Change (%)	*-253%*	*-%*	*-1,172%*	*-58.8%*	*-%*	*476%*	*39.3%*
Cash Flow Statement (EURm)							
Operating cash flows	465	439	1,836	4,636	7,055	8,473	8,731
Change in working capital	51.8	25.3	753	(193)	(163)	(93.0)	(114)
Capex, net, and licenses paid	(347)	(289)	(965)	(2,640)	(4,139)	(4,337)	(4,097)
Dividends	(26.0)	0.0	0.0	0.0	0.0	0.0	0.0
Net debt	NM	2,869	19,510	35,561	49,946	48,721	46,900
Free Cash flow	136	411	1,935	39.5	(69.2)	1,190	1,785
Balance Sheet (EURm)							
Tangible fixed assets	NM	1,134	7,602	11,773	14,449	14,413	14,265
Intangibles assets	NM	1,680	21,035	32,242	45,208	45,208	45,208
Cash & equivalents	NM	1,304	1,564	3,483	3,103	4,329	6,149
current assets	NM	1,562	5,201	8,286	8,818	10,096	11,993
Other assets	NM	800	2,278	3,634	5,473	5,473	5,473
Total assets	NM	5,177	36,115	55,936	73,949	75,190	76,939
L & ST Debt	NM	3,901	21,067	35,894	47,482	47,482	47,482
Others liabilities	NM	1,180	9,829	14,790	19,960	19,920	19,881
Shareholders' funds	NM	95.3	5,196	5,131	6,386	7,668	9,455
Total Liabilities	NM	5,177	36,115	55,936	73,949	75,190	76,939
Capital employed	NM	3,195	26,771	43,664	60,570	60,626	60,592
Ratios							
Operating margin	(3.84)	3.23	4.51	8.39	17.99	20.31	22.29
Tax rate	(12.03)	(17.79)	(23.44)	(4,089)	(65.77)	(27.55)	(25.28)
Net margin	(17.40)	3.86	(13.55)	(1.51)	1.11	5.53	7.61
ROE (after tax)	NM	75.05	(20.26)	(11.10)	(0.78)	18.63	20.32
ROCE (after tax)	NM	0.45	0.23	0.96	2.04	5.62	6.45
Gearing	NM	3,010	375	693	782	635	496
Pay out ratio	13.68	0.0	0.0	0.0	0.0	0.0	0.0
Number of shares, diluted	968	176	219	1,134	1,134	1,134	1,134
Data per Share (EUR)							
EPS	(0.15)	0.41	(1.80)	(0.28)	(0.02)	0.74	1.13
Restated EPS	(0.15)	0.41	(1.80)	(0.28)	(0.02)	0.74	1.13
% change	*-226%*	*-%*	*-540%*	*-84.3%*	*-92.0%*	*-%*	*52.1%*
BVPS	0.0	0.54	8.87	2.54	2.86	4.00	5.57
Operating cash flows	0.48	2.49	8.38	4.09	6.22	7.47	7.70
FCF	0.14	2.33	8.83	0.03	(0.06)	1.05	1.57
Net dividend	0.03	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company Data; Bryan, Garnier & Co ests.

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1. Investment Case

Why the interest now ?

The reason for writing now :

Encouraged by the takeover of SFR, Altice quickly took out **hefty debt in order to finance exponential development** in Europe and the US. The group then entered another dimension with the aim of becoming a global leader in telecoms and the media. After the first worries concerning businesses in France, Altice needs to show the **efficiency of its model**, levering up the **diversification of its geographical locations and markets**.

Cheap or expensive ?

Valuation

We think the share price has over reacted following the breakdown of merger talks between Orange and Bouygues Telecom, over estimates the influence of uncertainty on the French market, and does not correctly price in the opportunities linked to other perimeters in the group. **Our EUR16.3 Fair Value points to an upside of 17.6%** relative to the current price.

When will I start making money ?

Catalysts

1/ Commercial recovery in France, **2/** Development in the US and acquisition of Cablevision, **3/** Commercial dynamic in Portugal, **4/** differentiation strategy using contents

What's the value added ?

Difference from consensus

We are **more cautious for EBITDA** (41% vs. 42,1% as of 2018), believing that Altice will take more time than expected to find the **right balance between revenue growth and cost savings**. We believe the Altice case is **a matter of operational efficiency** rather than a matter of debt.

Could I loose money ?

Risks to our investment case

1/ Inability to turn around the sales performance in France and a similar deterioration in Portugal, **2/** cord-cutting effect in the US, **3/** sharp increase in the high-yield market.

2. Altice valuation

2.1. Overview

We have assumed a Fair Value of EUR16.3, corresponding to a 17.6% premium to the current price and based on a combination of the following valuation methods and assumptions:

- Discounted cash flow
- Sum of the parts

The valuation overview is set out in the table below:

Fig. 1: Altice share valuation overview

Valuation method	Share price	Weight
DCF	18.6	50%
SOTP	14.1	50%
Fair Value	**16.3**	**100%**

Source: Company Data; Bryan, Garnier & Co ests.

These valuation methods are set out below.

2.2. Change in the share price

After the enthusiasm seen in H1 2015 following the excellent first set of financial results published by the new group, and some wide share-price fluctuations prompted by discussions over an eventual takeover of Bouygues Telecom, **the share price returned to more reasonable levels in H2 2015 and early 2016,** in view of poor sales performances, especially in France, and fears over debt levels. The Altice share suffered far harsher variations than the NC-SCF share, in view of the group's higher debt and negative scope effects (US and Portugal in particular) that did not affect NC-SFR.

Altice's share, backed by hopes of market repair in France since December 2015, had reached the same performance as the STOXX Europe 600 Telecom by the end of March 2016, but **brutally fell after the breakdown of the discussions** between Orange and Bouygues. We think the stock over reacted, following the same trend as the NC-SFR share, and **does not price in the opportunities** linked to other perimeters in the group.

Fig. 2: Change in Altice share price since 2015 and comparison with the competition in France (base 100)

Source: Thomson Reuters.

Fig. 3: Change in Altice share price since 2015 and comparison with the Stoxx Europe 600 Telecom index (base 100)

Source: Thomson Reuters.

2.3. DCF

Our DCF valuation of the Altice group is based on the following assumptions:

- **Consolidation of Cablevision as of H2 2016.** Indeed, we assume a positive outcome from the takeover. The takeover is currently being looked into by American authorities.

- **Sales**: We expect pro-forma sales to drop by -**1.4% in 2016**, vs stable in 2015, especially in view of Portugal which is likely to pull international business downwards at -1.3% vs. -0.8% in 2015, and despite an improvement in France to -2.2% vs. -3.6% in 2015. Note also a negative EUR/USD exchange rate effect for 2016 with the US gaining 2.5% in the end, vs. +24.2% in 2015, excluding Cablevision. 2017 should see a **return to growth in pro-forma sales at +1.1%,** driven by the recovery in France (+0.7%) and in Portugal (international zone at +1.2%). For 2018, growth in pro-forma sales is set to stand at 1.7%

- **EBITDA margin :** we are forecasting pro-**forma adjusted EBITDA growth of 4.5%** in 2016 (mid-single digit EBITDA growth guidance announced), particularly in view of the slowdown in growth in France (+4.2% vs +21% in 2015). EBITDA margin is set to reach 43.1% in 2018, 500bp higher than the rate in 2015

- **Investments** (excluding licences): We have **increased proforma 2016 capex to EUR3.754bn,** namely 12.8% higher than in 2015, before reducing it by EUR310m in 2018, after the French mobile network has been brought up to standard especially.

- **WCR:** we have not taken into account a significant improvement in WCR in the years after 2015, in view of the gains already generated in 2015 at NC-SFR and Portugal. We have also factored payment of the French 4G 700MHz licence into cash flow, booked for EUR466m in 2015, but paid in four instalments of EUR116.5m over 2016-18 (two of which in 2016).

- We have assumed **a normalised tax rate of 29.3% in 2021 and thereafter**. Indeed, we estimate in particular that the current rate includes the impact of a tax-loss carry forward stemming from Numericable, that is due to end after five years.

- We have applied a **cost of net debt before tax of 6%.**

- We have adopted a **discount rate of 5.88%**, with a **beta of 1.33**, corresponding to Altice's two-year historical beta vs the Euro Stoxx 50, increased by 0.20 in order to take account of refinancing risk (this increase in beta is equivalent in the DCF valuation to a 100bp increase on debt of EUR40bn) and decreased by 0.02 in order to price in **a more diversified geographical mix** in particular with the rising momentum of the US. We have also assumed a risk premium of 7% and a risk-free rate of 1.6%.

- We are assuming a growth rate to infinity of 1%.

Fig. 4: Calculation of discount rate

Inputs	
Risk Free rate	1,6%
Market risk premium	7,0%
B	1,33
Cost of Equity	**10,89%**
Cost of Debt after taxes	4.3%
Gearing (based on market cap)	328%
WACC	**5,88%**

Source: Bryan, Garnier & Co ests.

Fig. 5: Change in Altice pro-forma sales and EBITDA

EUR M - consolidated figures	2014	2015	2016e	2017e	2018e
Pro Forma Revenues	**17 515**	**17 497**	**17 256**	**17 440**	**17 733**
YoY Growth		**-0,1%**	**-1,4%**	**1,1%**	**1,7%**
France	11 428	11 018	10 777	10 855	11 024
YoY Growth		-3,6%	-2,2%	0,7%	1,6%
US	1 756	2 181	2 236	2 293	2 339
YoY Growth		24,2%	2,5%	2,5%	2,0%
Other international	4 331	4 298	4 242	4 292	4 370
YoY Growth		-0,8%	-1,3%	1,2%	1,8%
Pro Forma adjusted EBITDA	**5 671**	**6 671**	**6 970**	**7 279**	**7 643**
YoY Growth		**17,6%**	**4,5%**	**4,4%**	**5,0%**
France	3 216	3 887	4 052	4 239	4 469
YoY Growth		20,9%	4,2%	4,6%	5,4%
US	688	889	1 005	1 092	1 165
YoY Growth		29,3%	13,1%	8,7%	6,7%
Other international	1 794	1 925	1 942	1 975	2 036
YoY Growth		7,3%	0,9%	1,7%	3,1%
Pro Forma EBITDA-CAPEX (excl. Licenses)		**3 550**	**3 450**	**3 828**	**4 432**
YoY Growth			-2,8%	11,0%	15,8%

Source: Company Data; Bryan, Garnier & Co ests.

Fig. 6: Cablevision's contribution

	2014	2015	2016	2017	2018
USD					
Revenues	6461	6502	6466	6447	6447
YoY Growth		0,6%	-0,6%	-0,3%	0,0%
EBITDA	1788	1725	1905	2196	2225
YoY Growth		-3,5%	10,4%	15,3%	1,3%
EUR					
Revenues			5 749	5 733	5 733
YoY Growth				-0,3%	0,0%
EBITDA			1 694	1 953	1 979
YoY Growth				15,3%	1,3%
EBITDA Margin			29,5%	34,1%	34,5%
€/USD change			0,89	0,89	0,89

Source: Company Data; Bryan, Garnier & Co ests.

Fig. 7: Discounted cash flow model (including Cablevision)

EURm	2015	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e
Sale	14 550	20 086	23 173	23 466	23 935	24 294	24 537	24 782	25 030	25 280	25 533	25 789
Change in sales		38,0%	15,4%	1,3%	1,5%	1,5%	1,0%	1,0%	1,0%	1,0%	1,0%	1,0%
EBIT	1 221	3 613	4 705	5 230	5 444	5 608	5 721	5 833	5 943	6 053	6 162	6 289
As % of sales	8,4%	18,0%	20,3%	22,3%	22,7%	23,1%	23,3%	23,5%	23,7%	23,9%	24,1%	24,4%
Tax rate	65,8%	65,8%	27,6%	25,3%	25,3%	25,3%	29,3%	29,3%	29,3%	29,3%	29,3%	29,3%
Net Op. Profit after Tax	418	1 237	3 409	3 908	4 068	4 190	4 045	4 124	4 202	4 280	4 357	4 447
+ D&A and prov.	3753	4010	4338	4210	4187	4169	4155	4143	4134	4127	4121	4097
Cash flow from op.	4 171	5 247	7 747	8 118	8 255	8 360	8 200	8 268	8 336	8 406	8 478	8 544
- Net investments (incl. Frequencies)	-2 640	-4 139	-4 337	-4 097	-4 097	-4 097	-4 097	-4 097	-4 097	-4 097	-4 097	-4 097
- change in WCR	-193	-163	-93	-114	-116	-118	-119	-121	-122	-123	-124	-125
Free cash Flow	1 338	945	3 317	3 906	4 041	4 144	3 984	4 050	4 117	4 186	4 256	4 322
Discounted FCF		901	2 988	3 324	3 248	3 146	2 857	2 743	2 634	2 530	2 430	2 330
Sum of disc. FCF		29 131										
+ disc. terminal value		47 880										
- net debt, 2015		49 946										
- minority interests		4 377										
- Provisions		1 643										
Valuation		**21 045**										
Nbre of shares (fully dilluted)		1 134										
Value per share		**18.6**										

Source: Company Data; Bryan, Garnier & Co ests.

2.4. Peer comparison

Our DCF values **Altice at 8.6x 2016 EBITDA, which stands ahead of the valuation of a panel of similar companies in the European market** (major telecoms operators, leaders or no. 2 in their market).

Fig. 8: EBITDA multiples

EV/EBITDA Multiples	2016e	2017e	2018e
Altice (DCF BG, adjusted EBITDA)	**8,6**	**8,2**	**7,7**
Panel average	**6,8**	**6,5**	**6,2**
Orange	4,9	4,8	4,6
Deutsch Telekom	5,9	5,4	5,0
Telefonica Deutschland	8,6	7,9	7,4
Telefonica	5,8	5,6	5,4
SWISSCOM	8,1	8,1	7,9
KPN	9,2	8,9	8,7
TELECOM ITALIA	4,8	4,7	4,4
PROXIMUS	6,8	6,7	6,5
TELENET GROUP HOLDING	8,8	7,9	7,4
MOBISTAR	5,5	5,1	5,0

Source: Company Data; Bryan, Garnier & Co ests.

The premium to EBITDA shown by Altice can be justified by its higher EBITDA growth profile compared with peers, by the integration of market consolidation prospects, and also the presence of traditionally better valued North-American business, as shown in the table below.

EV/EBITDA Multiples	2016e	2017e	2018e
Altice (DCF BG, adjusted EBITDA)	**8,6**	**8,2**	**7,7**
Panel average	**9,0**	**8,6**	**8,2**
COMCAST 'A'	7,5	7,2	6,7
TIME WARNER	9,7	9,2	8,7
CHARTER COMMS.CL.A	10,3	9,9	9,6
CABLEVISION SYS.	8,6	8,2	8,0

Source: Company Data; Bryan, Garnier & Co ests.

A sum-of-the-parts valuation helps see more clearly.

2.5. Sum-of-the-parts

For France, we have retained the current market valuation, namely a multiple of 7.3x 2016 EBITDA.

For the US, we have assumed a multiple of 10x EBITDA corresponding to multiples noted in recent transactions, especially for the acquisitions of Cablevision by Altice and Time Warner Cable by Charter Communications.

For the international business scope, we have assumed a multiple of 7x, close to current valuation levels and also corresponding to the multiple at which the Portugal Telecom takeover was operated.

Fig. 9: Overview of Altice SOTP valuation

Region	EBITDA Multiple	EV (100%)	% of detention
France	7,3	29 192	78%
US	10,0	29 172	70%
Other international	7,0	13 592	100%
Total		**71 957**	
- net debt		- 49 946	
- minorities		- 4 377	
- provisions		- 1 643	
Total MKT Cap		**15 991**	
Number of shares		1134	
Share value		**14,1**	

Source: Company Data; Bryan, Garnier & Co ests.

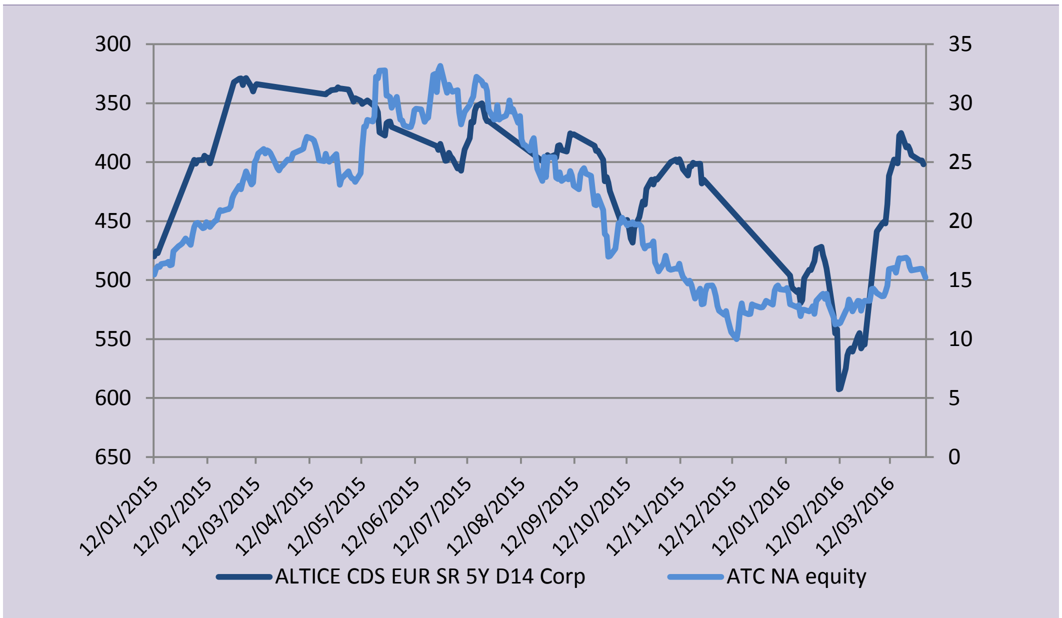
2.6. Debt management: refinancing and moving cash up the group

At end-2015, Altice had net debt of EUR35.563bn, or **5.3x the group's pro-forma 2015 EBITDA**.

For a while now spreads have been widening on the credit market and this has worried the market. The question of Altice's debt is indeed at the centre of investor concerns. As such, we could presume that **increasing tension in the credit market prompted by fears of a deterioration in the outlook, could take a toll on Altice.**

The chart below shows the correlation between the Altice share price and the group's CDS.

Fig. 10: Correlation between the Altice share price and CDS

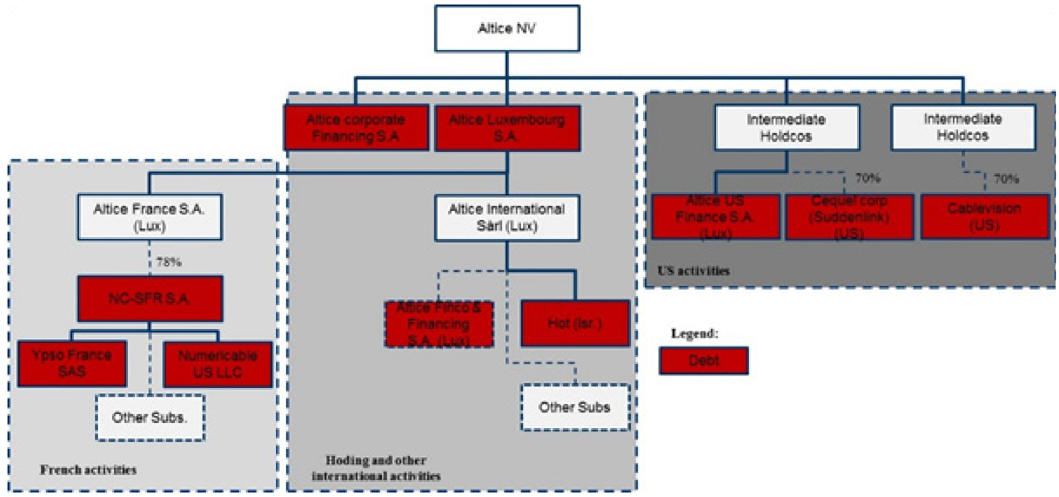


Source: Bloomberg

Given the prevailing backdrop of macroeconomic fears (weakness in emerging markets, plunge in oil prices, slowdown in global growth, risk of deflation in the Eurozone), we believe that the credit risk factor could take a toll on the Altice share price, independently of the actual risk borne by Altice itself.

Altice has a **fairly complicated structure, with debt carried by a multitude of entities**. The chart below offers a simplified version of the group's structure. For analysis purposes, we identify three business scopes: **1/** France (group NC-SFR), **2/** US (Suddenlink and Cablevision) and **3/** "others international" (other business areas + holding).

Fig. 11: Simplified structure of Altice group



Source: Company Data; Bryan, Garnier & Co ests.

The table below sets out net debt/EBITDA multiples for the group's three business scopes.

Fig. 12: Cash Flow estimates and net debt per region

	2016e	2017e	2018e
France			
Net Debt	14 396	13 746	12 808
Adjusted EBITDA	4 052	4 239	4 469
CAPEX (licenses incl.)	2 473	2 357	2 117
Free Cash Flow	5	650	938
Net Debt / EBITDA	3,6	3,2	2,9
Net Debt / (EBITDA - CAPEX)	9,1	7,3	5,4
US			
Net Debt	20 357	19 750	18 983
Adjusted EBITDA		3 045	3 143
CAPEX		1 170	1 170
Free Cash Flow		572	731
Net Debt / EBITDA		6,5	6,0
Net Debt / (EBITDA - CAPEX)		10,5	9,6
Other international and Holding			
Net Debt	15 193	15 225	15 109
Adjusted EBITDA	1 942	1 975	2 036
CAPEX	880	810	810
Free Cash Flow	164	- 32	116
Net Debt / EBITDA	7,8	7,7	7,4
Net Debt / (EBITDA - CAPEX)	14,3	13,1	12,3

Source: Company Data; Bryan, Garnier & Co ests.

Analysis of debt in the France scope is set out in our report initiating coverage of NC-SFR. In short, even if refinancing proves necessary, **the level of debt in France looks acceptable** in view of operating activity and the free cash flow generated.

The US has significantly more debt, but in our view presents lower operating risk than France, as explained above. As such, we consider this level of debt **sustainable, but a refinancing in the near future looks unavoidable here.**

The most worrying level of debt in our view, concerns the "holding +other international" business, where operating revenues do not seem sufficient enough to reimburse debt. This level of debt could imply the following actions:

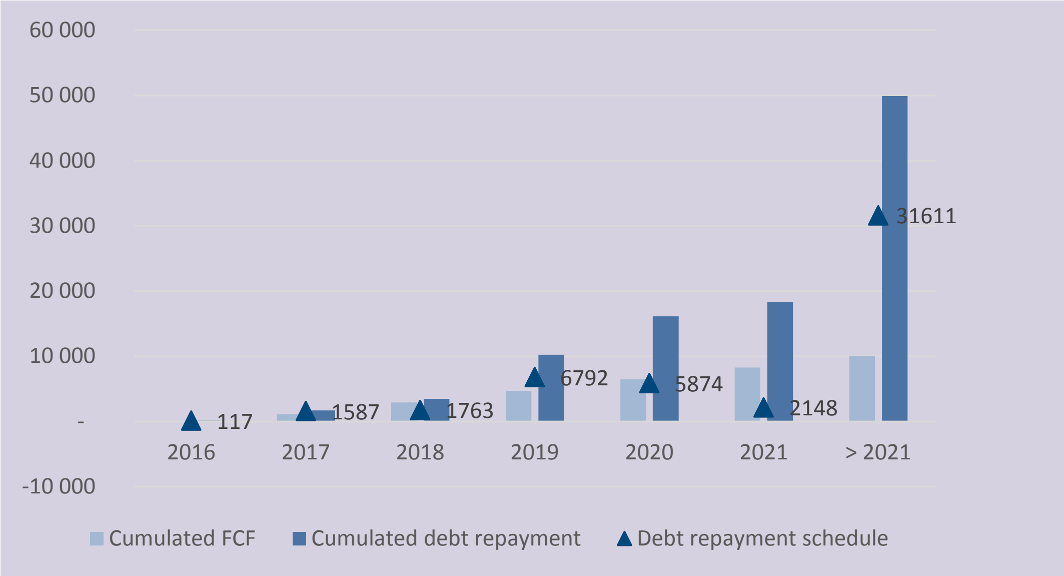
- **Increased pressure on capex and EBITDA in the international region.** This pressure could prove counterproductive in the medium term as shown by France, and confirming doubts weighing on management of Portugal.

- **A probably necessary call on the French businesses** to move up cash, as seen at end-2015 when NC-SFR paid a EUR2.5bn dividend, financed by debt (note that France generated EUR2bn in EBITDA-capex for 2015).

- **The possible disposal of assets to other group entities with less debt,** such as France. We could imagine the creation of a subsidiary owned and financed by Altice France S.A, which would house a number of the group's infrastructures.

As already explained for France and the US, the need to refinance Altice's debt goes without saying. After the acquisition of Cablevision, we estimate the amount of annual financial expenses at the Altice group at around EUR3bn. A 100bp increase in the rate over EUR40bn of debt in 2021 (before the biggest reimbursement maturities) represents an annual impact of EUR400m, namely 22% of available recurring cash flow by this date on our estimates. **The impact can be absorbed, according to the estimates in our plan, but remains very high.** We have factored this refinancing risk into our beta.

Fig. 13: Reimbursement schedule for Altice' financial debt and analysis of refinancing needs



Source: Company Data; Bryan, Garnier & Co ests.

3. The Altice method: increasing prices, reducing costs

3.1. Group history and marketing approach

A marketing approach stemming from the group's origins

The Altice group was founded by businessman Patrick Drahi and has primarily been built via a multitude of acquisitions. In the telecoms segment, four development phases can be identified:

- **Consolidation in cable in France, from 2002 to 2008,** with the pooling of Est Vidéocommunication, Coditel (Belgium and Luxembourg), Numericable, Noos, France Télécom Câble, TDF Câble, UPC France, Le Câble in the West Indies. This consolidation took place at a time when few players still believed in the future of cable technology in view of the development of DSL technologies. This consolidation resulted in the creation of a single brand: Numericable.

- **The group's international expansion between 2009 and early 2014,** with the acquisitions of Hot in Israel, Cabovisao and Oni Telecom in Portugal, Outremer Telecom (Reunion and Mayotte), Tricom and Orange Dominicana in the Dominican Republic. These were also the group's first forays into mobile activities.

- **The creation of a European leader, between end-2014 and mid-2015,** with the acquisition of French no. 2 player, SFR, as well as the MVNO Virgin Mobile, and the Portuguese no. 1, Portugal Telecom.

- **Conquering the US in 2015 and 2016:** with the takeover of Suddenlink at end-2015 and the current acquisition of Cablevision, making Altice the no. 4 cable operator in the North-American market.

In the media segment, note also the acceleration in acquisitions with the takeover of MCS TV and Kombat Sport in 2014, the acquisition of Libération and Groupe l'Express in 2015, and then the acquisition of a 49% stake in the NextRadio TV group also in early 2016.

As such, Altice's DNA is profoundly marked by cable, contents and TV. The marketing strategy for the majority of Altice's subsidiaries therefore relies on the following factors:

- **A strong anchoring in landline**, the pillar of the marketing approach, the customer promise and communication.

- **A premium positioning** justified both by very high speed access and the contents offered.

This approach, which a few years ago could still have been considered a strategy of the past with cable technology, now embraces strong market trends:

- **Expansion in very high speed landline:** the need for operators to have very high speed landline infrastructure (cable or FTTH) in order to accompany new customer usages.

- **Landline and mobile convergence:** the need for operators to offer both landline and mobile services in order to make their customers more loyal and offer multi-screen contents solutions.

- **Telecoms and media convergence.** After several failed attempts in the early 2000s, a fresh wave of mergers between media and telecoms activities has been noted in France, motivated by changes in contents and usages. As we see further on, we are not convinced by the synergies that could be unlocked by this type of merger. However, the size of the Altice group now enables it to envisage playing a more important role in the media sector.

3.2. Management method

A very straight forward management method, implying some risks

The high level of debt (EUR35.5bn at 5.5x 2015 EBITDA) stemming from the group's acquisition multiples not only imposes a high price positioning, but also **drastic cost management.** As such, Altice has managed to implement a now tried-and-tested method in order to reduce and control operating expenses and capex at its various operating subsidiaries. This is the methodology still being implemented at NC-SFR, currently being rolled out at Portugal Telecom, and set to be applied at Suddenlink and Cablevision.

It has four pillars:

- **Restoring control** of purchase processes to Altice teams. No spending is undertaken without prior approval by an Altice manager.

- **Review of services**. A decision by Altice means that certain services considered useless are halted, or the supply contract is renegotiated.

- **Change in sourcing model**. Less outsourcing and bringing the maximum amount of skills in-house.

- **Control of supplier payments.** Optimisation of WCR by optimising supplier payment delays.

Application of this methodology therefore prompts a **very fast and very deep decline in the company's spending base.**

This method nevertheless leads to a type of **double-governance** between the Altice teams, combining the functions of purchasing and decision-making, and the operating managers responsible in the subsidiary. We see two main risks in this:

- A risk that the **pressure placed on certain expenses** proves counter-productive given insufficient analysis or knowledge of the subject.

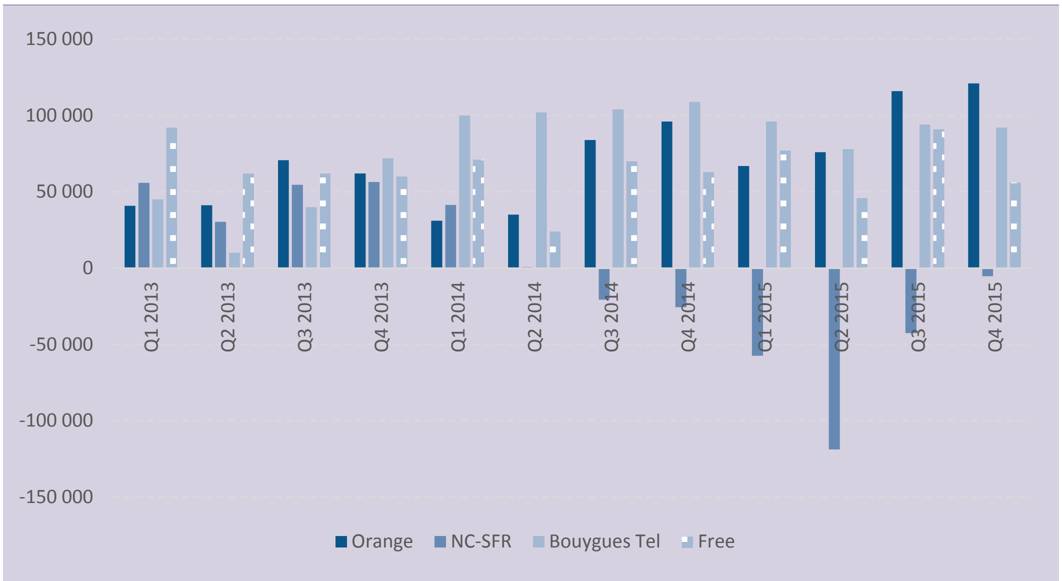
- **Risk of disorganisation** caused by multiple changes in suppliers and the change in the sourcing model.

- The **removal of responsibility** from operating management could cause some frustration.

3.3. Progress so far

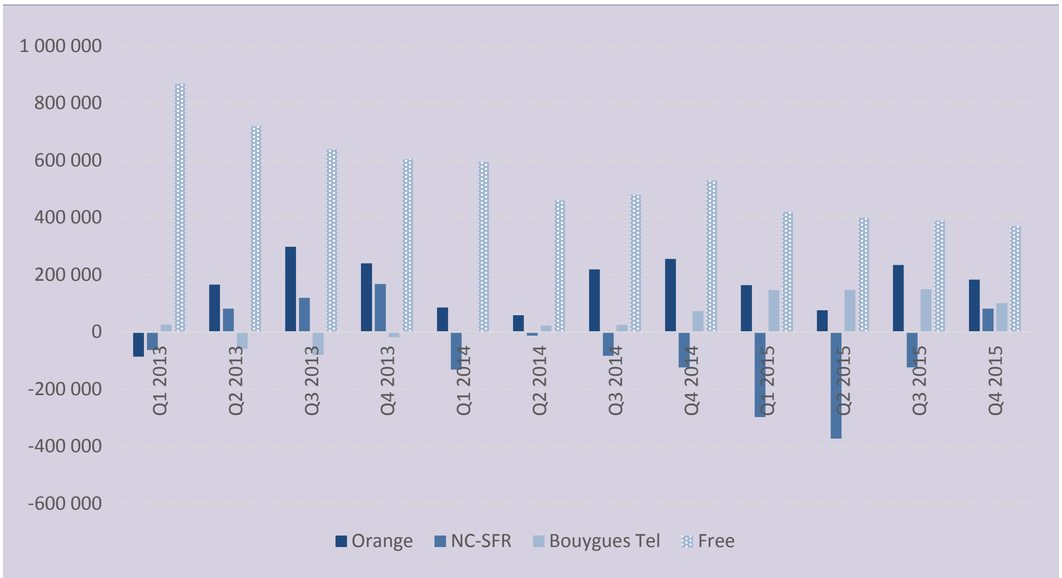
The French scope is set out in our report initiating coverage of NC-SFR also published today. Note in particular that in 2015, EBITDA in France improved considerably, rising from 28.1% in 2014 to 35.0%, at the same time as a significant loss of subscribers: -224k in landline and –713k in mobile subscribers (BtoC + BtoB), testifying to the difficulty at this stage in finding the right balance between cost optimisation and sales performance. And even if Q4 2015 saw a sharp recovery in net sales, this was achieved at the price of exceptional promotional intensity.

Fig. 14: History of high and very high speed landline net sales



Source: Company Data; Bryan, Garnier & Co ests.

Fig. 15: History of mobile net subscriber sales (excluding M2M)



Source: Company Data; Bryan, Garnier & Co ests.

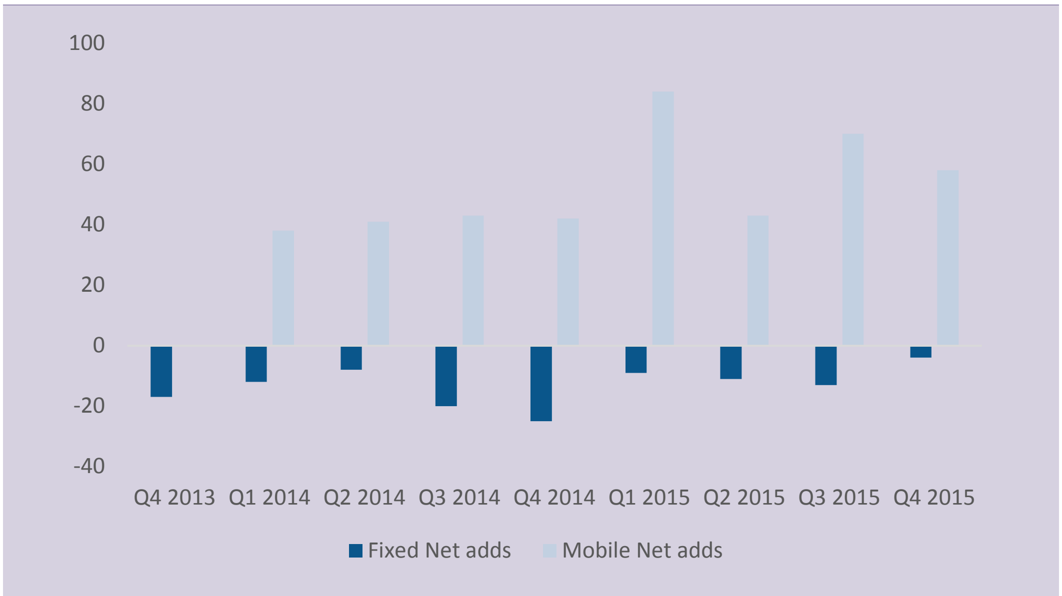
Concerning Portugal, as shown in the following chart, sales have weakened and revenues have been under pressure, at the same time as the improvement in EBITDA, in view of the first Altice savings plans.

Fig. 16: Change in Altice Portugal revenue and EBITDA

Source: Company Data; Bryan, Garnier & Co ests.

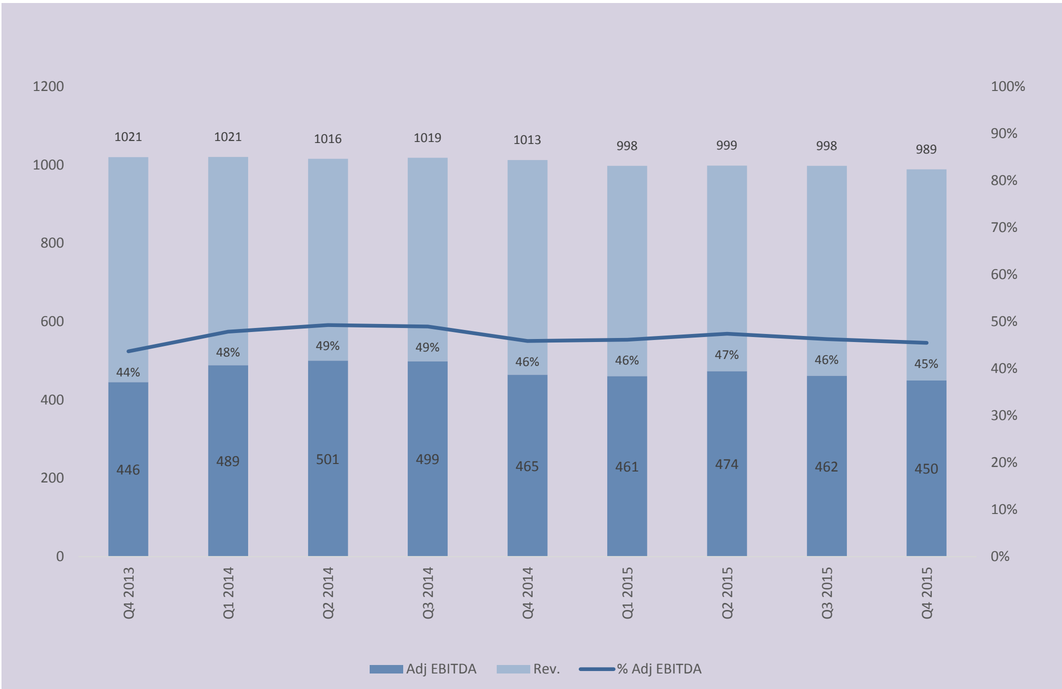
As shown in the charts below, during 2015 Israel restored sales momentum that was somewhat weakened in 2014, but at the cost of lower EBITDA and, in a highly competitive market, of pressure on ARPU and revenues.

Fig. 17: Change in Altice Israel net sales



Source: Company Data; Bryan, Garnier & Co ests.

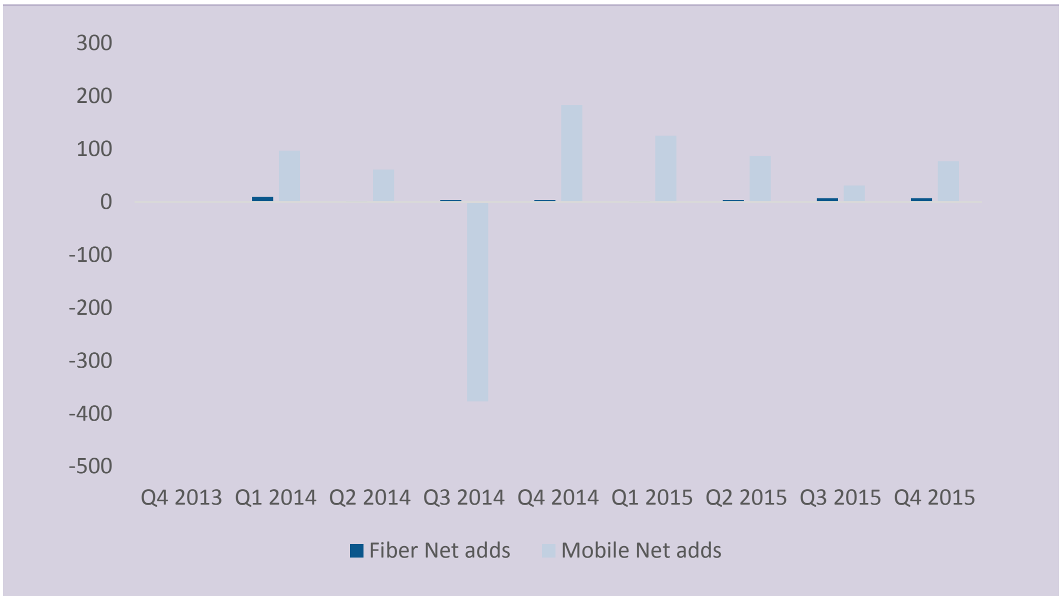
Fig. 18: Change in Altice Israel revenue and EBITDA (NIS)



Source: Company Data; Bryan, Garnier & Co ests.

During 2015, sales and EBITDA picked up massively in the Dominican Republic, driven by healthy ARPU and a stable EBITDA rate of more than 50%, despite slower sales momentum.

Fig. 19: Change in Altice Dominican Republic net sales



Source: Company Data; Bryan, Garnier & Co ests.

Fig. 20: Change in Altice Dominican Republic revenue and EBITDA (Dom. Pesos)

Source: Company Data; Bryan, Garnier & Co ests.

Comparison of the situations in Israel and France is interesting. In a highly competitive backdrop and with sharp pressure on prices, we note the same difficulty in simultaneously turning around EBITDA and sales performances.

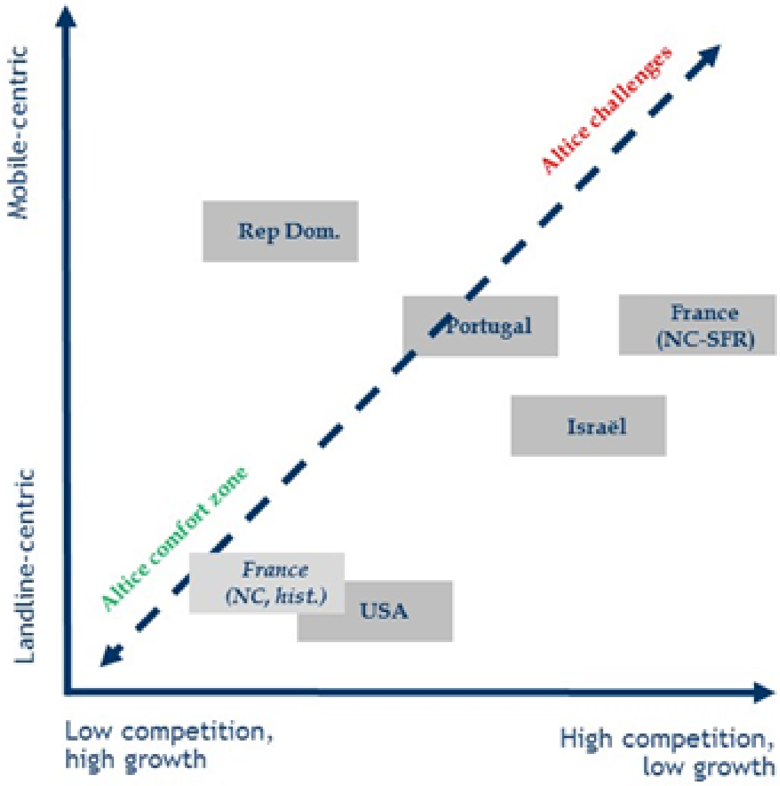
In a different context in Portugal, where Portugal Telecom is the historical operator and leader, the same type of trend is beginning to emerge.

In contrast, in the Dominican Republic, Altice is delivering growth in revenues combined with EBITDA growth, in a growing market witnessing the development of 3P landline offers and subscription mobile offers.

Although the Altice model cannot be criticised in itself, **it seems to be more or less suitable depending on the market situation.** The group's cable-centric history means it has inherited an ability to deliver strong financial performances in a protected environment, by betting on high value added and premium contents. In contrast, the model looks less suited to highly competitive environments where mobile is key and where low-cost versions are gaining momentum. For this reason, we believe that the US market presents good opportunities for the group as we discuss further on.

Fig. 21: Altice model: comfort zones and challenges

Source: Bryan, Garnier & Co



Source: Company Data; Bryan, Garnier & Co ests.

The Altice model looks both **less resilient than that of an historical operator boasting hefty technical and commercial investments,** and **more demanding in terms of the customer value than that of a low-cost operator** focused more on volumes.

In our view, the worst configuration for Altice is that whereby telecoms services gradually become a commodities market that is highly competitive with little value added and low margins, focused on a high-volume logic. We believe that one of Altice's aims in investing massively in contents and the telecoms/media convergence is precisely to eliminate the prospect of this commoditisation.

Altice must evolve along with its development

Whereas the Altice group is preparing to multiply its size fivefold over the next two years, **a greater flexibility in the model looks necessary in order to adapt to the various market configurations and secure execution of a wide-scale strategy.**

In other words: **Altice was created by engineers and developed by banks and the time has perhaps come to bring in the marketing people.**

This change in model clearly involves questions over **marketing strategy**, as well as **adapting Altice's governance**. Some moves have already been made, with the strengthening of top management, in particular:

- Recruitment of a COO, namely Michel Combes. A Polytechnique graduate, Michel Combes was Chairman and CEO of TDF, CEO of Vodafone Europe and then CEO of Alcatel Lucent before joining Altice. Michel Combes is also Chairman of NC-SFR, replacing Patrick Drahi, since 1st September 2015.

- Recruitment of a director of strategy, regulations and relations with state authorities, a position filled by Régis Turrini. Graduate of the Ecole Nationale d'Administration and a trained lawyer, Régis Turrini was head of mergers and acquisitions at Vivendi, and then director of the group's strategy and development. Following the sale of SFR to NC/Altice, he left Vivendi to head the French state shareholding agency in mid-2014, before joining Altice in early 2016. Régis Turrini is also Secretary General at NC-SFR.

These two exemplary recruitments (rounded out by a number of other nominations) testify to the aim to **better share and distribute responsibilities, to strengthen and structure the group,** and the need for **close dialogue with the state authorities.**

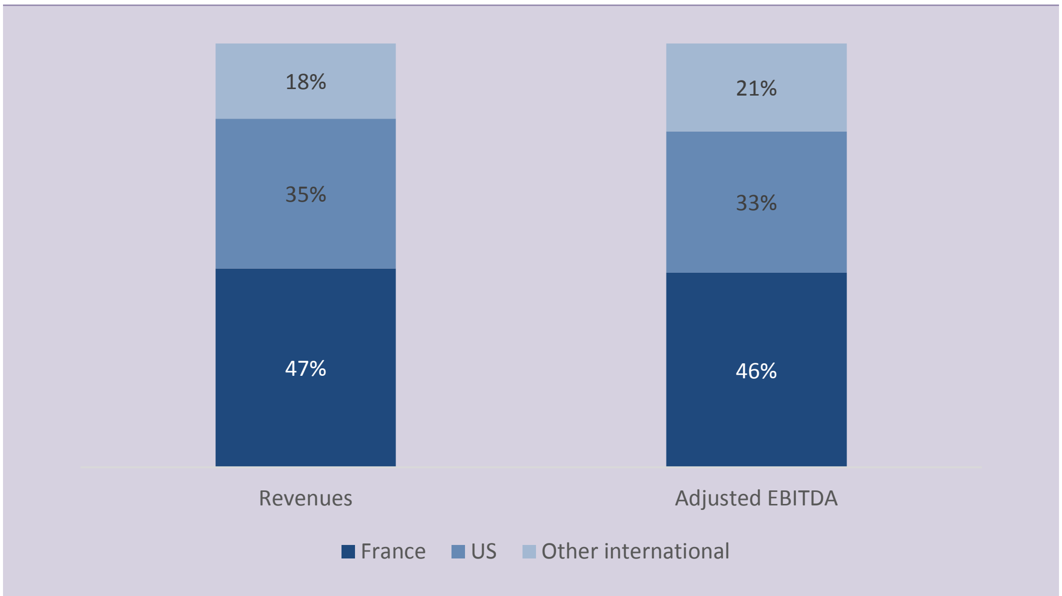
At this stage, we would nevertheless avoid stating that there has been a genuine decentralisation of Altice's power, or that its subsidiaries have become autonomous. The nomination of Armando Pereira, the second historical shareholder of Altice, as Portugal Telecom's chairman is a sign of this. The forthcoming arrival of Michel Paulin (former CEO of Neuf Cegetel, then CEO of the no. 2 operator in Morocco, Meditel) at NC-SFR should tell us more. These changes seem necessary for the group, even if we are convinced that Altice is likely to remain very much in control of operating decisions, beyond official hierarchical management lines.

4. A geographically diversified group

4.1. Macro profile

Since the takeover of Portugal Telecom and the acquisitions made or underway in the US, Altice boasts a very diversified geographical profile. The chart below presents the breakdown of revenues and EBITDA at Altice by region (the calculation is based on our 2016 estimates, extrapolated with Cablevision consolidated at 100% over the year).

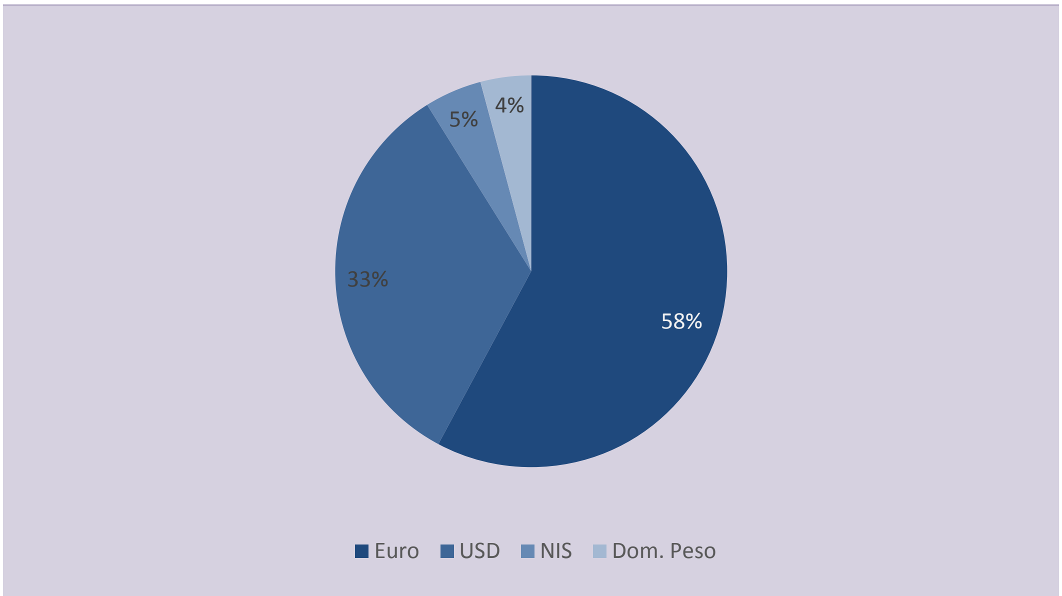
Fig. 22: Breakdown of Altice revenue and EBITDA by region



Source: Company Data; Bryan, Garnier & Co ests.

Altice's businesses are spread over four monetary regions: the euro for France and Portugal in particular, the US dollar for Suddenlink and Cablevision, the Israeli shekel and the Dominican peso. The breakdown of the group's earnings in the four currencies converted into euros, is set out in the chart below (our calculation is based on our 2016 estimates, extrapolated with Cablevision 100% consolidated over the year).

Fig. 23: Breakdown of EBITDA by currency



Source: Company Data; Bryan, Garnier & Co ests.

We have assumed a EUR/USD exchange rate of 1.12. Assuming a USD 0.10 variation in the rate (upwards or downwards) the impact on EBITDA in euro terms stands at + or - 3%. Since debt in the US scope is denominated in dollars as we see further on, these fluctuations have no impact on the ability to reimburse US debt.

4.2. France: not too late but time is pressing

4.2.1. A difficult context for NC-SFR

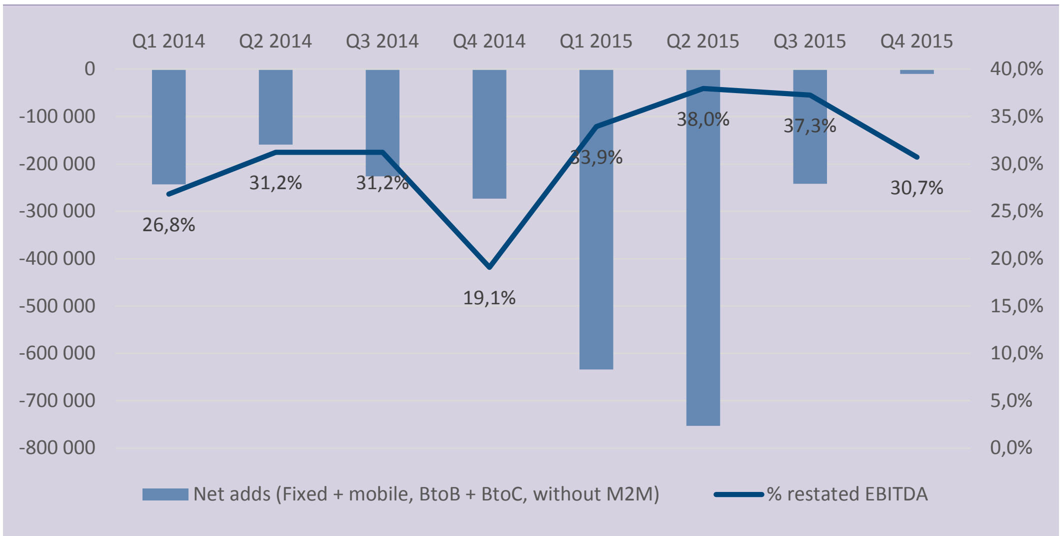
Analysis of the situation and the outlook for France is set out in our initiation report on NC-SFR also published today. We resume below the main points worth noting.

Abandoning hopes of a market consolidation stemming from the merger between Orange and Bouygues Telecom, the market is still witnessing a **fierce price war,** with a particularly aggressive positioning by Bouygues Telecom in landline and a multiplication in promotional periods, especially in mobile.

In this context, NC-SFR has undertaken a strategy to **maximise EBITDA**, by implementing **price hikes** on the one hand, and drastic **cost cuts** on the other hand. The result of this first year of the merger between NC and SFR was a **massive recovery in EBITDA**, at the same time as **massive customer losses**.

The chart below resumes NC-SFR's financial and commercial performances since 2014.

Fig. 24: Change in EBITDA margin and customer volumes over 2014/2015



Source: Company Data; Bryan, Garnier & Co ests.

We question the sustainable nature of this approach, estimating that **maximising the EBITDA rate could ultimately take a toll on the overall amount of EBITDA generated by the business**. In this respect, the arrival of Michel Combes as chairman of NC-SFR last year, as well as recent changes in the executive committee (especially the forthcoming arrival of Michel Paulin as CEO), suggest that Altice is aware of the situation and of the need to refocus the strategy and its implementation.

4.2.2. Challenges to face, risks to avoid

We welcome the change in management at NC-SFR. However, in this context, NC-SFR still needs to **face a number of challenges**:

- **Restoring a position of leading operator**, fighting in the same category as Orange, in particular by bringing the quality of service back to levels close to those of the historical operator, capable of justifying a premium price positioning (see ARCEP surveys on quality and coverage of mobile networks, n-perf reports, AFUTT reports, etc.).
- **Restoring a brand image that looks pretty damaged,** as shown by the number of customers avoiding NC-SFR in 2015.
- **Resisting vicious circles** resulting in the following double-temptation:
  - Offsetting customer losses by price increases, thereby amplifying the churn rate risk as a reaction. And compensating churn by offering aggressive promotions to prospects.
  - Offsetting pressure on the top line by excessive cost-saving plans, which weigh on the quality of service offered and hence the ability to generate more value.

4.3. Portugal: understanding the French example

The situation of Portugal Telecom is unique in the Altice group since it concerns an historical operator and leader in its market.

In mobile, Portugal Telecom is the leader with market share of 44.6% of a total market of 12.8m active lines, stabilising at a penetration rate of 164.1%. The market shows a huge share of prepaid plans with more than 6.5m lines, although a gradual shift to subscription plans is underway, as shown by the table below. The market no. 2 is Vodafone, which has market share of 36.4%, followed by NOS with 17%. The market has high 4G coverage since Portugal Telecom is the leader with a coverage rate of 95% of the population. As in France, it has witnessed exponential growth in mobile data usages (+50% between Q2 and Q3 2015 according to Anacome). Portugal Telecom has nevertheless suffered significant pressure on mobile ARPU given the price war and harsh competition in BtoB activities.

	Q3 2015	Q3 2015 YoY change	Q3 2015 YoY change (%)
Total number of active mobile lines	**12,814**	**-152**	**-1.2%**
Post-paid plans	3,219	780	32.0%
Pre-paid plans	6,469	-1 374	-17.5%
Hybrid plans	3,127	442	16.5%

Source: Anacom

In broadband and very high speed internet access, Portugal Telecom is the leader with a 45% market share, compared with 36% for NOS, 14% for Vodafine and 4.5% for Cabovisao (previously owned by Altice before being sold to Apax at end-2015 under the framework of measures requested by the competitions authority following the takeover of Portugal Telecom).

The broadband and very high speed access market is growing, with a still-limited penetration rate at 63% of households at end-Q3 2015, according to Anacom. Growth is primarily driven by very high speed, FTTH and cable, as shown in the table below.

	Q3 2014	Q2 2015	Q3 2015	Q3 2015 QoQ change	Q3 2015 YoY change
Total broadband customers	**2,767**	**3,002**	**3,072**	**2,3%**	**11,0%**
ADSL accesses	1,083	1,069	1,055	-1,3%	-2,6%
Cable modem accesses	1,001	1,034	1,052	1,7%	5,1%
FTTH/FTTB accesses	577	723	774	7,1%	34,1%
LTE accesses at a fixed location	104	173	188	8,7%	80,8%

Source: Anacom.

The situation is therefore different to that of France in several respects:

On the one hand, the market context offers genuine growth opportunities:

- Migration of prepaid customers to subscription offers.
- Development of convergent 3P/4P offers
- Development of THD in which Portugal Telecom is ideally positioned.

On the other hand, the positioning of Portugal Telecom, given its status as incumbent operator, benefits from a number of competitive advantages that SFR did not have in France:

- A premium and reassuring brand image.
- No delays in infrastructure relative to rivals.

Note also that in the Portuguese case, there is no merger between the operating entities to carry out, as was the case between NC and SFR, but "only" the company's restructuring and development. Despite that, as seen in France in recent quarters, several threats could still weigh on Altice's activities in Portugal:

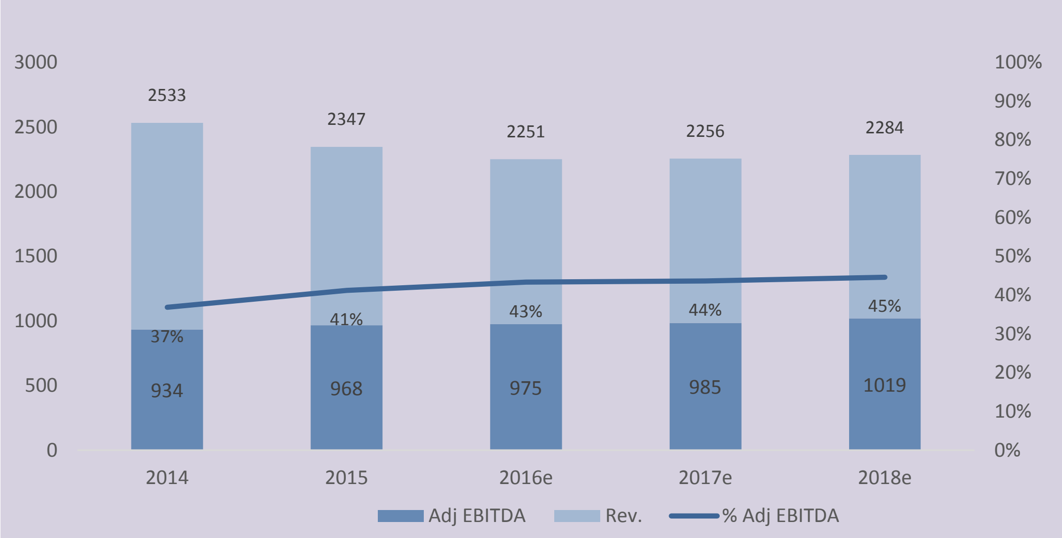
- Focus on landline activities leading to a loss of competitiveness in mobile and significant customer losses.
- Implementation of drastic cost-cutting plans that jeopardise the quality of service and brand image.
- A double-governance of Altice vs operating management affecting the quality of execution.
- Destabilisation of the structure by reorganisations and culture shocks.

Indeed, since the takeover by Altice, signs of a **similar trajectory to that of France** have been noted, requiring some vigilance, namely a decline in revenues and sales performances, at the same time as a high level of savings.

As such, Altice will have to face the challenge of reforming the historical operator and delivering significant cost savings while managing a **likely culture shock**, maintaining the **quality of service** that is the essence of the historical operator's brand image, **developing landline THD** and making TV content profitable without **damaging the mobile performance**.

At this stage, we are fairly cautious in our forecasts for Altice's business in Portugal, as shown by the charts below, with a virtual stabilisation in the EBITDA rate and sales as of 2017.

Fig. 25: Altice Portugal revenues and EBITDA



Source: Company Data; Bryan, Garnier & Co ests.

4.4. The US: on fairly familiar territory

4.4.1. Return to fundamentals

We see the arrival of Altice in the US, with the acquisition of Suddenlink and Cablevision, as a return to the territory it is most familiar with in view of: **1/** the fairly well protected competitive backdrop, **2/** a landline-centric business and **3/** pay-TV and contents which are key factors. **The business model and marketing approach is therefore close to Altice's historical know-how**.

Unlike the North American mobile market or national markets in Europe, **the North American cable market is very fragmented**, with a multitude of players each owning a **near-monopoly** (or in an oligopolistic position) in given geographical regions. This is especially the case of Suddenlink, which is mostly present in the southern states and has a virtual monopoly, and to a lesser extent Cablevision, in the New York region, which has more than 50% market share in pay TV and broadband internet access.

This situation, which notably stems from a less restrictive regulatory environment than in Europe, especially in terms of unbundling the local loop, allows the practice of **high prices**. This market configuration is also **less inclined to make landline/mobile convergence vital** for development at the groups as is the case in Europe.

For all of these reasons, we therefore believe that the **US cable market lends itself well to Altice's strategy and management methods**, and that the recovery in EBITDA is not as exposed at it is in France to the risk of a decline in sales performance. In addition, the North American market is very watertight compared with the European market in general and France in particular. Altice's expansion in the US therefore harbours genuine interest in terms of **diversifying execution and market risks**.

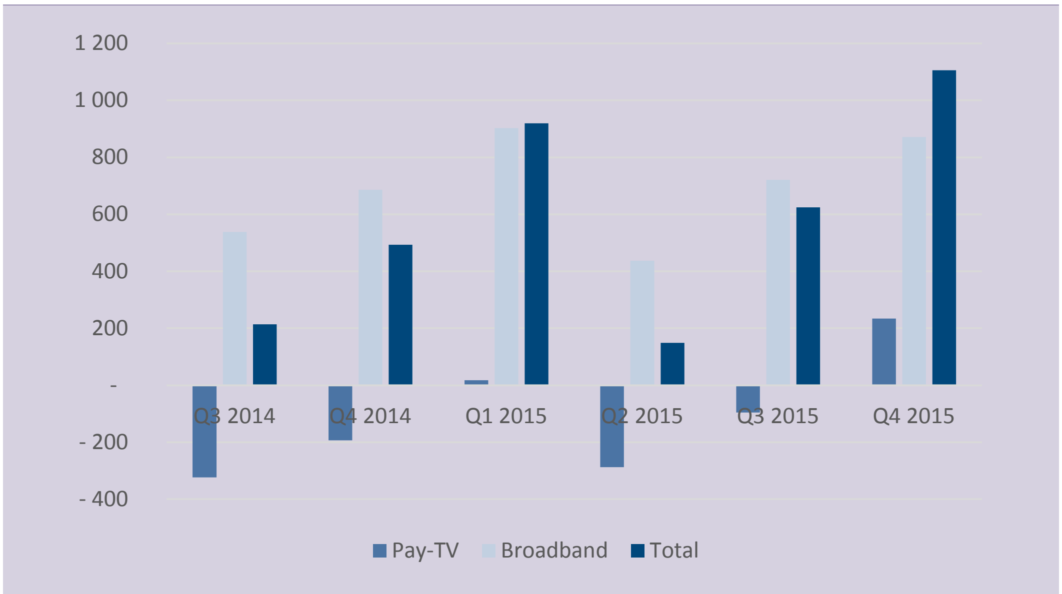
4.4.2. A market threatened by cord cutting

Despite the fairly reassuring environment and context described above, we believe **one main risk hangs over US cable operators,** namely that of web players, or mobile operators and the development of pay-TV solutions via the internet. The most emblematic example of this is Netflix, although there are others such as Youtube Red, Amazon Prime, Hulu, Apple (which is working on a similar project, not without difficulty in discussions with major groups…).

We would also add the development of alternative set-top boxes to operator decoders which enable programmes broadcast on internet to be watched directly on TV. This is notably the case of Apple TV, Amazon TV, the Google Chromecast key and the Roku box among others.

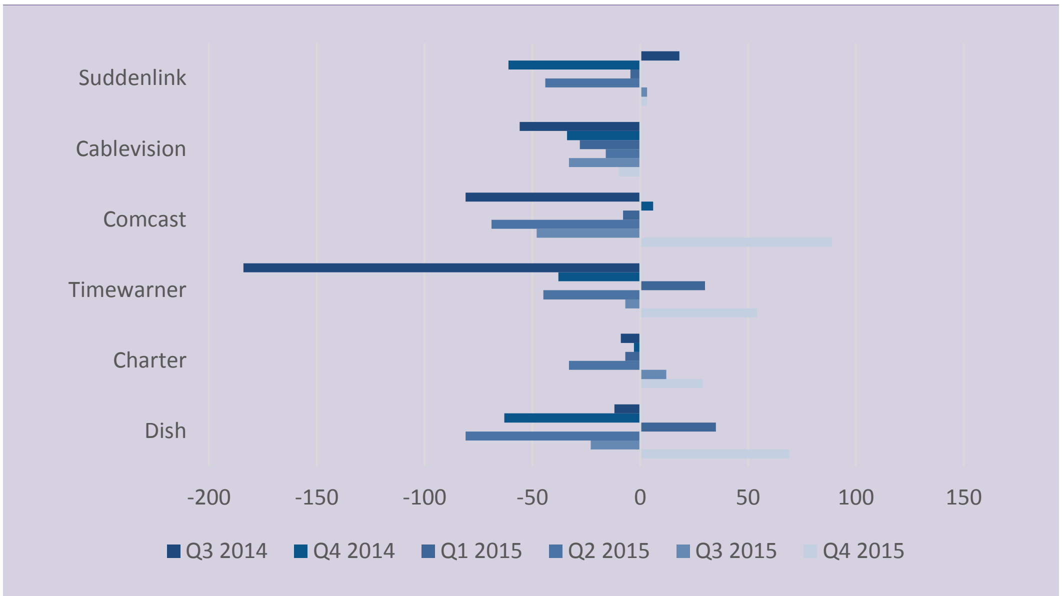
All of these players and their web TV solutions are contributing to the development of the **cord cutting** trend, whereby clients stop their pay-TV subscription with their operator, only need a broadband internet access, and subscribe to TV offers directly with web players. The chart below shows the change in pay-TV subscriptions at the main US cable and satellite operators, and at the same time, the change in the number of internet access subscriptions made with them (scope: Dish -TV by satellite-, Charter communications, Time Warner Cable, Comcast, Cablevision, Suddenlink).

Fig. 26: Change in customer bases of main pay-TV players in the US



Source: Company Data; Bryan, Garnier & Co ests.

Fig. 27: Change in pay-TV customer bases of main pay-TV players in the US



Source: Company Data; Bryan, Garnier & Co ests.

In recent months, regulatory pressure has added to this market trend. We would note in particular:

- The stated aim of the US regulator, the FCC, to **open the market of cable decoders to other pay-TV players.** At present, cable bouquet customers need a decoder supplied by the operator, which controls the user interface, the digitalisation of channels and access to other services. The FCC's aim is a threat for cable operators implying the loss of ties with customers, the increasing risk of being eaten up by rival services, lost earnings of around USD200 per customer and per year for renting the decoder.

- An in-depth study by the FCC on **contracts linking major cable operators and major media players**, the targets of which are clauses banning the latter to market the same contents simultaneously to cable operators and web TV players. To a certain extent, this protects cable operators from the threat caused by new cord-cutting players.

We do not believe the cord cutting risk is a major issue in the medium term

While the cord-cutting trend described above is real and non-negligible, we nevertheless believe it should not be overestimated.

- On the one hand, the trend is not **massive, but very progressive,** and leaves the time for cable operators to react and adapt.

- On the other hand, and this explains the first point, cable operators are the leading clients of TV majors, and **therefore have strong negotiating clout** and can control to a certain extent the attitude of the majors towards web players.

- Finally, the development of web TV or SVoD services **does not purely cannibalise** traditional offers by cable operators, but to a certain extent is a complement to them. Indeed, these services are often proposed at accessible prices of between USD10 and USD20, but offer smaller catalogues compared with operators, offering each one exclusivities that provide them a competitive edge. For example, House of Cards on Netflix, Games of Thrones on HBO Now, Monday Night Football on Sling TV, etc…

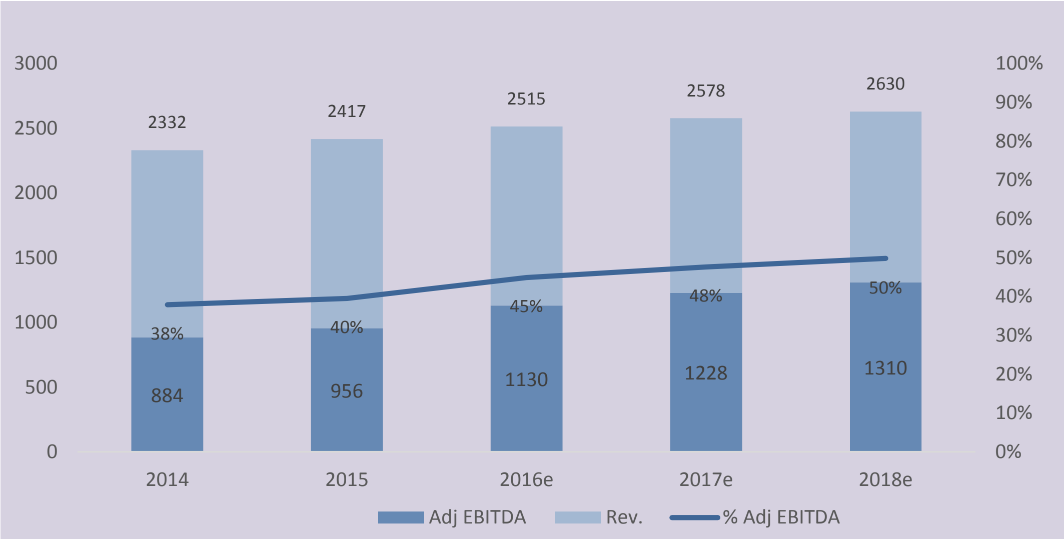
In addition, the operator has ways of reacting:

- By adopting a marketing approach **favouring packaged 3P offers:** TV, internet and telephone.
- By **moving the ground from contents to speeds:** investing in speeds to better value very high speed access as content revenues are threatened.
- By **developing its own streaming services** as Dish did with sling TV, or Direct TV which is thinking about launching web services. In Steve Job's words: "If you don't cannibalise yourself, someone else will".
- By **producing its own contents** and making exclusive offers, which is appropriate for large-sized operators whose large-scale client base helps guarantee a better return on production investments.

As such, we remain **cautious on sales trends** at the companies acquired by Altice in the US, but in our base case, **are ruling out any catastrophic scenario** of a plunge in revenues due to the cord cutting trend.

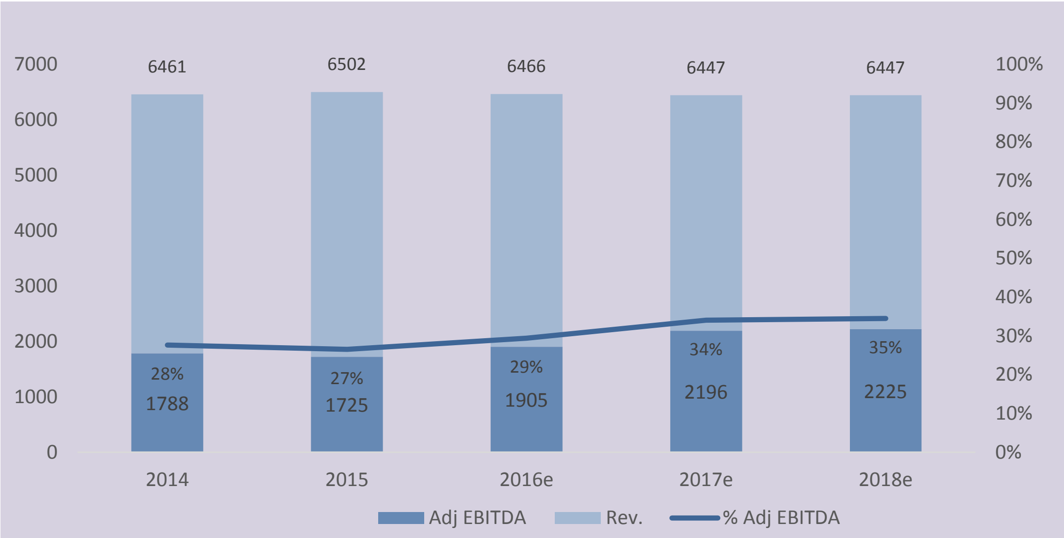
Concerning Suddenlink, we continue to forecast a slight increase in sales, in line with the growth noted recently, whereas for Cablevision, we continue to expect **slight pressure** on sales. In addition, we are assuming **USD200m in opex synergies** for Suddenlink out to 2018, a little below Altice's target of USD215m namely **13%** of efforts in the 2015 total cost base. For Cablevision, we are assuming USD550m in savings out to 2018, namely 13% on the estimated 2015 cost base, allowing to reach the EBITDA rate of peers on the market.

Fig. 28: Suddenlink revenues and EBITDA estimates (USD)



Source: Company Data; Bryan, Garnier & Co ests.

Fig. 29: Cablevision revenue and EBITDA estimates (USD)

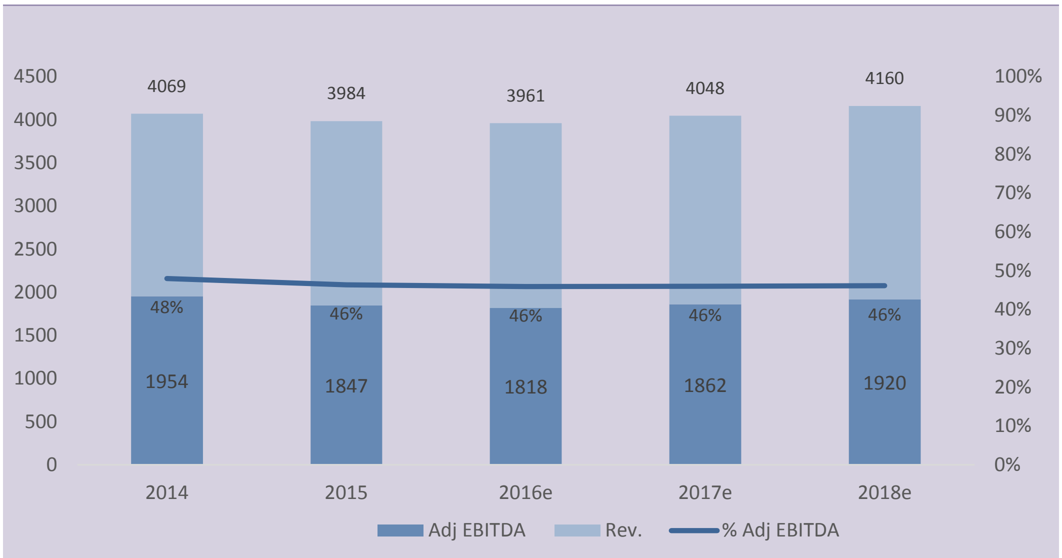


Source: Company Data; Bryan, Garnier & Co ests.

4.5. Other regions

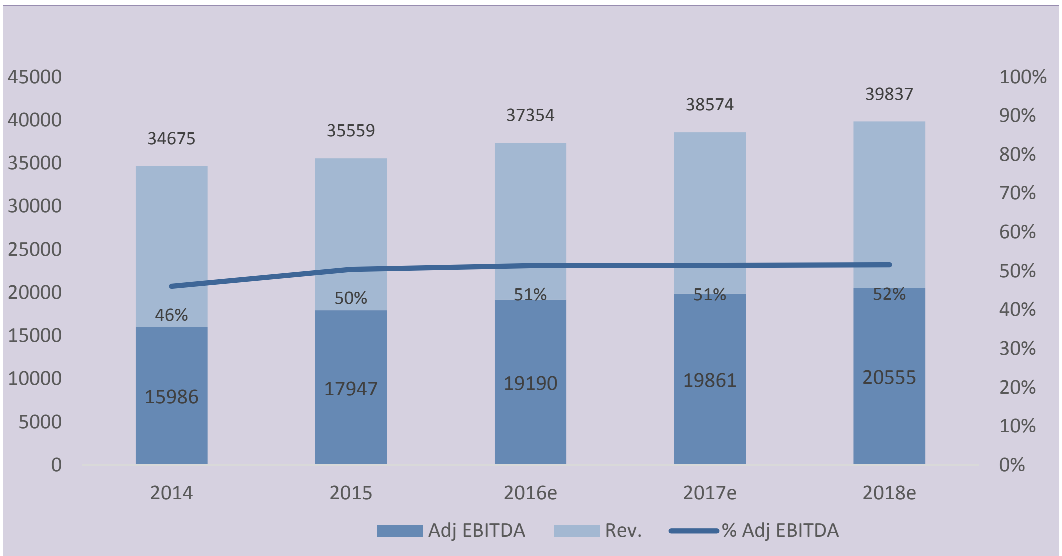
Our forecasts for Israel and the Dominican Republic are set out below. In short, we estimate that the **streamlining of the cost base is essentially behind us**. In our view, the Israeli market should continue to suffer in 2016 from sharp pressure on prices, but we are a return to growth for 2017. As such, we are not assuming a market repair prompted by an eventual acquisition of Golan Telecom by Cellcom, an operation that is still being studied by the competitions authorities in Israel. Concerning the Dominican Republic, we believe that the growth noted in 2015 is set to continue at a similar pace over the next three years.

Fig. 30: Hot revenue and EBITDA projections (NIS)



Source: Company Data; Bryan, Garnier & Co ests.

Fig. 31: Altice Dominican Republic revenue and EBITDA projections (DOP)



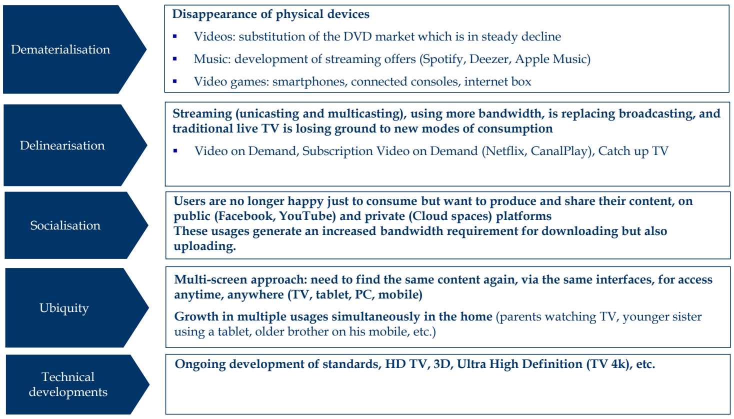
Source: Company Data; Bryan, Garnier & Co ests.

5. Media-telecoms convergence: back to the future

Excluding Anglo-US countries, Altice's strategy in creating an integrated telecoms and media group, is a first attempt of this scale, since the aborted tie-ups of the early 2000s. The mergers undertaken at the time went ahead at very high valuations, justified by hopes of unlocking high synergies between the containers and their contents. This is nothing like Altice's approach, where media investments are not so large, and where synergy paths are clearer.

The type of new digital contents offered, as well as changes in consumption methods, as shown in the table below, lend themselves more to the convergence of the two worlds.

Fig. 32: Change in contents and digital usages



Source: Bryan, Garnier & Co.

In line with the strategy implemented by Altice in contents, for several months, we have been witnessing a change in position at a number of players. Indeed, Orange has announced a future seminar for its executive committee focused on the question of contents, while Vivendi has increased its influence in Telecom Italia. Numerous other examples illustrate this rebirth of the paradigm, as shown in the table below.

Fig. 33: Recent telecoms/media initiatives in Europe

Telecom Company	Illustration of latest media convergence initiatives
Proximus	Acquisition of Belgium football rights
Telefonica	Acquisition of Canal+ Spain, acquisition of Liga football rights
Orange Spain	Acquisition of Liga football rights
Vodafone	Acquisition of Liga football rights
BT	Acquisition of Champions' League football rights
Liberty Global	Acquisition of production firm All3media (JV with Discovery), investment in ITV
Altice	Launch of Zive, acquisition of Portugese and English football rights
Telecom Italia	Videndi acquires a 24,9% stake in the company, four board members
Comcast	Acquisition of NBCUniversal
AT&T	Acquisition of Direct TV

Source: Bryan, Garnier & Co.

At Altice, initiatives in contents have been numerous in recent months:

- **Hefty investments in sporting rights:** in particular, the UK Premier League football tournament for EUR300m over the next three seasons (exclusive rights in France and Monaco), broadcasting and sponsoring agreement with FC Porto for EUR475.5m over 10 years, an exclusive partnership worth EUR50m with the French basket ball league for broadcasting of all competitions over five seasons.
- **Launch of a directly operated Subscription Video on Demand (SVoD) offer** in France: Zive, boasting a catalogue of 10,000 programmes between now and the end of H1 2016, including some in 4k. The offer is available for free in subscriptions starting with the Power offers, or available for EUR9.99 a month for other offers.
- **Acquisitions and partnerships with new media groups:** partnership with NextRadioTV (radio, free TV), acquisition of Libération, groupe l'Express – L'Expansion, Stratégies in particular.
- **Communication focused on contents:** partnership with Cristiano Ronaldo, personifying the group's sports contents, TV advert and homepage of SFR website focused on contents.

In addition, as its CEO Dexter Goei has already stated, Altice is not ruling out the prospect of investing in a European production company in order to produce is own contents as it already does in Israel.

In the world of contents, **size is key in order to amortise production costs or purchases of rights over the widest possible client base.** As such, the size of Altice is an asset and the group's international expansion is coherent with its media approach. However, we believe that the interest of the telecoms/media convergence strategy should be **assessed independently in each market**. The two extreme cases are the landline market in the US and in France. We have set out the specific features of the French market and the business case for the acquisition of rights for the UK Premier League Championship in our NC-SFR report. **However, the two countries show convergent trajectories with a gradual switch from cable as a pay TV offer to cable as an internet access offer in the US, and for French operators, the tendency to increasingly rely on contents offers in order to sell internet access.**

Altice is ideally situated within this trend. However, we see the telecoms/media convergence not so much as a source of considerable synergies, but more an opportunity for telecoms operators to **diversify revenues** and **ward off threats prompted by cord cutting and the commoditisation** of telecoms access in favour of web and contents players. In other words, we consider that the telecoms/media convergence strategy is more **defensive in nature rather than offensive**.

6. Appendices

Fig. 34: Consolidated P&L

P&L	2014	2015	2016e	2017e	2018e
revenues	**3 935**	**14 550**	**20 086**	**23 173**	**23 466**
US		66	5 066	8 025	8 071
International		3 467	4 242	4 292	4 370
France		11 018	10 777	10 855	11 024
Cost of sales, operating and labour expenses	- 2 459	- 9 129	- 12 259	- 13 976	- 13 873
restructuring costs and restatements	-	73	66	62	56
Adjusted EBITDA	**1 496**	**5 494**	**7 865**	**9 231**	**9 621**
% of revenues		37,8%	39,2%	39,8%	41,0%
US		31	1 900	3 045	3 143
% adj. EBITDA		41,3%	37,5%	37,9%	38,9%
International		1 577	1 942	1 975	2 036
% adj. EBITDA		47,4%	45,8%	46,0%	46,6%
France		3 887	4 052	4 239	4 469
% adj. EBITDA		35,3%	37,6%	39,1%	40,5%
Corporate costs		- 14	- 28	- 28	- 28
reported EBITDA	**1 496**	**5 421**	**7 799**	**9 169**	**9 565**
depreciation & amortisation	- 1 099	- 3 753	- 4 010	- 4 338	- 4 210
Impairment losses	-	- 21	-	-	-
Non recurring items and other adjustments	- 220	- 426	- 176	- 126	- 126
EBIT	**177**	**1 221**	**3 613**	**4 705**	**5 230**
% of revenues	4,5%	8,4%	18,0%	20,3%	22,3%
US		-	985	1 803	1 932
International		-	1 098	1 131	1 192
France		-	1 559	1 799	2 134
financial result	**- 880**	**- 1 215**	**- 2 985**	**- 2 946**	**- 2 849**
Revenues	418	1 061	-	-	-
Gross Debt costs	- 1 298	- 2 014	- 2 985	- 2 946	- 2 849
Other financial costs	-	- 262	-	-	-
income tax	165	- 262	- 413	- 485	- 602
Net result on disposal of assets	-	28	-	-	-
Mise en équivalence	5	8	8	8	8
consolidated net income after tax	**- 533**	**- 220**	**223**	**1 282**	**1 787**
non controlling interests	- 139	100	248	438	503
consolidated net income (group share)	**- 394**	**- 319**	**- 25**	**844**	**1 284**

Source: Company Data; Bryan, Garnier & Co ests.

Fig. 35:

Fig. 36: Consolidated Cash Flow

Cash Flow	2014	2015	2016e	2017e	2018e
EBITDA (reported)	**1 496**	**5 421**	**7 799**	**9 169**	**9 565**
Income tax recognized	-165	261	-	-	-
Income tax spent	-116	-318	-413	-485	-602
Change in WC	-753	-193	-163	-93	-114
Others	-296	-274	-168	-118	-118
Net cash provided by operating activities	**1 836**	**4 636**	**7 055**	**8 473**	**8 731**
CAPEX	-965	-2 640	-4 139	-4 337	-4 097
Others	-15 492	-2 751	-	-	-
Net cash provided by investing activities	**-14 622**	**-5 391**	**-4 139**	**-4 337**	**-4 097**
Finance costs recognized	1 136	-	-	-	-
Interest paid	-778	-1 395	-2 985	-2 946	-2 849
Dividend paid	-	-556	-	-	-
Others	15 060	3 662	-	-	-
Net cash provided by financing activities	**14 282**	**1 712**	**-2 985**	**-2 946**	**-2 849**
Others	6	-7	-	-	-
Change in cash & cash equivalents	**1 502**	**951**	**-69**	**1 190**	**1 785**

Source: Company Data; Bryan, Garnier & Co ests.

Fig. 37: Evolution of net debt

Debt	2014	2015	2016e	2017e	2018e
Net debt	**20 422**	**35 561**	**49 946**	**48 721**	**46 900**
ow France (NC-SFR)	11 324	14 401	14 396	13 746	12 808
ow which USA	-	6 136	20 357	19 750	18 983
ow which others	8 186	15 024	15 193	15 225	15 109

Source: Company Data; Bryan, Garnier & Co ests.

Fig. 38: Evolution of CAPEX

CAPEX	2015	2016e	2017e	2018e
Total	**3 121**	**3 906**	**4 221**	**3 981**
US (EUR)	**432**	**786**	**1 170**	**1 170**
Cablevision (only H2 in 2016)	-	386	770	770
Suddenlink	432	400	400	400
International	**781**	**880**	**810**	**810**
Portugal	331	400	400	400
Israel	285	320	250	250
Dom Rep	124	120	120	120
Others	41	40	40	40
France (excl. Licenses)	**1 857**	**2 240**	**2 240**	**2 000**

Source: Company Data; Bryan, Garnier & Co ests.

Fig. 39:

Fig. 40: Suddenlink's contribution

	2014	2015	2016	2017	2018
USD					
Revenues	2332	2417	2515	2578	2630
YoY Growth		3,7%	4,0%	2,5%	2,0%
EBITDA	884	956	1130	1228	1310
YoY Growth		8,1%	18,2%	8,7%	6,7%
EUR					
Revenues	1 756	2 181	2 236	2 293	2 339
YoY Growth		24,2%	2,5%	2,5%	2,0%
EBITDA	688	889	1 005	1 092	1 165
YoY Growth		29,3%	13,1%	8,7%	6,7%
EBITDA Margin	39,2%	40,7%	44,9%	47,6%	49,8%
€/USD change	0,75	0,90	0,89	0,89	0,89

Source: Company Data; Bryan, Garnier & Co ests.

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Distribution of stock ratings

BUY ratings 00%　　NEUTRAL ratings 0%　　SELL ratings 00%

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