

Telio Holding ASA

# Q2 2013 Presentation

Eirik Lunde, CEO

Felix  
Konferansesenter  
Oslo

21 August 2013



# Telio

# Telio Group

**436,400 customers in total**

(Customer figures last updated as per Q2/13)



**211,000 consumers**

- VoIP 188,200
- Mobile 17,700
- Broadband 5,100

**22,600 business lines**

- VoIP 13,800
- Mobile 8,800



**183,000 consumers**

- Broadband 145,700
- VoIP 22,400
- IPTV 9,900
- Mobile Broadband 5,000

**19,800 business lines**

- Business Internet
- IP VPN
- Layer 2 Ethernet
- Voice & UC

# Agenda Q2 2013

- Financials
  - Group
  - Telio
  - NextGenTel
- Market segments
  - Telio
  - NextGenTel
- Status on restructuring
- Summary
- Q&A



A close-up photograph of a business meeting. Several people, wearing dark patterned suits, are gathered around a table. Their hands are visible, pointing at and holding a silver pen over a document. The document features line graphs and tables of data. A blue speech bubble is overlaid on the left side of the image, containing the text 'Telio Group Financials'.

# Telio Group Financials

# Q2 2013: Highlights

- Telio**

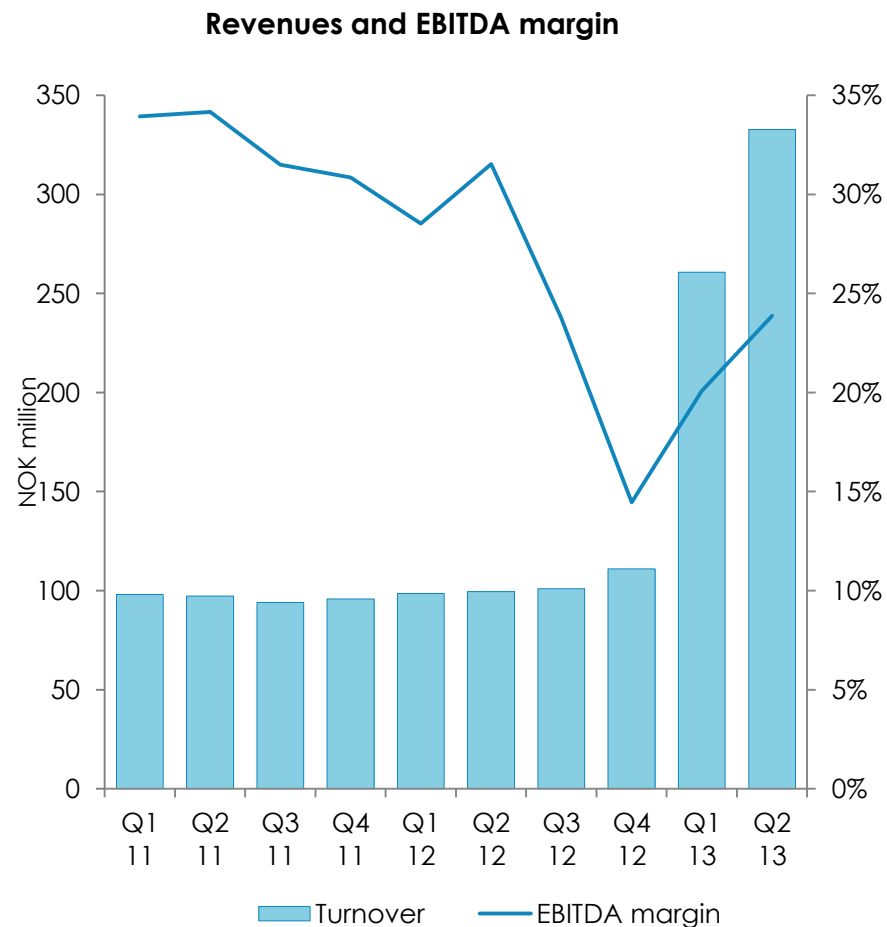
- Organic revenue growth of 14%
- All-time-high EBIT of NOK 29.9 million

- NextGenTel**

- First full quarter reporting
- Restructuring develops according to plan
- Opex reduced by NOK 11 million and capex by NOK 30 million during Feb-Jun (compared to same period 2012)

- Group**

- Revenues NOK 332.8 million
- EBITDA NOK 76.6 million <sup>2)</sup>
- EBIT NOK 43.0 million <sup>2)</sup>



<sup>2)</sup> Adjusted for non-recurring items and amortization of excess values related to the acquisition of NextGenTel AS

# Key figures for the period

- Measures taken to improve gross margin and reduce opex in Telio showing positive effects
  - All-time-high profitability in Q2
- Reductions in opex and capex in NextGenTel ahead of plan
- Strong cash flow
  - NOK 197.5 million in cash at quarter-end

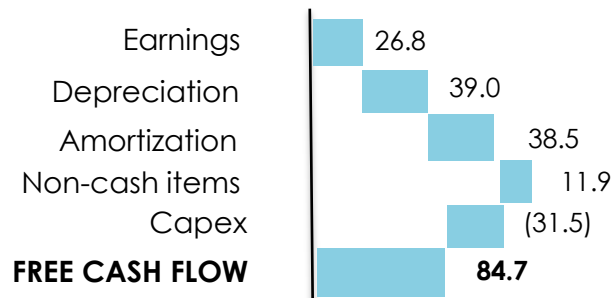
NOK million	Q2'13	Q2'12	H1'13	H1'12	FY'12
Total revenues	<b>332.8</b>	99.3	<b>593.5</b>	197.5	408.7
EBITDA	<b>76.6</b>	25.7	<b>128.9</b>	47.3	70.2
Profit before tax	<b>21.0</b>	20.2	<b>33.4</b>	34.8	48.3
Profit for the period	<b>17.8</b>	15.5	<b>26.8</b>	26.3	34.4
Gross margin	<b>53.7%</b>	64.7%	<b>53.8%</b>	64.3%	60.5%
EBITDA margin	<b>23.0%</b>	25.9%	<b>21.7%</b>	23.9%	18.4%
Net cash flow operations	<b>44.3</b>	21.7	<b>116.2</b>	44.5	81.8
Change in net WC	<b>(17.1)</b>	((2.2)	<b>12.1</b>	0.4	28.6
CAPEX	<b>15.7</b>	6.2	<b>31.5</b>	10.5	20.8
FCF	<b>28.6</b>	15.5	<b>84.7</b>	34.0	61.0
EPS (fully diluted)	<b>0.77</b>	0.80	<b>1.19</b>	1.36	1.78
FCFPS (fully diluted)	<b>1.23</b>	0.80	<b>3.75</b>	1.76	3.16
Equity ratio			12%	10%	2%
NIBD			308	NA	NA

Figures adjusted for non-recurring items and for amortization of excess values related to the acquisition of NextGenTel

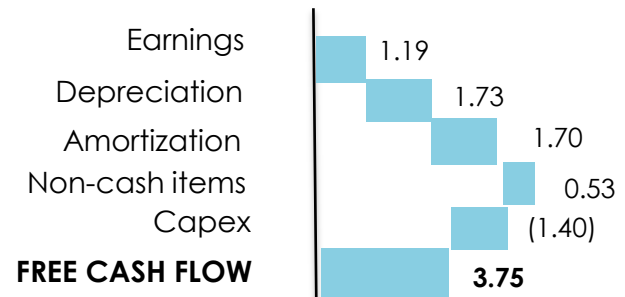


# Cash flow break-down H1 2013

NOK million



NOK per share



- NIBD at NOK 308 million as of 30 June
- Telio is in process to sell the NextGenTel office building in Bergen



# Telio Financials

# Telio

## Financials – P&L

NOK million	Q2 2013	Q2 2012	H1 2013	H1 2012
Total revenue	<b>113.7</b>	99.3	<b>226.9</b>	197.5
Gross profit	<b>65.0</b>	64.2	<b>128.1</b>	127.1
Gross margin	<b>57%</b>	65%	<b>56%</b>	64%
Total opex *)	<b>(30.5)</b>	(38.5)	<b>(70.5)</b>	(79.8)
EBITDA *)	<b>34.5</b>	25.7	<b>57.6</b>	47.3
D&A	<b>(4.6)</b>	(5.1)	<b>(9.4)</b>	(10.4)
EBIT *)	<b>29.9</b>	20.6	<b>48.2</b>	36.9
CAPEX	<b>5.6</b>	6.2	<b>10.0</b>	10.5

2012 figures are adjusted to reflect changes in accounting principles

- Revenue growth of 14% in Q2
- All-time-high EBIT
- Decline in gross margin due to introduction of new services at lower margin, however, gross margin improved from 53% in Q4 2012
- Announced opex savings after Q4 shows further positive effect in Q2
- 4,432 net new customers in Q2

\*) Adjusted for non-recurring items

# NextGenTel Financials

# NextGenTel

## Financials – P&L

NOK million	Q2 2013	Q2 2012
Total revenue	<b>223</b>	232
Gross profit	<b>114</b>	118
Gross margin	<b>51%</b>	51%
Salaries/personnel	<sup>1</sup> <b>(40)</b>	<sup>2</sup> (36)
Other opex	<b>(32)</b>	(40)
EBITDA	<b>42</b>	42
D&A	<b>(29)</b>	(31)
EBIT	<b>13</b>	11
CAPEX	<b>11</b>	31

- Revenues; Homerun services moved to TeliaSonera, pulled out from Multinett (borettslag), loss of two major accounts
- Stable gross margin
- Lower opex level due to actions taken to improve profitability, but higher personnel costs during Q2 13 due to lower capitalized personnel cost (see below)
- High D&A from historically high capex level, but somewhat lower than Q2 12

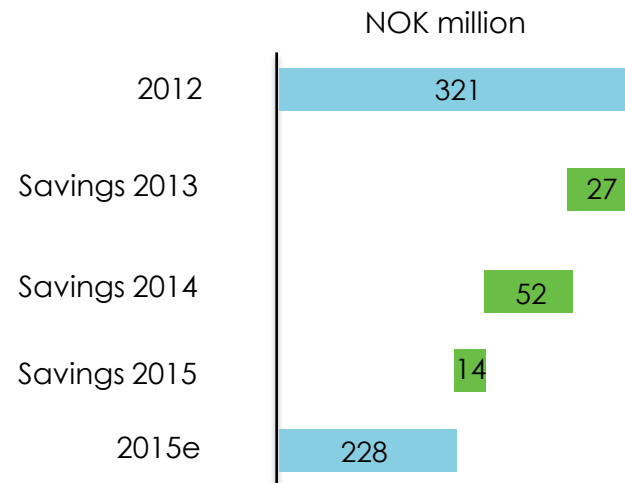
<sup>1</sup> NOK 1.6 million capitalized; actual expense NOK 41.6 million

<sup>2</sup> NOK 5.7 million capitalized and NOK 4.9 million in reversed restructuring reserve; actual expense NOK 46.6 million

➡ Actual saving on personnel was NOK 5 million compared to Q2 2012

# Achieved and planned opex savings

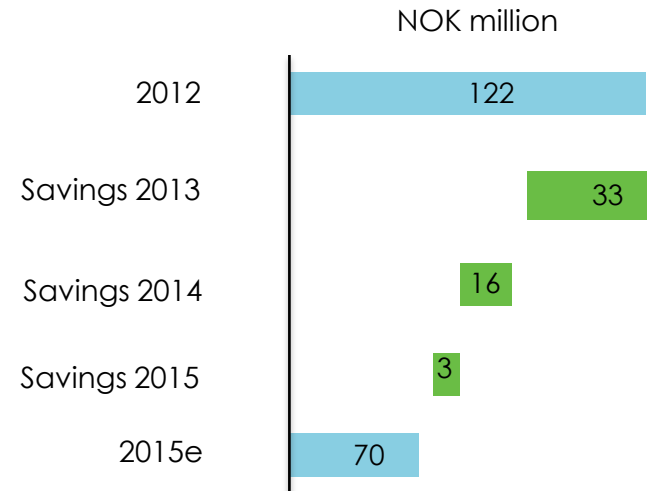
- Opex savings – target NOK 93 million
  - Opex savings achieved Feb-June 2013 is **NOK 11 million**
    - Payroll and hired labor expenses
    - External consultants
    - Sales & marketing (more use of own distribution channels and targeted sales, terminated TV and radio commercials)
    - TeliaSonera internal cost
  - Expected additional savings in H2 2013 is **NOK 19 million**
    - “More of the same” (as above)



➡ Expect to reduce opex by **NOK 30 million** during 11 months in 2013

# Achieved and planned capex savings

- Capex savings – target NOK 52 million
  - Capex savings achieved Feb-June 2013 is **NOK 30 million**
    - CPE (improved re-use of equipment)
    - Reduction in internal and external development resources
    - Improved utilization of network equipment (access)
  - Expected additional savings in H2 2013 is **NOK 12 million**
    - “More of the same” (as above)
    - Capex will be higher in H2 (capex do not have a linear pattern)
    - Need to replace existing Business Support Systems



➡ Expect to reduce capex by **NOK 42 million** during 11 months in 2013

# Key financial targets NextGenTel

Key figures	<sup>1</sup> Target 2013	Actual Feb-Jun 2013	Residual H2 2013	Target 2014	Target 2015
Revenues	838	<b>374</b>	464	904	895
EBITDA	150	<b>71</b>	79	211	219
Capex	82	<b>22</b>	<sup>2</sup> 60	73	70
Capex/sales	10%	<b>6%</b>		8%	8%

<sup>1</sup> 11 months of 2013 target (actuals will include 11 months)

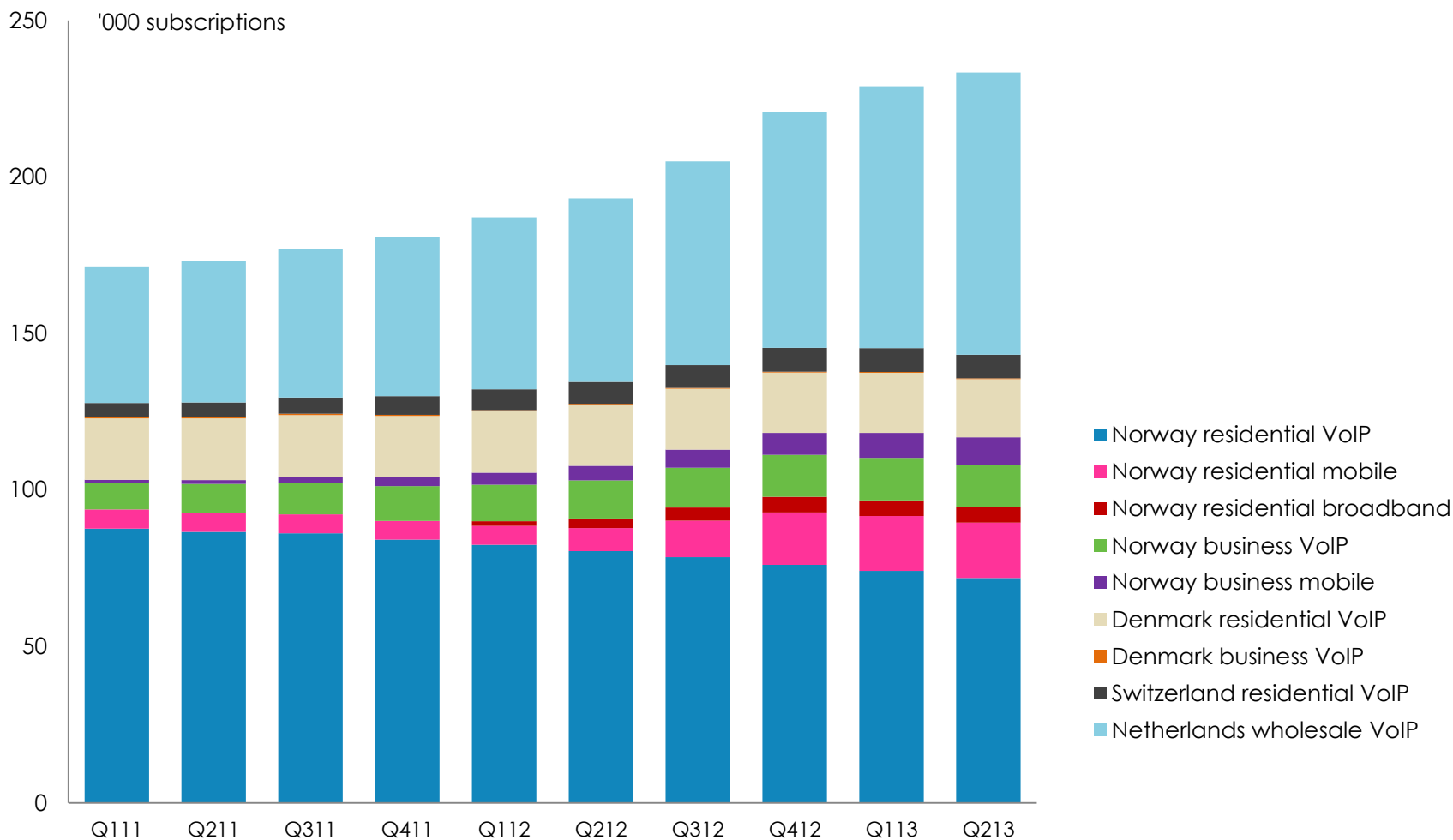
<sup>2</sup> Capex has a non-linear development



A close-up photograph of a business meeting. Several people's hands are visible, pointing at and discussing documents on a desk. The documents feature line graphs and tables of data. One person is holding a silver pen. A blue speech bubble is overlaid on the left side of the image, containing the text 'Telio Market Segments'.

# Telio Market Segments

# Customer base development



A photograph showing two hands holding smartphones. The hand in the foreground is holding a black smartphone, while the hand in the background is holding a silver one. The background is a soft, out-of-focus green, suggesting an outdoor setting. A blue speech bubble is overlaid on the left side of the image.

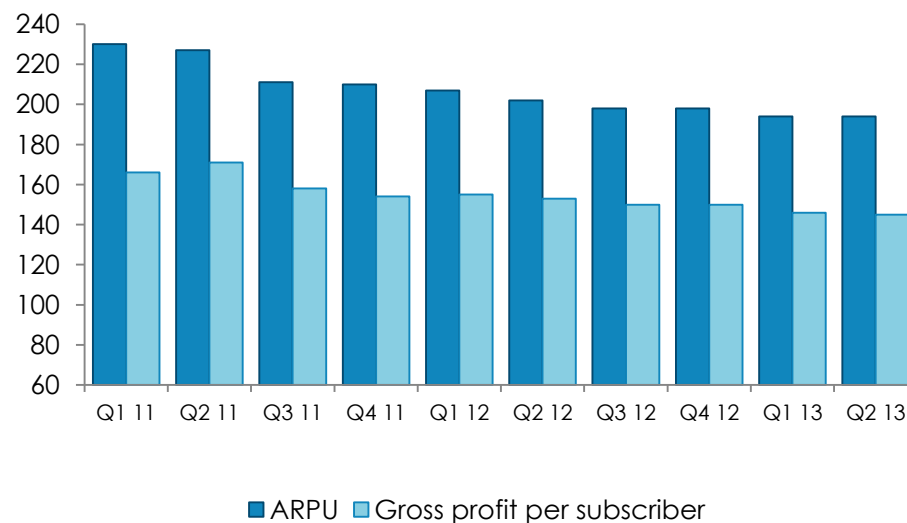
Telio  
Norway

# Norway

- **14% revenue growth**
- **Status customer base**
  - 85,400 VoIP customers (lines)
  - 26,500 mobile customers
  - 10,000 Teliophone customers
  - 5,100 ADSL customers
- **Total 127,000 RGUs** (revenue generating units)
- **Gross margin** stable for both VoIP and mobile during the quarter

NOK millions	Q2'13	Q2'12	H1'13	H1'12	FY'12
Total revenue	<b>86.7</b>	76.0	<b>174.4</b>	150.9	314.8
Gross profit	<b>50.7</b>	52.1	<b>101.1</b>	103.1	199.0
Gross margin	<b>58%</b>	69%	<b>58%</b>	68%	63%

**VoIP ARPU versus gross profit per subscriber**



# International markets

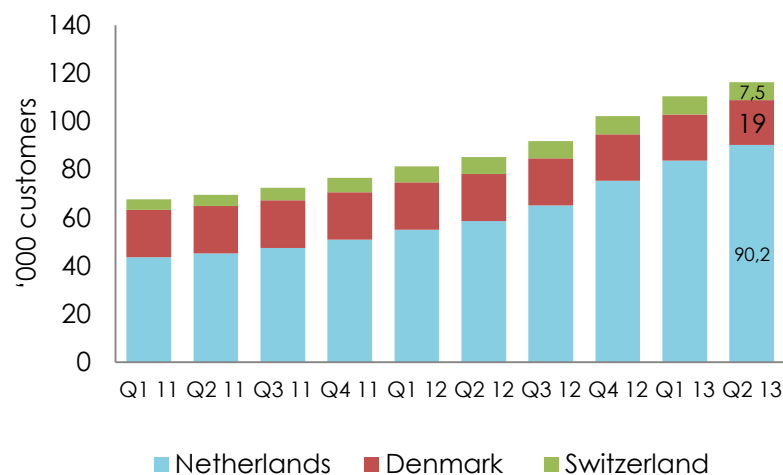
# International markets

- Telio brand (DK and CH)
  - Temporary decline in gross margin in Q1 due to cost increase to major destinations improved in Q2
  - Primary focus to maintain customer base and profitability

NOK million	Q2'13	Q2'12	H1'13	H1'12	FY'12
Total revenue	<b>27.0</b>	23.2	<b>52.5</b>	46.6	93.9
Gross profit	<b>14.3</b>	11.7	<b>27.0</b>	24.0	48.1
Gross margin	<b>53%</b>	51%	<b>51%</b>	52%	51%

- White label
  - Increase in NL wholesale customer base Q2 y/y of 31,594 customers (+54%) to 90,180 customers
  - Customer intake expected to slow down from Q3 due to changes within the largest distributor

Customer development int'l markets



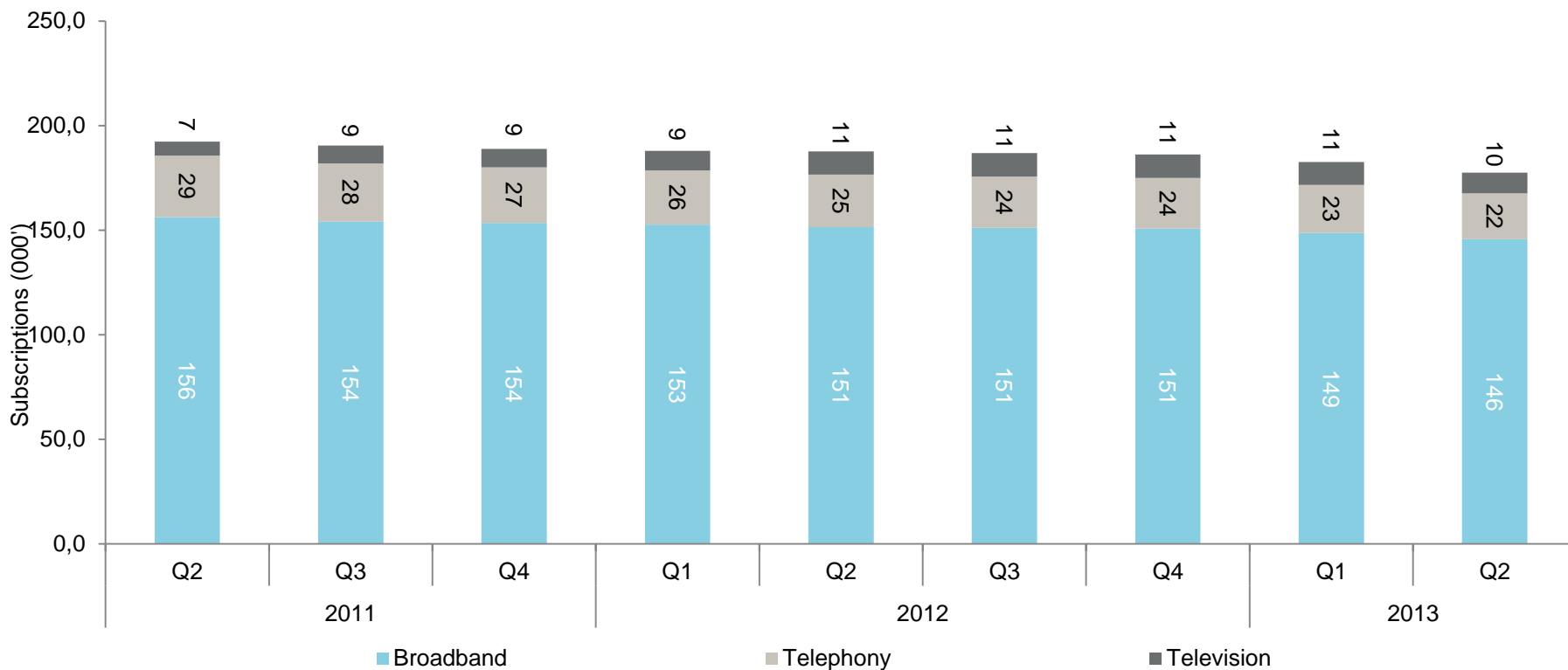




NextGenTel  
Consumer



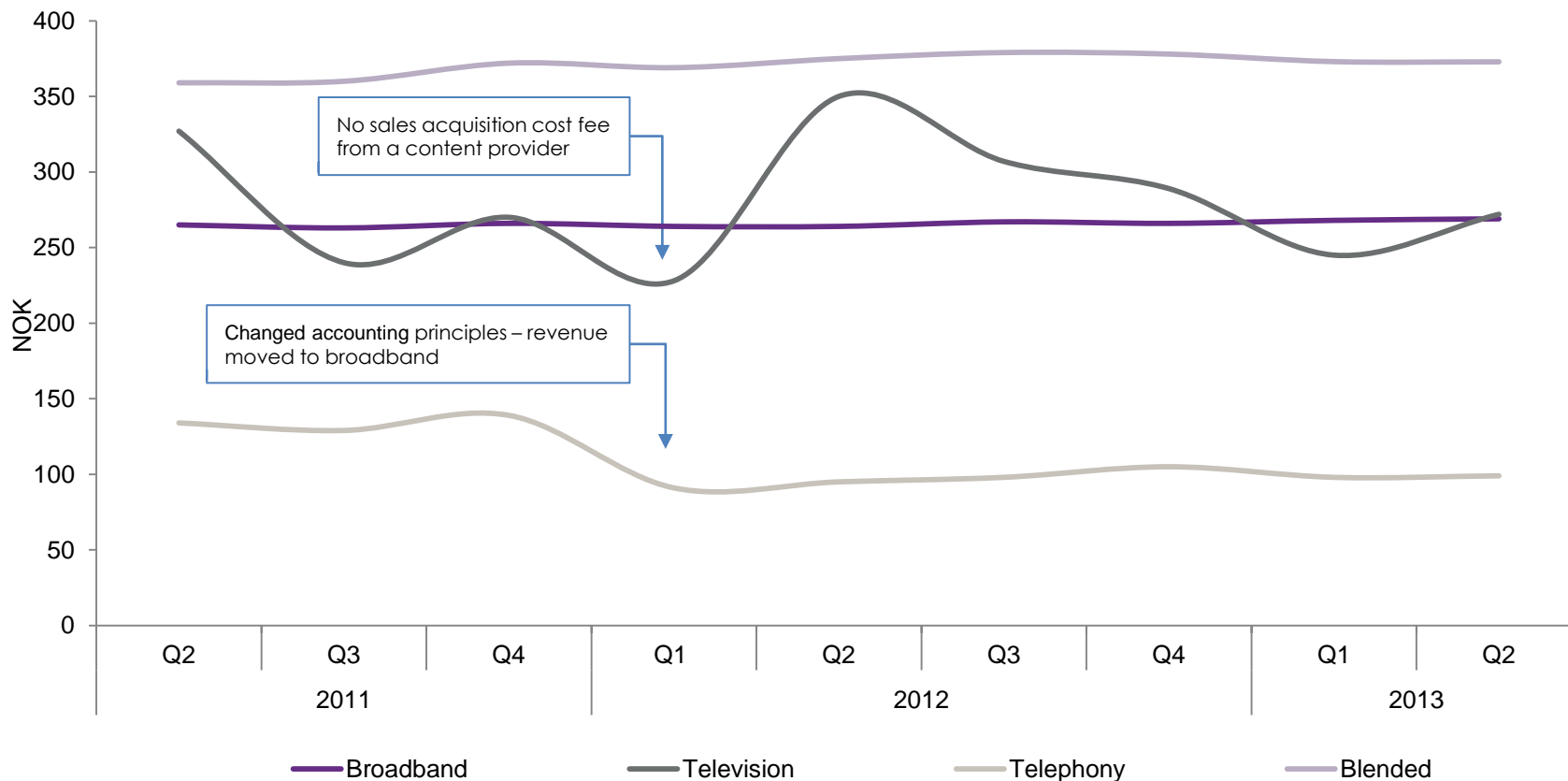
# Customer base



**1** Focus on up-selling of IPTV services

**2** Stabilizing broadband and IP-telephony customer base through lowered churn

# Consumer ARPU



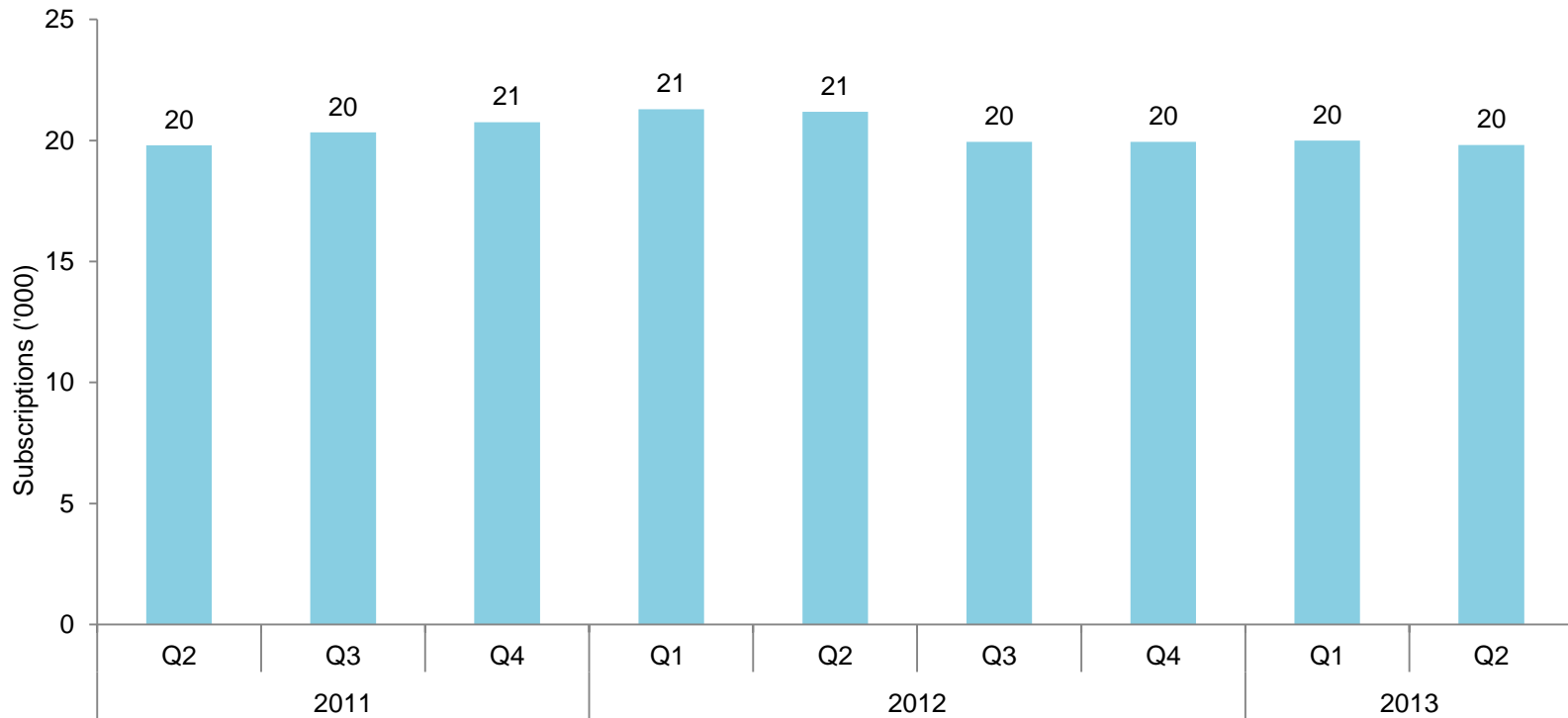
1 Consumer ARPU ranging between NOK 359 and NOK 379



# NextGenTel Corporate

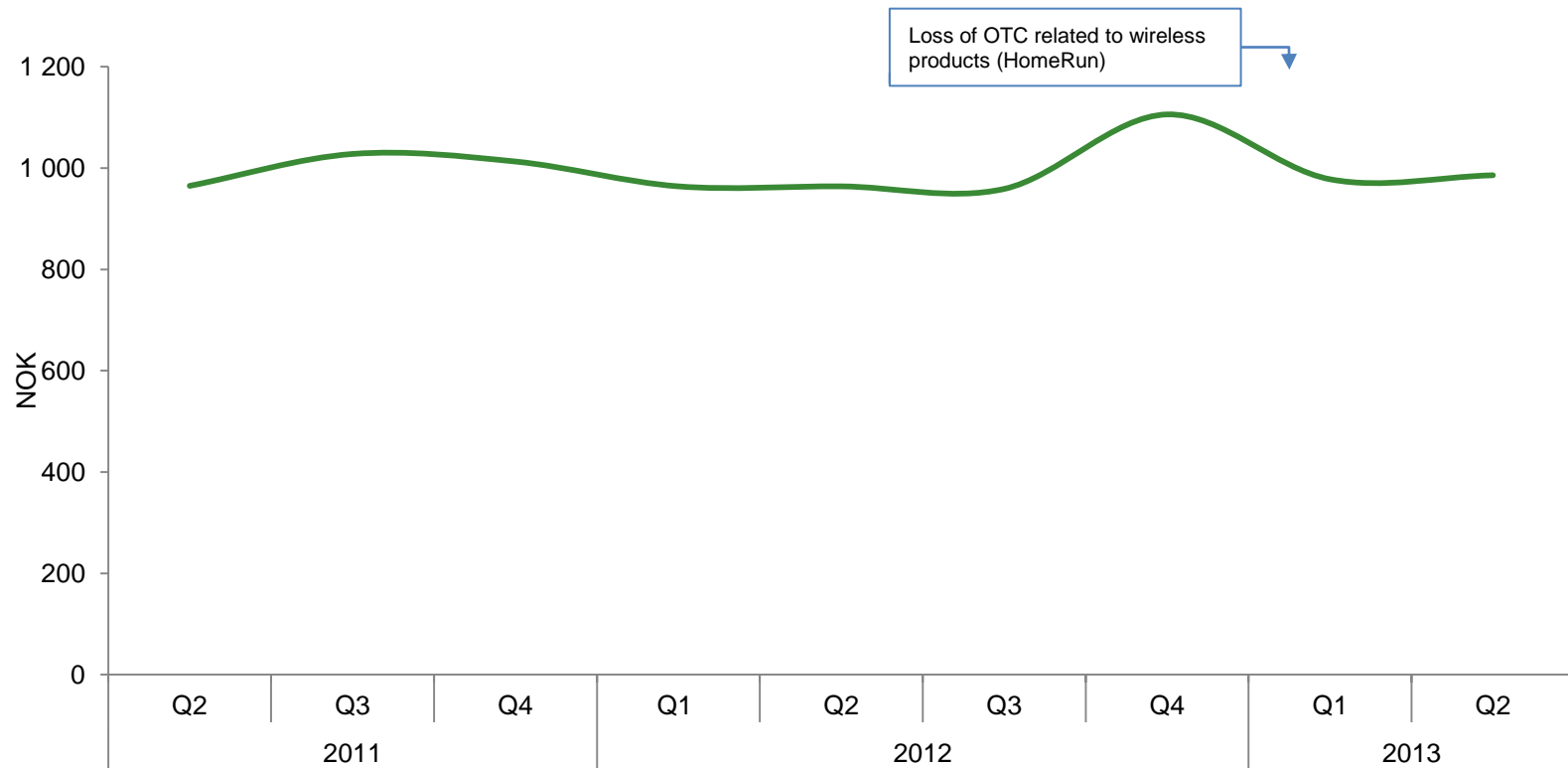
# Stable Corporate subscription base since Q2 2011

## Corporate subscriptions invoiced



- 1 Strong focus on developing the corporate offering
- 2 New products launched in 2011. Additional products, e.g. Ethernet Nordic, launched in 2012

# Corporate ARPU



- 1 Corporate ARPU ranging between NOK 959 and NOK 1,106

# Status on restructuring

- Management has continued to rightsize NextGenTel during Q2. NextGenTel has 60 less FTEs compared to the transaction date. Management will continue to rightsize also in Q3/Q4
- Management works on a cost reduction program. Several saving initiatives have been implemented with visible financial impact already in H1.
- The management team has worked with the strategy. The main focus has been to move away from “everything for everyone” to more standardized products and services for our customers in both the B2C and B2B market.
- Management has established clear targets (KPI's) throughout the organization (where suitable).
- NextGenTel has implemented tight control of capital expenditures. CAPEX spending is at a reasonable level for the company.
- To increase efficiency and quality in internal and external processes, NextGenTel will implement new business support systems (BSS). The project starts 1 September and is expected to be fully implemented in Q3 2014.

# Key financial targets Telio Group

Key figures	Pro forma 2012	<sup>1</sup> Target 2013	Actual H1 2013	Residual H2 2013	Target 2014	Target 2015
Revenues	1,316	1,265	<b>594</b>	671	1,348	1,356
EBITDA	211	262	<sup>2</sup> <b>129</b>	133	323	339
Capex	171	120	<sup>3</sup> <b>32</b>	88	108	108
Capex/sales	13%	9%	<b>5.3%</b>		8%	8%

- Telio is on track to reach its EBITDA target and well ahead of its capex target for 2013

- <sup>1</sup> 11 months of 2013 target for NextGenTel (actuals will include 11 months)
- <sup>2</sup> EBITDA adjusted for non-recurring items
- <sup>3</sup> Capex has a non-linear development



# Loan covenant reporting per 30 June 2013

Covenant	Actual	Requirement
Equity ratio	12.3%	10.0%
Interest cover (EBITDA/interest expense)	7.3	>5.0
Leverage (NIBD/EBITDA)	1.4	<2.4
Capex (MNOK)	32	153 (annual)



Summary

# Q2 2013: Summary

- Telio**

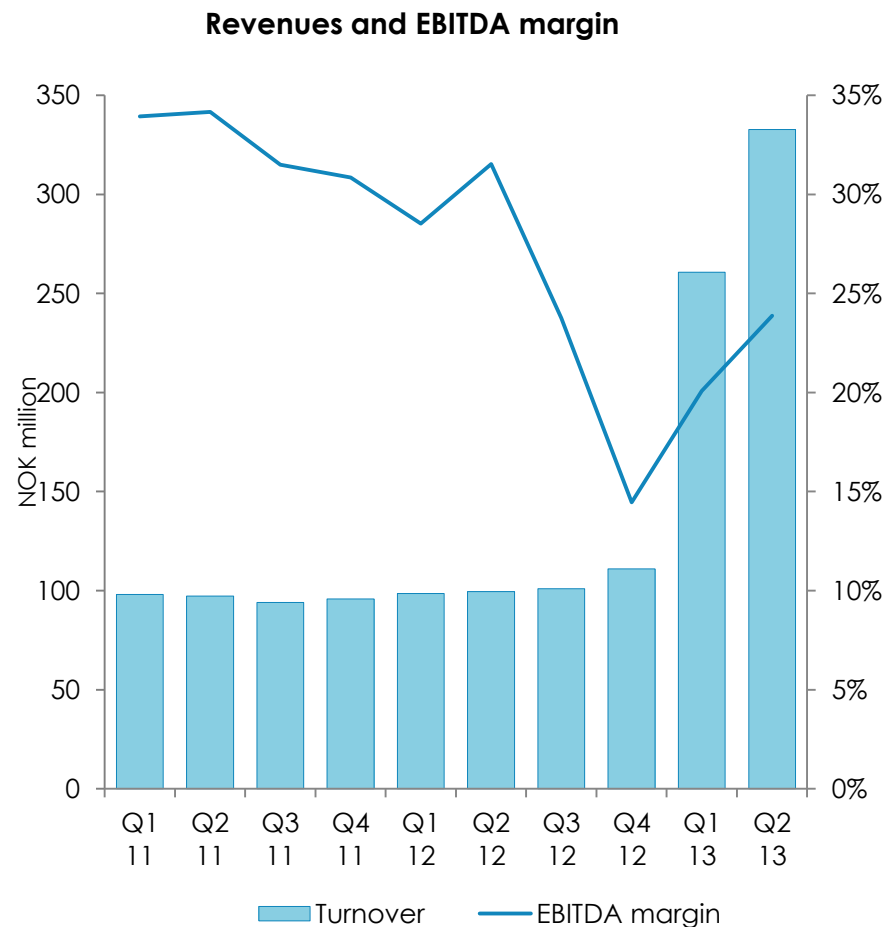
- Organic revenue growth of 14%
- All-time-high EBIT of NOK 29.9 million

- NextGenTel**

- First full quarter reporting
- Restructuring develops according to plan
- Opex reduced by NOK 11 million and capex by NOK 30 million during Feb-Jun (compared to same period 2012)

- Group**

- Revenues NOK 332.8 million
- EBITDA NOK 76.6 million <sup>2)</sup>
- EBIT NOK 43.0 million <sup>2)</sup>



<sup>2)</sup> Adjusted for non-recurring items and amortization of excess values related to the acquisition of NextGenTel AS



Thank  
you!

# Disclaimer

- By reading this document (the "Presentation"), or attending any oral presentation held in relation thereto, the recipient agrees to be bound by the following terms, conditions and limitations.
- The Presentation has been prepared by Telio Holding ASA (the "Company") exclusively for information purposes. The Presentation does not constitute, and should not be construed as, an offer to sell or a solicitation of an offer to buy any securities of the Company in any jurisdiction.
- The release, publication or distribution of this Presentation or the information contained herein may be restricted by law in certain jurisdictions, and persons into whose possession this Presentation comes are required to inform themselves about and comply with any such restrictions.
- The information contained in the Presentation has not been independently verified. While this information has been prepared in good faith, no representation or warranty (express or implied) is made as to the accuracy or completeness of any information contained herein. None of the Company or its subsidiary undertakings, affiliates or advisors, or any such person's directors, officers or employees shall have any liability for any loss howsoever arising from any use of this Presentation or its contents or otherwise arising in connection with the Presentation. The recipient acknowledges that it will be solely responsible for its own assessment of the market and the market position of the Company and that it will conduct its own analysis and be solely responsible for forming its own view of the potential future performance of the Company's business. The content of this Presentation are not to be construed as legal, business, investment or tax advice. Each recipient should consult with its own professional advisors for any such matters and advice.
- This Presentation contains certain forward-looking statements relating to the business, financial performance and results of the Company and/or the industry in which it operates. Forward-looking statements concern future circumstances and results and other statements that are not historical facts, sometimes identified by the words "believes", "expects", "predicts", "intends", "projects", "plans", "estimates", "aims", "foresees", "anticipates", "targets", and similar expressions. The forward-looking statements contained in this Presentation, including assumptions, opinions and views of the Company or cited from third party sources, are solely opinions and forecasts which are subject to risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements that are expressed or implied by statements and information in the Presentation, including, among others, risks or uncertainties associated with the Company's business, segments, development, growth management, financing, market acceptance and relations with customers, and, more generally, general economic and business conditions, changes in domestic and foreign laws and regulations, taxes, changes in competition and pricing environments, and fluctuations in currency exchange rates and interest rates. None of the Company or any of its subsidiary undertakings, affiliates or, advisors, or any such person's directors, officers or employees provides any assurance that the assumptions underlying such forward-looking statements are free from errors nor do any of them accept any responsibility for the future accuracy of the opinions expressed in this Presentation or the actual occurrence of the forecasted developments. The Company assumes no obligation, except as required by law, to update any forward-looking statements or to conform these forward-looking statements to our actual results.
- The securities of the Company have not been, and will not be, registered under the United States Securities Act of 1933 (the "U.S. Securities Act"), and may not be offered or sold in the United States except pursuant to an exemption from the registration requirements of the U.S. Securities Act.
- This Presentation is dated 5 March 2013. Neither the delivery of this Presentation nor any further discussions of the Company with any of the recipients shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since such date.
- This Presentation is subject to Norwegian law, and any dispute arising in respect of this Presentation is subject to the exclusive jurisdiction of Norwegian courts.