BRYAN, GARNIER & CO

INDEPENDENT RESEARCH

11th April 2016

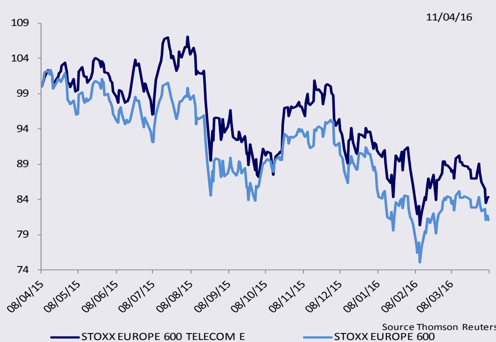
Telecom services

Altice and Numericable-Sfr

The time of Marketing?

ALTICE		BUY	FV EUR16.3
Bloomberg	ATC NA	Reuters	ATCA.AS
Price	EUR13.8	High/Low	32.2495/10
Market cap.	EUR15,101m	Enterprise Val	EUR50,662m
PE (2015e)	NS	EV/EBIT (2015e)	41.5x

NUMERICABLE SFR		NEUTRAL	FV EUR28.4
Bloomberg	NUM FP	Reuters	NUME.PA
Price	EUR29.335	High/Low	47.9867/28.1152
Market Cap.	EUR12,856m	Enterprise Val	EUR27,252m
PE (2015e)	21.3x	EV/EBIT (2015e)	16.9x



We are initiating coverage of Numericable-SFR with a Neutral recommendation and a Fair Value of EUR28.4, and coverage of Altice with a Buy recommendation and a Fair Value of EUR16.3. Greater diversification of locations of operations at Altice and specific market risks at NC-SFR warrant greater caution on NC-SFR than on its holding company. Following its foundation by engineers, and its development by bankers, has the time of marketing now come for the group?

- In our view, uncertainty remains on Altice's ability to deliver both **cost savings and lasting sales performances.** This risk seems particularly present in France, given the current market conditions, but the group has started to **transform** itself along with its development, and it is adapting to the new market where it operates.

- We expect **sales at NC-SFR to come under further pressure in 2016**, and then expect a **recovery as of 2017,** driven by **renewed investments** and **changes in management**. We remain **cautious on Portugal** at this stage, but we are confident in the group's ability to deliver **healthy performances in the US.**

- **Pro forma EBITDA will keep on rising, but at a slower pace than previously.**

- The Altice group has a **high risk profile** in view of its high debt of **5.3x EBITDA** prior to the acquisition of Cablevision, **and 3.7x in France**. The group is relying on **France to pay down debt at the holding company structures**, but operating risk in France is **diluted at the Altice level**. This mechanism represents nevertheless a **dividend opportunity** for NC-SFR shareholders.

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Diversification is key. 3

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. 3

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We are initiating coverage of Numericable-SFR with a Neutral recommendation and Fair Value of EUR28.4. We are forecasting a still difficult year in 2016 for the group, but expect a recovery by 2017 driven by renewed investments and the change in management. But market consolidation will not be there to help. 41

Bryan Garnier stock rating system 83

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

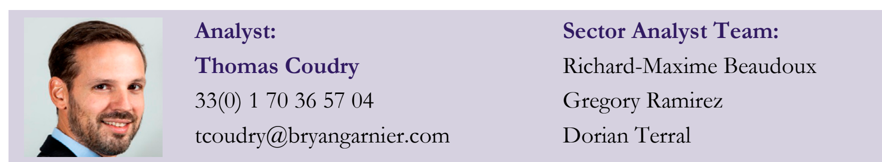
We are initiating coverage of Altice with a Buy recommendation and a Fair Value of EUR16.3. We believe the share price over estimates the uncertainty on the French market and does not reflect opportunities prompted by expansion in Portugal and the US sufficiently well. Altice is highly indebted, but 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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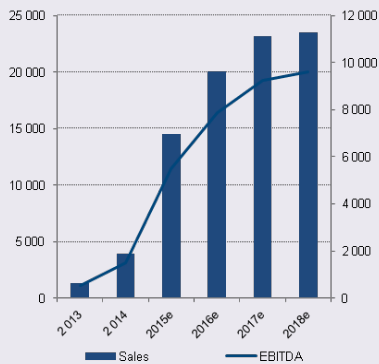

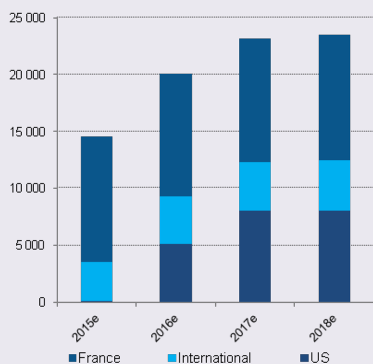

Company description

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.

Please see the section headed "Important information" on the back page of this report.

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

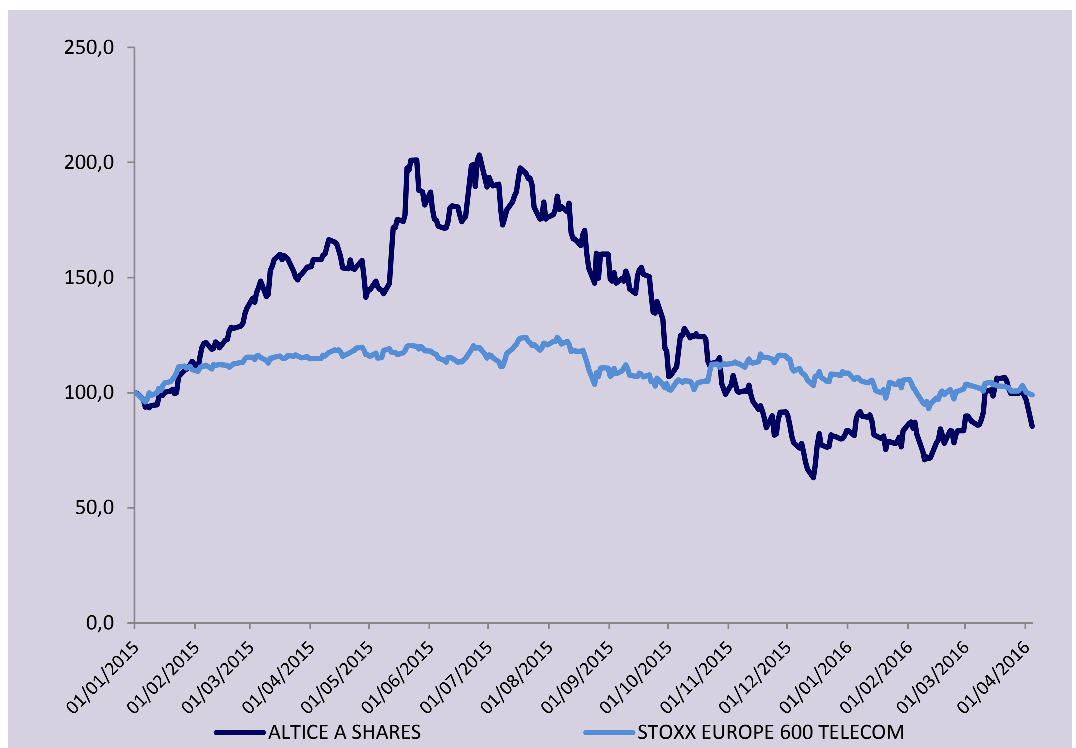
After the enthusiasm seen in H1 2015 following the excellent first set of financial results published by the new group, and some wide share-price fluctuations prompted by discussions over an eventual takeover of Bouygues Telecom, **the share price returned to more reasonable levels in H2 2015 and early 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.

Please see the section headed "Important information" on the back page of this report.

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.

Please see the section headed "Important information" on the back page of this report.

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.

Please see the section headed "Important information" on the back page of this report.

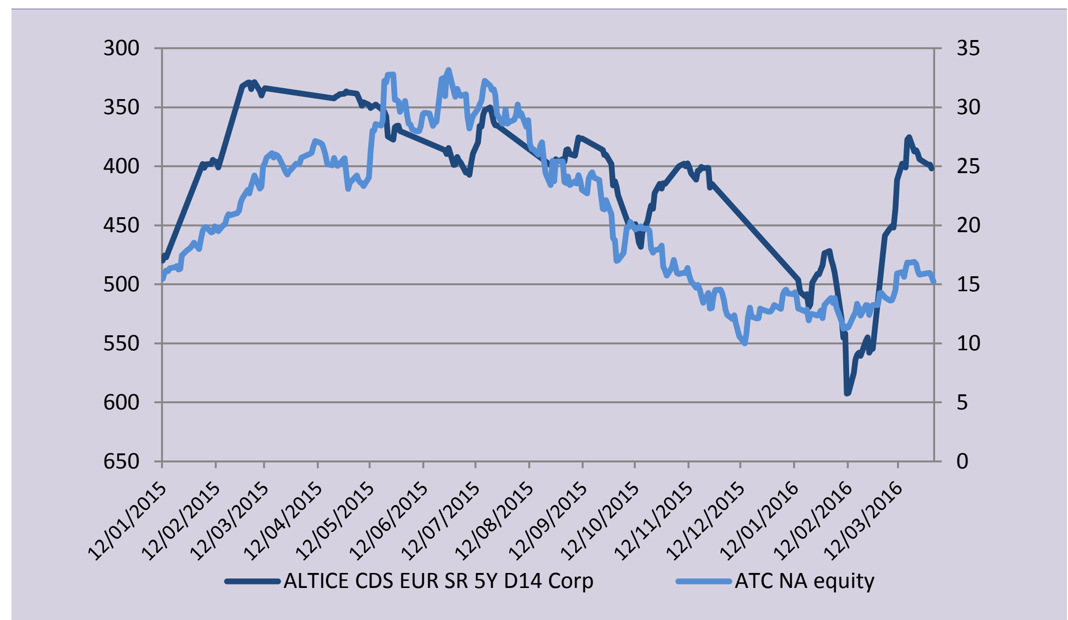
2.6. Debt management: refinancing and moving cash up the group

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



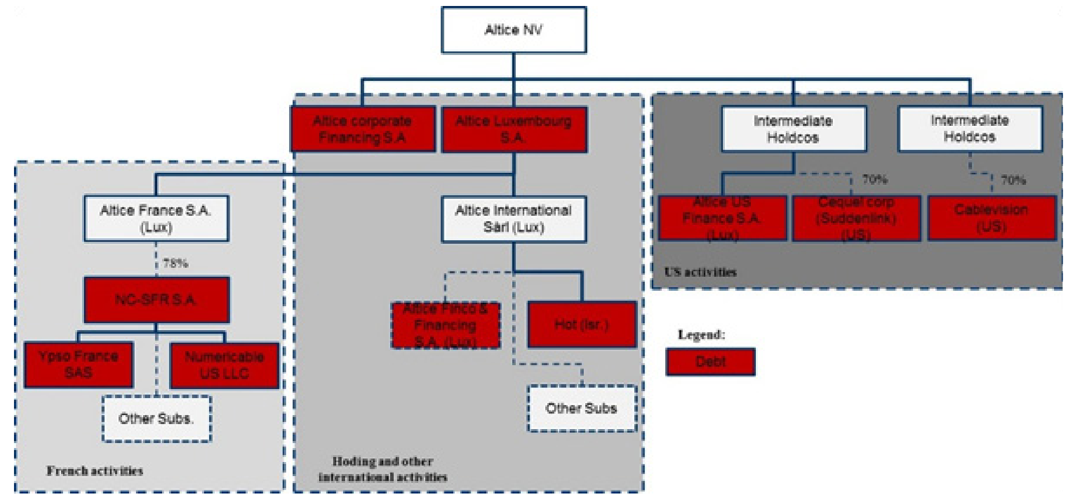
Source: Bloomberg

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).

Please see the section headed "Important information" on the back page of this report.

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:

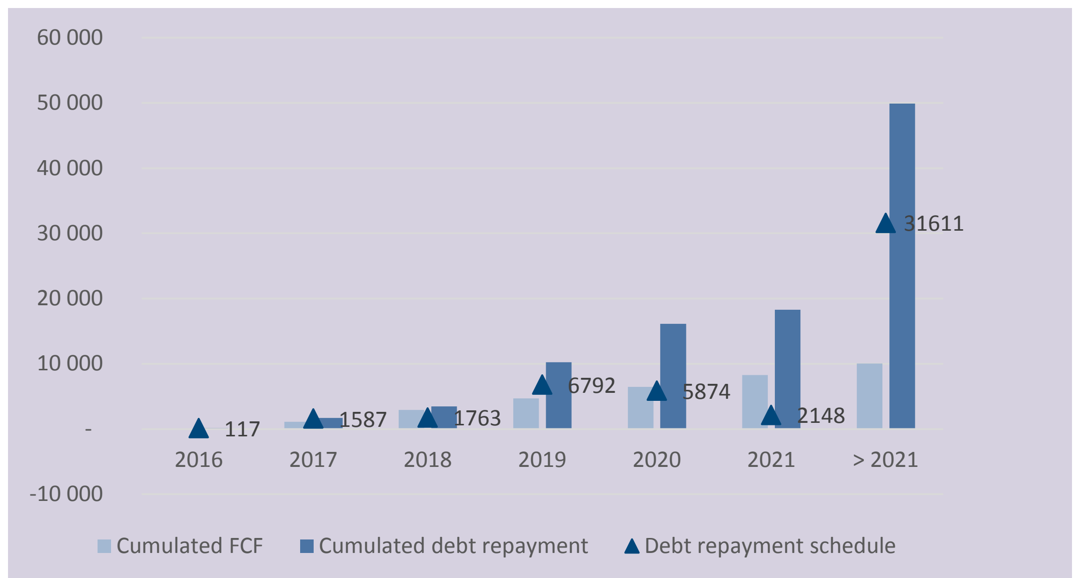
- **Increased pressure on capex and EBITDA in the international region.** This pressure could prove counterproductive in the medium term as shown by France, and confirming doubts weighing on management of Portugal.

- **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.

Please see the section headed "Important information" on the back page of this report.

- **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.

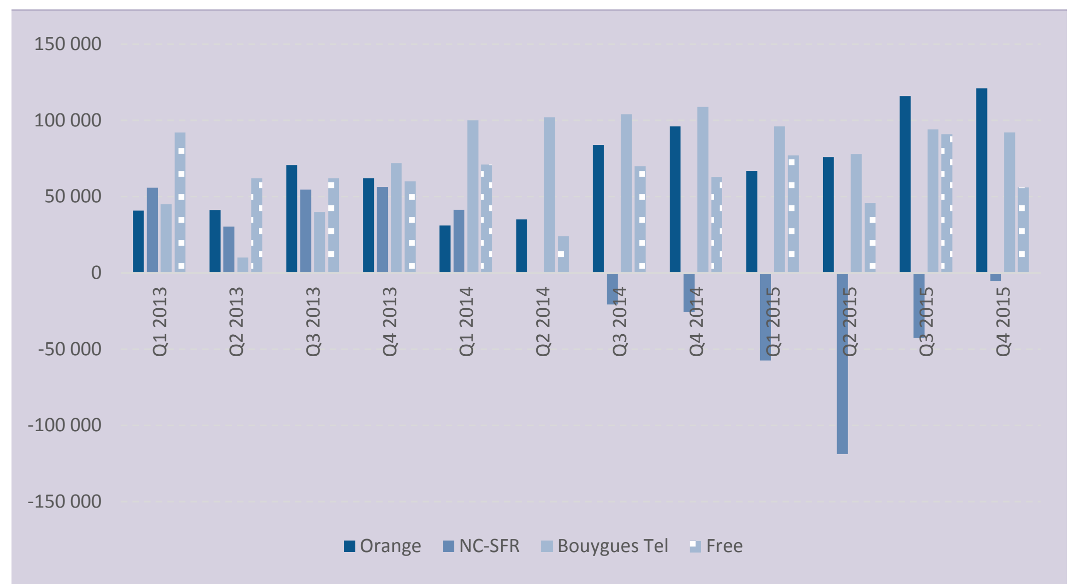
- The **removal of responsibility** from operating management could cause some frustration.

Please see the section headed "Important information" on the back page of this report.

3.3. Progress so far

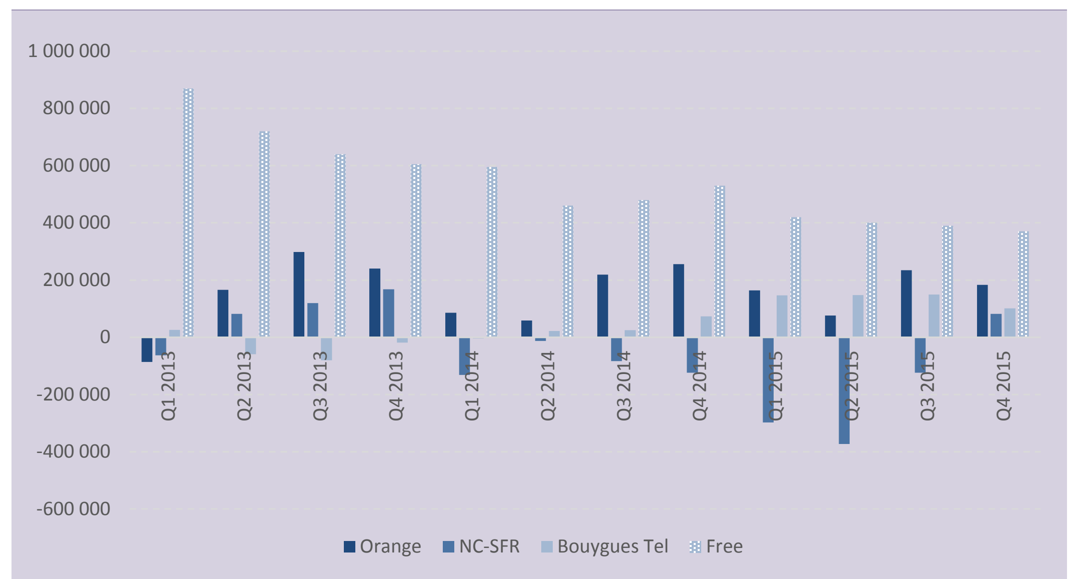
The French scope is set out in our report initiating coverage of NC-SFR also published today. Note in particular that in 2015, EBITDA in France improved considerably, rising from 28.1% in 2014 to 35.0%, at the same time as a significant loss of subscribers: -224k in landline and –713k in mobile subscribers (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.

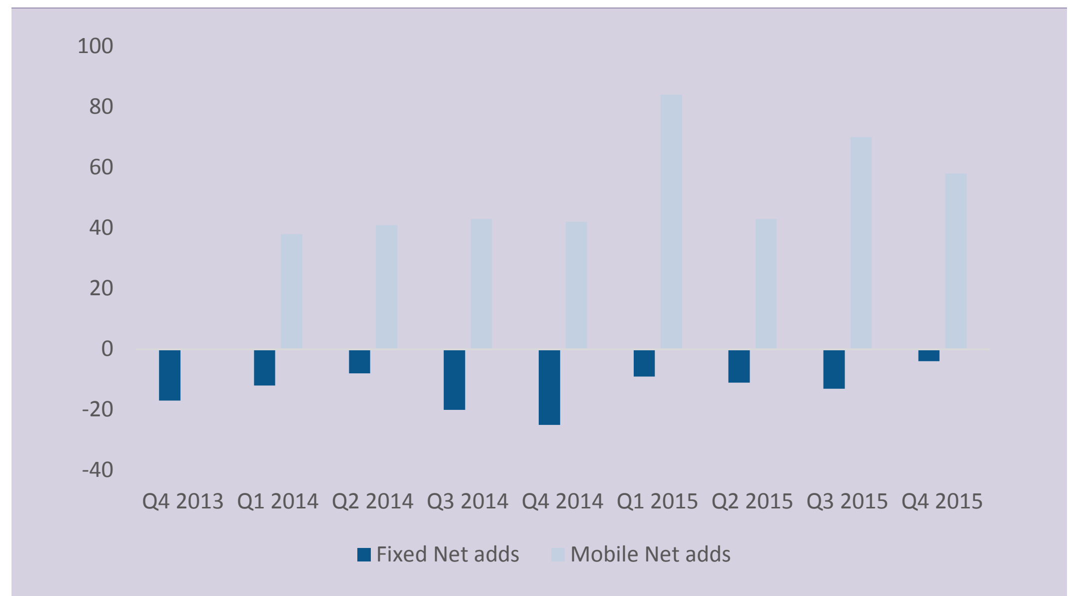
Concerning Portugal, as shown in the following chart, sales have weakened and revenues have been under pressure, at the same time as the improvement in EBITDA, in view of the first Altice savings plans.

Fig. 16: Change in Altice Portugal revenue and EBITDA

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

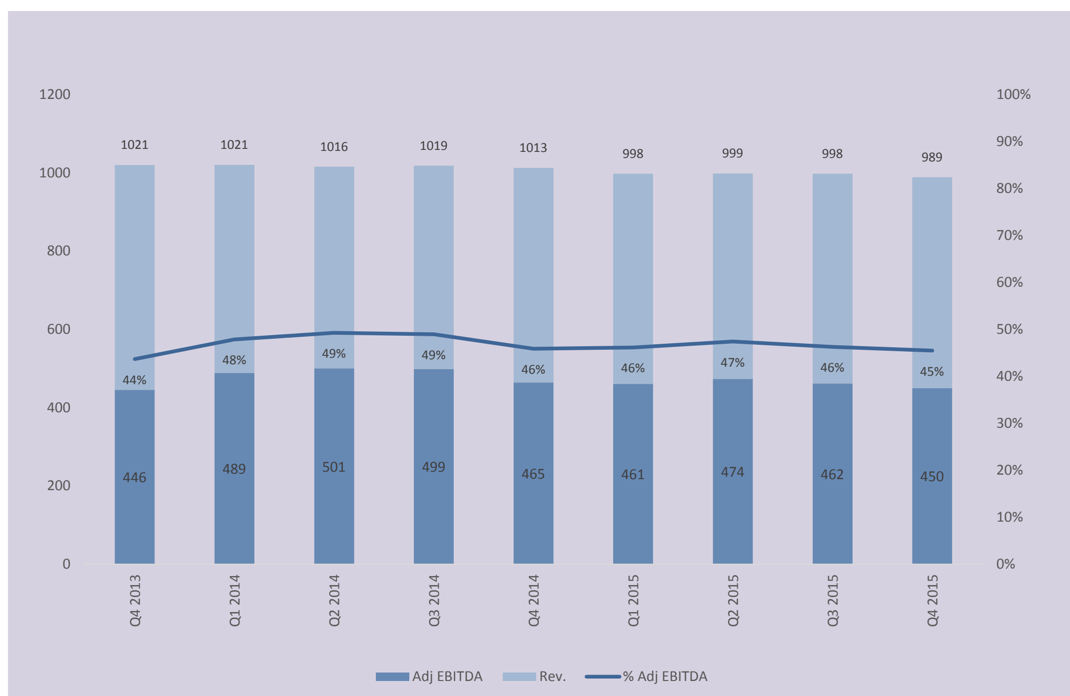
As shown in the charts below, during 2015 Israel restored sales momentum that was somewhat weakened in 2014, but at the cost of lower EBITDA and, in a highly competitive market, of pressure on ARPU and revenues.

Fig. 17: Change in Altice Israel net sales



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

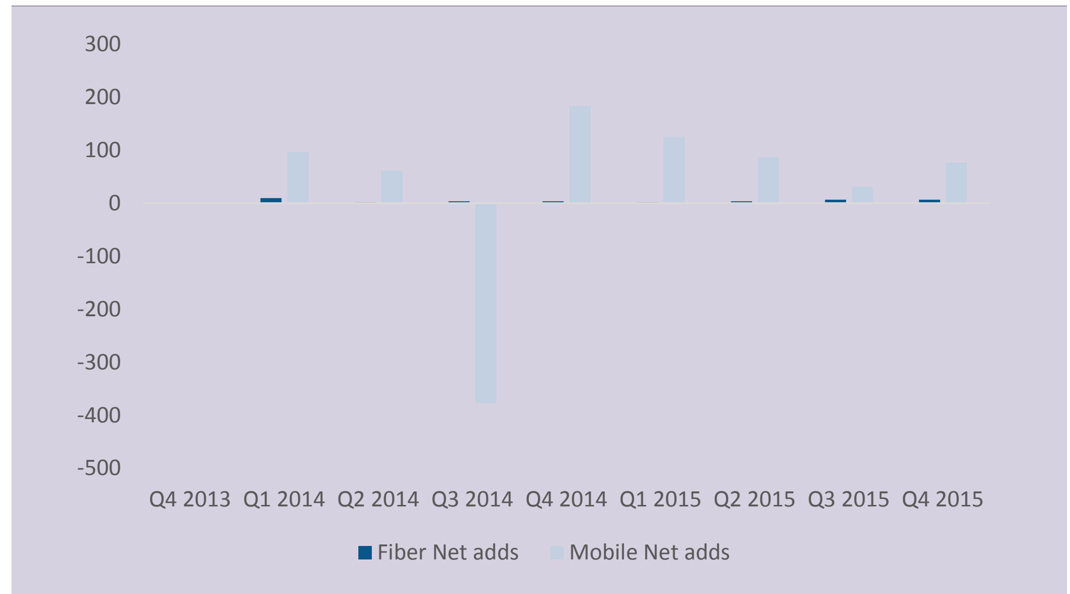
Fig. 18: Change in Altice Israel revenue and EBITDA (NIS)



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.

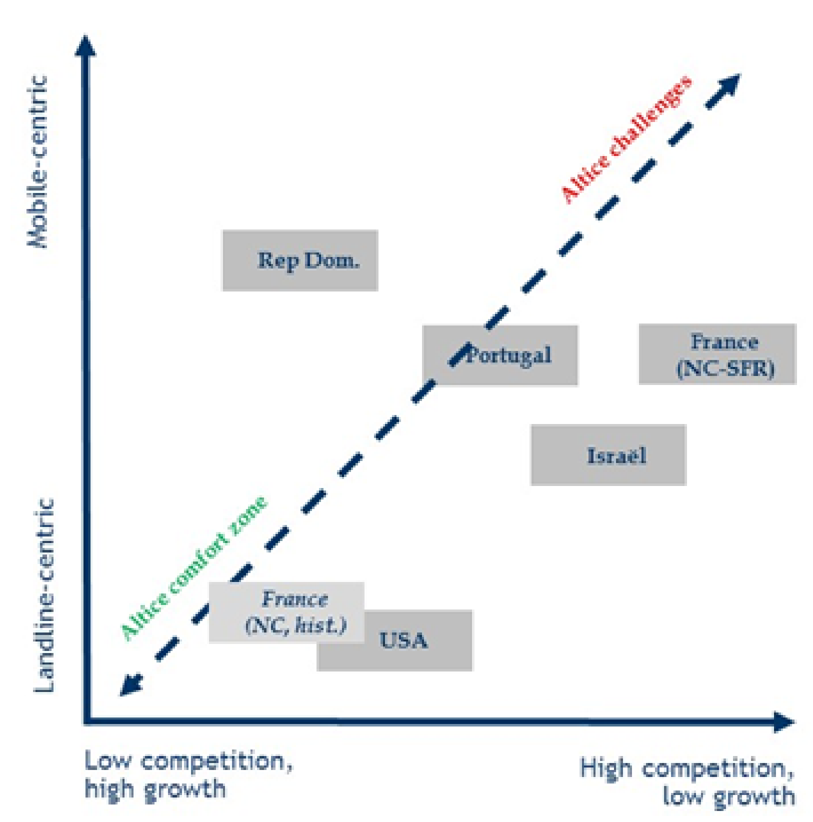
In a different context in Portugal, where Portugal Telecom is the historical operator and leader, the same type of trend is beginning to emerge.

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.

Please see the section headed "Important information" on the back page of this report.

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.**

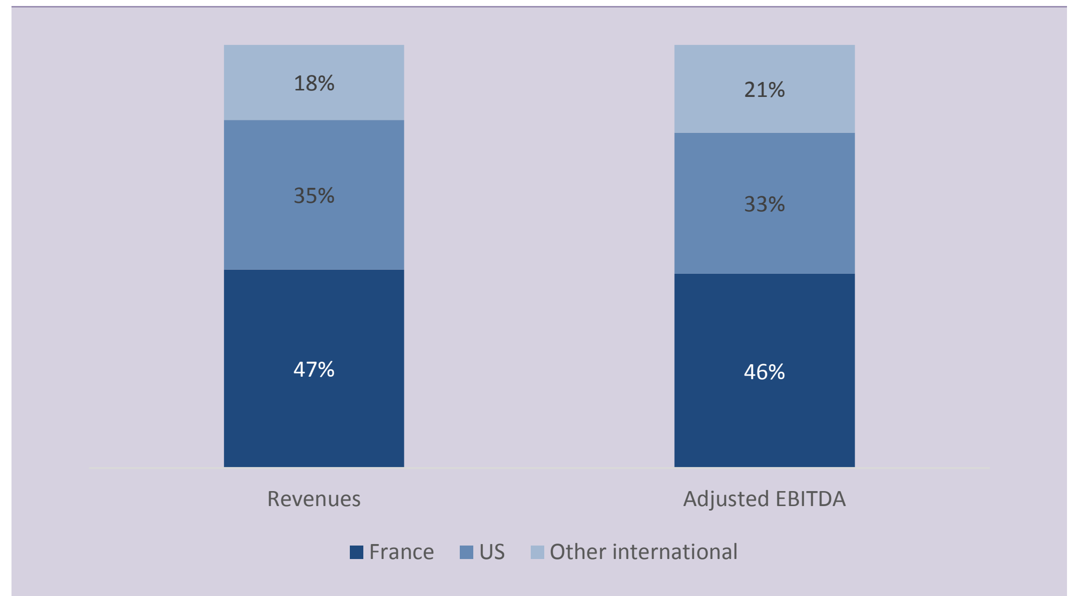
At this stage, we would nevertheless avoid stating that there has been a genuine decentralisation of Altice's power, or that its subsidiaries have become autonomous. The nomination of Armando Pereira, the second historical shareholder of Altice, as Portugal Telecom's chairman is a sign of this. The forthcoming 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).

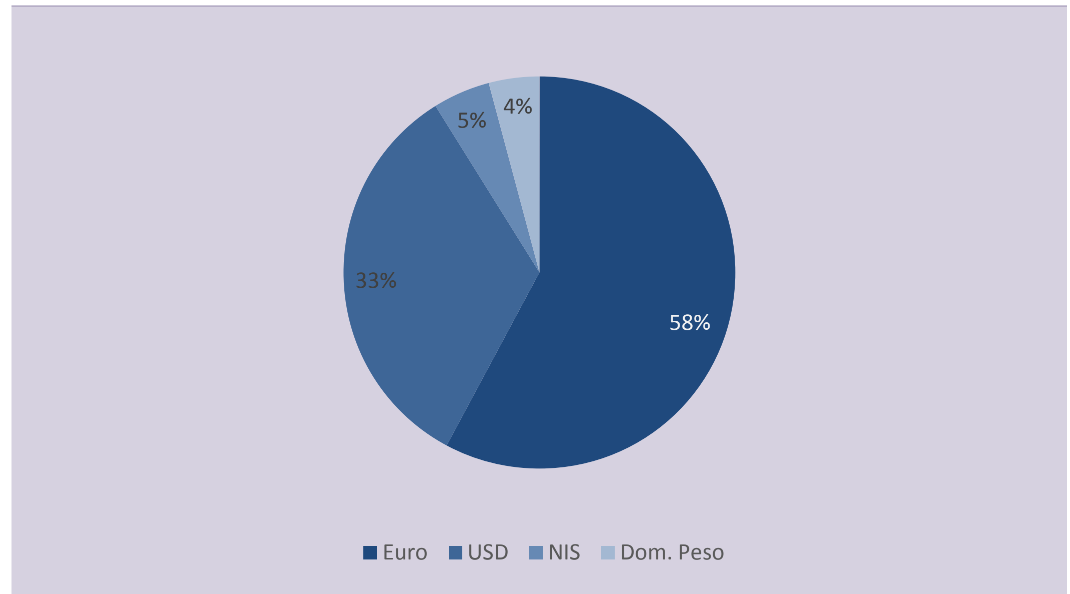
Fig. 22: Breakdown of Altice revenue and EBITDA by region



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.

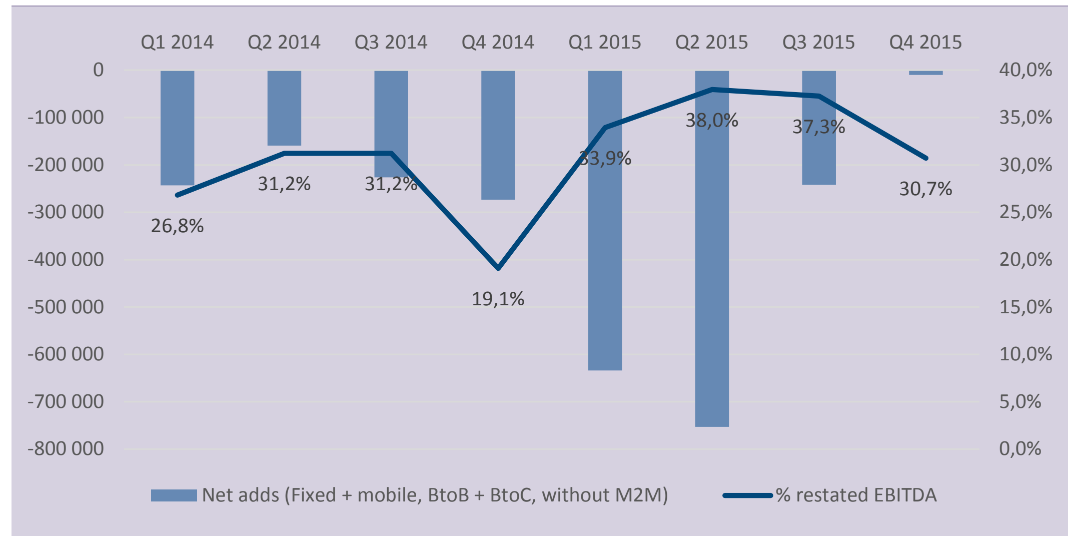
Abandoning hopes of a market consolidation stemming from the merger between Orange and Bouygues Telecom, the market is still witnessing a **fierce price war,** with a particularly aggressive positioning by Bouygues Telecom in landline and a multiplication in promotional periods, especially in mobile.

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.

Please see the section headed "Important information" on the back page of this report.

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.

Please see the section headed "Important information" on the back page of this report.

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:

Please see the section headed "Important information" on the back page of this report.

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.

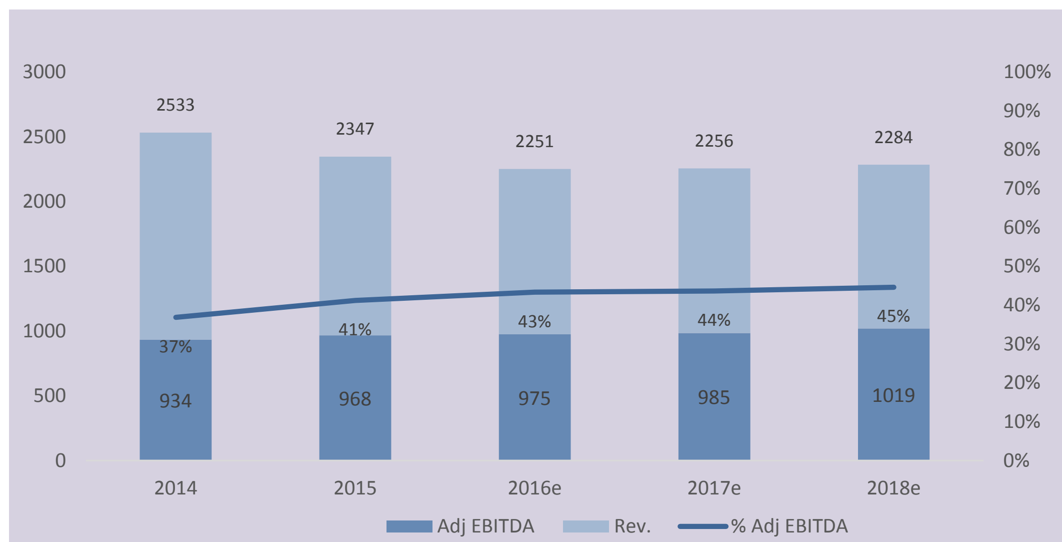
Indeed, since the takeover by Altice, signs of a **similar trajectory to that of France** have been noted, requiring some vigilance, namely a decline in revenues and sales performances, at the same time as a high level of savings.

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.

Please see the section headed "Important information" on the back page of this report.

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**.

Please see the section headed "Important information" on the back page of this report.

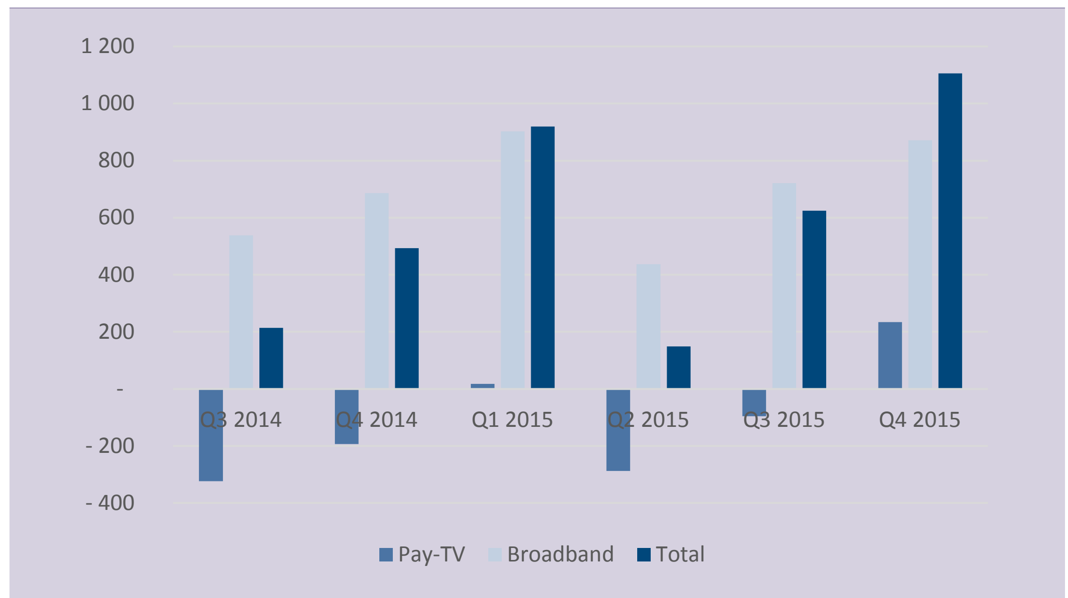
4.4.2. A market threatened by cord cutting

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.

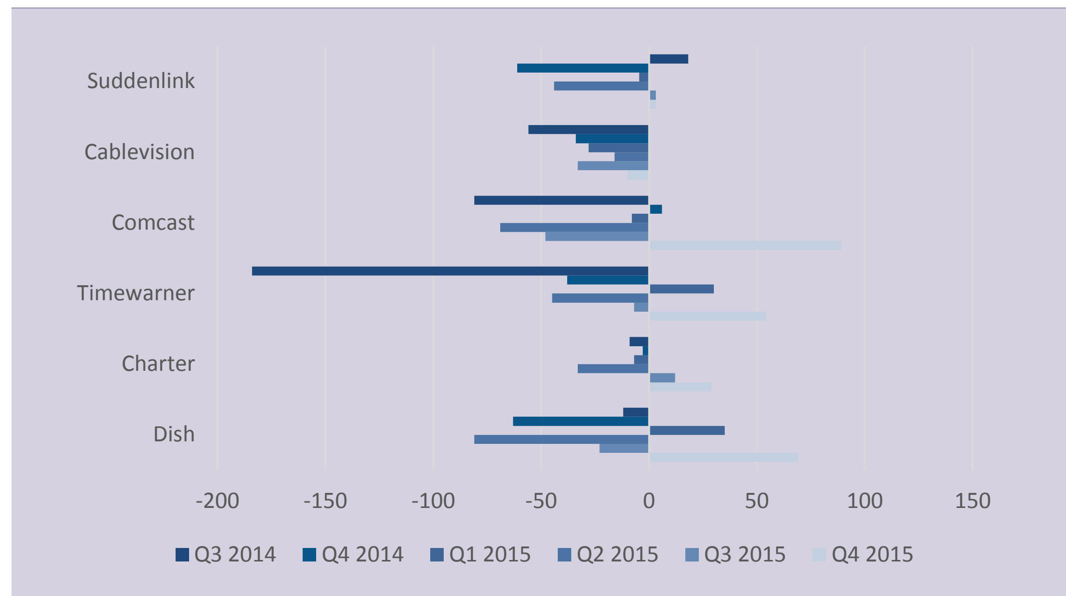
All of these players and their web TV solutions are contributing to the development of the **cord cutting** trend, whereby clients stop their pay-TV subscription with their operator, only need a broadband internet access, and subscribe to TV offers directly with web players. The chart below shows the 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:

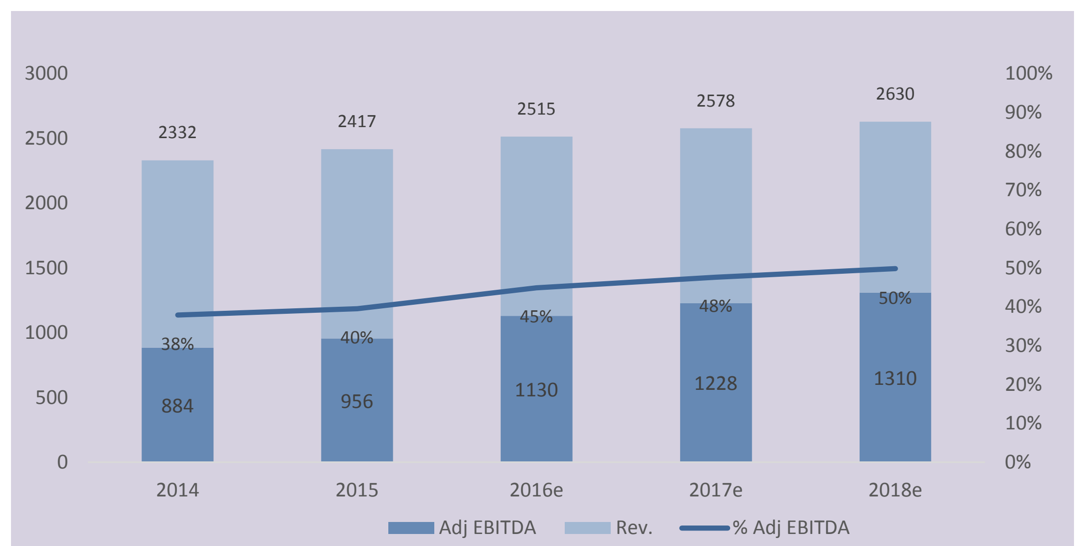
- By adopting a marketing approach **favouring packaged 3P offers:** TV, internet and telephone.
- By **moving the ground from contents to speeds:** investing in speeds to better value very high speed access as content revenues are threatened.
- By **developing its own streaming services** as Dish did 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.

Please see the section headed "Important information" on the back page of this report.

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.

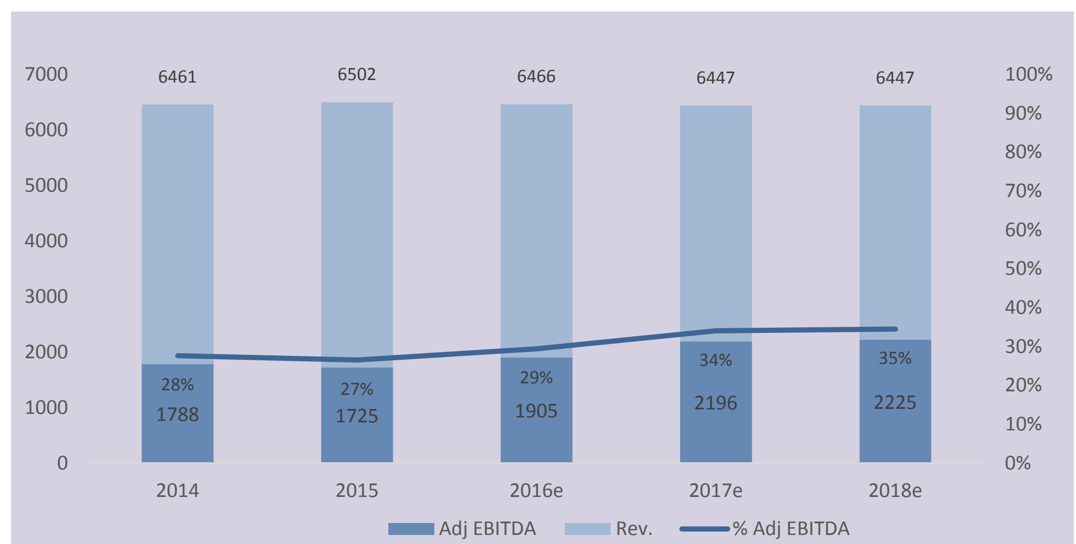
Concerning Suddenlink, we continue to forecast a slight increase in sales, in line with the growth noted recently, whereas for Cablevision, we continue to expect **slight pressure** on sales. In addition, we are assuming **USD200m in opex synergies** for Suddenlink out to 2018, a little below Altice's 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)

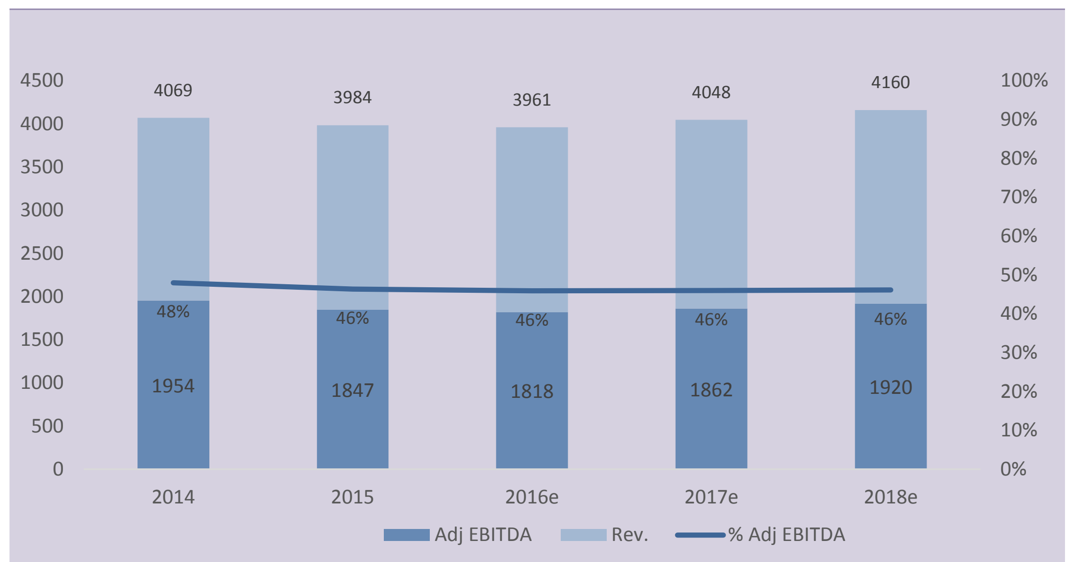


Source: Company Data; Bryan, Garnier & Co ests.

4.5. Other regions

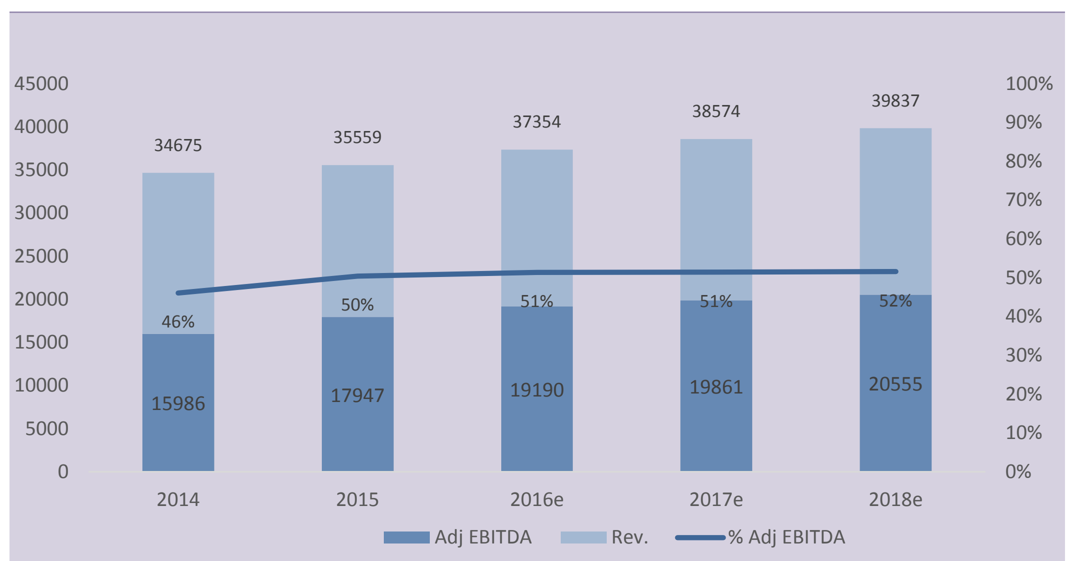
Our forecasts for Israel and the Dominican Republic are set out below. In short, we estimate that the **streamlining of the cost base is essentially behind us**. In our view, the Israeli market should continue to suffer in 2016 from sharp pressure on prices, but we are a return to growth for 2017. As 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.

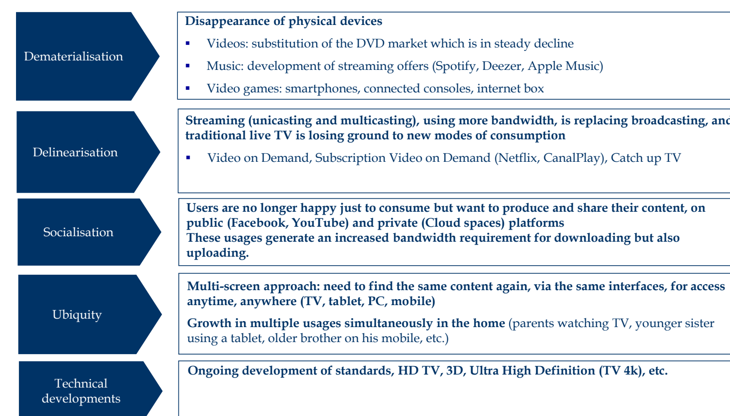
Please see the section headed "Important information" on the back page of this report.

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.

Please see the section headed "Important information" on the back page of this report.

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**.

Please see the section headed "Important information" on the back page of this report.

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:

Please see the section headed "Important information" on the back page of this report.

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.

INDEPENDENT RESEARCH

11th April 2016

TMT

Numericable SFR

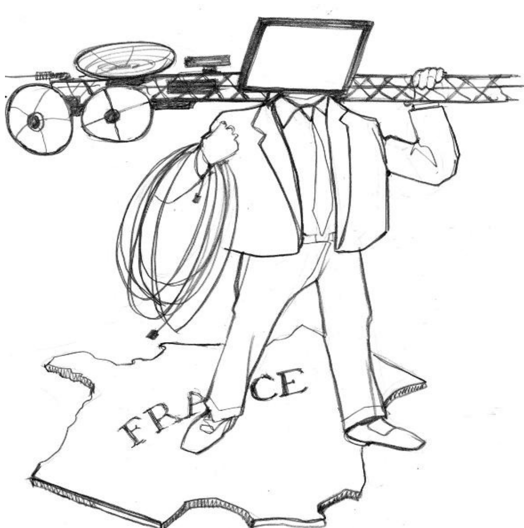
EBITDA or EBITDA rate: that is the question

Fair Value EUR28.4 (price EUR29.34)

NEUTRAL
Coverage initiated

Bloomberg	NUM FP
Reuters	NUME.PA
12-month High / Low (EUR)	48.0 / 28.1
Market capitalisation (EURm)	12,856
Enterprise Value (BG estimates EURm)	27,252
Avg. 6m daily volume ('000 shares)	281.8
Free Float	22.0%
3y EPS CAGR	17.4%
Gearing (12/15)	338%
Dividend yields (12/16e)	NM

YE December	12/15	12/16e	12/17e	12/18e
Revenue (EURm)	11,039	10,808	10,886	11,054
EBITA EURm)	937.0	1,613	1,810	2,155
Op.Margin (%)	11.7	14.9	16.6	19.5
Diluted EPS (EUR)	1.45	1.37	1.74	2.35
EV/Sales	2.47x	2.52x	2.44x	2.32x
EV/EBITDA	7.1x	6.8x	6.4x	5.8x
EV/EBITA	29.1x	16.9x	14.7x	11.9x
P/E	20.2x	21.3x	16.8x	12.5x
ROCE	2.8	4.7	5.2	6.2



We are initiating coverage of Numericable-SFR with a Neutral recommendation and Fair Value of EUR28.4. We are forecasting a still difficult year in 2016 for the group, but expect a recovery by 2017 driven by renewed investments and the change in management. But market consolidation will not be there to help.

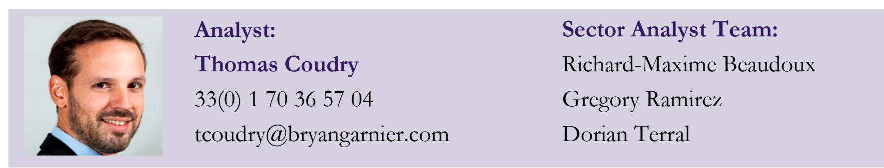
- NC-SFR had a mixed year in 2015 due to **a strong focus on the EBITDA rate to the detriment of customer volumes** and hence the overall EBITDA generated further out. The impact of this strategy is likely to be felt over **2016, with sales set to drop a further 2.1% vs. -3.5% in 2015, and an increase in adjusted EBITDA of 3% after 20% in 2015.**

- The **relaunch of investments** initiated at the end of 2015, recent **management changes** and the associated **change in strategy and governance**, should help inverse the sales curve as of 2017. We are forecasting a **return to sales growth of 0.7% in 2017**, with a stabilised mobile network especially, and a recovery in the BtoB and wholesale businesses.

- We are forecasting **EBITDA of EUR4.400bn out to 2018**, with a level of **capex stabilised at EUR2bn,** after a catching up in 4G investments.

- Despite the need for refinancing, debt of **3.73x 2015 EBITDA looks sustainable** given the level of cash flow generated by the business, and we also believe that the need to move cash up to the holding company level is a good **dividend opportunity** for shareholders.

- Our DCF valuation yields a **Fair Value of EUR28.4** for NC-SFR, namely a discount of 3.1% relative to the current share price and a multiple of **7.2x our 2016e adjusted EBITDA**.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Gregory Ramirez
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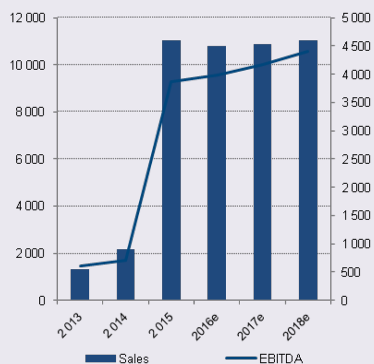

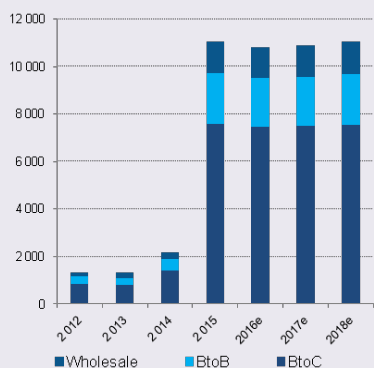

Company description

Numericable SFR SA Formerly known as Numericable Group SA. is a France-based telecom company, serving three segments: B2C (business to customer), B2B (business to business) and wholesale. The Company's technology relies on an infrastructure which operates as one network serving each of its three segments. In the B2C segment, the group operates under the SFR brand name and offers customers a wide range of products and services including pay TV, high-speed and very-high-speed broadband Internet access, and fixed-line and mobile telephony. The Company has such subsidiaries as Omea Telecom SAS and Virgin Mobile France SA, among others.

Simplified Profit & Loss Account (EURm)	2013	2014	2015	2016e	2017e	2018e
Revenues	1,314	2,170	11,039	10,808	10,886	11,054
Change (%)	*0.9%*	*65.1%*	*409%*	*-2.1%*	*0.7%*	*1.6%*
Adjusted EBITDA	616	706	3,860	3,982	4,171	4,402
EBIT	256	108	937	1,613	1,810	2,155
Change (%)	*-14.4%*	*-57.8%*	*768%*	*72.1%*	*12.2%*	*19.1%*
Financial results	(324)	(600)	(46.0)	(712)	(667)	(620)
Pre-Tax profits	(68.0)	(492)	891	901	1,143	1,535
Tax	133	313	(215)	(258)	(327)	(439)
Minority interests	0.0	0.0	7.0	9.3	9.3	9.3
Net profit	65.0	(175)	682	649	822	1,102
Restated net profit	65.0	(175)	682	649	822	1,102
Change (%)	*-23.5%*	*-369%*	*-%*	*-4.8%*	*26.6%*	*34.1%*
Cash Flow Statement (EURm)						
Operating cash flows	570	1,135	3,554	3,190	3,674	3,675
Change in working capital	21.0	725	(122)	(428)	(72.0)	(206)
Capex, net, and licenses paid	(343)	(13,758)	(1,732)	(2,473)	(2,357)	(2,117)
Dividends	0.0	0.0	(2,516)	0.0	0.0	0.0
Net debt	2,665	13,086	14,401	14,396	13,746	12,808
Free Cash flow	59.0	140	798	5.1	650	938
Balance Sheet (EURm)						
Tangible fixed assets	1,465	5,643	5,627	5,628	5,628	5,487
Intangibles assets	1,791	18,949	18,537	18,514	18,490	18,467
Cash & equivalents	101	620	355	360	1,010	1,948
current assets	561	3,995	3,637	3,631	4,315	5,302
Other assets	143	1,678	2,281	2,114	2,114	2,114
Total assets	3,960	30,265	30,081	30,053	30,715	31,537
L & ST Debt	2,766	12,817	17,285	17,285	17,285	17,285
Others liabilities	860	9,486	8,529	5,528	5,368	5,088
Shareholders' funds	254	7,962	4,267	4,917	5,739	6,841
Total Liabilities	3,960	30,265	30,081	30,053	30,715	31,537
Capital employed	3,045	23,991	24,290	24,695	24,744	24,786
Ratios						
Operating margin	19.48	4.98	11.69	14.92	16.63	19.49
Tax rate	(196)	(63.62)	(24.13)	(28.60)	(28.60)	(28.60)
Net margin	4.95	(8.06)	6.18	6.01	7.55	9.97
ROE (after tax)	25.59	(2.20)	15.86	13.05	14.19	16.00
ROCE (after tax)	6.00	0.32	2.75	4.66	5.22	6.21
Gearing	1,049	164	338	293	240	187
Pay out ratio	0.0	0.0	(369)	0.0	0.0	0.0
Number of shares, diluted	115,271	181,038	465,683	465,683	465,683	465,683
Data per Share (EUR)						
EPS	0.56	(0.97)	1.45	1.37	1.74	2.35
Restated EPS	0.56	(0.97)	1.45	1.37	1.74	2.35
% change	*-24.5%*	*-271%*	*-%*	*-5.2%*	*26.9%*	*34.5%*
BVPS	2.20	43.92	9.14	10.53	12.30	14.66
Operating cash flows	4.94	6.27	7.63	6.85	7.89	7.89
FCF	0.51	0.77	1.71	0.01	1.40	2.01
Net dividend	0.0	0.0	5.40	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 :

NC-SFR is at a turning point in its history. After a **year of transition** due to the new group's integration, with a **spectacular recovery in EBITDA** but an **unprecedented deterioration in sales** performances, the new group now needs to **review the situation and refocus its strategy**. This is likely to involve an abandoning of the strategy to **maximise EBITDA** to the benefit of customers in the short term, and **overall EBITDA** over the medium term.

Cheap or expensive ?

Valuation

The share price has plummeted since early 2015 such that it now looks fully valued, including more reasonable sales and EBITDA growth prospects, having abandoned hopes of market consolidation. Our **EUR28.4 Fair Value** points to downside of 3.1% relative to the current price.

When will I start making money ?

Catalysts

1/ New management and governance, **2/** adapting marketing and price strategies, **3/** investments in network and quality of service, **4/** further control of saving plans.

What's the value added ?

Difference from consensus

We are far **more cautious on the 2016e EBITDA** (EUR3982m vs consensus EUR4053m) and on the **EBITDA margin that looks feasible for 2018** (39.8% vs. the consensus at 43.4%). Indeed, restoring sales seems incompatible with further aggressive implementation of savings plans.

Could I loose money ?

Risks to our investment case

1/ Maintaining a strategy focused on the EBITDA rate to the detriment of sales performance, **2/**Pricing strategy and reaction of Bouygues Telecom, **3/**Rates on the high yield market.

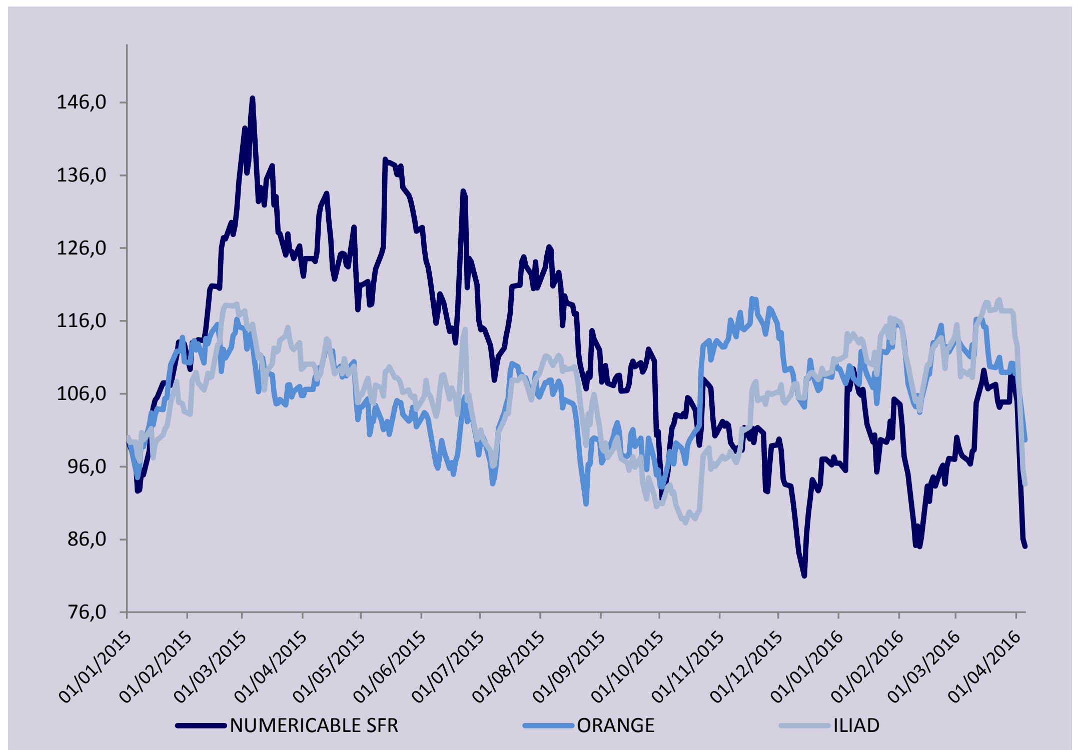
Please see the section headed "Important information" on the back page of this report.

2. NC-SFR valuation

2.1. Change in share price

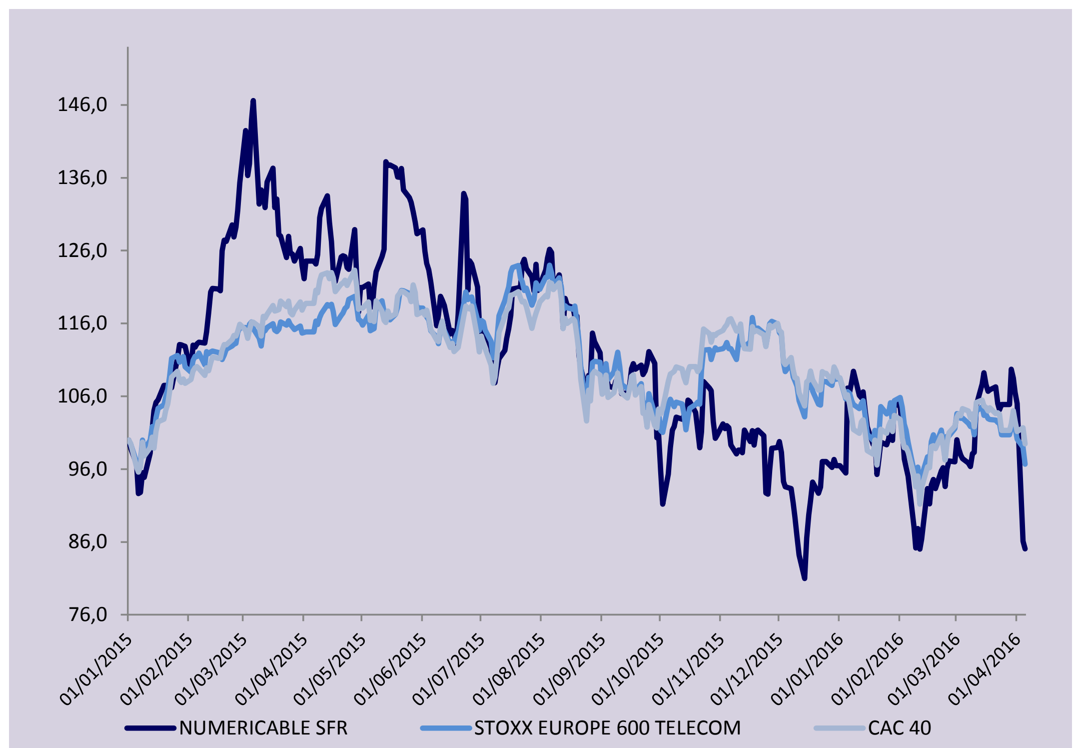
After the enthusiasm seen in H1 2015 following the first set of excellent financial results published by the new group and some wide fluctuations in the share price prompted by discussions over an eventual takeover of Bouygues Telecom, **the share price returned to more reasonable levels in H2 2015 and early 2016,** in view of poor sales performances, and fears over debt levels. NC-SFR's share, backed by hopes of market repair in France since December 2015, had reached the same performance as the STOXX Europe 600 Telecom and CAC40 by the end of March 2016, but **brutally fell after the breakdown of the discussions between Orange and Bouygues**. We think the stock has now reached the right level, having abandoned the market repair hopes and pricing in the full operational risks at NC-SFR.

Fig. 1: Change in NC-SFR share price since 2015 and comparison with competition in France



Source: Thomson Reuters.

Fig. 2: Change in NC-SFR share price since 2015 and comparison with the CAC40 and Telecom indices (base 100)



Source: Thomson Reuters.

2.2. DCF

Our **DCF** valuation puts **Fair Value at EUR28.38**, corresponding to a discount of -3.1% relative to the current share price.

Our model is based on the following assumptions:

- **Sales**: we expect sales to fall by a further -**2.1% in 2016** after dropping 3.5% in 2015, before a return to modest growth in 2017 **(+0.7% in 2017 and +1.6% in 2018).** In particular, BtoC sales are set to fall a further 1.8% in 2016 after dropping 3.7% in 2015 before recovering by 0.3% in 2017 and 0.8% in 2018. Sales from the BtoB and Wholesale businesses are set to fall 3.3% and 2.1% respectively in 2016 vs. -4.8% and +0.2% in 2015, before restoring growth of 2.7% and 1.3% in 2018.

- **EBITDA margin:** improvement in adjusted EBITDA margin on the back of further savings plans and synergies, but at a less buoyant pace than in 2015 given pressure on sales and a less advantageous comparison basis, **rising from 35% at end-2015 to 39.8% in 2018**.

- **Investments** (excluding licences)**:** We have increased our **2016 capex estimate to EUR2.24bn**, namely 20.7% of estimated sales vs. EUR1.85bn in sales in 2015. We have maintained this level of capex in 2017 and 2018, for the time it takes to make up lost ground in the 4G mobile network, before landing at **EUR2bn in 2018**.

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- **WCR:** We see no improvement in WCR for the years after 2015, assuming that supplier payment times have already been extended as far as possible since the takeover of SFR by Numericable. We have also integrated into cash flow, payment for the 4G 700MHz licence, booked for EUR466m in 2015, but paid in four instalments of EUR116.5m over 2016-18 (including two in 2016).
- We have assumed **a tax rate of 28.6% out to 2020, normalised to 36.6% thereafter**. Indeed, we estimate that the current price factors in the impact of a tax-loss carry forward from Numericable, that should end after five years.
- We have used a **cost of net debt before tax of 4.9%**.
- We have adopted a **discount rate of 6.14%** with a **beta of 1.07**, corresponding to the two-year historical beta of NC-SFR vs. the CAC40, adding an extra +0.05 to take account of a **refinancing risk** (this increase in beta is equivalent in the DCF valuation to a 100bp increase on EUR9bn in debt). We have also assumed a risk premium of 7.0% and a risk-free rate of 1.6%.
- We have assumed a **growth rate to infinity of 1%.**

Fig. 3: Calculation of discount rate

Inputs	
Risk Free rate	1,6%
Market risk premium	7,0%
B	1,07
Cost of Equity	**9,09%**
Cost of Debt after taxes	3.5%
Gearing (based on market cap)	112%
WACC	**6,14%**

Source: Bryan, Garnier & Co ests.

Fig. 4: Discounted cash flow model

EURm	2015e	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e
Sale	11 039	10 808	10 886	11 054	11 220	11 332	11 446	11 560	11 676	11 793	11 910	12 030
Change in sales		-2,1%	0,7%	1,6%	1,5%	1,0%	1,0%	1,0%	1,0%	1,0%	1,0%	1,0%
EBIT	937	1 613	1 810	2 155	2 253	2 323	2 388	2 450	2 509	2 565	2 620	2 701
As % of sales	8,5%	14,9%	16,6%	19,5%	20,1%	20,5%	20,9%	21,2%	21,5%	21,8%	22,0%	22,5%
Tax rate	28,6%	28,6%	28,6%	28,6%	28,6%	28,6%	36,6%	36,6%	36,6%	36,6%	36,6%	36,6%
Net Op. Profit after Tax	669	1 152	1 292	1 539	1 608	1 659	1 514	1 553	1 590	1 626	1 660	1 712
+ D&A and prov.	2554	2262	2263	2165	2132	2105	2084	2068	2054	2043	2035	2000
Cash flow from op.	3 223	3 414	3 555	3 704	3 740	3 764	3 598	3 620	3 644	3 669	3 695	3 712
- Net investments (incl. Frequencies)	-1 864	-2 473	-2 357	-2 117	-2 000	-2 000	-2 000	-2 000	-2 000	-2 000	-2 000	-2 000
- change in WCR	-124	-428	-72	-206	-22	-15	-15	-15	-15	-15	-15	-16
Free cash Flow	1 235	513	1 127	1 381	1 719	1 749	1 583	1 605	1 629	1 653	1 679	1 696
Discounted FCF		488	1 010	1 167	1 368	1 312	1 119	1 069	1 022	977	935	890
Sum of disc. FCF		11 356										
+ disc. terminal value		17 327										
- net debt, 2015		14 401										
- minority interests		12										
Valuation		**14 269**										
Nbre of shares (fully dilluted)		466										
Value per share		28.4										

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

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2.3. Peer comparison

In an approach focused on the resale value of the business, the number of customers is what makes most sense, hence sales and sales multiples (as shown by Bouygues Telecom, which is valued at 13.33x 2015 EBITDA, but "just" 2.3x sales). In this approach **NC-SFR appears to be valued at 2.7x sales, corresponding to a premium of 20% relative to the average valuation of its peers.**

Given that a resale of NC-SFR's customer bases to a player in the French market looks fairly unlikely, **an approach based on EBITDA multiples nevertheless looks smarter**.

We value **NC-SFR at 7.2x 2016 EBITDA, which is 7% higher than the valuation of a panel of peer companies in the European market** (major telecoms operators, leaders or no. 2 in the market). In view of the leverage effect, this corresponds to a 15% premium to the current price.

This premium nevertheless seems justifiable given the group's EBITDA growth profile: note indeed that the EBITDA multiple is **in line with the panel as of 2018**, and the **2016 P/E is in line with market peers as of 2017**.

Fig. 5: Sales multiples

EV/Revenue Multiples	2015	2016e	2017e	2018e
NC-SFR (DCF BG)	**2,6**	**2,7**	**2,6**	**2,5**
Upside vs panel average	**10%**	**20%**	**19%**	**15%**
Orange	1,6	1,5	1,5	1,4
Deutsch Telekom	1,7	1,7	1,6	1,5
Telefonica Deutschland	1,9	2,0	1,9	1,9
Telefonica	2,1	1,8	1,8	1,8
SWISSCOM	3,0	2,9	2,9	2,9
KPN	3,3	3,1	3,1	3,1
TELECOM ITALIA	2,0	2,0	2,0	2,0
PROXIMUS	2,0	2,0	1,9	1,9
TELENET GROUP HOLDING	4,8	3,9	3,7	3,6
MOBISTAR	1,3	1,2	1,2	1,1

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

Fig. 6: EBITDA multiples

EV/EBITDA Multiples	2015	2016e	2017e	2018e
NC-SFR (DCF BG, adjusted EBITDA)	**7,4**	**7,2**	**6,7**	**6,2**
Upside vs panel average	**2%**	**7%**	**5%**	**0%**
Orange	5,3	4,8	4,7	4,5
Deutsch Telekom	5,9	5,8	5,3	4,9
Telefonica Deutschland	8,2	8,3	7,6	7,1
Telefonica	8,7	5,7	5,5	5,4
SWISSCOM	8,5	8,0	8,0	7,8
KPN	10,1	9,0	8,8	8,5
TELECOM ITALIA	4,8	4,8	4,7	4,4
PROXIMUS	7,3	6,8	6,6	6,4
TELENET GROUP HOLDING	9,3	8,7	7,9	7,3
MOBISTAR	4,9	5,4	5,1	5,0

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

Please see the section headed "Important information" on the back page of this report.

Fig. 7: Price / earnings ratio

P/E	2015	2016e	2017e	2018e
NC-SFR (BG)	**19,6**	**20,6**	**16,3**	**12,1**
Upside vs panel average	**2%**	**17%**	**3%**	**-17%**
Orange	16,1	13,9	13,0	12,0
Deutsch Telekom	16,7	17,0	14,9	13,4
Telefonica	16,8	14,0	12,1	10,9
SWISSCOM	19,6	16,9	16,8	16,5
TELECOM ITALIA	21,5	17,2	15,3	15,1
PROXIMUS	19,7	16,9	16,6	15,8
TELENET GROUP HOLDING	28,3	24,0	19,4	15,6
MOBISTAR	15,3	21,3	18,1	17,4

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

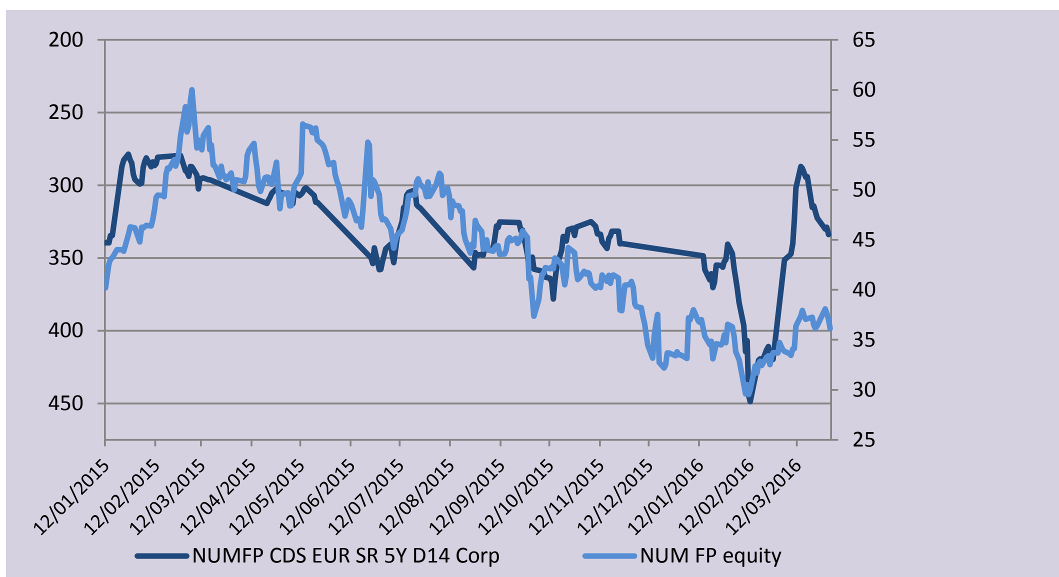
2.4. Impact of debt

NC-SFR's net debt stood at EUR14.4bn at end-2015 and is made up of guaranteed senior bonds as well as debts denominated in euros and dollars. Numericable-SFR has a "B+, negative outlook" rating from Standard & Poor's, and a "B1, stable outlook" at Moody's, corresponding in both cases to the speculative category.

However, for a while now spreads have been widening on the credit market and this has worried the market. The question of NC-SFR'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 NC-SFR.

The chart below shows the correlation between the NC-SFR share price and the group's CDS.

Fig. 8: Correlation between the NC-SFR share price and CDS



Source: Bloomberg.

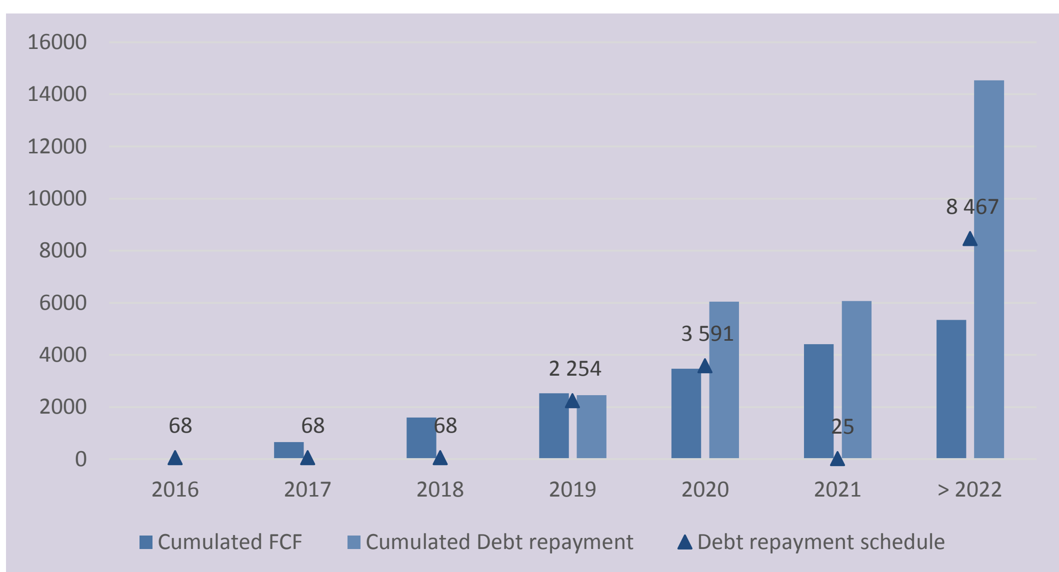
Given the prevailing backdrop of macroeconomic fears (weakness in emerging markets, plunge in oil prices, slowdown in global growth, risk of deflation in the Eurozone), we believe that the credit risk factor could take a toll on the NC share price, independently of the actual risk borne by NC-SFR itself.

NC-SFR had net debt of EUR14.4bn at end-2015, namely **3.73x adjusted 2015 EBITDA**.

However, in a highly capital intensive business where investment spending is key in terms of competitiveness, analysis of the net debt/EBITDA ratio alone does not seem to be sufficient. Net debt/EBITDA-capex looks more significant. **Net debt at end-2015 therefore stood at 8.26x 2016e EBITDA-capex** (excluding licence payment). The difference between the two rates is all the more significant in that NC-SFR' capex represents a significant share of its sales (>20%), as shown previously.

The financial debt repayment schedule is set out in the chart below. As shown, **free cash flow generation does not allow all of the debt to be repaid at maturity.**

Fig. 9: NC-SFR financial debt repayment schedule and analysis of refinancing needs



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

Refinancing looks all the more necessary in that the calculation above includes neither the probable payment prompted by the acquisition of a 5G licence out to 2020, nor the payment of dividends which seem necessary in order to move cash back up to Altice (as shown by the one-off payment of EUR2.5bn at end-2015). Indeed, as shown in our Altice report published today, the high level of debt on businesses outside France and in the US could require significant cash flow returns by NC-SFR, which is the entity that generates the most cash flow.

The amount of financial expenses estimated for 2018 stands at EUR620m. Assuming refinancing of EUR9bn in 2019, with an average cost of debt increased by 100bp to 6%, the impact on financial expenses would total EUR90m/year, i.e. around 10% of the amount of normalised free cash flow

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generation (EUR938m in 2018). **This amount does not seem to be a threat to the structure**. Even assuming a 200bp increase in the rate, the impact should be OK to absorb.

Some operations exist that would help lighten the balance sheet

Note here, that operations exist that would help lighten the balance sheet if necessary:

- Disposal of network infrastructure and/or land to investors (see recent initiatives by Bouygues Telecom with FPS Towers, and Telecom Italia with Inwit). Several billion euros can be found this way. Inwit, the antenna subsidiary of Telecom Italia is today valued around EUR2.6bn.

- Securitisation or disposal of receivables

We are not ruling out the possibility of NC-SFR using this type of solution. In contrast, we believe that optimisation of WCR is already pushed to its maximum and is no longer a source of optimisation that can be activated by the group in the future. By applying a normal average VAT rate of 20%, the amount of trade payables at end-2015 totalled 45% of total group purchases over the year (approximate calculation based on reported EBITDA-sales+capex), corresponding to an average payment time-frame of 5.42 months on our estimates.

As explained in our DCF assumptions, we have factored in this refinancing risk by way of a premium of 0.05 to our beta.

2.5. Other considerations

Other elements can help underpin the NC-SFR share price

We believe that two specific and mutually exclusive factors, could underpin the NC-SFR share price:

- **Minorities buyout.** Altice now owns 78.5% of NC-SFR's capital, thereby valuing minority interests at EUR3.04bn, based on the current share price plus a 10% premium. A minorities buyout would have the advantage of returning 100% of NC-SFR's cash to Altice, and also simplifying the group's management by withdrawing a listed vehicle. We nevertheless consider this scenario fairly unlikely given the high amount at stake, and Altice's priorities, which are more focused on unlocking synergies, paying down debt or refinancing it.

- **Dividend payments.** At end-2015, NC-SFR paid a one-off dividend of EUR2.5bn, pointing to a 18% yield relative to the current share price. NC-SFR needs to return cash to its key shareholder Altice in order for it to reimburse its debt. Even though this type of payment is not the fruit of an actual dividend policy, we expect it could be repeated in the future, thereby benefiting minority shareholders.

The question of minority interests is two-fold since these interests are not only exposed to the opportunity of significant dividend returns, but also to management decisions that could favour Altice shareholders rather than NC-SFR's own interests, like for example: accelerated debt reduction at the holding company to the detriment of the subsidiary, transfer of assets from the Altice group to NC-SFR in order to improve the group's multiples to the detriment of NC-SFR.

Please see the section headed "Important information" on the back page of this report.

3. The French market: the storm goes on

3.1. Price war and customer war

Price war is not over…

Recent months have seen a reorganisation of the market driven by two main factors:

- **Bouygues Telecom, under pressure to ensure its survival, has chosen to favour volumes and market share gains.** Firstly, it has reduced the entry point for its landline range to EUR19.99 including VAT, namely a discount of around EUR10 incl. VAT relative to the market. Secondly, it has moved its low cost B&You mobile range towards its historical premium range, Sensation, offering premium services at low-cost prices: stores and telephone customer service.

- **SFR, bought by Altice/Numéricable, boasts very high speed broadband assets that are unique in the market, and has chosen to favour value,** unlike Bouygues Telecom. With an approach very focused on fibre and contents, during 2015, Numéricable-SFR increase its landline prices and then its mobile prices (Red) and has done the same in early 2016.

These various strategies and positionings have resulted in a divergence of trajectories and sales performances in recent quarters.

… in particular on the mobile side

In the mobile segment, Free still boasts very high recruitment levels with 1.58m new customers in 2015, vs. 2m in 2014 and 2.8m in 2013. After continuing to suffer considerably from the arrival of Free with a loss of 130k subscribers in 2013, Bouygues Telecom picked up in 2014 after repositioning its prices in Q4 and attracting 116k new subscribers over the year and adding a further 543k during 2015. SFR had a good year in 2013 following its re-pricing and added 350k new subscribers, but began to suffer in 2014 from network quality problems, losing 350k customers over the year, before shedding a further 713k subscribers during 2015, notably due to a lack of competitiveness in 4G, an increase in Red prices and other handset pricing decisions at the beginning of the year. Meanwhile Orange maintained a high level of net sales, adding 660k new subscribers in 2015.

Q4 2015, in particular, saw an unprecedented promotional battle, with a particularly aggressive stance by NC-SFR, especially in its Red low cost offers, with for example:

- Unlimited calls and SMS +20 Go of data for EUR3.99 for 12 months.
- Unlimited calls and SMS + 1 Go (or 5Go) of data for EUR4.99 (or EUR9.99), for life

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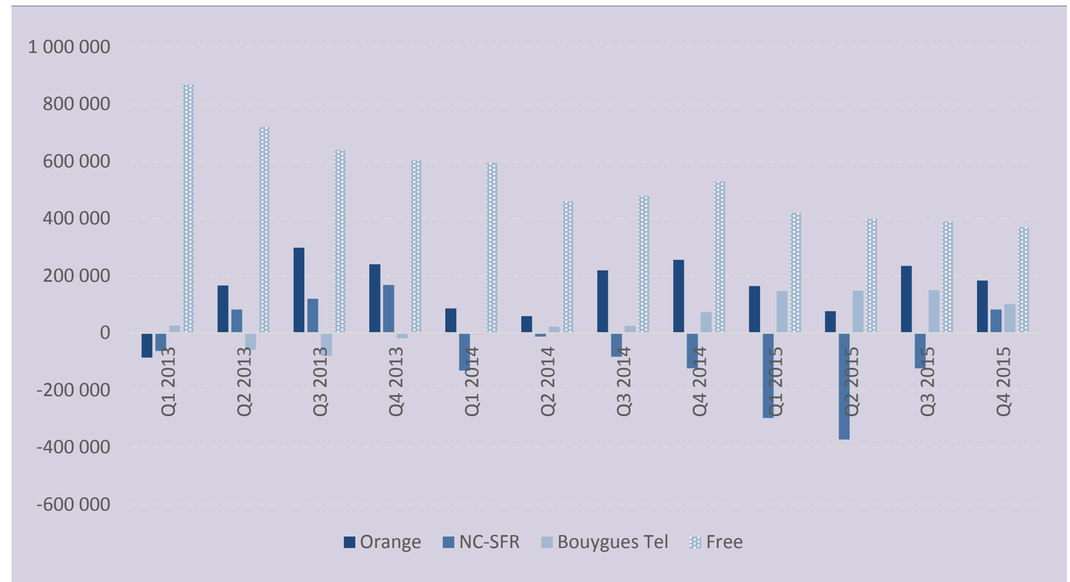
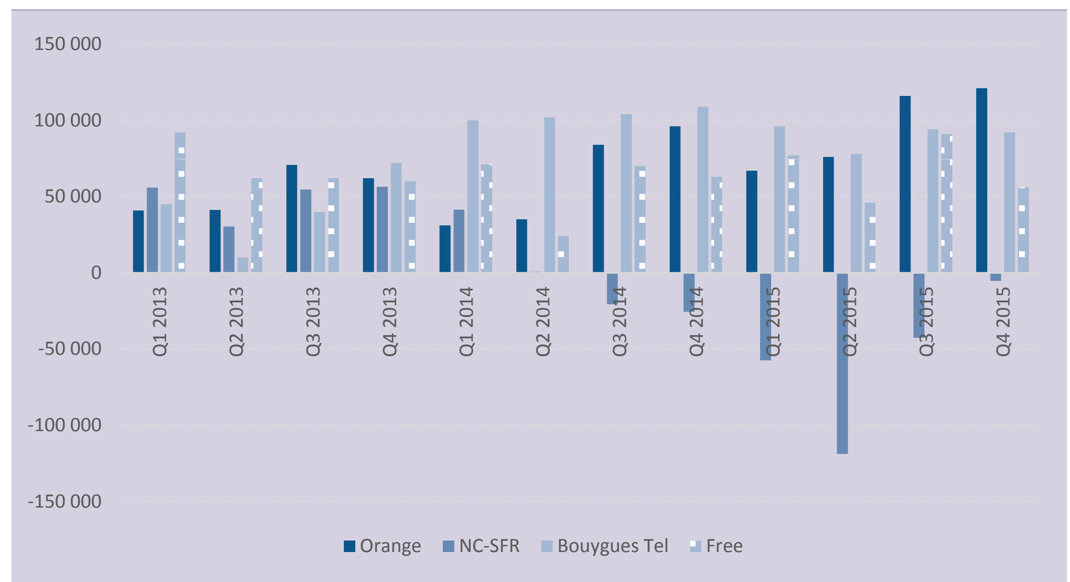
Fig. 10: History of mobile net subscriber sales (excluding M2M)



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

In the landline segment, Numericable-SFR has been losing customers since Bouygues Telecom's price repositioning in 2014. After losing 46,000 customers in H2 2014, NC-SFR lost a further 224k during 2015, notably due to price hikes and despite significant promotional campaigns. Bouygues Telecom succeeded its bet on volumes, increasing net adds from 167k in 2013 to 415k in 2014, and 360k in 2015. Iliad, which suffered slightly in 2014 with net additions of 230k, restored a performance similar to 2015 with 270k net adds, an outstanding performance in a market that is narrowing, but admittedly achieved by multiplying the number of promotional periods. Orange was less affected, increasing net additions from 214k in 2013 to 264k in 2014 and adding 380k net subscribers in 2015, benefiting fully from NC-SFR's underperformance and driven especially by healthy performances in fibre.

Fig. 11: History of broadband and very high speed landline net sales



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

As we can see, the market situation is far from stabilised and is not viable for all players in current conditions. The recent breakdown of the merger talks between Orange and Bouygues might worsen the situation. Indeed, we do not expect any consolidation soon as we see no buyer / seller couple, thus we put ourselves in the situation where Bouygues Telecom succeeds in its recovery plan.

4. The new SFR: hesitations concerning the business model

4.1. A strategy still to define

With the vital aim of rapidly increasing the profitability of its customers, NC-SFR's positioning relative to its rivals in the market is specific:

- In terms of marketing and communication strategy, NC-SFR has adopted an **approach focused on landline services** in general**, and fibre and contents** in particular.
- In the landline segment, faced with a still aggressive price war, NC-SFR has chosen **to implement numerous and successive price hikes**, to conquer customers, but also in the subscriber base, by betting on a double asset:
  - **The appeal of its TV contents,** combined with a box that has a good reputation, is powerful, stable and ergonomic.
  - A **unique very high-speed footprint** in the market. It is nevertheless important to note that the price increases have not only concerned fibre customers, or even exclusively 3P clients.
- In the mobile segment, here again NC-SFR has practiced a policy of **price increases**, especially for Red. NC-SFR has also **strengthened rules on downgrading moves**, extending downgrade timeframes or limiting operations to the customer services channel alone.

In 2015, at the same time as a **spectacular recovery in EBITDA,** this strategy resulted in a **significant loss of landline and mobile customers** and a recovery in fixed ARPU.

Indeed, in landline BtoC, NC-SFR lost 3.0% of its overall customer base in 2015 (average network), but in contrast, increased ARPU by 3.0%, enabling it to limit the impact on sales. The change in the mix in favour of fibre nevertheless generated savings in DSL operating expenses, estimated at EUR25.266m, thereby ultimately making the equation positive for the landline margin, despite the loss of customers.

Fig. 12: Illustration of landline customer volume/value effect on 2015

BtoC	2014	2015	Delta
Average landline cust. Base	6 606 673	6 407 980	-3,0%
ow fiber mix	23,0%	26,6%	+360 bps
Average landline ARPU	34,1 €	35,1 €	3,0%
Landline Revenue impact			**- 2 979 947 €**
ow volume effect			- 82 418 236 €
ow ARPU effect			79 438 289 €
Fiber mix effect on DSL cost savings			**25 266 071 €**

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

Please see the section headed "Important information" on the back page of this report.

We nevertheless believe that this strategy cannot last over the long term:

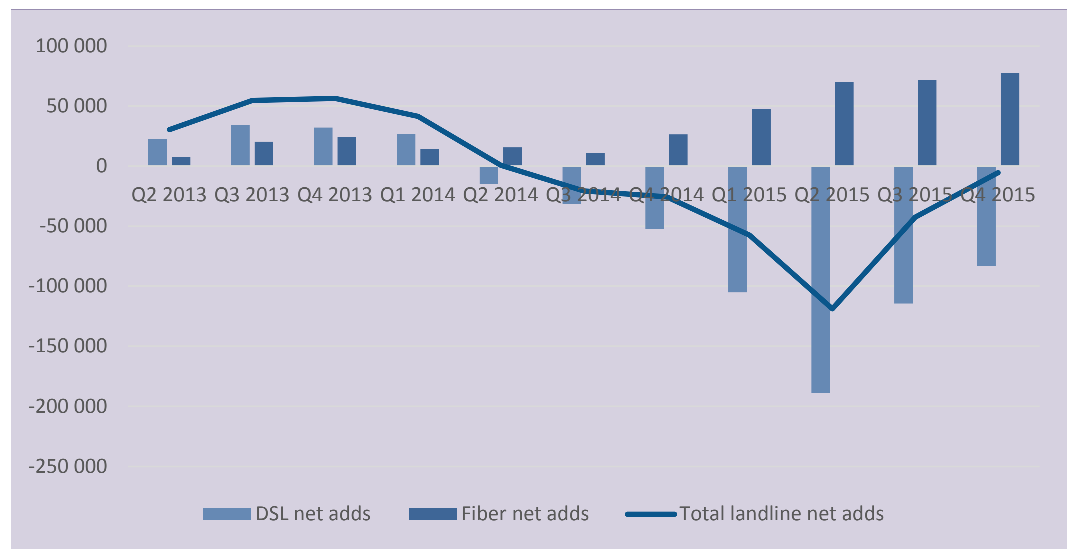
- **Multiple price hikes are not sustainable over time** or need to be offset by equivalent operating expenses in terms of services and contents in order to justify price increases.

- Admittedly, fibre customers generate vastly higher value than DSL customers, with a margin on variable costs at around 60% on our estimates. However, while NC-SFR's footprint is significant with 7.5m fibre customers, it still only covers a minority of customer potential (around 30%). Although **DSL contributes less to margins, it therefore remains key for generating volumes and helping to cover the operator's fixed costs.** To offset the loss of a DSL customer, more is needed than a migration from DSL to fibre, and this is no simple matter given the share of customers eligible for very high speed.

- These effects shown at the limits of the landline business do not capture the effects caused in the mobile segment, in terms of convergence. With a convergence rate of around 50%, we could imagine that **the loss of a landline customer leads to the loss of 0.5 mobile customers over the medium term.**

- NC-SFR is obliged to accompany its premium price policy with **aggressive promotional campaigns.** However, while the promotional policy helps underpin commercial performances in winning customers, it prompts a different treatment between customers in the network and prospective customers. This notably causes an increased churn rate in the base and encourages "premium hunting" behaviour.

Fig. 13: NC-SFR performance in DSL and fibre



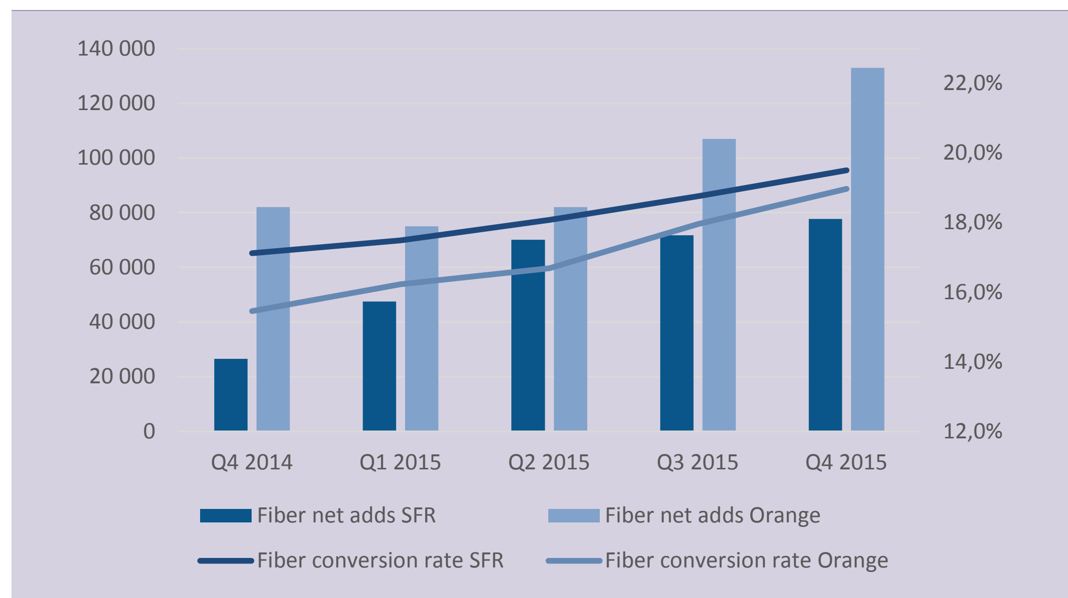
Source: Company Data.

In addition, the performance in fibre should especially be seen in perspective. While **net growth in the fibre customer base in 2015 was far higher than the level in 2014** (267k vs 67k), and has risen attractively in recent quarters, it nevertheless remains **lower than the level at Orange** (397k).

Please see the section headed "Important information" on the back page of this report.

Above all, however, when fibre performances are compared with the number of available sockets, **Orange's efficiency looks far superior:** new fibre clients at NC-SFR accounted for **3.7%** of the average number of NC-SFR sockets available over the year, whereas new Orange fibre customers represented **8.9%** of the average number of Orange sockets available over the year, testifying to a better ability to convert and/or recruit clients in fibre. All of this in a backdrop whereby NC-SFR has made fibre (very high speed) the heart of its strategy, and from one day to the next inherited a base of fibre sockets also offering a migration opportunity for a very large number of DSL customers. Orange is currently overtaking NC-SFR in terms of the load rate for its very high-speed network.

Fig. 14: Comparison of NC-SFR / Orange fibre performances.



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

In mobile, NC-SFR lost 7.2% of its overall customer base in 2015 (average base), with a decline in mobile ARPU of just 0.2%, vs -5.8% in 2014, due to the pro-active price-increase policy and the limitation of customer downgrades as mentioned above.

This mobile price policy has the following disadvantages:

- It is **limited to premium offers** with commitment. Indeed, all price increases in this type of offer free the customer from their commitment.
- It is **risky for low-cost customers**, who are by nature very wary over prices.
- It is only **sustainable if the quality of service is spot-on,** which is not the case so far for NC-SFR, especially in 4G.
- Symmetrically to landline, **a loss of customers in mobile can affect performances in landline.**
- As in the landline segment, NC-SFR is obliged to accompany its premium price policy with aggressive advertising campaigns. However, while the advertising policy helps underpin sales

performances for winning customers, it prompts a **different treatment of existing and prospective customers**. This leads to a **higher churn rate in the base**, or moves such as **termination/re-opening of a line** that are costly and encouraged by retailers, and which encourage **"premium hunting" behaviour**.

Fig. 15: Illustration of volume/value effect for mobile customers over 2015

BtoC	2014	2015	Delta
Average mobile cust. Base	16 514 583	15 319 306	-7,2%
Average mobile ARPU	22,5 €	22,5 €	-0,2%
Revenue impact			**- 332 907 766 €**
ow volume effect			*- 322 715 896 €*
ow ARPU effect			*- 10 191 870 €*

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

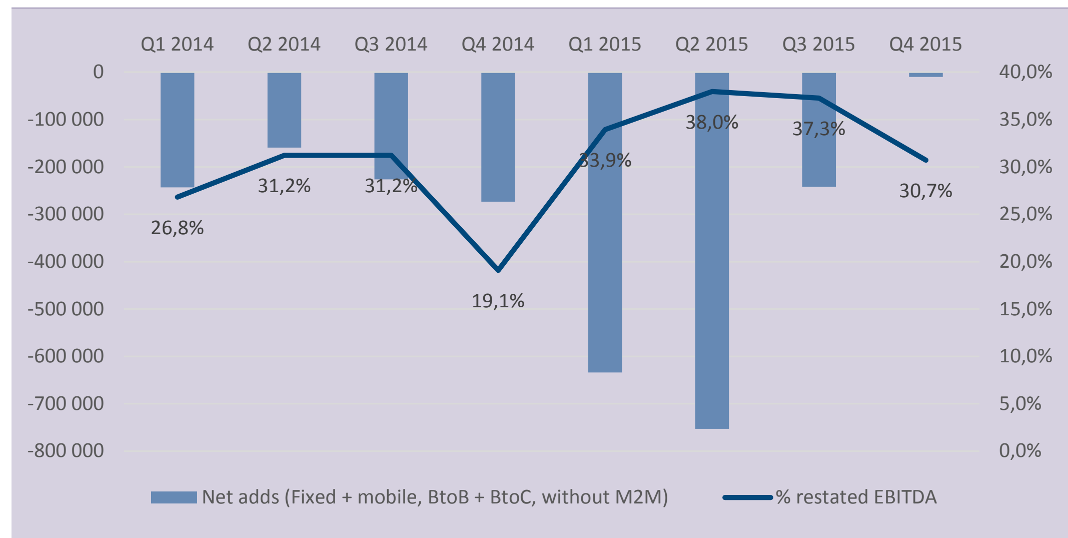
4.2. A mixed situation so far: what next?

We believe the loss of customers noted in 2015 was due to several factors:

- A deliberate strategy to **focus efforts on value customers**.
- **Price hikes** imposed on existing landline and mobile customers.
- A **restriction in the means** used for recruitment and loyalty of premium mobile customers.
- A **change in approach** imposed on distribution, with a refocusing on landline and contents.
- A **destabilisation of teams** due to reorganisations and management changes.
- An **adaptation of go to market** processes and landline connections.
- **Changes in suppliers** that could have damaged the quality of service provided.
- The **strong presence of Altice teams** on the ground with maximum pressure on cost savings and possibly less focus by NC-SFR's management on commercial stakes.
- A **lack of quality and 4G coverage** in the mobile network (already seen in 2014).

The majority of these factors nevertheless helped improve the EBITDA rate over the year. The following chart compares change in EBITDA margin over the year and the volume of customers lost (excluding M2M).

Fig. 16: Change in EBITDA margin and customer volumes over 2014/2015



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

We nevertheless consider that **the approach seen in 2015 is not sustainable,** and that a premium strategy, requiring high investments and sales costs, is not very compatible with a short-term approach to maximise EBITDA margin.

New management should help change things

In other words, **we are likely to see a reversal of the logic in place in 2015:** indeed, investments in networks and the quality of service should precede the application of a premium strategy. **In the meantime, promotional intensity is likely to continue.**

In Q4 2015, we already noted the effects of this refocusing. In this respect, **we view the arrival of a new management team as highly positive with** Michel Combes in place since Q3 2015 and Michel Paulin due to arrive before the end of H1 2016, as well as the arrival of a new consumer activities directors. In our view, these changes testify to the fact that the key shareholder recognised that a reorganisation of the company's management was necessary. With Michel Combes and Michel Paulin, NC-SFR will boast two managers with experience of large groups and expertise in the entire range of landline and mobile telecoms activities.

These management changes are nevertheless an implied recognition of the fact that **the problems encountered by the new group in 2015 were more imposed rather than chosen,** and that control of the collateral impact of all of the reorganisations implemented last year proved insufficient. **Restoring a brand image that has probably been affected in recent quarters, is now urgent.**

After a restructuring phase, we now expect NC-SFR to enter a consolidation phase, addressing the following problems:

- **An upgrade to investments** in the mobile network, and more generally investments in the quality of services provided, in order to justify a premium price policy and avoid a deterioration in its brand image that could be irreversible.

- **A further aggressive advertising campaign** to underpin sales at least in 2016.

Please see the section headed "Important information" on the back page of this report.

- Further **controlled opex savings plans compatible with the commercial recovery in business.**
- **Transformation of distribution**: streamlining of geographical presence, adapting sales techniques with a focus on landline.
- **Streamlining the Red and Virgin brand portfolio.**

4.3. Finding the right balance between "overall" EBITDA and EBITDA margin

Our previous comments underscore the opposition between an approach focused on maximising the EBITDA rate to the detriment of sales performances, and an approach focused on maximising the customer base. **We believe that NC-SFR has not yet found the right balance between "mass" EBITDA and EBITDA margin.**

To start with, we think it is interesting to draw an **analogy with the retailing sector,** the price policy practiced and its impact on store footfall levels.

The chart below shows changes in prices practiced in Tesco stores at the same time as change in market share. Tesco had major stockmarket and financial difficulties following its margin restatement. Despite increasing prices and hence the unit margin, the decline in footfall led to a deterioration in the sales margin, with customer volumes not covering the fixed cost structure sufficiently.

Fig. 17: Retailing – Tesco approach to prices and impact on market share

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

The comparison with Tesco is of course limited at this stage, in that NC-SFR is still in a transition phase following the merger with Numericable. An analogy with the retailing sector nevertheless seems relevant given that the telecoms model is increasingly approaching that of commodities in view of three structuring trends:

- A multiplication in the amount of **promotional operations**, which are becoming key in the sales approach for players in the sector.
- Growth in **no-commitment offers**, with the parallel development of SIM-only offers (i.e. with no subsidiaries: recycled handsets, financing offers, alternative distribution platforms to operators etc.).
- An easier process for mobile and landline **number portability**.

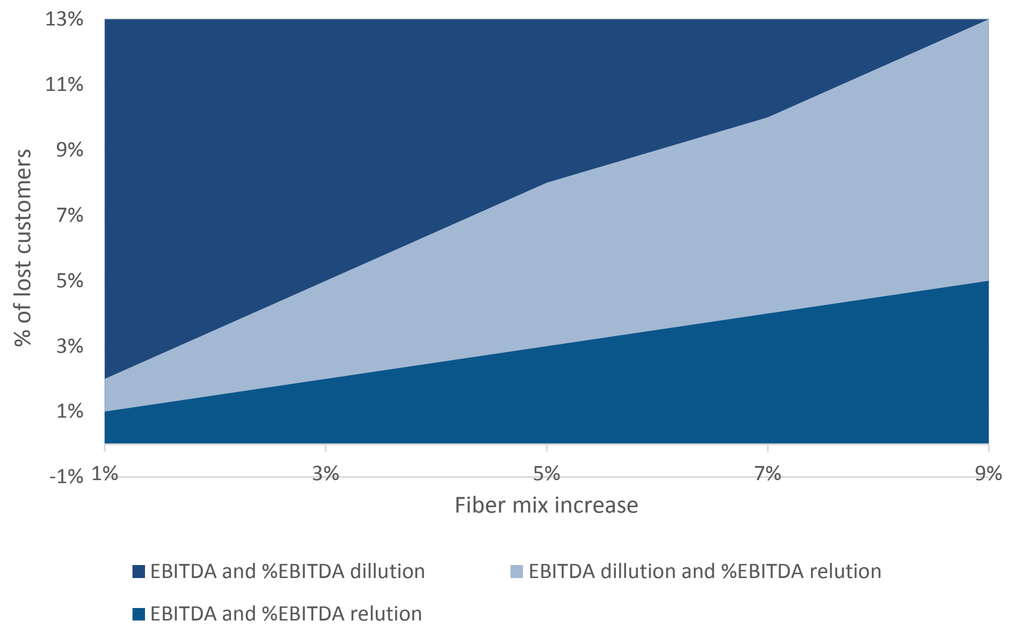
In all, these factors enable a more fluid transfer of customers between operators, therefore prompting fewer recurring revenues, and generally lower inertia in the impact of consumer behaviour on the financial results of operators. However, as we discuss further on, content offers could help slow this trend.

More specifically, in terms of NC-SFR's business model, we have gone into greater depth on three structuring points in the arbitrage between "overall" EBITDA and thr EBITDA rate:

- The compromise between the DSL/fibre mix and the total volume of landline customers.
- The compromise between ARPU vs the total volume of mobile customers.
- The compromise between the premium/low cost mix and the total volume of mobile customers

The following table illustrates the trade off between the increase in the fibre mix vs the loss of customers, i.e. the impact of a strategy highly focused on customers producing a higher EBITDA rate to the detriment of a more generalist approach.

Fig. 18: Impact of fibre mix increase and loss of customers on landline profitability



Source: Bryan, Garnier & Co ests.

Depending on changes in the fibre customer mix and the overall loss of landline customers, we have identified three zones:

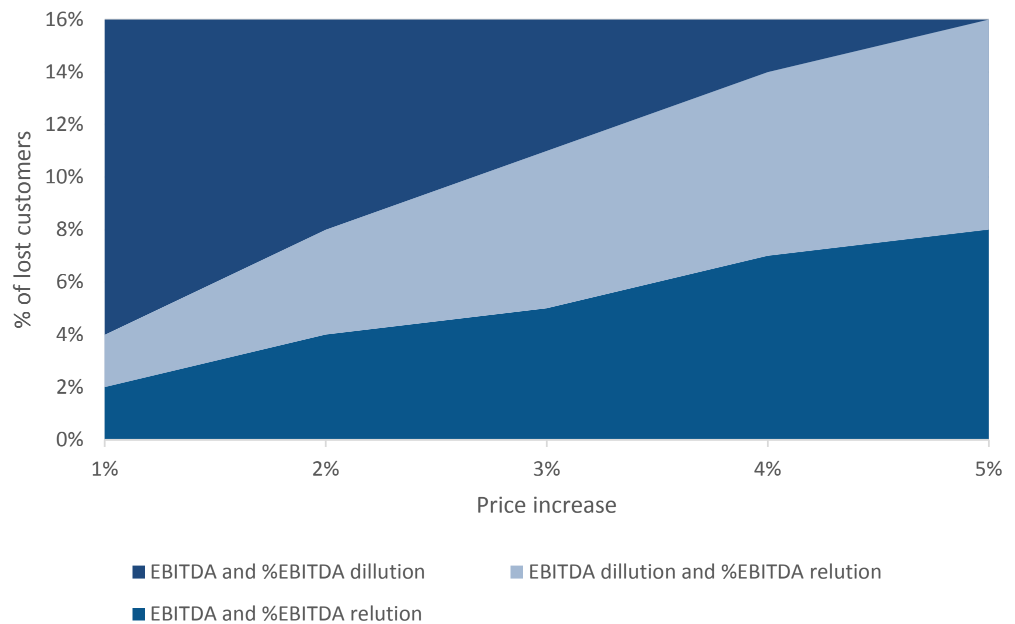
- **An accretive zone**, whereby the EBITDA margin and EBITDA in absolute terms are enhanced: EBITDA margin gains in fibre offset customer losses and the whole contributes more to covering fixed operating expenses in the business.
- **A mixed zone,** where the EBITDA margin rate is improved but overall EBITDA deteriorates: the margin rate is improved by the better fibre mix, but the sales base is too low and the whole contributes less to covering fixed operating expenses. This zone is the most delicate. It shows a better profitability rate, but lower overall profitability in the business (unless simultaneous efforts are made on the fixed operating expense structure).
- **A dilutive zone** in which the EBITDA rate and overall EBITDA deteriorate. Customer losses are such that gains in the fibre mix are fully wiped out.

The main assumptions used for this model are a margin on variable costs of 35% for ADSL customers and 55% for fibre and fixed operating expenses of 13% of sales (kept stable in absolute value terms in the model).

The following table illustrates the trade off between price increases and customer losses in mobile, namely the impact of a strategy focused more on value (ARPU and EBITDA margin) to the detriment of a more volume-based approach.

Please see the section headed "Important information" on the back page of this report.

Fig. 19: Impact of price increases and customer losses on mobile profitability



Source: Bryan, Garnier & Co ests.

As with landline, depending on changes in price and the total loss of customers, three zones can be identified:

- **An accretive zone**, whereby the EBITDA margin and EBITDA in absolute terms are enhanced: EBITDA margin gains prompted by the increase in prices offset customer losses and the whole contributes more to covering fixed operating expenses.
- **A mixed zone**, where the EBITDA margin rate is improved but overall EBITDA deteriorates: the margin rate is improved by ARPU, but the sales base is too low and the whole contributes less to covering fixed operating expenses. As in landline, this zone is the most delicate. It shows a better profitability rate, but a lower overall profitability of the business (unless simultaneous efforts are made on the fixed operating expense structure).
- **A dilutive zone,** where both EBITDA margin and EBITDA in absolute terms deteriorate. Customer losses are such that ARPU gains are totalled wiped out.

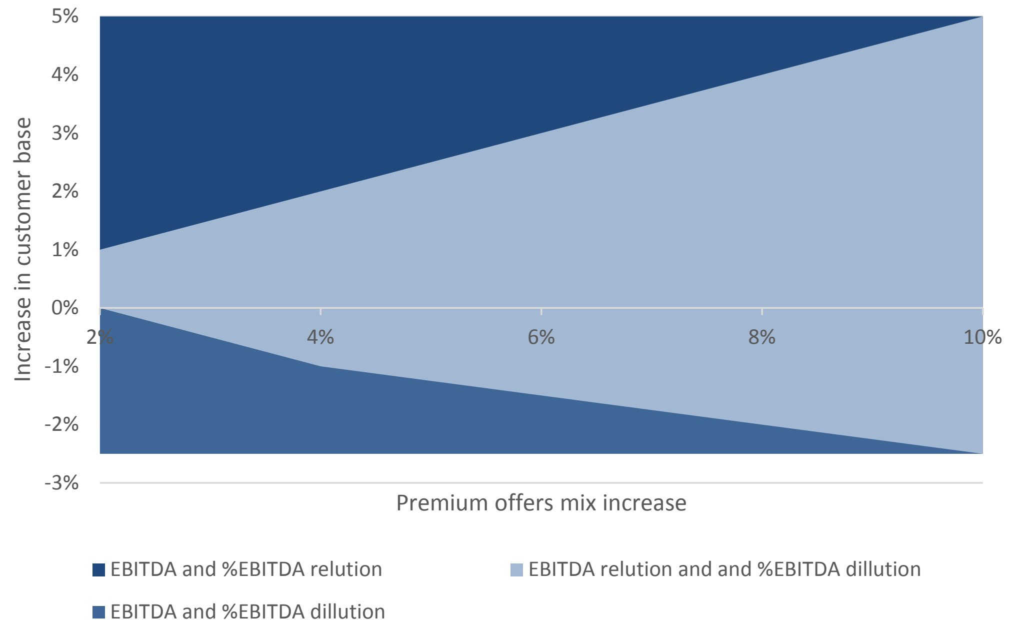
The main assumptions used for this model are a margin on variable costs for mobile clients of 53%, and fixed operating expenses of 13% of sales (kept stable in absolute value terms in the model).

If we take a closer look, the mobile EBITDA rate is not only influenced by prices and the volume of mobile customers, but also by the mix between premium clients (Starter and Power) and the low-cost offers (Red). The premium offers have a lower margin rate on variable costs than low-cost offers (around 50% vs. 66%) primarily due to higher acquisition and loyalty costs. In contrast, their ARPU is virtually double, **hence a higher absolute value for the margin on variable costs for premium offers, despite a lower margin rate.**

Please see the section headed "Important information" on the back page of this report.

As shown in the chart below, a good performance in the premium mix can offset the loss of a certain number of customers at the EBITDA level. In the case of customer gains, the effect can even be negative for EBITDA margin.

Fig. 20: Impact of premium/low cost mix on mobile customers



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

The above analysis is valid at cruising speed. However, short-term impacts of sales performances relative to the premium and Red offers are different. Given high acquisition costs (mobile handset subsidy and payments to distributors), we estimate that payback on variable costs for premium offers takes around six/eight months. As of Q2/Q3, **a poor sales performance in premium offers is therefore positive for the rate and the absolute value of EBITDA over the current year.**

As such, we estimate the positive effects on the costs potentially caused by the deterioration in sales performances over 2015 at several dozens EURm.

A strategic choice therefore needs to be made between a policy of maximising EBITDA in the short term and the EBITDA rate, to the detriment of premium customers, and a strategy to maximise EBITDA in absolute value terms implying hefty investments necessary for acquiring premium customers and making them loyal.

Finally, note that, while a valuation based on EBITDA multiples makes sense in a stand-alone approach, **in a business resale value approach, the number of clients makes more sense, hence sales and sales multiples** (as shown in an extreme case by the valuation of Bouygues Telecom's business).

In this context, and in view of the above analysis, we consider it important to **avoid overly focusing on the business's EBITDA rate, in favour of the overall EBITDA generated,** with a more medium term vision.

4.4. Sales set to remain under pressure

Given the situation described above, the time necessary **1/** to strengthen the quality of the mobile network and **2/** for the new management team to restore control of the strategy, **3/** to continue adaptation, synergy/cost savings and reorganisation plans, we believe that NC-SFR's landline and mobile sales are likely to remain under pressure in 2016, before returning to growth as of 2017.

We believe that the state of play in 2016 should remain fairly similar to 2015, in particular with high promotional activity, for two main reasons:

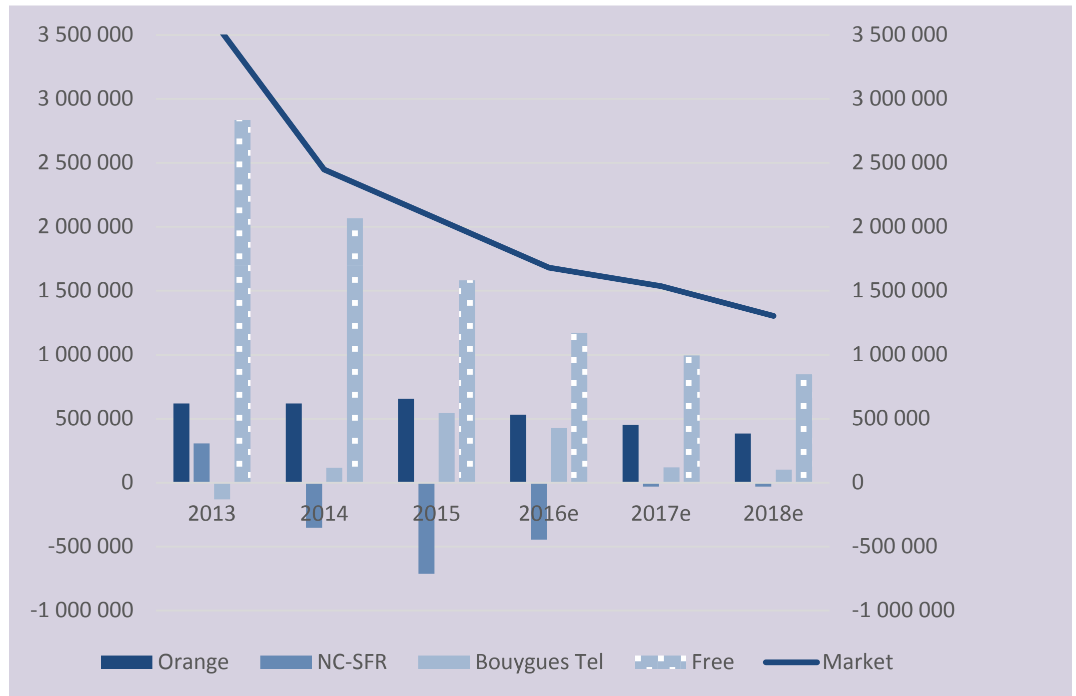
- In the mobile segment especially NC-SFR will still not have a level of quality comparable to Orange/Bouygues Telecom requiring a price compensation.

- Bouygues Telecom's pricing will remain very aggressive in order to recruit and retain a large number of customers, which is a key point of its recovery strategy.

In the mobile segment, Bouygues Telecom and Orange, benefiting from customer losses at NC-SFR and their network leadership, should continue to post high performances in 2016, before the catching up of NC-SFR. We see NC-SFR falling 3.0% in 2016, and breaking even in 2017 and 2018, after losing 4.6% of its mobile subscriber base in 2015. Bouygues Telecom is set to post a further 3.9% increase in its subscriber base in 2016 after +8% in 2015, while Orange should still benefit from reasonable growth of 2.6%, 2.4% and 2.0% in 2016, 2017 and 2018, respectively after levels of 3.4% in 2015 and 2014. Finally, Free should continue on a healthy trends, with growth in mobile volumes of 10% in 2016, 8% in 2017 and 6.2% in 2018, vs. 26% in 2014 and 16% in 2015.

Please see the section headed "Important information" on the back page of this report.

Fig. 21: Change in mobile net subscriber sales (excluding M2M)



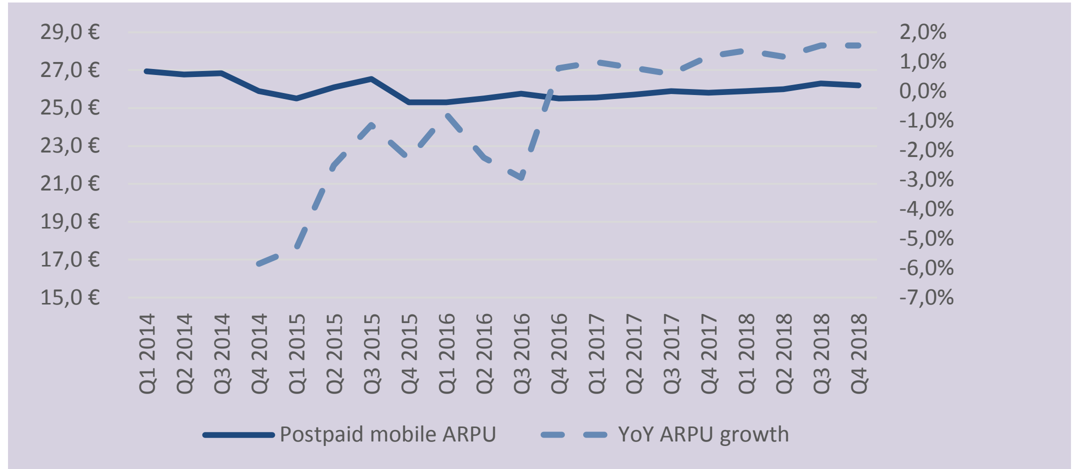
Source: Company Data; Bryan, Garnier & Co ests.

In terms of mobile ARPU, we believe that sales performances should remain affected by sharp promotional intensity, partly offset by price increases applied for winning subscribers and existing customers. New European restrictions on roaming prices are also set to take a toll on 2016. As such, for 2016, we are forecasting a modest decrease in mobile subscriber ARPU, limited to -1.3% vs. -2.8% in 2015. For 2017 and 2018, when the promotional intensity levels off, the improvement in quality of service and the development of data usages should help reach mobile subscriber ARPU growth rates of around 0.9% in 2017 and 1.4% in 2018.

Whatever the case, **we do not believe in a scenario that would see a simultaneous significant recovery in ARPU and sales performances in the mobile segment**.

Please see the section headed "Important information" on the back page of this report.

Fig. 22: Change in NC-SFR postpaid mobile ARPU

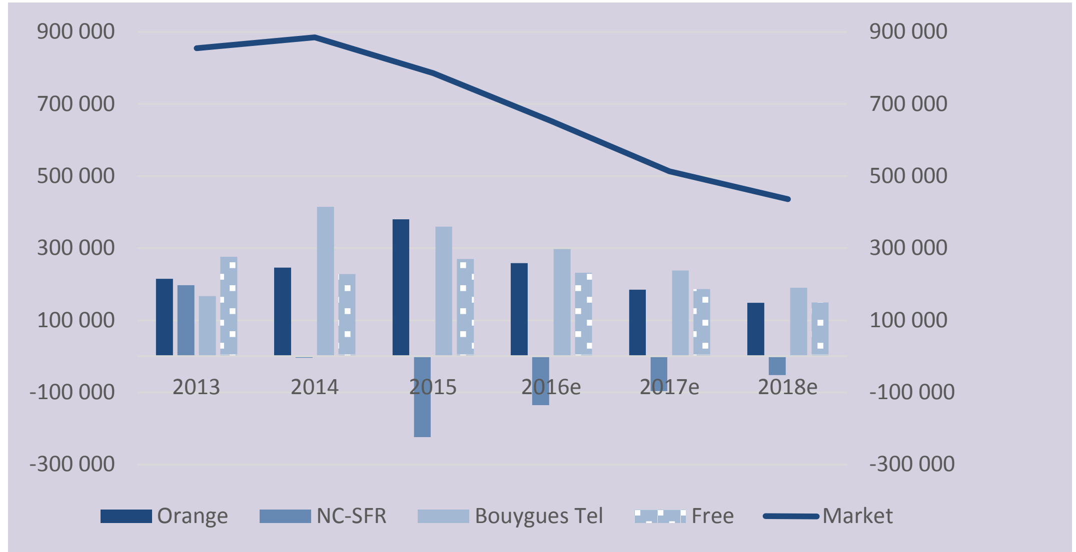


Source: Company Data; Bryan, Garnier & Co ests.

Concerning landlines, growth in the market should slow, falling from a **CAGR of 4.2% over 2012-2015 to 2.4% estimated for 2015-2018,** with the penetration rate gradually tending towards an asymptote.

In a market growing more slowly over 2016-2018, we see the trends noted in 2015 **picking up slightly**. NC-SFT should reduce its customer losses gradually, but remain in **negative net sales territory due to its reaffirmed premium positioning and a focus on fibre**, as shown by the EUR3 price increase in early 2016 for Fibre Power boxes, as well as investments in Altice contents (see below). **Bouygues Telecom should maintain a high recruitment level, benefiting from an attractive price positioning. Orange could suffer somewhat from the gradual recovery of NC-SFR, with Iliad's net sales falling as the market narrows**.

Fig. 23: Change in DSL and fibre net subscriber sales

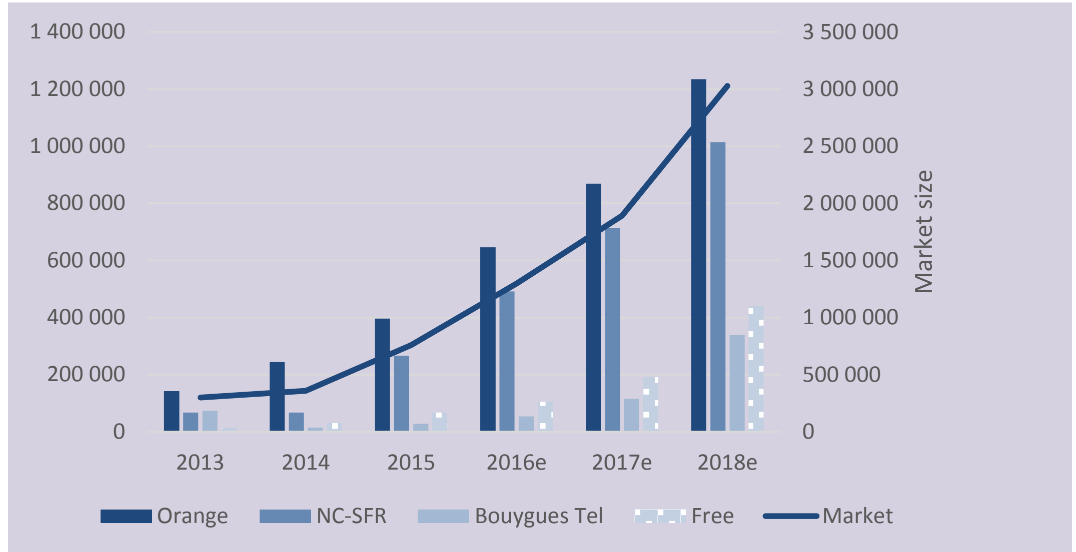


Source: Company Data; Bryan, Garnier & Co ests.

Behind these figures lies a gradual switch from DSL to fibre. This switchover primarily concerns migrations within the customer base at present rather than new customer recruitment. In particular, in 2015, NC-SFR undertook wide-scale migration operations (not obligatory) for DSL customers inherited from SFR to Numericable's very high speed infrastructure.

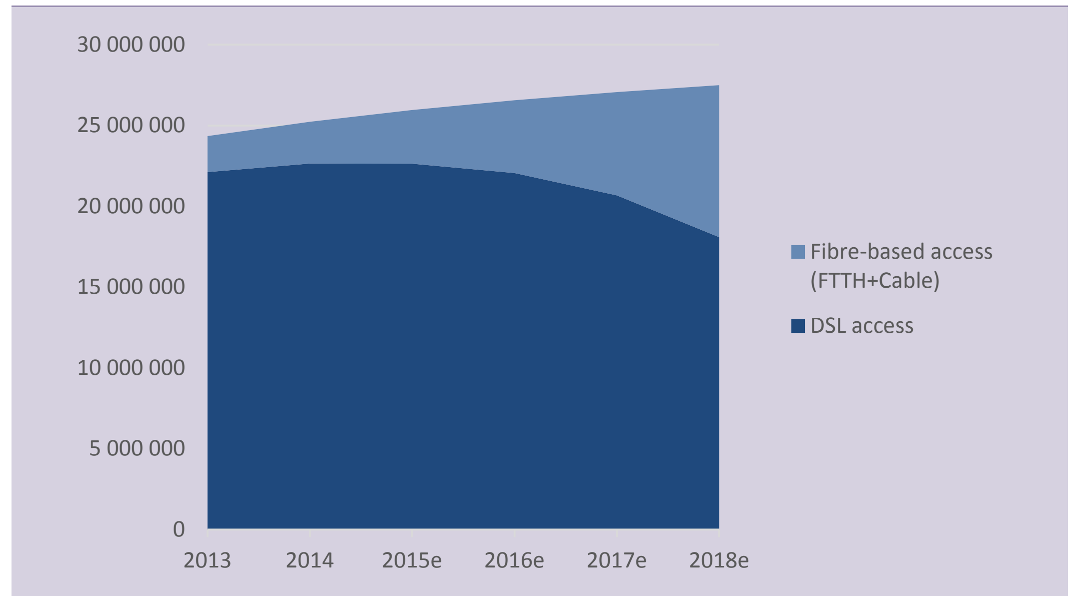
We believe this **trend should continue and amplify** in coming years, encouraged by **1/** the development of usages consuming extensive amounts of bandwidth (multiplication of 4k audio-visual contents, development of multi-screen and simultaneous uses in the household, increase in streaming usages) and **2/** the strategy of players who are gradually stopping the sale of ADSL in areas where they have installed fibre optics in order to make their investments profitable. As such, we are targeting a near-**tripling in the volume of fibre subscribers in the market** between end-2015 and end-2018.

Fig. 24: Change in net fibre sales



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

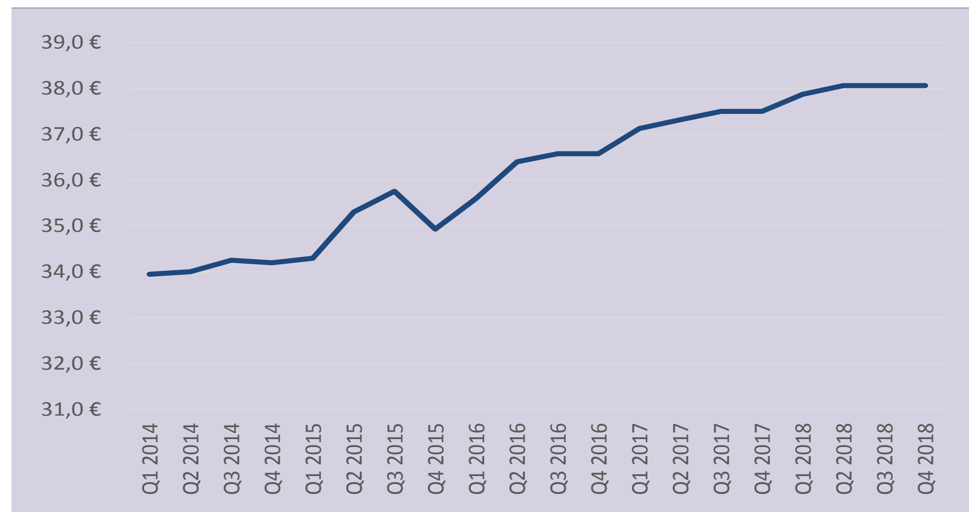
Fig. 25: Change in overall DSL and fibre subscriber bases (all four operators)



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

In terms of landline ARPU, we believe the strategy to increase prices underpinned by premium contents should continue. We are forecasting growth in landline APRU of 3.5% in 2016 vs. 3.0% in 2015, corresponding to the full-year effect of increases in 2015, as well as the latest price increases applied to the base in early 2016. We expect price increases to be more limited in 2017 and beyond, and we are forecasting ARPU growth at 3.0% and 1.8% in 2017 and 2018.

Fig. 26: Evolution of landline ARPU



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

Concerning BtoB, we expect business to **suffer for a few more quarters** for the same reasons as BtoC, but also due to sustained **aggressive pricing from Bouygues Telecom** on this segment and to the merger still underway of SFR's historical businesses with Telindus on the one hand, and Complétel on the other. We are forecasting a **modest return to growth as of Q3 2016.**

Concerning the wholesale businesses, we believe that performances could suffer especially from the **loss of the Bouygues Telecom DSL contract** in favour of Orange. Price cuts on MVNO contracts should be offset by an increase in traffic. We are forecasting a **return to growth as of Q1 2017**.

The chart below shows prospective sales growth at NC-SFR's three businesses out to 2018.

Fig. 27: Pro forma change in NC-SFR sales

	FY 2013	FY 2014	FY 2015	FY 2016e	FY 2017e	FY 2018e
Proforma Revenues (M€)	**12 039**	**11 436**	**11 039**	**10 808**	**10 886**	**11 054**
		-5,0%	**-3,5%**	**-2,1%**	**0,7%**	**1,6%**
BtoC	8 256	7 888	7 595	7 462	7 481	7 540
		-4,5%	-3,7%	-1,8%	0,3%	0,8%
BtoB	2 365	2 223	2 116	2 046	2 089	2 145
		-6,0%	-4,8%	-3,3%	2,1%	2,7%
Wholesale	1 418	1 325	1 328	1 300	1 316	1 369
		-6,6%	0,2%	-2,1%	1,3%	4,1%

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

Pressure on sales exposes NC-SFR to a risky temptation, namely a headlong rush to offset customer losses by price increases in the subscriber base, thereby making customer losses worse and maintaining a vicious circle of value destruction. We believe that NC-SFR will have to be careful not to embark on this type of strategy.

Please see the section headed "Important information" on the back page of this report.

4.5. Savings need to continue

Beware OPEX management

In 2016, NC-SFR started a very ambitious cost-cutting programme, based on the following action plans:

- **Unlocking** the synergies between NC and SFR: migrating DCS customers to fibre, distribution (start of streamlining in store network), brand (halt to Numericable brand, except for TV bouquets).
- **Review** of sourcing policies (in-house/outsourcing), in particular with lower use of outsourcing.
- **Renegotiating** all supplier contracts.
- **Elimination** of a number of expenses considered useless or excessive.

Including variable sales factors, this policy helped save **EUR665m** in 2015 vs 2014 pro forma.

In the same fashion as sales, aggressive management of opex exposes **NC-SFR to the risk of pushing savings even further in order to offset sales under pressure and safeguard EBITDA. In so doing, NC-SFR would take the risk of stepping up customer losses and ultimately worsening the situation over the medium term.** We believe that NC-SFR should take care not to implement a strategy like this, by making sure that opex savings do not affect sales performances and the quality of services provided.

We nevertheless expect opex savings to continue in view of the following items:

- **Full-year effect of opex savings started in 2015,** estimated at EUR160m.
- **Further migration of DSL to fibre,** savings estimated at EUR98m vs. 2015.
- **Fresh savings and full-year effect of opex savings started in 2015,** for an amount estimated at EUR238m, including the following items: distribution (further streamlining of store network), customer services (sourcing and supplier renegotiations, further digitalisation), brand (Red and Virgin), other operating expenses.

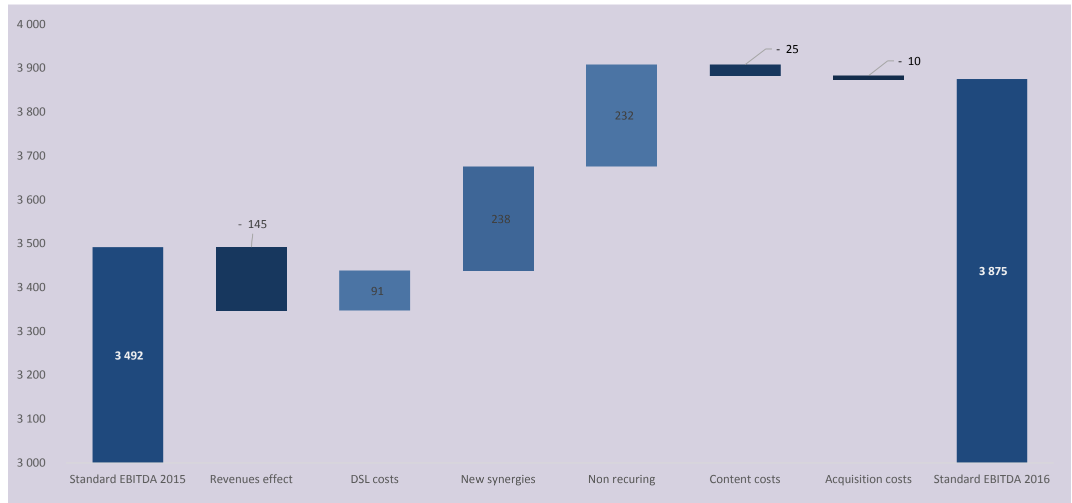
Opposite these savings, certain cost items could nevertheless increase:

- **Subscriber acquisition and loyalty costs:** despite the positive effects prompted especially by the rising momentum of SIM-Only offers, we believe that the recovery in sales performances as of 2016 should go hand in hand with an increase in commercial means, which we estimate at EUR10m.
- **Contents:** as explained further on, we have neutralised the impact of Zive costs provided by Altice, but have assumed a EUR25me impact on the P&L account for a quarter of rights for the UK Premier League football tournament.

Please see the section headed "Important information" on the back page of this report.

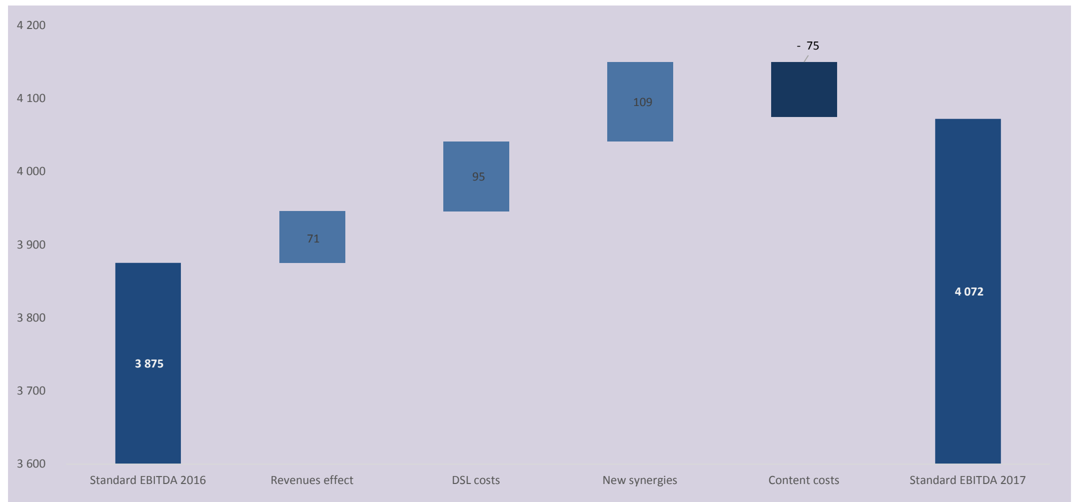
The table below presents a valuation of all of the above-mentioned factors and a switch from 2015 EBITDA to 2016 and 2017 estimated EBITDA (with "standard" EBITDA = EBIT before amortization and depreciation).

Fig. 28: Switch to EBITDA 2015 – 2016



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

Fig. 29: Switch to EBITDA 2016 – 2017



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

Under these assumptions, total fixed OPEX savings will reach **EUR800m** in 2017 (net of additional content costs and others), ie 20% of estimated 2014 pro forma fixed cost base. Savings on DSL costs will amount to **EUR261m**.

Please see the section headed "Important information" on the back page of this report.

4.6. A new approach in contents

4.6.1. Diverse strategies

In terms of contents and the telecoms/media convergence, operators fall into two categories:

- Those in favour of a partnership approach.
- Those in favour of a vertical integration of "containers and contents".

The first are attached to the **diverse nature of the catalogue offered, an essentially variable economic model** (revenue share, distribution commissions, possible minimum guaranteed level), that is therefore **not very risky**, and to **the offer's flexibility**. The working in partnership model also helps entrust contents to companies benefiting from economies of scale and know-how in terms of **management of content owners relations**, helping to guarantee optimal price conditions. Note that this stance focused on partners in no way prevents the signing of exclusive deals over durations that are generally limited.

The second group takes more **financial risk** (investments in contents, fixed cost structures and break-even issues) but favour **editorial control**, play more on **exclusivities** and optimise the **integration of contents** in their environments and own platforms.

Fig. 30: Examples of partnerships in contents in the French market

Content Type	Content Partnerships
Music	Deezer (Orange), Spotify (Bouygues Telecom), Napster (NC-SFR)
Press	LeKiosk (NC-SFR)
TV channels	Canal+, Canal Sat, BeIn, TF1, Groupe M6, AB, Disney, Lagardère, Turner (almost all operators)
VoD	Canal Play (Orange, Free, Bouygues Telecom), Netflix (Orange, NC-SFR, Bouygues Telecom)

Source: Company Data; Bryan, Garnier & Co.

Fig. 31: Examples of own content initiatives in the French market

Content Type	Owned contents
Press	Libération, Groupe L'express, Stratégies (Altice)
TV channels	OCS (Orange), MCS, Kombat Sport, NextRadio TV (Altice)
VoD	Zive (Altice)
Sport rights	Mobile Ligue 1 (Orange), Premier League, Porto Football club, French Basketball (Altice)

Source: Company Data; Bryan, Garnier & Co.

In the French market, all operators historically belong to the first category except Numéricable-SFR.

In the Vivendi era, no synergies existed between SFR and Canal+. Negotiations were particularly difficult between the two groups (as shown by the failure to sell on SFR's Pay TV business to Canal+ in 2013). Vivendi's principle was to maximise the two groups' interests, each in their own domain,

thereby maximising the overall interest. The same philosophy goes for Bouygues, where there are no contents/container synergies between TF1 and Bouygues Télécoms. Orange, apart from a few initiatives with mixed outcomes (Orange Sport, OCS, Orange Ligue 1 in portability, Dailymotion), remains focused on a primarily partner-based approach to contents.

Numericable, and then Numericable-SFR under the impetus of Altice, has taken a different route. Altice was built on the consolidation in cable, which was historically a Pay-TV offer before being an internet access offer. As such, in the group's genes and its marketing strategy, it has a high presence in contents.

This strategy has been seen in recent months in the following events:

- **A landline range built on moves upscale via TV contents** (and speeds), positioning NC-SFR's know-how in terms of publishing pay TV bouquets at the heart of the new pairing's value strategy.

- **Significant investments in sporting rights:** especially the UK football Premier League for EUR300m for the next three seasons (exclusive rights in France and Monaco), a broadcasting and sponsoring agreement for FC Porto for EUR475.5m over 10 years, an exclusive EUR50m partnership with the French basket ball authorities for the broadcasting of all competitions over five seasons.

- **The launch of a directly operated SVoD** offer (Subscription Video on Demand): Zive, boasting a catalogue of 10,000 programmes out to end H1 2016, including some in 4k. The offer is available in subscriptions based on Power offers, or otherwise available for EUR9.99 a month.

- **Communication focused on contents:** the partnership with Cristiano Ronaldo, personifying the group's sport contents, a TV clip and the SFR website homepage focused on contents.

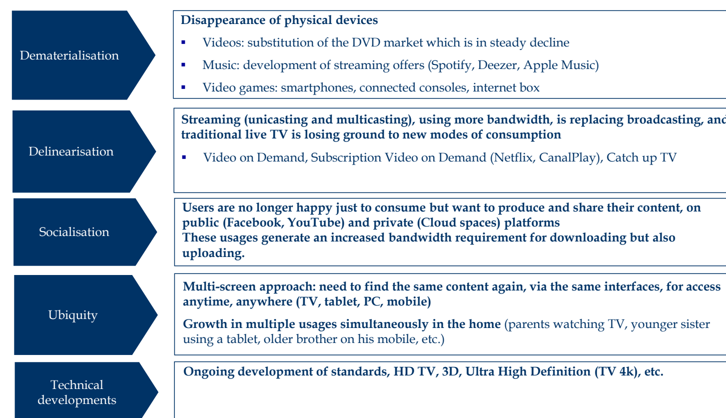
- **Acquisitions or partnerships with new groups and media** at Altice: partnership with NextRadioTV (radio, free TV), acquisition of Libération, l'Express – L'Expansion group and Stratégies in particular.

4.6.2. A new paradigm

Encouraged especially by NC-SFR and Altice's initiatives in contents, we have witnessed position changes by a certain number of players in recent months, with the **telecoms/media convergence paradigm returning to the limelight.** Several reasons underpin this change, concerning both the nature of the new digital contents offered, as well as changes in modes of consumption, as shown in the table below.

Please see the section headed "Important information" on the back page of this report.

Fig. 32: Change in contents and digital uses



Source: Bryan, Garnier & Co.

As such, Orange has announced a future seminar for its executive committee focused on the question of contents, while Vivendi has placed four representatives on the Board of Directors of Telecom Italia. Numerous other examples illustrate this rebirth in the paradigm as shown in the table below.

Fig. 33: Recent initiatives in telecoms/media convergence 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 Portuguese and English football rights
Telecom Italia	Videndi acquires a 21,8% stake in the company, four board members
Comcast	Acquisition of NBCUniversal
AT&T	Acquisition of Direct TV

Source: Bryan, Garnier & Co.

In the case of NC-SFR, and more generally in the French market, **contents are vital for selling fibre,** which generates higher EBITDA. It is difficult to sell the interest of access at more than 100mbps without highlighting high-definition content, multi-screen and video streamlining possibilities. In contrast, it is easier to sell video contents with value added with a very high speed access offer. Hence the coherence in NC-SFR's strategy and its unique selling proposition (USP), playing on its clout in both very high speed infrastructure and contents.

We are no longer in the context prevailing in the early 2000s when the ability to monetise digital contents was virtually zero. However, it would still be unreasonable to see massive synergy opportunities in this new environment.

4.6.3. Limited value creation

Value creation is not easy on the French market

We are cautious on the synergies and financial impact of the content/container convergence strategy implemented by NC-SFR in France. Indeed, we believe that the effects could be limited over the medium term, for the following reasons:

- The **French market has a number of specific features:**
  - **France already has an abundant free and diversified TV offer**, with 26 channels available on TNT and more than 150 channels including in the basic TV bouquets of the operators' 3P offers. **The market addressable by pay TV is therefore naturally reduced** and additional pay TV contents should therefore provide exclusive content that is particularly differentiating and qualitative in order to attract customers.
  - **The French pay TV sector is struggling.** The Canal+ channels in France incurred losses of EUR264m of EBITA in 2015, with a loss of 405k customers, while BeIN Sports is thought to lose money also. This has prompted the necessary market consolidation around the exclusivity agreement between Canal+ and BeIN Sports. In this context, it is difficult for NC-SFR to fight efficiently and ensure the profitability of its investments in premium pay content.
- **The regulatory backdrop in France is restrictive**
  - French television services providers are **obliged to take part in the financing and production of cinema works.** These obligations weigh on the profitability of initiatives and damage flexibility in the offer. If the halt to a service implies a decline in audio-visual financing, the subject becomes political. Indeed, it seems politically difficult for Orange (especially since the French state is also a shareholder), to consider stopping OCS if it wanted to. In contrast, the new Zive service is not concerned by these restrictions. The service is provided by Altice, which is a Luxembourg company and NC-SFR is simply the distributor.
  - **Exclusivity agreements are closely monitored by competitions authorities.** This is shown by the exchanges between Orange and the competitions authorities in terms of OCS and Orange Sport in the 2010s, or the exclusivity agreement between Canal+ and BeIN Sports currently being examined by the authorities. The competitions authority notably reserves the right to note "cross" dominant positions between contents services and access services.
- With or without exclusivity agreements, **the business model is not clear.** Orange's experience in Orange Sport (halted in 2012) and in OCS (halt to exclusivity for Orange customers in 2012) show the difficulty in finding a profitable business model. This type of investment is by nature primarily made up of fixed costs and increases the **company's risk level** and break-even point. We have set out below the business case corresponding to the Altice/NC-SFR investment in UK football broadcasting rights.
- Marketing of these services requires a **change in approach**. Operators expanding in contents need to agree to provide the services **significant space in the various distribution channels**. Highlighting these services is bound to come at a cost for the operator's historical approach

focused on the sale of landline and mobile access. This also implies a **change in stance for store sales staff:** the use of contents such as USP, rather than proceeding via rebounds and option sales. While Numericable is historically experienced in this stance, this is not true of the thousands of historical SFR sellers for whom an accompaniment in implementing the change is necessary.

Business case: making investments in Premier League rights profitable

Altice has invested around EUR300m over three years for exclusive rights to the UK Premier League football tournament for France and Monaco. Two macro-scenarios for marketing are open to NC-SFR: **1/** high prices and a small base, or **2/** low prices and a wide base.

Fig. 34: Price strategies for making Premier League contents profitable

Source: Bryan, Garnier & Co.

The first scenario corresponds to a price of EUR9.99 including VAT offered as an option to the operator's 3P **broadband/landline** customers. In this case, we estimate the **take-up rate in the eligible customer** base at **20%** in order to make the investments profitable, namely around 1m customers. This rate is particularly high and is unlikely to be achieved in addition to the optional pay TV services already subscribed to.

The second scenario corresponds more to the price approach noted at the group recently. In particular, Zive was included automatically in all of the NC-SFR upscale broadband offers, compared with a generalised price increase of EUR3 including VAT. **EUR2 including VAT would be necessary here for the whole estimated 3P subscriber** base in order to make the investment profitable. This seems difficult, in addition to the recent price increases implemented in the base, due to Zive in particular, and for a service reaching a smaller audience by nature. This approach also implies a **higher churn rate risk** for customers fed up with price increases and not interested in the new contents on offer.

The investment could also aim to be justified by a **better customer retention/acquisition rate**. Assuming a recurring margin on variable costs generated by a broadband customer of EUR16

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(including 50% in fibre), around 10% of the base would need to be retained in order to justify the investment. Again, this does not seem feasible.

In these conditions, and even if the various price approaches can combine, we consider it very likely that NC-SFR would have to **distribute more widely its sports offer in order to make its investment profitable.** We have adopted this scenario in our model and are forecasting a **neutral impact from investments in UK football on the group's EBITDA.**

While telecoms/media synergies do not seem obvious for all of the reasons mentioned above, the merger of telecoms and media activities is still interesting. Indeed, if the development of own contents by operators in the form of highly value-creating **vertical integration** may not seem possible, we could see a very attractive **diversification opportunity**. In a backdrop where the **risk of disintermediation** (cord cutting) by web players (GAFA in particular) is a real threat over the medium term, investing in contents could be a way for operators to maintain the link with customers and their usages, and thereby eliminate the **spectre of commoditisation** that is threatening the sector.

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4.7. Strengthened investments

Beyond contents, we believe that fundamentals in the telecoms operator business remain key: network coverage, quality of services provided (availability, rapidity), innovation (very high speed).

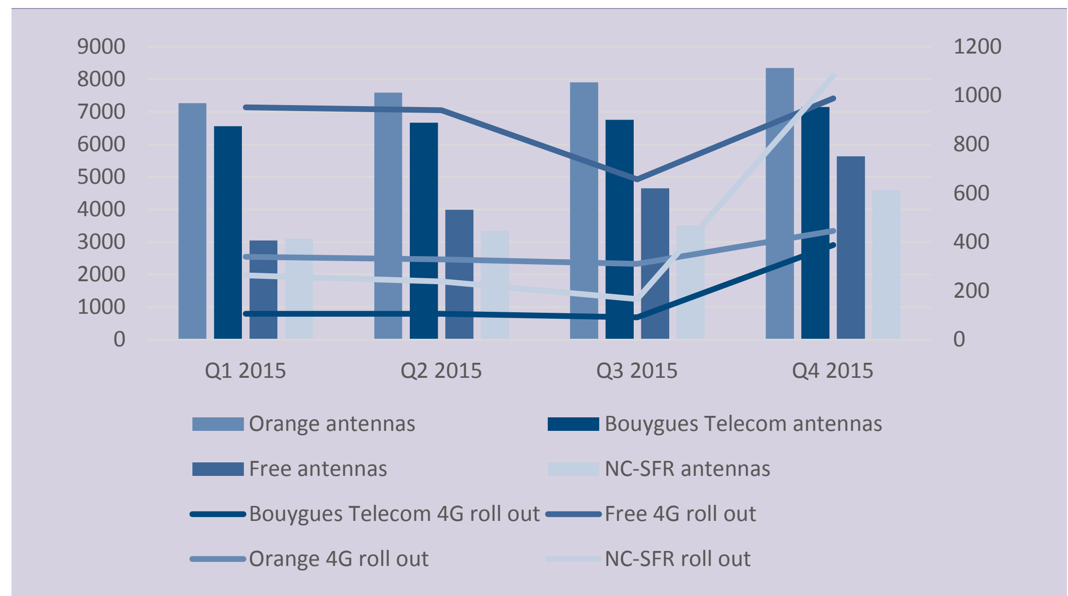
Despite further capex savings plans (simplification of information systems, renegotiations and sourcing models etc.) a range of factors prompt the need to step up capex spending at NC-SFR in coming years:

- The **regulatory backdrop**: vigilance of ARCEP concerning network sharing agreements and coverage of less dense 4G zones in particular.

- **4G**: NC-SFR needs to make up its delays in mobile, clocked up since 2014 in 4G coverage with a coverage rate of 65% of the population at end-2015, lower than Bouygues (75%) and Orange (80%). As shown in the chart below, NC-SFR had rolled out fewer 4G sites than the three other operators at end-2015, but its pace of roll-out increased massively in the last quarter. This intensification should continue in 2016 and 2017.

- **Fibre**: NC-SFR needs to continue the race for leadership in fibre and maintain this key competitive edge for as long as possible relative to Orange, which has stepped up its roll out in recent quarters, exceeding NC-SFR in terms of the pace of openings of new fibre plugs as shown in the table below. NC-SFR has also announced it would like to extend its very high speed footprint over 12M by 2017, and 18M by 2020.

Fig. 35: Comparison of 4G roll-out (sites in service and roll-out pace)



Source: Agence Nationale des Fréquences (ANFR)

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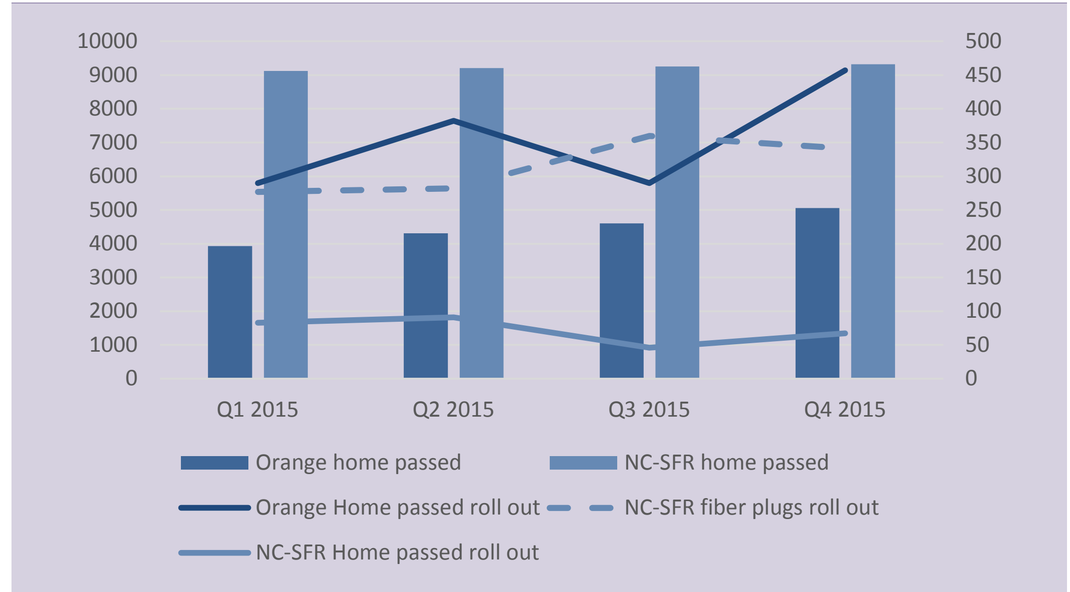
Fig. 36: Comparison of very high speed roll-out at Fixe NC-SFR and Orange



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

The following table sets out our estimates for change in capex over 2016-2018

Fig. 37: Evolution of pro forma NC-SFR CAPEX

	2014	2015	2016e	2017e	2018e
CAPEX (without licenses)	1894	1856	2240	2240	2000
% of rev.	16,6%	16,8%	20,7%	20,6%	18,1%

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

5. Appendices

Fig. 38: P&L NC-SFR 2015 – 2018

	FY 2013	FY 2014	FY 2015	FY 2016e	FY 2017e	FY 2018e
Revenues	**1 314**	**2 170**	**11 039**	**10 808**	**10 886**	**11 054**
COGS and operating expenses	(645)	(1 390)	(6 357)	(6 019)	(5 918)	(5 839)
Labour costs	(155)	(261)	(877)	(832)	(813)	(813)
other non recurrent operating income & expenses & provisions	46	50	(314)	(82)	(82)	(82)
restructuring costs and restatements	56	137	368	107	98	82
Adjusted EBITDA	**616**	**706**	**3 860**	**3 982**	**4 171**	**4 402**
Adj EBITDA %	**46,9%**	**32,5%**	**35,0%**	**36,8%**	**38,3%**	**39,8%**
Standard EBITDA			3 492	3 875	4 073	4 320
Depreciation and amortization	(304)	(461)	(2 554)	(2 262)	(2 263)	(2 165)
EBIT	**256**	**108**	**937**	**1 613**	**1 810**	**2 155**
financial result	(324)	(600)	(46)	(712)	(667)	(620)
Revenues	10	15	782	0	0	0
Gross Debt costs	(185)	(439)	(781)	(712)	(667)	(620)
Other financial costs	(149)	(176)	(47)	0	0	0
income tax	133	313	(215)	(258)	(327)	(439)
Mise en équivalence	0	4	4	6	6	6
consolidated net income after tax	**65**	**(175)**	**682**	**649**	**822**	**1 102**
non controlling interests	0	0	7	9	9	9
consolidated net income (group share)	**65**	**(175)**	**675**	**640**	**812**	**1 092**

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

Fig. 39: Cash Flow and net debt NC-SFR 2015-2018

	FY 2015	FY 2016e	FY 2017e	FY 2018e
Standard EBITDA	**3 563**	**3 875**	**4 073**	**4 320**
Cash taxes	- 240	- 258	- 327	- 439
Delta Working Capital from OPEX	- 322	- 428	- 72	- 206
Others	134	-	-	-
Cash flow from operations	**3 135**	**3 190**	**3 674**	**3 675**
CAPEX (incl licenses)	- 2 370	- 2 473	- 2 357	- 2 117
Delta Working Capital from CAPEX	446	-	-	-
Others	192	-	-	-
Cash flow from investing activities	- 1 732	- 2 473	- 2 357	- 2 117
Dividends	- 2 516	-	-	-
Interests paid	- 605	- 712	- 667	- 620
Capital increases, loans, debt repyaments and others	1 363	-	-	-
Cash flow from financing activities	**- 1 758**	**- 712**	**- 667**	**- 620**
Cash Flow	**- 355**	**5**	**650**	**938**
Net debt	**14401**	**14396**	**13746**	**12808**
% Adj EBITDA	3,73	3,62	3,30	2,91

Please see the section headed "Important information" on the back page of this report.

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

Fig. 40: Net adds and ARPU assumptions

	2013	2014	2015	2016e	2017e	2018e
Mobile BtoC postpaid Net adds		**- 252 727**	**- 399 544**	**- 243 205**	**- 9 585**	**- 9 585**
Mobile BtoC postpaid ARPU	**29,0**	**26,6**	**25,9**	**25,5**	**25,7**	**26,1**
YoY Growth		-8,2%	-2,8%	-1,3%	0,9%	1,4%
Landline BtoC net adds		**- 4 218**	**- 224 421**	**- 135 000**	**- 96 110**	**- 52 001**
of which DSL		- 71 790	- 491 483	- 627 045	- 810 740	- 1 066 623
of which Fibre		67 572	267 062	492 045	714 630	1 014 623
Landline BtoC ARPU	**34,3**	**34,1**	**35,1**	**36,3**	**37,4**	**38,0**
YoY Growth		-0,7%	3,0%	3,5%	3,0%	1,8%

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

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