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# LiLAC (LILA/LILAB/LILAK)

September 2016

@find_me_value

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# Snapshot of LiLAC

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**LiLAC (09/02/2016)**

| | Consolidated LiLAC | | Minority Stakes | | Proportionate LiLAC | |
|---|---|---|---|---|---|---|
| Equity Value Per Share | | | | | $ | 28.70 |
| Shares Outstanding | | | | | | 173 |
| Equity Value | | | | | $ | 4,965.1 |
| Gross Debt | $ | 5,849.0 | | | $ | 5,348.0 |
| VTR (Chile) | $ | 1,400.0 | | | $ | 1,400.0 |
| Liberty Puerto Rico | $ | 942.5 | $ | 377.0 | $ | 565.5 |
| Cable & Wireless | $ | 3,506.5 | $ | 124.0 | $ | 3,382.5 |
| Cash | | | | | | |
| VTR (Chile) | $ | 117.6 | | | $ | 117.6 |
| Liberty Puerto Rico | $ | 70.4 | $ | 28.2 | $ | 42.2 |
| Cable & Wireless | $ | 248.2 | $ | *100.0* | $ | 148.8 |
| LiLAC Group | $ | 64.4 | | | $ | 64.4 |
| *Net* Debt | $ | 5,477.2 | | | $ | 5,103.7 |
| VTR (Chile) | $ | 1,282.4 | $ | - | $ | 1,282.4 |
| Liberty Puerto Rico | $ | 872.1 | $ | 348.8 | $ | 523.3 |
| Cable & Wireless | $ | 3,258.3 | $ | 24.0 | $ | 3,233.7 |
| Enterprise Value | | | | | $ | 10,068.8 |
| 2016 EBITDA estimate | | | | | $ | 1,100.0 |
| Proportionate EV/EBITDA 2016 | | | | | | 9.15 x |

Proportionate Net Debt/ Consolidated = **93.2%**

Estimated Proportionate EBITDA/ Consolidated EBITDA = **78%**

*Debt: Used fixed income filings for each; total carrying amount of 3rd party debt and finance lease obligations*


Selling pressure post June 2016 distribution to LBTYA shareholders of 67% of shares owned by Liberty Global S/H

# What Matters the ***Most***:

- Speed advantages over competitors is true competitive advantage
- Closest competitors have much bigger markets to worry about than LiLAC Latin American markets
  - Telefonica (LatAm markets are bundled under “Hispanoamerica” region, ~9 countries, represents only 24% of revenues)
  - America Movil
  - DISH Networks
  - DirecTV/ AT&T
- Fixed broadband speeds become more important as smartphone and home broadband penetration increases
- Cable & Wireless is heavily underpenetrated on double/ triple/ quad play bundling, has long runway opportunity to increase bundling, fixed-mobile convergence
- C&W is only player in their markets to have fixed and mobile network overlap, which is huge advantage for bundling and reducing costs
- Newbuild activity reaps solid returns on investment (VTR Chile)
- Integration of Cable & Wireless (who is still integrated Columbus International) goes smoothly, able to get full synergy benefits on both operating and capital spending
- Larger LiLAC is able to provider better bundles, cross-sell, have lower cost base per subscriber
- Levered equity returns begin in 2017/2018 as Project Marlin is complete, LiLAC begins to generate free cash flow
- LiLAC better able to access debt markets with CWC (and Columbus) businesses versus “old” LiLAC
- Unannounced synergies at the Q3/2016 earnings call will be a catalyst
- Increased transparency will also be a catalyst, as LiLAC still bundled under much larger “Liberty Global”

# Synergies: *Just Announce Them Already!*

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- There has yet to be any announced synergies between CWC and LiLAC due to UK Takeover Code laws
- Expectation of synergy announcements on Q3/2016 should be a catalyst

**Synergies announced 11/2014 for CWC acquisition of Columbus**

A copy of the Quantified Financial Benefits Statement is set out below:

*"The Board estimates that, as a result of the Acquisition, the Enlarged Group will be able to achieve recurring annualised pre-tax cost synergies of approximately USD85m which are expected to be delivered in full in the financial year 2017/18 and one-time capital expenditure synergies of approximately USD145m in the first three financial years following completion of the Acquisition, with additional revenue benefits also available.*

*Recurring cost synergies*

*Substantial cost synergies have been identified across the following areas:*

- *Duplication of corporate costs and functional overheads (approximately USD50m): rationalisation of overlapping headcount in back office, sales and marketing and customer service roles, renegotiation of vendor rates, reduction of real estate costs and harmonisation of IT systems; and*
- *Integration of networks and TV content (approximately USD35m): transition to Columbus' fixed line fibre network where network overlaps, renegotiation of maintenance fees, consolidation of network and service operating centres and leverage of Columbus' superior TV content buying terms and access to greater economies of scale.*

*The Board expects that the Enlarged Group will benefit from approximately 45 per cent. of these synergies by end of year 1, 85 per cent. by end of year 2 and 100 per cent. by end of year 3.*

*It is expected that the realisation of these synergies will incur one-off cash costs of USD110m over the first three financial years after the Acquisition. Other than these one-off costs which are expected to be split approximately 45 per cent., 40 per cent. and 15 per cent. over the three years, the Board do not anticipate any material dis-synergies to arise as a consequence of the proposed transaction.*

*One-off capex synergies*

*In addition the Board estimates the Enlarged Group will benefit from one-time synergies of approximately USD145m related to avoidance of duplicative one-off capital expenditure through network consolidation in the overlapping markets where CWC has established investment plans (Project Marlin) and Columbus already has existing network infrastructure. Such synergies are expected to be split 35 per cent., 40 per cent. and 25 per cent. over the first three financial years following completion of the Acquisition.*

*The quantified synergies are contingent on completion of the Acquisition and the Board believes the financial benefits will accrue as a direct result of the Acquisition and could not be achieved independently.*

**Synergies announced 11/2015 for LiLAC acquisition of CWC**

### Synergy Opportunity

In addition to the extensive integration that is ongoing between CWC and Columbus, which is expected to generate $125 million of run-rate cost savings and $145 million of one-time capital expenditure synergies by March 31, 2018, CWC has also disclosed that they expect material revenue synergies through cross-selling, improvements in the video offering and network quality, and enhancements in the B2B offering.

Furthermore, Liberty Global expects to generate synergies as a result of the integration of CWC and the LiLAC Group businesses. Areas of opportunity include savings related to elimination of public company expenses, further corporate and administrative rationalization of existing LiLAC Group operations with those of CWC, leveraging the combined scale in areas such as content, procurement, and product development, and capitalizing on CWC's terrestrial and submarine network assets and B2B expertise and product portfolio to benefit LiLAC Group's operations.

In order to provide an estimate of synergies over and above the $125 million mentioned above, a quantified financial benefits statement is required under the U.K. Takeover Code. Such statement regarding the additional potential synergies has not been prepared and therefore an incremental synergy figure cannot be provided at this time.

If the transaction closes, utilization of CWC's US and U.K. deferred tax assets would be restricted and we believe that material realization of the benefits of those assets would be unlikely.

# Data Traffic Increasing in Latin America

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- As of 2015, Latin America has a low installed base of smart devices and connections in relation to the rest of the world, at 34%. This is expected to grow to 70% by 2020 (Cisco; see chart on right)
- The growth in smartphone devices will have a profound impact on data traffic
- Worldwide IPv6 mobile data traffic is estimated to compound at 102% from 2015 – 2020 (to 16.6 Exabyte's per month)
- As data traffic increases, there will also be a desire to utilize data anywhere/anytime, and by 2020 about 55% of cellular data traffic is estimated to be offloaded to fixed broadband
- Furthermore, the growth in smartphones and tablets in Latin America will push both mobile and fixed broadband providers to “keep up” with the speed demands *(see demand by device type on right)*

| Region | 2015 | 2020 |
|---|---|---|
| North America | 74% | 95% |
| Western Europe | 59% | 86% |
| Central and Eastern Europe | 43% | 84% |
| Asia Pacific | 35% | 72% |
| Latin America | 34% | 70% |
| Middle East and Africa | 12% | 52% |

Source: Cisco VNI Mobile, 2016

| Device Type | 2015 | 2020 |
|---|---|---|
| Nonsmartphone | 23 MB/month | 116 MB/month |
| M2M module | 164 MB/month | 670 MB/month |
| Wearable device | 153 MB/month | 558 MB/month |
| Smartphone | 929 MB/month | 4,406 MB/month |
| Tablet | 2,576 MB/month | 7.079 MB/month |
| PC | 2,679 MB/month | 5,232 MB/month |

Source: Cisco VNI Mobile, 2016

# Data Traffic Increasing at 50% CAGR through 2020

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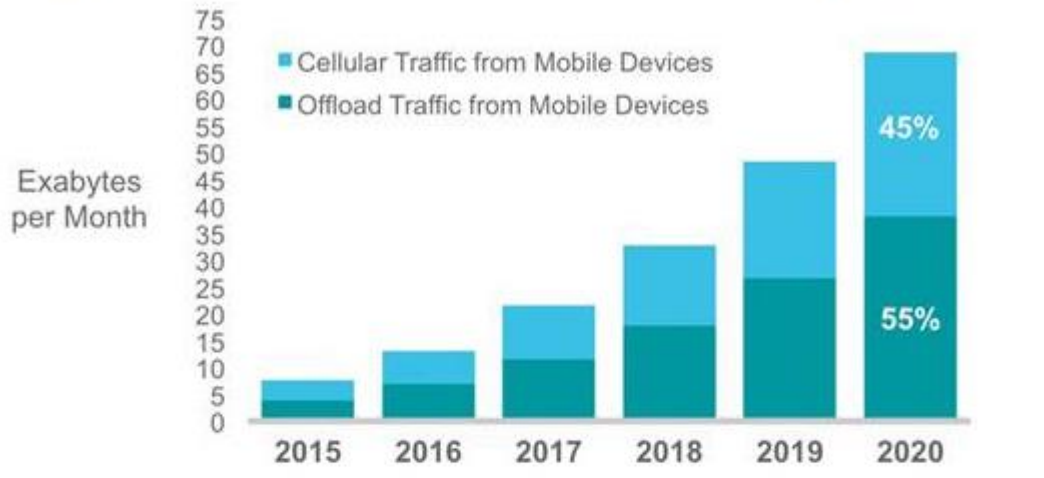
- Due to the substantial amount of data increases as well as the high percentage of offloading from cellular and tablet devices, there will be an increasing demand of superior fixed broadband speeds and reliability
- As of current, the markets in Latin America do not have the same “fiber optic” competition (such as Google Fiber) and predominantly compete with copper DSL providers with already-inferior broadband speeds
- There are some things DSL providers can do to increase broadband speeds (vectoring, FTTC, G.fast) but it does not compete with cable and DOCSIS 3.1 or FTTH

- **Latin America is forecast to see Mobile data traffic growth of 50% CAGR from 2015 to 2020** *(Cisco)*

**Figure 19.** By 2020, 55 Percent of Total Mobile Data Traffic Will Be Offloaded



# Latin America Has “Catching Up to Do”

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- The projected average mobile network speed is the second lowest in Latin America, only better than the Middle East and Africa, despite having far more advanced economies and infrastructure than a majority of those countries
- Estimated 27% average mobile network connection speed in Latin America from 2015 to 2020 (Cisco)
- In 2020, average mobile speed estimated to be 4.9 Mbps, about 1/3 of Western Europe and North America
- The growth of 4G in Latin America will help push data traffic growth
- In 2012, Latin America averaged 54,907 Terrabytes/month in mobile data  traffic
- In 2020, Latin America is expected to have 2,091,703 Terrabutes/month in mobile data traffic

| | 2015 | 2015 | 2016 | 2017 | 2018 | 2020 | CAGR 2015–2020 |
|---|---|---|---|---|---|---|---|
| **Global** | | | | | | | |
| Global speed: All handsets | 2.0 | 2.4 | 3.1 | 3.9 | 5.1 | 6.5 | 26% |
| Global speed: Smartphones | 7.5 | 8.3 | 9.2 | 9.9 | 11.1 | 12.5 | 11% |
| Global speed: Tablets | 11.6 | 12.8 | 13.9 | 15.0 | 15.6 | 16.2 | 7% |
| **By Region** | | | | | | | |
| Asia Pacific | 2.4 | 3.6 | 4.6 | 5.7 | 7.0 | 8.6 | 29% |
| Latin America | 1.5 | 1.9 | 2.5 | 3.1 | 3.9 | 4.9 | 27% |
| North America | 5.9 | 7.9 | 9.9 | 12.1 | 13.7 | 15.3 | 21% |
| Western Europe | 4.1 | 6.1 | 8.3 | 10.5 | 12.2 | 14.1 | 28% |
| Central and Eastern Europe | 2.3 | 3.4 | 5.6 | 7.8 | 9.1 | 10.6 | 36% |
| Middle East and Africa | 0.8 | 1.3 | 1.9 | 2.6 | 3.6 | 4.8 | 45% |

# Smartphone Penetration

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- Smartphone penetration *will*:
  - Drive data traffic higher
  - Increase the appetite for internet, social media, online videos, etc.
  - Increase the desire and appreciation of faster internet speeds and reliability of the network
  - Increase the strain of spectrum capacity, also helping fixed broadband providers see increased demands due to offloading of mobile broadband data usage
- 84% of broadband users in Latin America come from 6 countries (see chart right), including LiLAC market, Chile
- VTR in Chile operates through a full MVNO model, has <1% market share, but as they are #1 in Chile in fixed broadband, should see increase in demand from smartphone penetration

**Smartphone Users and Penetration in Latin America, by Country, 2014-2019**
*millions and % of mobile phone users*

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|
| **Smartphone users (millions)** | | | | | | |
| Brazil | 39.7 | 49.1 | 57.8 | 65.8 | 72.5 | 77.6 |
| Mexico | 31.3 | 38.5 | 45.2 | 51.7 | 57.9 | 62.4 |
| Colombia | 14.4 | 16.7 | 19.0 | 20.9 | 22.6 | 24.3 |
| Argentina | 11.0 | 13.3 | 15.5 | 16.9 | 18.3 | 19.8 |
| Chile | 6.3 | 7.1 | 7.9 | 8.7 | 9.3 | 9.8 |
| Peru | 5.1 | 6.2 | 7.3 | 8.3 | 9.3 | 10.1 |
| Other | 19.8 | 25.0 | 29.7 | 34.0 | 38.1 | 41.5 |
| **Latin America** | **127.6** | **155.9** | **182.4** | **206.3** | **228.0** | **245.6** |
| **Smartphone user penetration (% of mobile phone users)** | | | | | | |
| Chile | 49.7% | 55.5% | 60.9% | 65.7% | 69.7% | 72.8% |
| Colombia | 45.3% | 51.4% | 57.4% | 62.1% | 66.0% | 69.7% |
| Mexico | 40.1% | 47.4% | 54.1% | 60.4% | 66.2% | 70.0% |
| Argentina | 36.7% | 43.5% | 49.3% | 53.0% | 56.7% | 60.2% |
| Brazil | 31.3% | 37.6% | 43.3% | 48.2% | 52.0% | 54.8% |
| Peru | 28.7% | 33.5% | 38.2% | 42.5% | 46.5% | 49.7% |
| Other | 22.4% | 27.6% | 32.0% | 35.9% | 39.5% | 42.3% |
| **Latin America** | **33.1%** | **39.3%** | **44.9%** | **49.7%** | **53.9%** | **57.0%** |

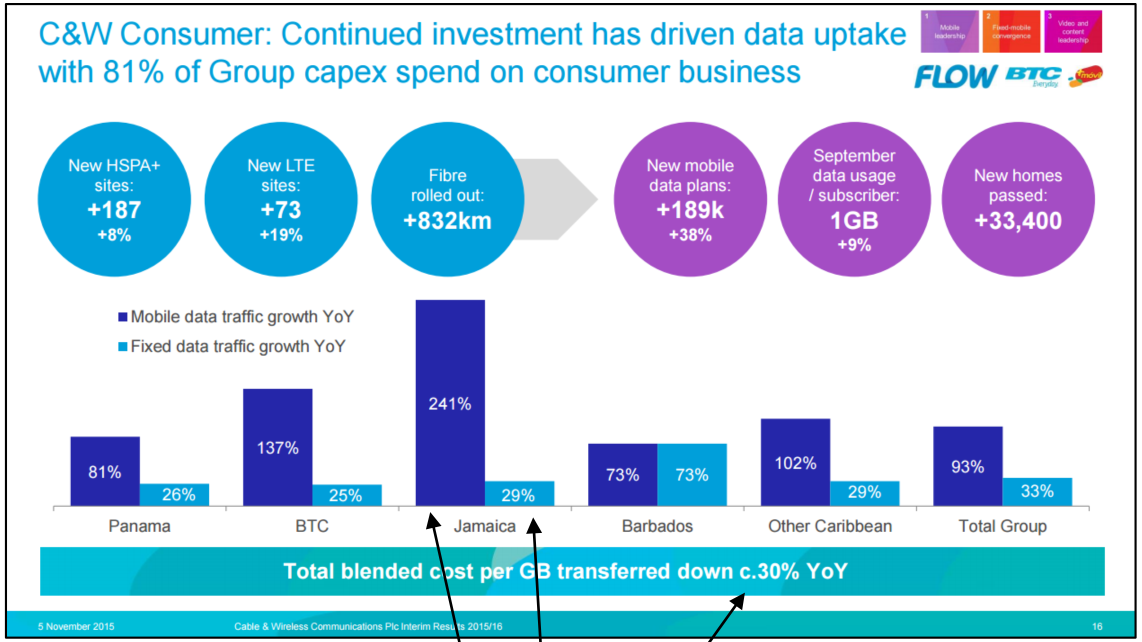
*Note: individuals of any age who own at least one smartphone and use the smartphone(s) at least once per month*
*Source: eMarketer, July 2015*

193868 www.eMarketer.com

- [http://www.emarketer.com/Article/Latin-America-Home-1559-Million-Smartphone-Users/1012794](http://www.emarketer.com/Article/Latin-America-Home-1559-Million-Smartphone-Users/1012794)

# Data Traffic Increase: *Actual* Results

- Project Marlin investment project by Cable & Wireless has improved and upgraded their mobile networks
- More HSPA+ sites, more LTE sites, and increased fiber rollout has driven substantial data traffic growth increases
- As more people:
  - Increase smartphone penetration
  - Have a more reliable network
  - Experience the faster speeds and improved quality
  - Desire a continuation of this experience, use it more frequently
  - Increased usage creates additional demand on both mobile and fixed networks
  - The providers than have fixed-mobile convergence opportunities will see the increase in demand, can (1) monetize it better, (2) increase scale through lower cost per Gb
- Data penetration has increased from 36% to 46%
- Smartphones = 69% of total, due to lower cost handset availability




**Improving the mobile and fixed network has led to:**
(1) Substantial YoY mobile data traffic growth
(2) Strong fixed data traffic growth, some due to offloading
(3) Blended cost per GB transferred down 30% YoY

# Penetration Levels in Latin America

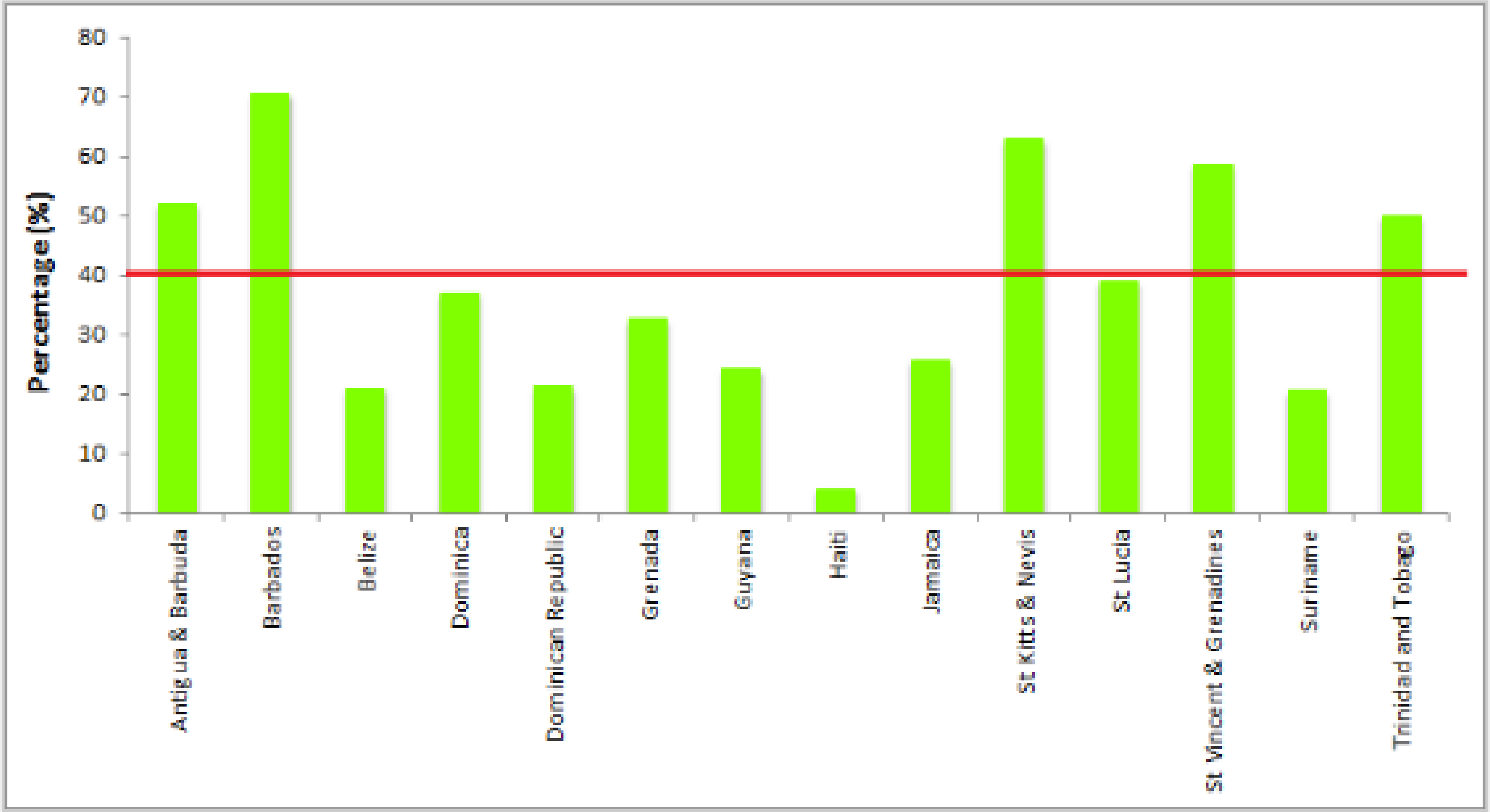



Figure 2: Percentage of households in the select Caribbean countries with Internet access as at 2014 (Source: Broadband Commission)

# IP Connectivity is Continuing to Increase

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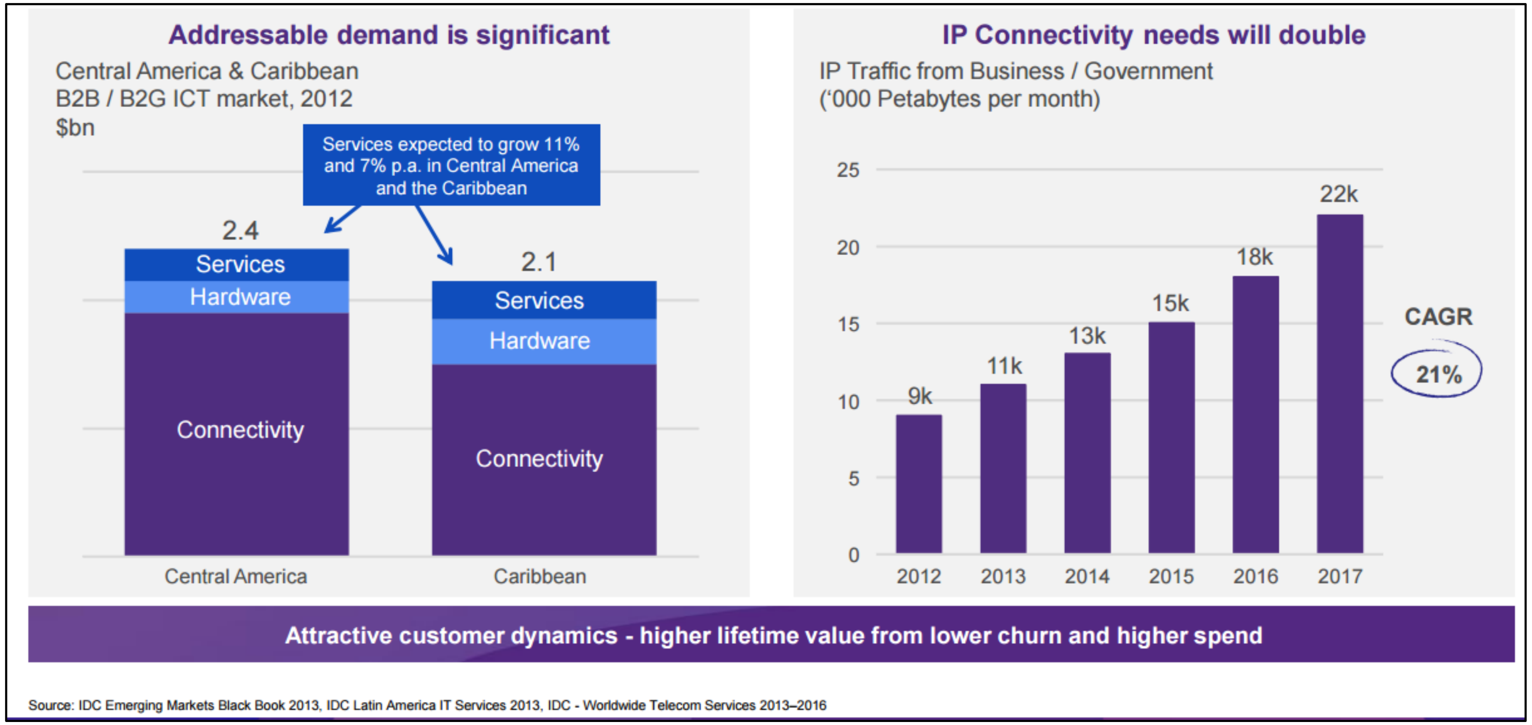
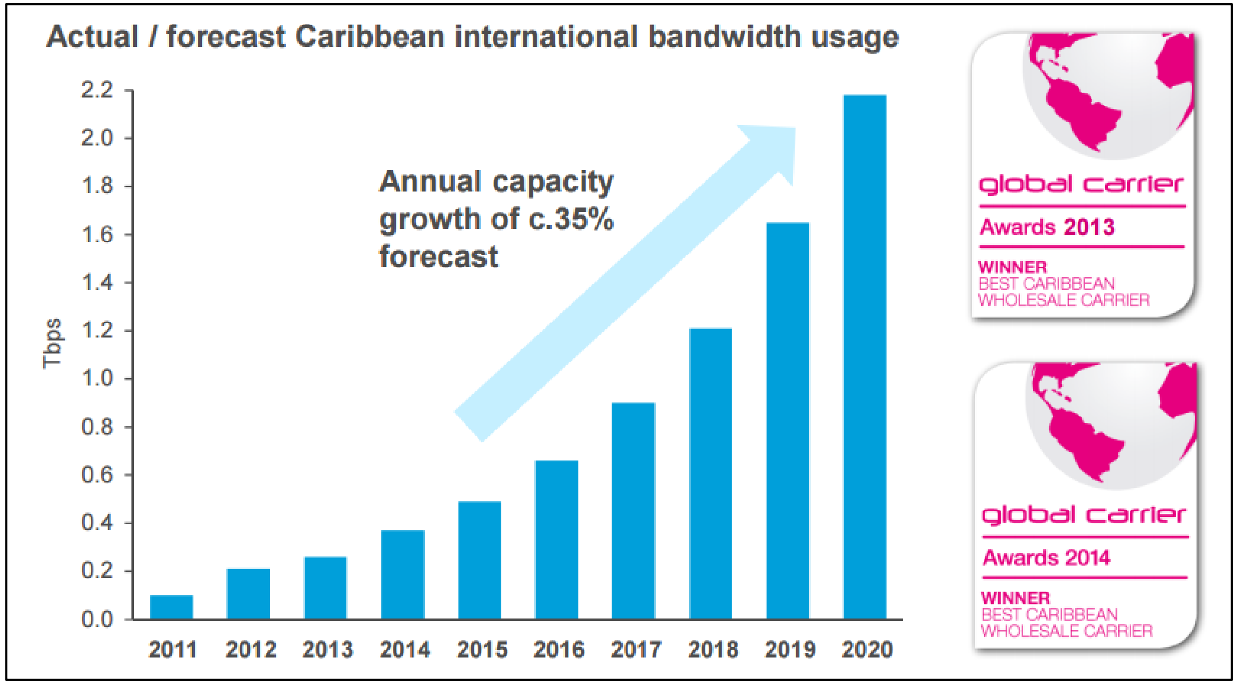
- The scale of C&W with their fixed-mobile infrastructure, and now "new" LiLAC with the large scale submarine cable assets, has a huge advantage over other providers to meet the needs of growing mobile traffic, broadband traffic, and Latin American data traffic growth across the region
- As demand increases, the traffic carried over the submarine cable assets will increase
- LiLAC's large scale submarine assets in Latin America and Caribbean are second-to-none in the region
- The competitive advantage of these sub-sea assets:



# Increase in Caribbean Bandwidth Usage

- From 2015 to 2010, Caribbean international bandwidth usage is estimated to grow at 35% CAGR
- LiLAC is in the best position to monetize it due to their:
  - Fixed/mobile networks in Caribbean and Bahamas
  - Extensive submarine cable assets, 42,000km sub sea cable
  - Some of these cables have been upgraded from 10-40 Gbps to 100 Gbps
- The C&W subsea cables continue to be ranked as an award winner for best Caribbean wholesale carrier



# Improved Penetration in C&W Markets: Video

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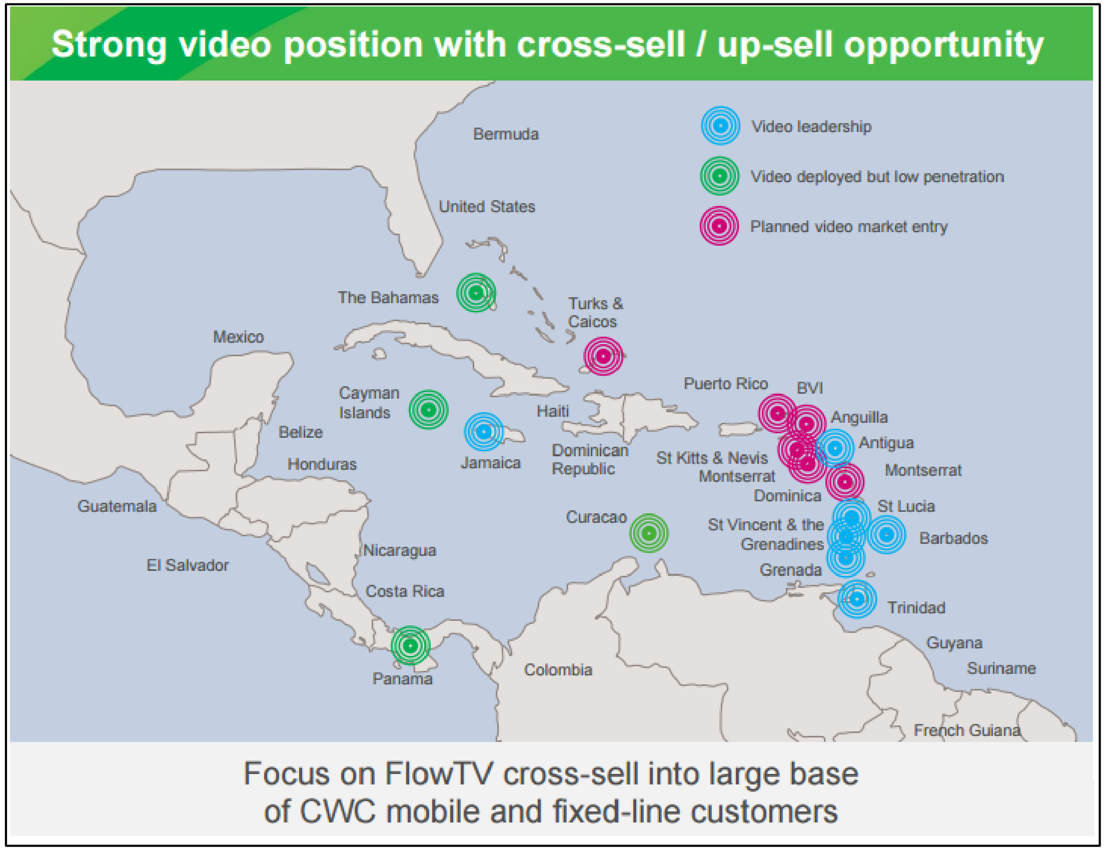
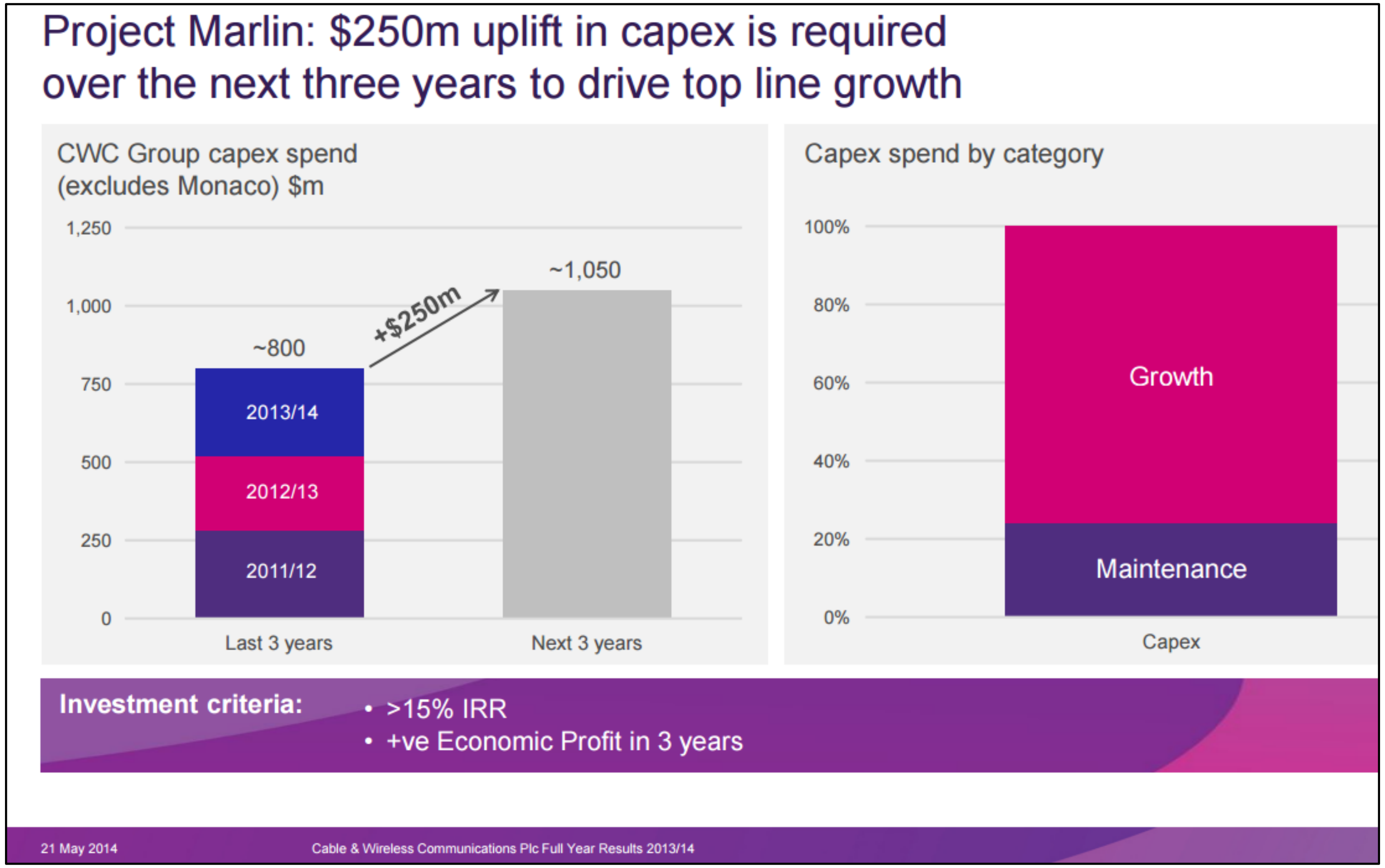
- Cable & Wireless is very underpenetrated in both video and broadband
- Looking at the chart to the right (May 2015) you can see there are only about 7 markets they are in where they have video leadership
- 4 markets, including Panama and Bahamas, their largest mobile markets, have deployed video but low penetration = tremendous opportunity
- There is planned video product entry into 6 markets, but all of them are smaller, less meaningful than Panama and Bahamas
- How will they grow video:
  - Rebrand to “FLOW” across the region
  - Investing in more HFC and FTTC
  - Improving mobile network, attempt to cross-sell
  - Improving mobile network improves reputation of provider
  - Improve speeds
- ***Exclusive content***: *Premier League 3 year deal from August 2016 – 2019, Rio 2016 Olympics, and NFL*



# Return on Investment: *Project Marlin*

- 2015/16 is the last year of the 3 year program Cable & Wireless launched called “Project Marlin”
- $1.05 billion investment over the 3 year span
- Of the $1.05 billion, about **25% of that will be “maintenance spending**” ($250 million)
- The remaining 75% ($800m) will be on “growth” projects
- Targeting **>15% IRR** and positive “economic profit” by 2016/17
- Projects:
  - Upgrade all markets to 4G
  - Roll out fiber (FTTH/ FTTC) in 11 markets
  - Push video product from 4 markets to 11 markets



# Affordability of Broadband in Latin America

- In some of LiLAC's markets, affordability is more of an issue, most specifically in Jamaica
- However, in most markets, especially the larger LiLAC markets, there is more of an affordability to purchase cable products

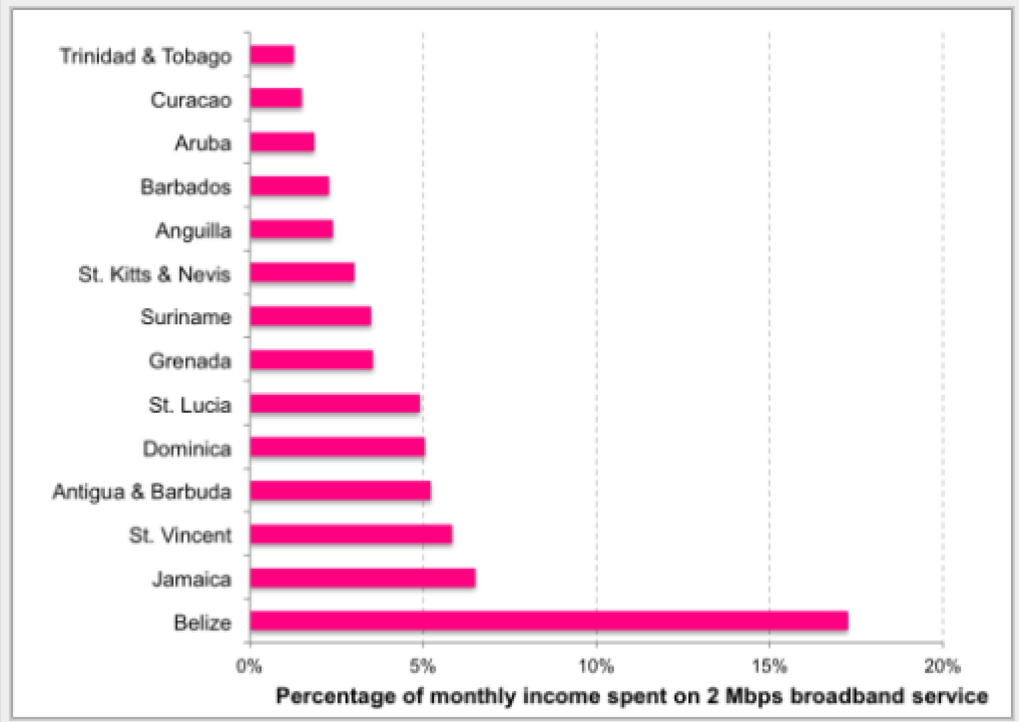



Figure 1: Portion of monthly income as a percentage for a 2 Mbps Internet plan in select Caribbean countries as at June 2015 (Source: ICT Pulse)

# Sections in Slide Deck:

# *What is a “Tracking Stock”?*

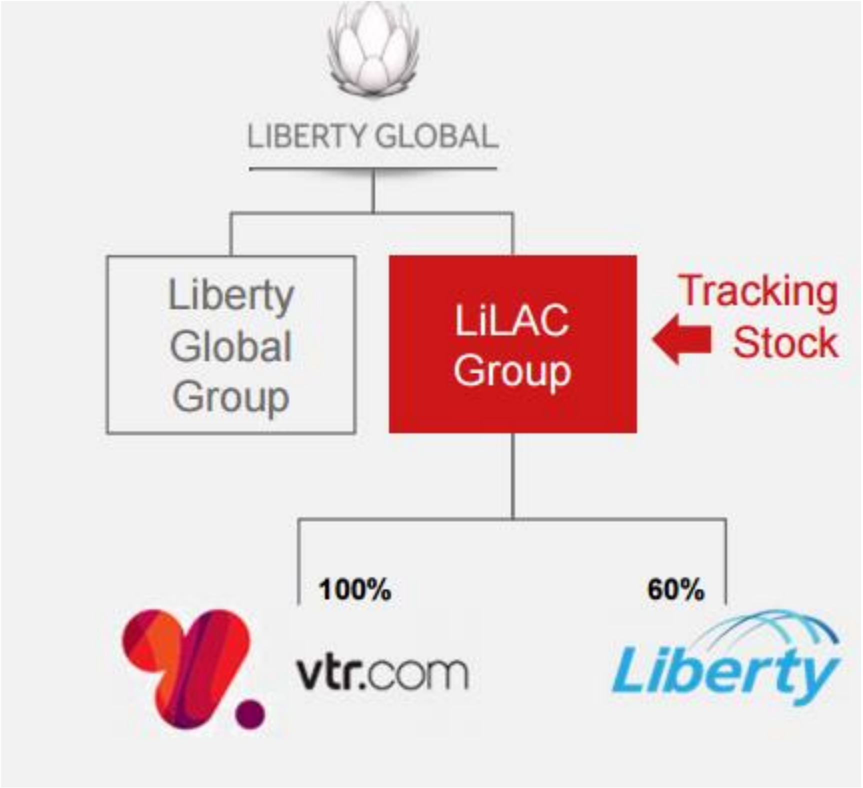
# What is a "Tracking Stock"

- Companies create "tracking stocks" in an attempt to highlight a distinct asset within the company that is viewed as underfollowed, unnoticed
- "tracks" the economic performance of those distinct assets
- Creates the opportunity for more transparency around those assets
- **NOT** a separate legal entity
- Shareholders ultimately shareholders of parent company
- Can use tracking stock as currency in M&A transactions (as they did with Cable & Wireless)

# Tracking Stock: “LILA/K”



- Tracking stock: LiLAC
- Record Date: June 24, 2015
- Each holder of Liberty Global shares receives 1 shares of LiLAC for every 20 LGI shares




This is *prior* to CWC acquisition

# ***Why*** Is This Opportunity Available?

# Overview of “*Why*”

- Q2/2016 earnings out of CWC was disappointing, management did little to explain it
- LiLAC shares distributed to LBTYA/K shareholders in June, combined with disappointing Q2/2016 numbers out of newly-acquired CWC created additional selling pressure
- Many LBTYA shareholders owned “LBTYA” because of the European assets; the Latin American assets were always back-page and non-important
- Likely than many LBTYA investors did minimal to no research on LILA/K over the years, were no interested in owning the asset
- LBTYA shareholders felt disrespected with the usage of LBTYA stock in the LiLAC/ Cable & Wireless acquisition
- Lack of disclosure around any synergies with Cable & Wireless, due to UK Takeover Code delays
- “Too complex”
- “Too much John Malone confusion”

# Did LiLAC overpay for sub-par Cable & Wireless?

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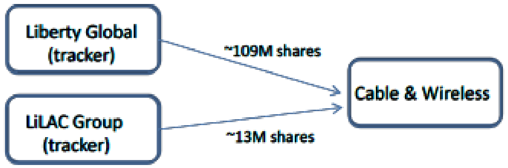
- LBTYA shareholders were frustrated at using a “cheaper” LBTYA stock to finance the C&W acquisition
- Essentially, Liberty Global shareholders paid for ~90% of the C&W equity
- As a result, LBTYA/K shareholders were left with a 67% ownership stake in LiLAC
- June 2016, Liberty Global distributed out this remaining 67% to shareholders, which created additional selling pressure but enhanced “liquidity”

**Figure 2. Acquisition Multiples** ($ millions; EV-OCF multiple)

| | CWC Acquires Columbus | LBTY Acquires CWC |
|---|---|---|
| CWC share price | | 0.58 |
| x Premium | | 140% |
| = Consideration per share | | 0.81 |
| x Diluted shares | | 4,439 |
| = Total consideration (GBP, mm) | | 3,597 |
| x Exchange rate 11.13.15 | | 1.52 |
| = Equity/cash consideration | 1,850 | 5,470 |
| + Assumed net debt | 1,170 | 2,710 |
| = Acquisition EV | 3,020 | 8,180 |
| / LTM OCF | 232 | 668 |
| **= Acquisition EV-OCF** | 13.0x | 12.2x |
| memo: date announced | Nov '14 | Nov '15 |

Source: Citi Research; Company reports

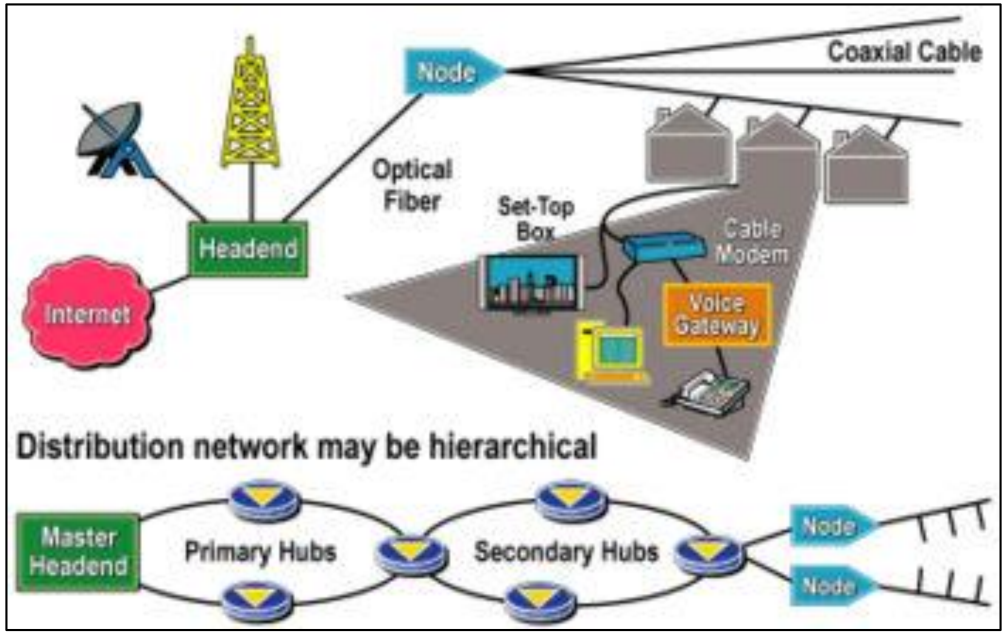
**Figure 3. Liberty Global and LiLAC Ownership Post Share Issuance for CWC** (millions; percent)




| | | Shares (mil) | Shareholders | | |
|---|---|---|---|---|---|
| | | | Global | LiLAC | CWC |
| Stake | Liberty Global | 969 | 89% | | 11% |
| In | LiLAC | 57 | | 78% | 22% |
| Asset | CWC | 0 | | | |

Source: Citi Research; Company reports

# Brief Overview of “Cable”



# Why is Cable Attractive?

- Offers multiple products that people are interested in – TV, fixed broadband, home telephone
- A service that people value/ use daily, deemed a “necessity”
- Sticky customers: through the hassle of becoming a customer, the integration process, the contract terms, and often somewhat similar pricing from competitors = customers don’t churn too often (~1.8% - 2.2% per month)
- Cable’s infrastructure is superior to telecom copper DSL and becoming more superior with upgrades to two-way, all-digital, DOCSIS 3.0, 3.1, rolling out of FTTH, etc.
- In the 2000s, cable lost video subscribers because it was an inferior product to satellite; now, satellite and cable TV are highly comparable, but cable has the network to offer other services that satellite cannot
- Cable has long been viewed as highly capital intensive (>20% revenues towards capital spending); an inflection point may be here as:
  - Cable companies are moving the IP to cloud-based for the set-top-box, meaning maybe one more STB roll-out is needed for a cable company, and then on forward they will be backwards compatible and can be reused
  - Future STB spend will be to repair/refurbish old boxes, replace and reuse due to normal customer churn, or purchase new STB based on new customer (“success based spend”)
  - Higher incremental returns on future footprint expansion, only build out the last-mile to homes/businesses, most of which is “success-based”
  - Cloud-based = no longer need a new set-top-box to be compatible with digital, or new DOCSIS, etc.
- Cable will still spend more than the average company on capital spending, but:
  - Will be maybe 50-60% of what it used to be, if cable moves toward cloud based STB/ user interface
  - Above –average capex will be a “good investment” as implied more subscriber growth (“success based” = high ROIC)

# What “Drives” Revenues:

- Customer Relationships => RGUs per Customer Relationship
  - The more RGUs, the more bundling, the higher the revenue per customer
- Penetration/ Bundling
- Pricing
  - Price increases flow through to ARPU
  - Can be offset some by product bundling and savings as double/triple/quad-play penetration increases
  - Promotions and discounts are contra-higher ARPU
- B2B
  - Much higher ARPU than Residential, due to nature of services needed
- Multiple RGUs
  - More RGUs per customer relationship, higher the ARPU

# What "Drives" Expenses:

- Programming Cost
    - LiLAC does not disclose exactly how much they pay for content costs
    - US companies (larger MSOs only) state how much they pay for content
    - Programming cost in Latin America is much less than U.S.
- Labor
    - Lower labor costs to install PP&E
    - Lower salaries, wages means lower cost per employee
- How they capitalize
    - Capitalizing churn activity, new customers, etc.
- Truck Rolls, call centers
    - More bundling + contracts = stickier customer
    - Improved product + more reliable  = stickier and happier customer
    - Together = lower churn
- Promotions/ Discounts
    - Lowers ARPU

# What “Drives” Capital Expenditures:

- How they capitalize new subscriber installations
  - Liberty capitalizes the first initial connection (drop) to a customer location
  - Any future connections to the same location = expensed as incurred
  - Thus, capex from this should decrease over time due to churn and customer activity
  - Capex will be higher initially as the first connection = capitalized
- Set-top-box strategy
  - Every few years cable company has the “next generation” set-top-box, needs to roll it out to entire subscriber base = very costly and disruptive
  - Useful live of STB = many have CPE as 2-6 years, but the reality is they should last longer in the future if move to cloud-based
  - “open source” for STB, similar to World Box for Charter Communications, can install security inside the box, use any STB manufacturer, thus driving down STB prices as it increase competition
- Newbuild activity
  - Can be larger percentage of capex in a given period
  - Often success-based, has strong ROIC
- Technology
  - Fiber Optics = less corrosion and maintenance costs vs. traditional HFC network
  - Most cable networks = HFC

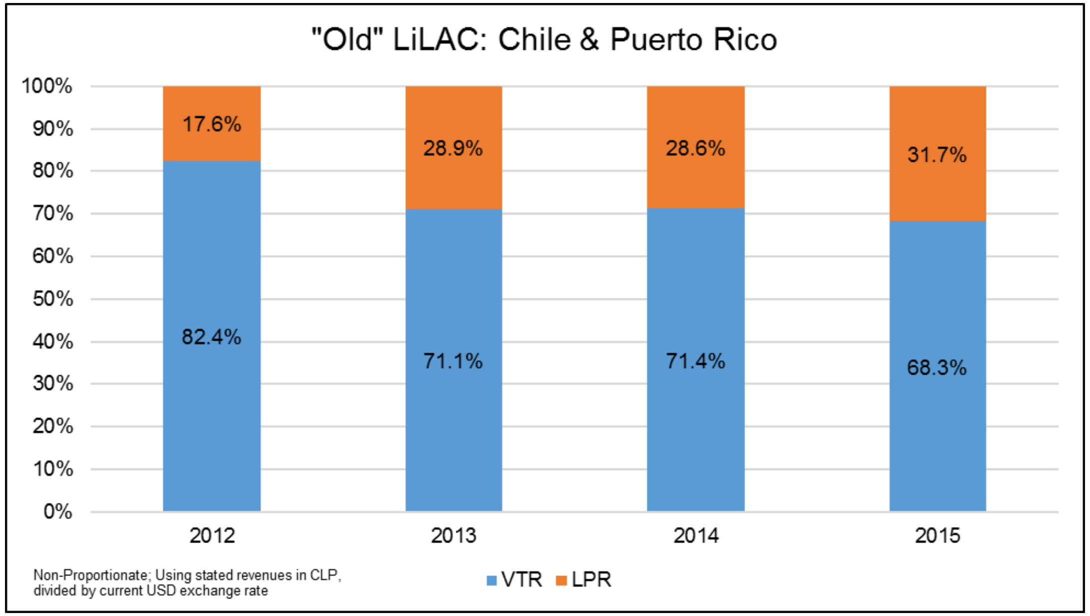
# LiLAC

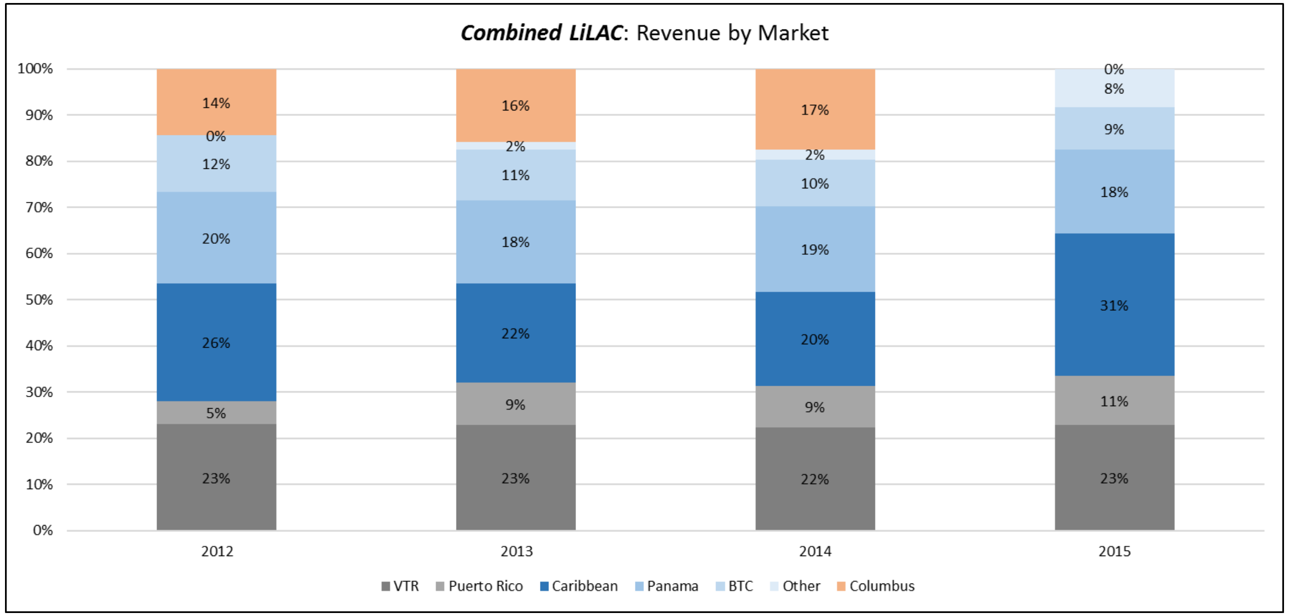
*Consolidated Overview*

LIBERTY GLOBAL

# Financials

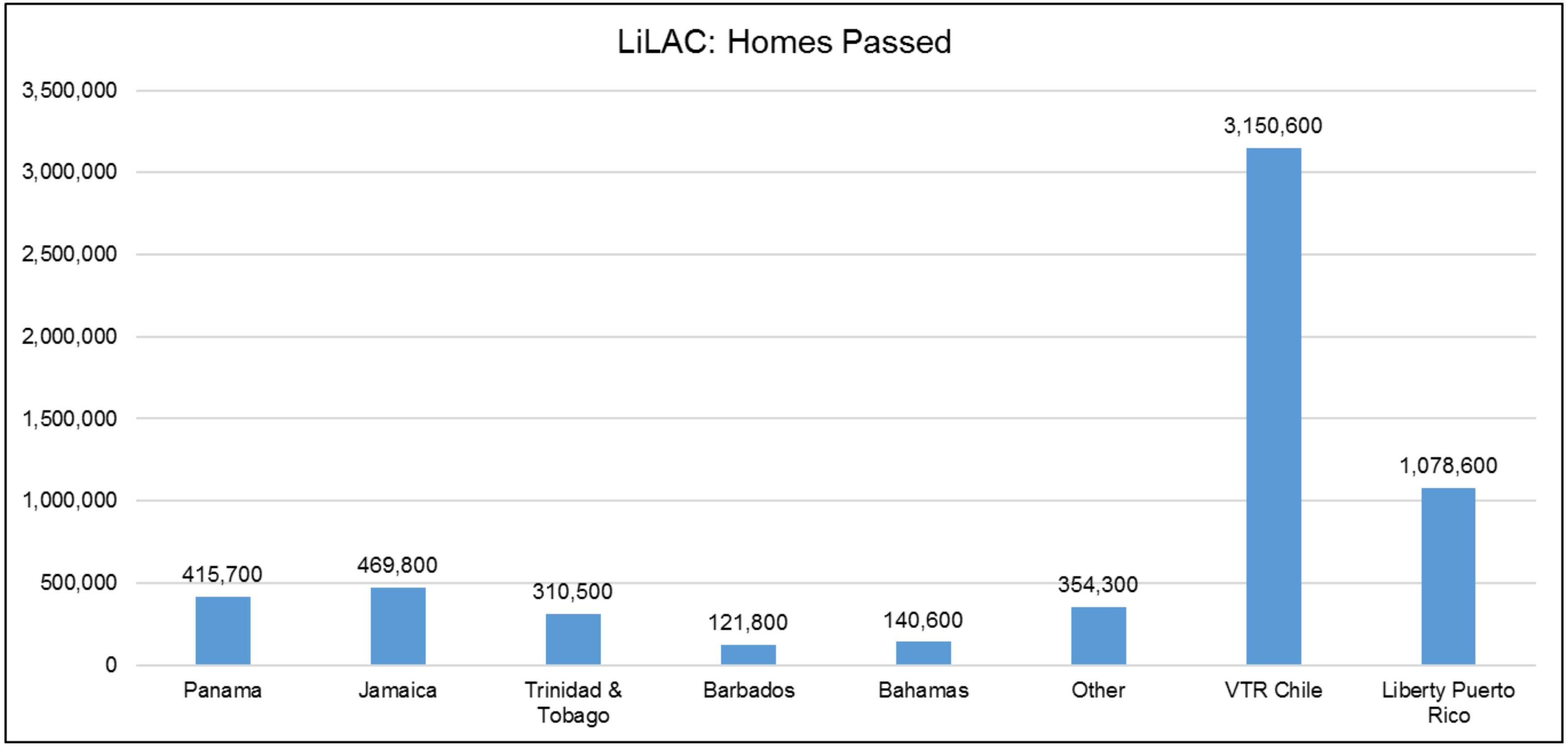
- Prior to CWC deal, LiLAC was heavy in Chile, with about **70%** of consolidated revenues coming from VTR (currency adjusted)
- LiLAC traded, at times, in correlation with CLP, copper pricing
- After Cable & Wireless acquisition, "old" LiLAC is just **34**% of the "new" LiLAC



# Homes Passed: *6 million "homes"*

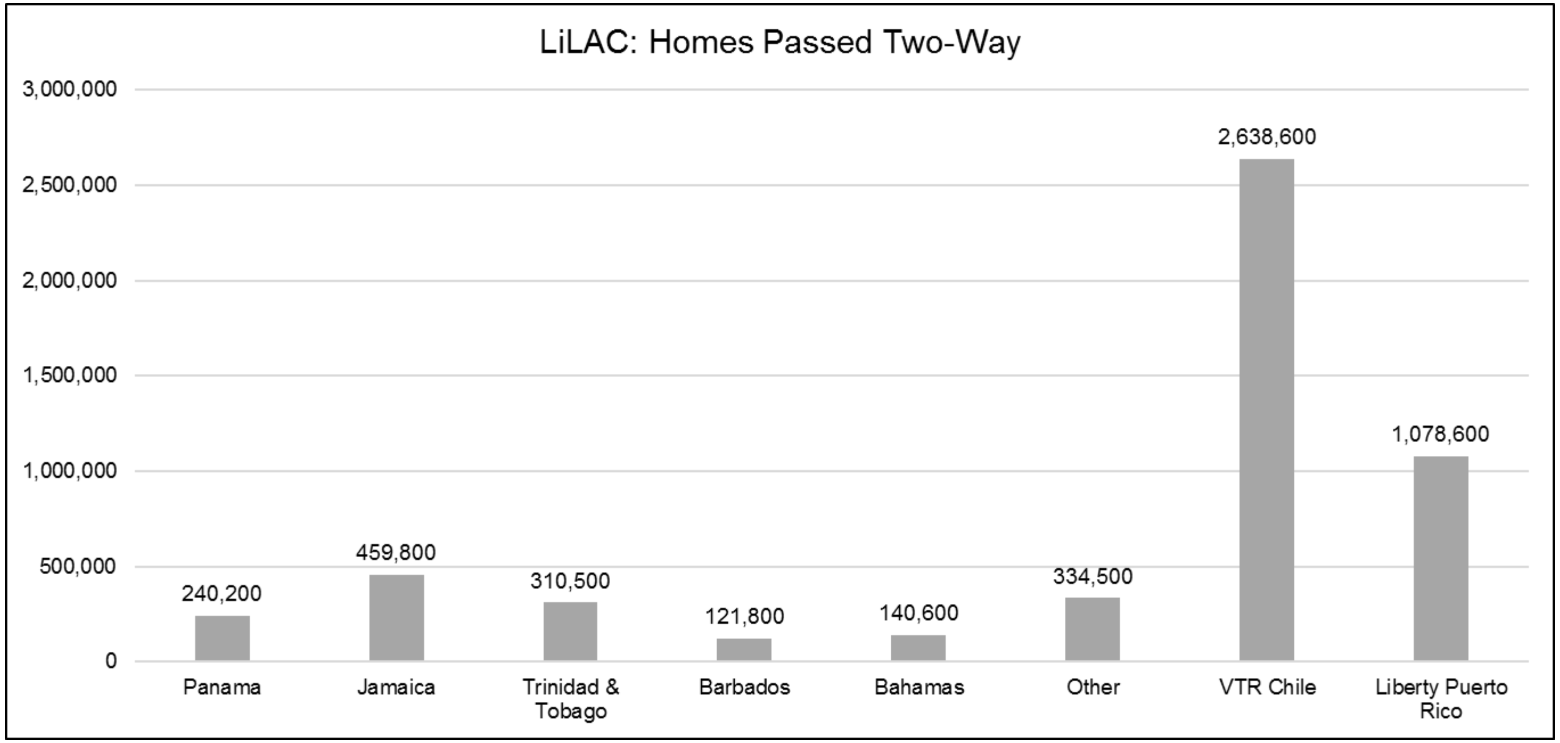
- 6.042m homes passed for "new LiLAC"
- Still heavily weighed toward PR and Chile, which both have large coverages of the countries populations



# Homes Passed: “Two Way”



- 88.1% of “new” LiLAC’s footprint is “two-way”  = **5.325m HP** “two way”
- Expect this to increase with Project Marlin being completed over the next 6 months
- Reinvestment into VTR



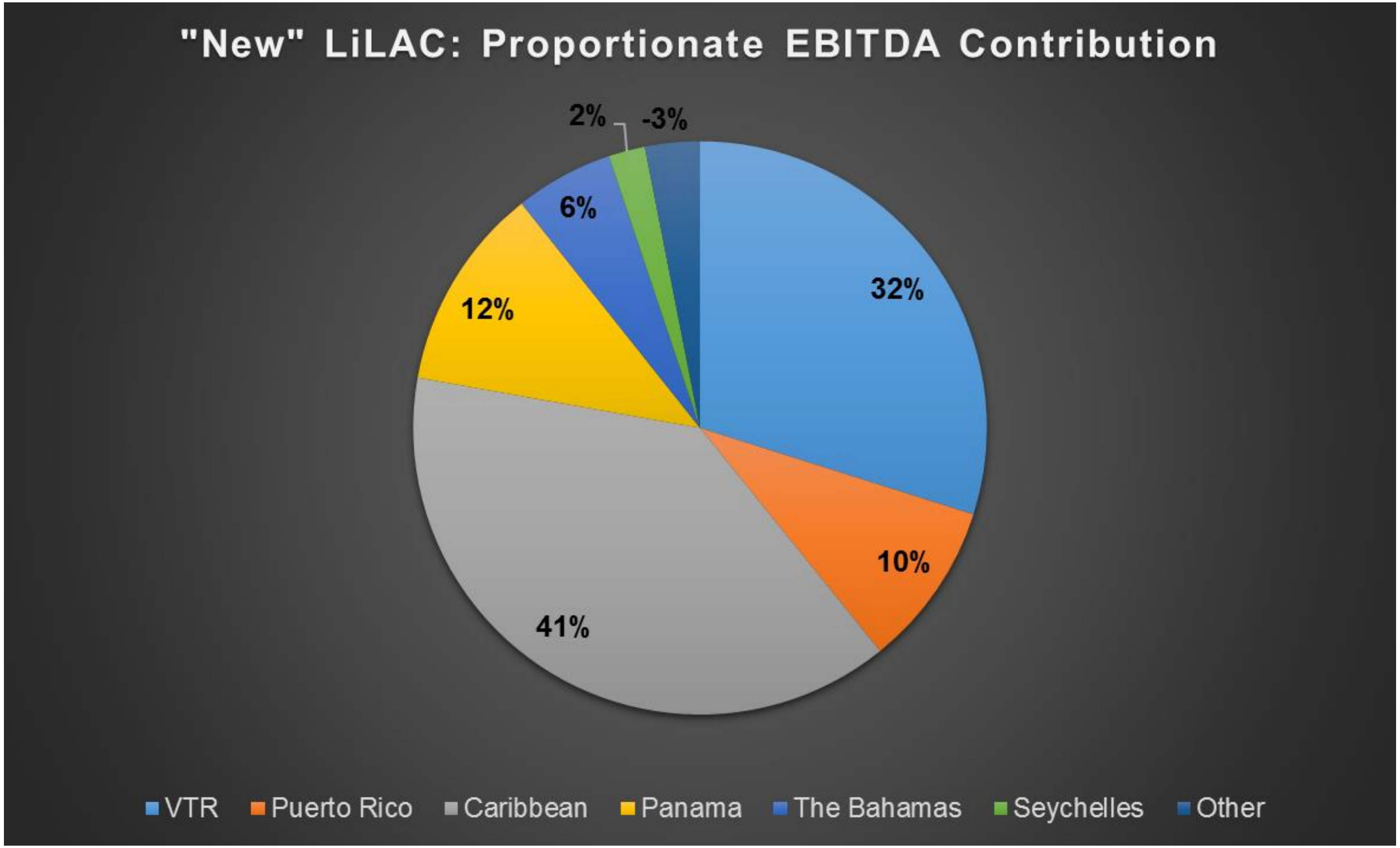
# Ownership % Breakdown:

- Old LiLAC:
  - VTR was 100% owned
  - Liberty Puerto Rico was 60% owned/ 40% by Searchlight due to OneLink acquisition
- Columbus:
  - 100% owned
- Cable & Wireless:
  - Caribbean "LIME" was 89% owned
  - The Bahamas "BTC" was 49% owned
  - Panama (+Movil) was 49% owned
  - Seychelles was 100% owned

Lack of disclosure and transparency in future LiLAC filings will make it more difficult to break out contributions by market: old LiLAC will be helped by separate debt by Puerto Rico and Chile, but Cable & Wireless will likely be much more bundled

| Market | Brand | Company | Ownership (%) | % of Revenue | % of EBITDA (Proportionate) |
|---|---|---|---|---|---|
| Caribbean | LIME | Cable & Wireless | 89% | 31% | 41% |
| The Bahamas | BTC | Cable & Wireless | 49% | 9% | 6% |
| Panama | +Movil | Cable & Wireless | 49% | 18% | 12% |
| Seychelles | | Cable & Wireless | 100% | 2% | |
| Caribbean | Flow | Columbus International | 100% | | |
| Chile | VTR | LiLAC | 100% | 23% | 32% |
| Puerto Rico | Liberty Puerto Rico | LiLAC | 60% | 11% | 10% |

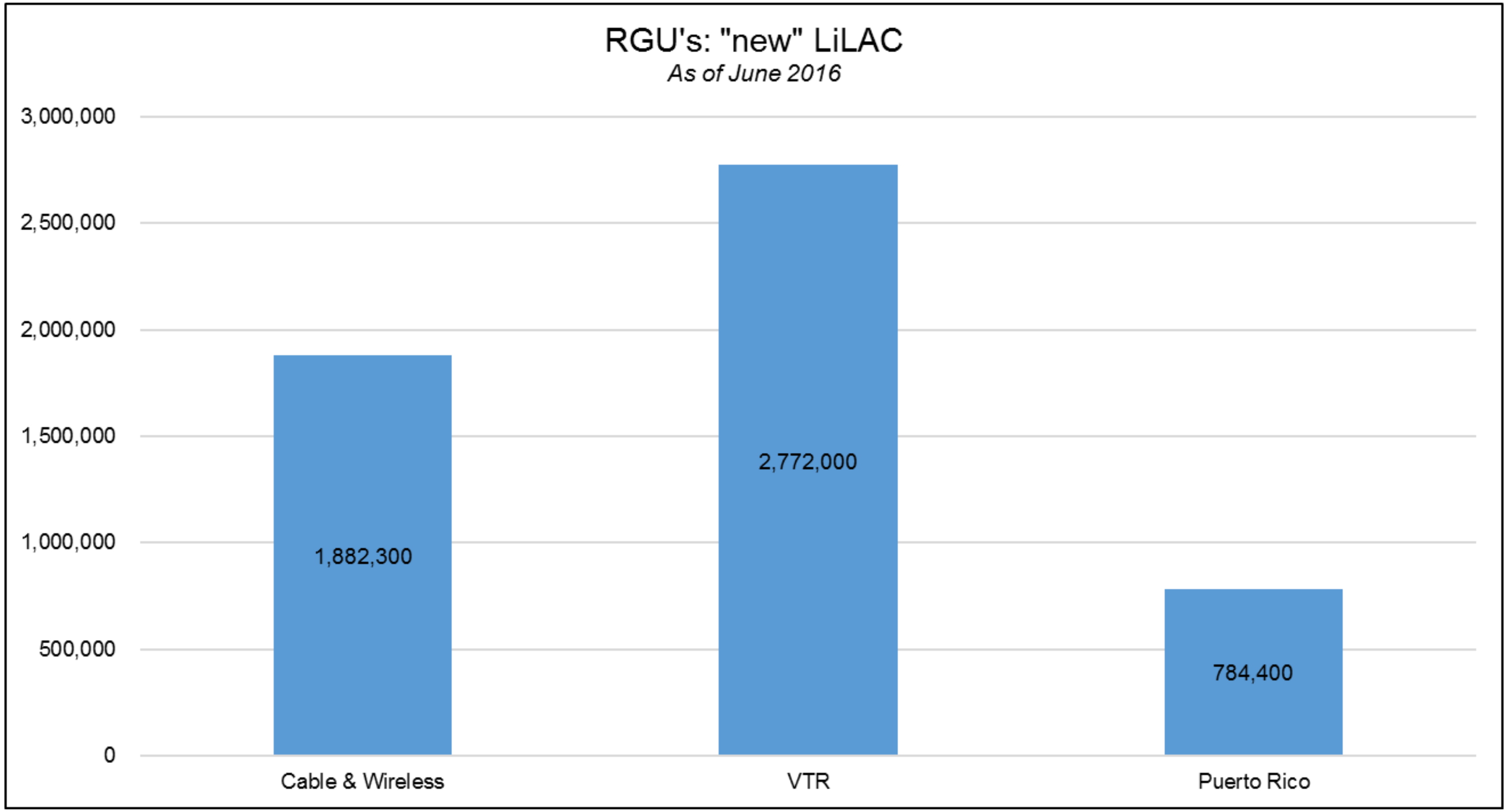
# *Pro-Forma* Proportionate EBITDA Contributions



# “New” LiLAC: RGUs

LIBERTY GLOBAL

- Total of 5,438,700 RGUs across “new” LiLAC
- RGUs are a direct reflection of (1) customer relationship growth , and (2) product bundling penetration levels



# Services Offered by Market:

- Using Citi Research, displaying all public material, we can see the product offerings based on legacy company and by market
- There was no geographical overlap with old-LiLAC and Cable & Wireless
- Only overlap was the submarine cable assets that C&W owned and LiLAC used in Puerto Rico and Chile
- According to LiLAC, the cost to transport data *declined* to 1/8th of what is was prior to acquiring C&W

**Figure 6. Services Offered by Market**

| | CWC (LIME) | | | | Columbus (FLOW) | | | | | Liberty | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | M | B | V | F | M | B | V | F | W | M | B | V | F |
| Anguilla | x | x | x | x | | | | | x | | | | |
| Antigua & Barbuda | x | | | | | x | x | x | x | | | | |
| Bahamas | x | x | | x | | | x | | x | | | | |
| Barbados | x | x | | x | | x | x | x | x | | | | |
| British Virgin Islands | x | x | x | x | | | | | x | | | | |
| Cayman Islands | x | x | x | x | | | | | x | | | | |
| Chile | | | | | | | | | x | x | x | x | x |
| Curaçao | | | | | | x | x | x | x | | | | |
| Dominica | x | x | | x | | | | | x | | | | |
| Grenada | | x | x | x | | x | x | x | x | | | | |
| Jamaica | x | x | x | x | | x | x | x | x | | | | |
| Montserrat | x | x | | x | | | | | x | | | | |
| Panama | x | x | x | x | | | | | x | | | | |
| Puerto Rico | | | | | | | | | x | | x | x | x |
| Seychelles | x | x | x | x | | | | | | | | | |
| St. Kitts | x | x | x | x | | | | | x | | | | |
| St. Lucia | | x | x | x | | | | | x | | | | |
| St. Vincent | x | x | | x | | | x | | x | | | | |
| Trinidad & Tobago | x | | | | | x | x | x | x | | | | |
| Turks & Caicos | x | x | | x | | | | | x | | | | |

**Key**

M: Mobile B: Broadband V: Video
F: Fixed W: Wholesale x: Legacy asset
Rebranding from LIME to FLOW

Source: Citi Research; Company reports

# Overview of the Markets:

- Caribbean
  - Economy is largely based on tourism, mostly from U.S. visitors
  - Slower economic growth in the region (0% - 1.5%)
  - Jamaica is much lower GDP per capita
  - LiLAC acquired a large mobile provider in CWC, with about 1.4m mobile subscribers in Caribbean, about 578k fixed telephone
  - Long runway for broadband and video, with only 224k broadband and 27k video subscribers
  - Lost video subs in Q2/2016 due to “increased competition and challenging economic environments”, but launched FLOW Sports Premier in July 2016, which is exclusive to FLOW
- Panama
  - Strong economic growth (~5-6% GDP) and strong GDP per capita (~4%) a tailwind; however, lower demand from nearby larger countries has curtailed government spending
  - Low inflation also a positive (0%)
  - Largest mobile market for LiLAC, with about 50% of total LiLAC mobile subscribers in this market (~2.1 million)
  - Very underpenetrated in broadband and video for LiLAC, representing nice opportunity
- Bahamas (BTC)
  - New mobile provider for the first time will put pressure on The Bahamas, as will increase promotions and discounts. There will be some natural churn just from people who did not like BTC in the first place but had no where else to go.

# Overview of the Markets:

- Chile
    - Decent economic growth is tailwind
    - Economy diversifying from copper, although still large contributor, is long term positive
    - Household growth ~2.5% is tailwind, helping cable industry quite a bit over last decade
    - Newbuild opportunity in progress (+5% homes passed YoY)
    - Telefonica is reinvesting about $250m in Chile to target ~900k FTTH subs, which could challenge VTR
    - Unsure of overbuild percentage of future Telefonica FTTH build out
    - Mobile market is “saturated” and competitive on “price”; new mobile entrant in 2015 low-balled pricing, was aggressive on promotions
    - VTR has 1% mobile market share, not real growth driver in near-term
- Puerto Rico
    - Struggling economy
    - Declining population leads to declining households
    - Liberty Puerto Rico is dominant in cable, has no presence in wireless
    - Primary competitor is “Claro” (America Movil) who partnered with DISH on video to offer better triple/quad play bundles
    - Limited newbuild opportunity
    - Growth will likely come from efficiencies in cost structure

# Overview of the Markets:

- There is a mix of the type of pricing power the consumer has in each LiLAC market
- Compared to the GDP-per-capita growth in Latin America, the World, and the United States, only the Caribbean (41% of revenues) and Panama (18% of revenues) have seen their people show stronger growth in purchasing power than the U.S.

**GDP-per-Capita**

| | 2015 | 5 Year CAGR | 10 Year CAGR |
|---|---|---|---|
| Jamaica | $ 5,140 | 1.0% | 1.9% |
| Chile | $ 13,400 | 0.9% | 5.7% |
| Panama | $ 13,300 | 10.7% | 10.4% |
| Caribbean | $ 10,100 | 3.0% | 3.7% |
| Puerto Rico | $ 28,700 | 1.7% | 2.7% |
| Bahamas | $ 22,900 | 0.9% | -0.2% |
| Barbados | $ 15,700 | -0.3% | 1.0% |
| Latin America | $ 8,130 | -1.9% | 4.8% |
| United States | $ 55,800 | 2.9% | 2.3% |
| World | $ 10,000 | 1.1% | 3.3% |

# Recent Commentary on LiLAC:



- Q2/2016:
  - Targeting investments to enhance superiority and expand footprint
  - Launched LTE in Cayman Islands
  - Rolled out FTTH in Bahamas
  - Upgrading fixed assets in Panama
  - Chile & Puerto Rico = newbuild activity of about 150,000 homes in 2016
  - Continuing to upgrade Puerto Rico to “gigabit”
  - Broadband and converged offers are the “key competitive tools” for LiLAC
  - Cable & Wireless: see “tremendous opportunity in broadband” with broadband speed superiority underpinning the approach
  - Strengthening video platforms in Panama, Bahamas, delivering FLOW Sports and FLOW Sports Premier across Caribbean
  - Rolling out next generation video services in Chile with advanced user interface
  - The M&A pipeline is filling up, as you might imagine, with some interest opportunities”
- May 18, 2016: MoffettNathanson Conference
  - “if you look at penetration rates in that region, they are 30% to 50% of what the US levels are. If you look at the demand for bandwidth, whether it’s mobile data or fixed data, it’s off the charts in terms of growth and highly fragmented.”
  - “Think it’s a double-digit EBITDA growth over next 3 years if we do our jobs right and…broadband growth”

# Cable & Wireless (“CWC”)

Cable&Wireless
Communications

# Cable & Wireless (CWC) = *~51% "new" LiLAC*

- Cable & Wireless assets will be around 51% of "new" LiLAC Revenue
  - Caribbean = ~20%
  - Panama = ~19%
  - BTC The Bahamas = ~10%
  - Other = ~2%
- However, CWC did not have full ownership of each of these assets
- See chart to the *right* to check ownership stakes

| Continuing operations as at 31 March 2015 | Ownership of ordinary shares % | Country of incorporation | Area of operation |
|---|---|---|---|
| **Subsidiaries** | | | |
| The Bahamas Telecommunications Company Ltd | 49 | The Bahamas | The Bahamas |
| Cable & Wireless Jamaica Ltd | 82 | Jamaica | Jamaica |
| Cable & Wireless Panama, SA | 49 | Panama | Panama |
| Cable & Wireless (Barbados) Ltd | 81 | Barbados | Barbados |
| Cable and Wireless (West Indies) Ltd | 100 | England | Caribbean |
| Cable & Wireless Ltd | 100 | England | England |
| Sable International Finance Ltd | 100 | Cayman | England |
| Cable and Wireless International Finance BV | 100 | Netherlands | England |
| Columbus International Inc. | 100 | Barbados | Caribbean/ Latin America |
| Columbus Communications (Trinidad) Limited | 100 | Trinidad and Tobago | Trinidad and Tobago |
| Columbus Communications Jamaica Limited | 100 | Jamaica | Jamaica |
| Columbus Networks Limited | 100 | Barbados | Caribbean/ Latin America |
| **Joint ventures and associates** | | | |
| Cable & Wireless Trade Mark Management Ltd | 50 | England | N/A |

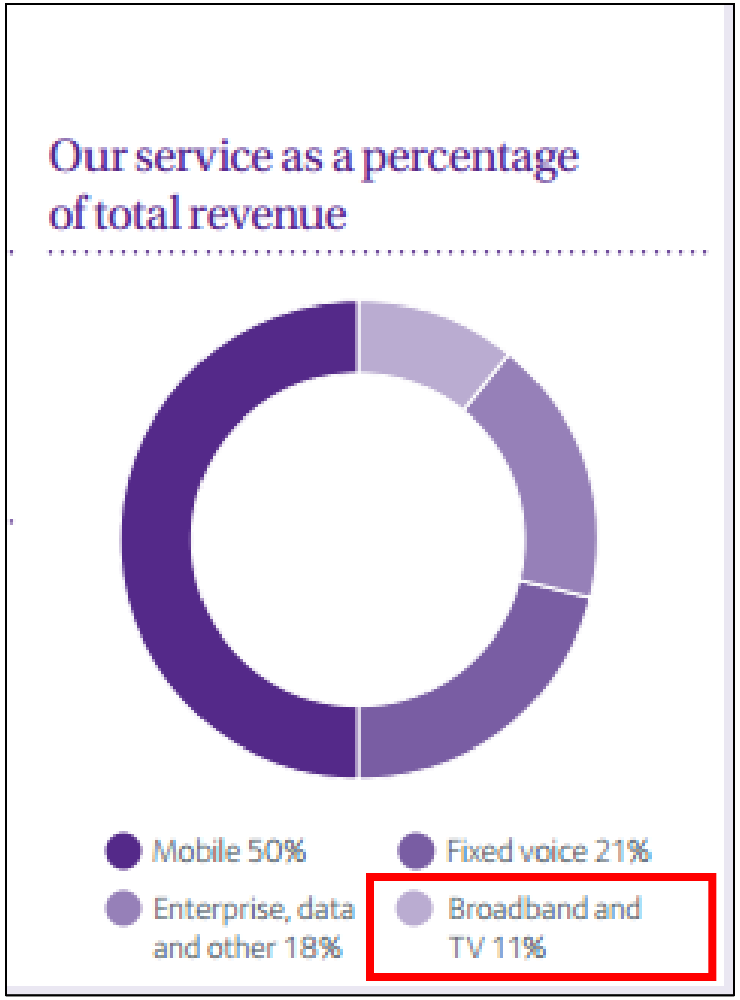
Source: CWC 2014/15 Report, 2015/16 Report

# Cable & Wireless (CWC)

- Demerged March 2010: CWC and Cable & Wireless Worldwide (subsequently bought by Vodafone July 2012) as CWW was burning cash and combined company was unfocused
- Markets: Panama, Caribbean
  - Cayman Islands, Barbados, Jamaica, The Bahamas, Anguilla, British VI, Dominica, Montserrat, St. Lucia, St. Vincent, Turk & Caicos
- Brands: “LIME”, “BTC”, +Movil
- Prior to acquisition of Columbus International, CWC was the leader in 10 of 15 mobile markets, 14 of 15 broadband markets, and all 14 markets for fixed line services
- BTC (The Bahamas) is the largest Caribbean market for CWC
- TV was a smart part of CWC business, with 2% of revenues in 2013/14 being in “video”

# Cable & Wireless (CWC)

- Large rationale for acquiring Columbus International was it would helped CWC push broadband and video (i.e. bundling) in their markets, where it was in the infancy stage from CWC's standpoint
- Additionally, CWC and Columbus already had a pre-existing JV with the Caribbean sub-sea cables
- Prior to Columbus, CWC was a mobile, enterprise, data and telephone company, with 89% of revenues from these services
- ***Only*** 11% of revenue from TV and broadband



# Cable & Wireless (CWC)

- Opened operational hub in Miami in 2013
- New CEO Phil Bentley appointed January 1, 2014
- Bentley was open about the CWC issues and potential:
  - “We are seeing growth in mobile data demand, albeit from a low base, from growing smartphone penetration and have launched the latest mobile network technology, LTE, in three of our markets.” (2013/4 AR)

> But, what is also clear is that the business is trading below its full potential. Although the rate of decline in fixed voice is slowing, growth in our broadband and TV offer is disappointing and our revenue performance has been declining for several years. Whilst our cost performance has improved over the past year, our operations, processes and customer service can still be improved. And our markets are under-penetrated in the key growth areas of mobile data and broadband, when compared with more developed markets.
>
> In short, we have a substantial opportunity to improve the performance of our business and deliver more for our customers and our shareholders.

# Cable & Wireless (CWC)

*The Acquisition of Columbus International*

# Cable & Wireless (CWC)

- Columbus has revenue CAGR of 18% and EBITDA CAGR of 15% from 2011 – 2013, 43% EBITDA margin
- Rationale for the deal:
  - Will enhance CWC growth profile and accelerate towards strategic goals CWC unveiled May 2014
  - Significant operating cost and capital expenditures synergies
  - Additional revenue benefits
  - Material earnings enhancing in subsequent years
  - Reinforce CWC's mobile strategy, and cross-sell Columbus' HFC network to CWC customers and improve CWC mobile service by offloading data on larger fixed network
  - Allow CWC to be a leading quad-play provider
  - Adds 5 new TV markets to CWC, including Jamaica
  - Will speed up planned market entry in 7 new CWC markets
  - Leading subsea cable network in Latin America
  - Complementary businesses in three of CWC's largest Caribbean markets
- Cross-selling of triple & quad-play bundles
- Improve CWC video offering content costs
- Reinvest in the network, improve reliability, reduce customer churn

Source: Cable & Wireless / Columbus November 2014 Announcement

# Cable & Wireless (CWC)

- Underlying growth drivers, based on CWC/Columbus proxy:
  - Economic growth in the market remains decent, from 0% GDP in Barbados to 6% in Panama
  - Increasing penetration of products such as smart phones, broadband and TV
  - Competition will be tough in Bahamas, second largest market, as new mobile provider entering market
  - Reducing cost base, especially in the Caribbean
  - Project Marlin (capex program) expect to capture growth in mobile data, broadband and TV
  - Where investments have been made, traffic carried over the CWC networks has increased: 71% in Panama, 34% in Bahamas and Jamaica, 82% in Grenada, and 160% in St. Vincent (CWC Nov. 2014)

Source: Columbus & CWC Announcement, Nov 2014

# Cable & Wireless (CWC)

- Strategy to accelerate the business post-Columbus acquisition:
  - Upgrade CWC Caribbean network
    - Rollout high speed broadband in Jamaica, Cayman, Barbados, Anguilla, Antigua, T&C, BVI
    - Columbus has high speed fiber optic and HFC in Curacao and Trinidad
  - Develop fixed-mobile products and bundles
    - Offer converged opportunities
  - Enhance TV offering
    - CWC offers video in 4 markets, introducing TV in 7 markets in 2015
    - However, CWC does not have comprehensive catalogue yet due to being new, and has high content costs
    - Columbus has more established video offering, more content, can access at lower cost than CWC
  - Distribution
    - CWC has wider footprint (129 stores) versus Columbus (23 in Caribbean)
    - Look to cross-sell Columbus TV into CWC larger base

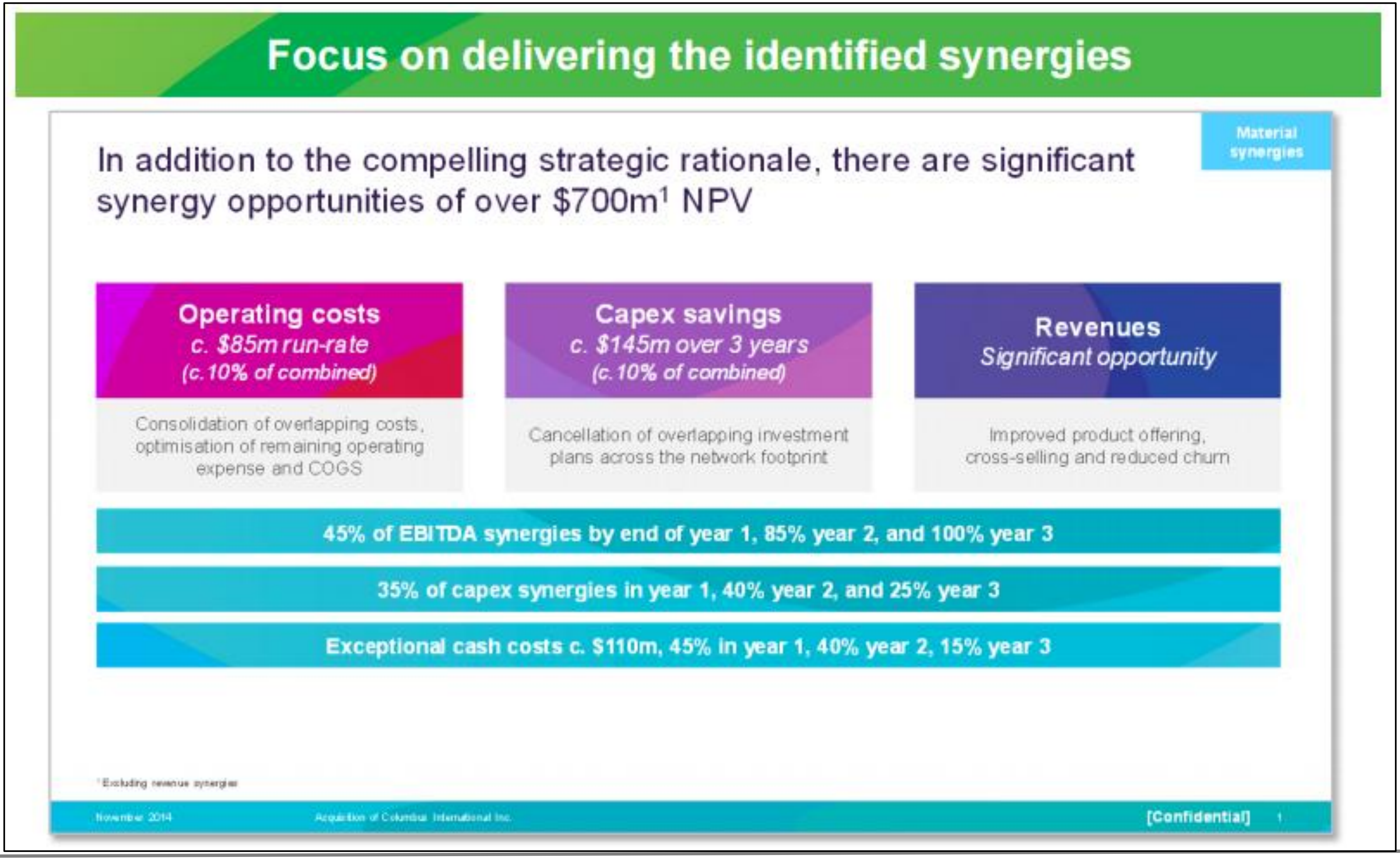
Source:

# Cable & Wireless (CWC)

- Synergies:
  - Pre-tax annualized $85m (delivered in full by 2017/18)
  - One time capital expenditure synergies of $145m in first 3 years following completed (35% year 1/ 40% year 2/ 25% year 3)
  - Additional revenue synergies (cross sell, expand video for CWC)
  - Duplication of corporate and functional overhead, back office, marketing, sales, real estate, IT systems (=$50m)
  - Integration of networks and TV content (=$35m) and transition to Columbus' fixed line fiber netowkr where networks overlap, renegotiate maintenance fees
  - Leverage Columbus' superior TV content costs, greater economies of scale
- Expects the synergies will be realized:
  - 45% by year 1
  - 85% by year 2
  - 100% by year 3
- CWC will incur $110m one-off cash costs over the first 3 years after acquisition
  - 45% year 1
  - 40% year 2
  - 15% year 3

Source:

# Synergies with Columbus Acquisition




Source: C&W May 2015 Presentation on Earnings

# Cable & Wireless (CWC) + John Malone

Cable&Wireless Communications

- Following the acquisition, John Malone's "advisor" Thad York would be a director of CWC
- Thad York previously serviced in senior positions in Telecommunications Inc. (TCI)
- Started in cable as an installer for TCI while attending college

(C) Thad York

Mr. York was proposed by CHLLC to be a director of CWC following Completion. He is the President, General Manager, and Director of numerous geographically diverse and various personal business entities controlled by John C. Malone. Mr Malone has a very large and diverse portfolio of investments, including holdings of between 2 per cent. and 5 per cent. of the issued shares and between 25 per cent. and 45 per cent. of the voting interests in Liberty Media Corporation, Liberty Global plc, Discovery Communications, Inc., Liberty Interactive Corporation, Starz, LLC, Liberty Trip Advisor Holdings, Inc., and Ascent Capital Group, Inc..

Liberty Media Corporation owns interests in a broad range of media, communications and entertainment businesses. Those interests include subsidiaries SiriusXM, Atlanta National League Baseball Club Inc., and True Position Inc., interests in Charter Communications and Live Nation and minority equity investments in Time Warner Cable, Time Warner Inc., and Viacom. Liberty Interactive Corporation owns interests in subsidiaries and other companies that are primarily engaged in the video and digital commerce industries. Liberty Global plc is the largest international cable company with operations in 14 countries; its consumer brands include Virgin Media, UPC, Unitymedia, Kabel BW, Telenet, VTR, and Liberty Puerto Rico. Starz, LLC is a leading integrated global media and entertainment company with operating units that provide premium subscription video programming on domestic pay television channels in the United States, global content distribution and animated television and movie production.

Prior to his current roles, Mr. York held senior positions at Telecommunications Inc. ("TCI") and TCI International that ranged from operations to finance in TCI's cable TV business. He started in the cable television business as an installer for TCI while attending college. Mr. York graduated from the University of Wyoming with a degree in finance, and received his Masters of Business Administration from the University of Denver.

# Cable & Wireless (CWC)

*The Economy:*

The Bahamas (BTC)

Caribbean (LIME)

Panama (+Movil)

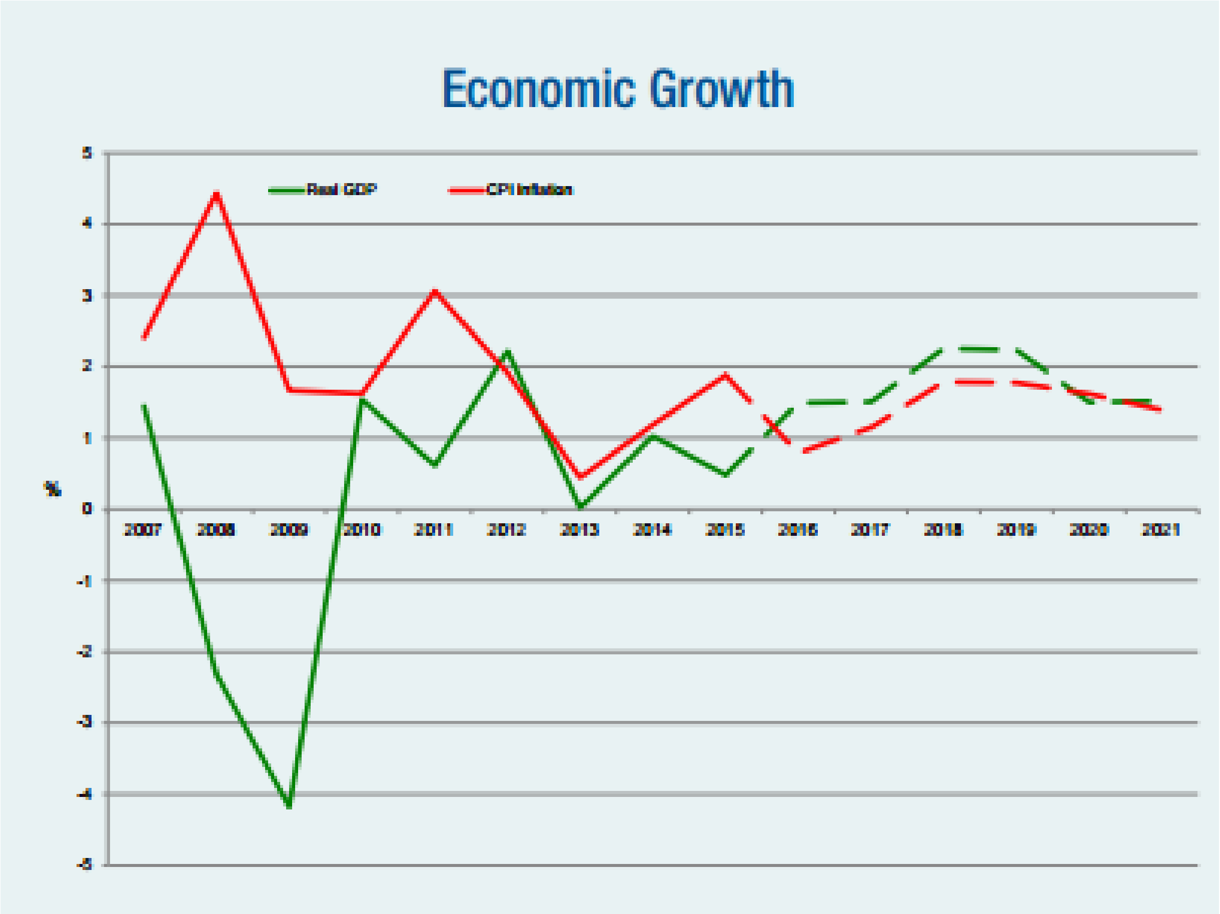
# The Bahamas: Economy

- Economic growth has been low over the last few years, and this will likely persist due to high unemployment and elevated public/private debt levels
- Tourism accounts for >45% of The Bahamas GDP, and is more susceptible to global shocks
- Over 80% of the tourist come from U.S., is susceptible to U.S. related economic shocks
- Recent concerns over the Zika virus in Caribbean and The Bahamas could curtail tourism
- Based on estimates from Scotiabank, real GDP growth is estimated to be in 1-2% range over the next couple of years
- VAT introduced in January 2015 has kept inflation at bay, around 2.0%
- According to AM Best, most countries in the Caribbean/Bahamas are lower risk

Source:

# The Bahamas: Economy

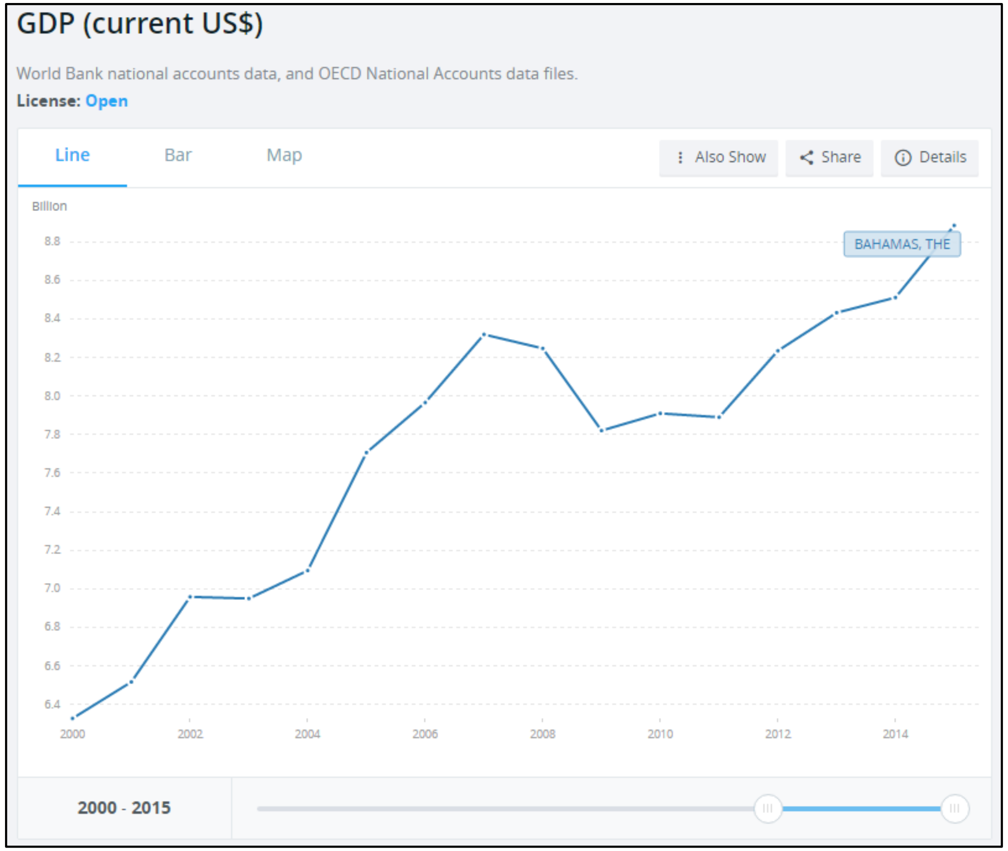
- A new tourism complex – Baha Mar (funded by China) – was supposed to open but Baha Mar has filed for Ch. 11 and has sued their largest creditor
- The Bahamian dollar is pegged to the USD$ at one for one ratio, limiting monetary flexibility
- Hotel revenues declined 5% in Q1/2016

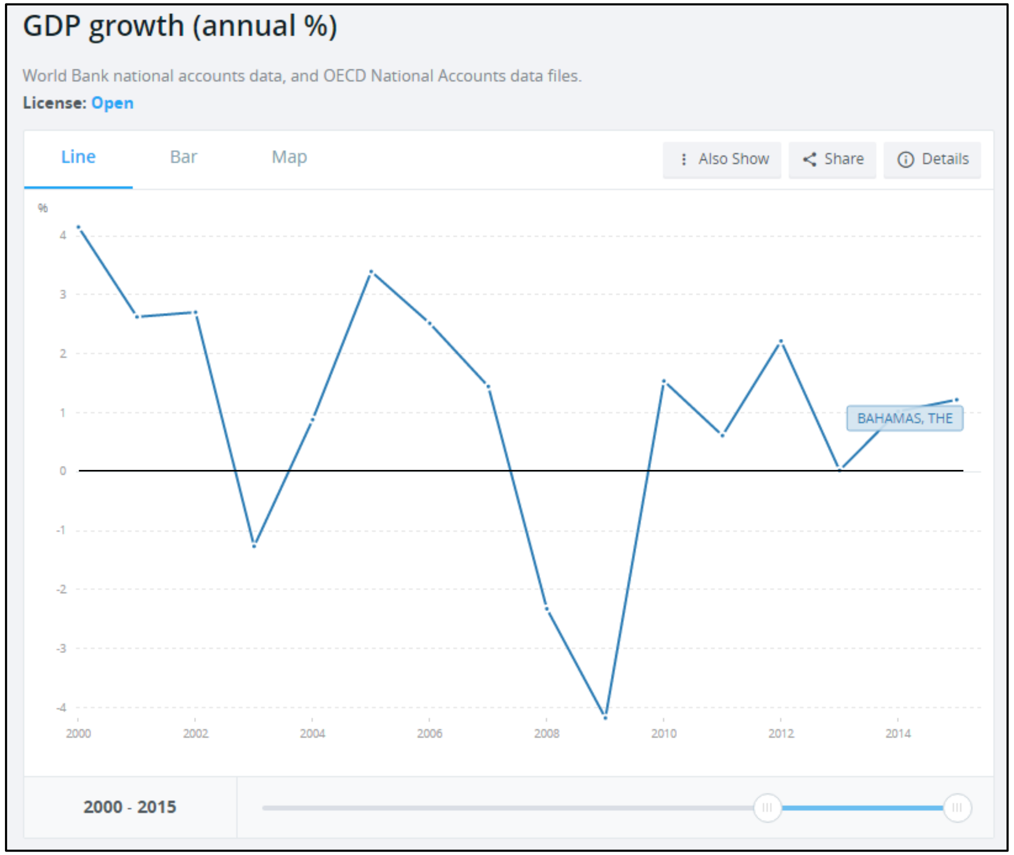



Source: IMF World Economic Outlook and A.M. Best

# The Bahamas: Economy

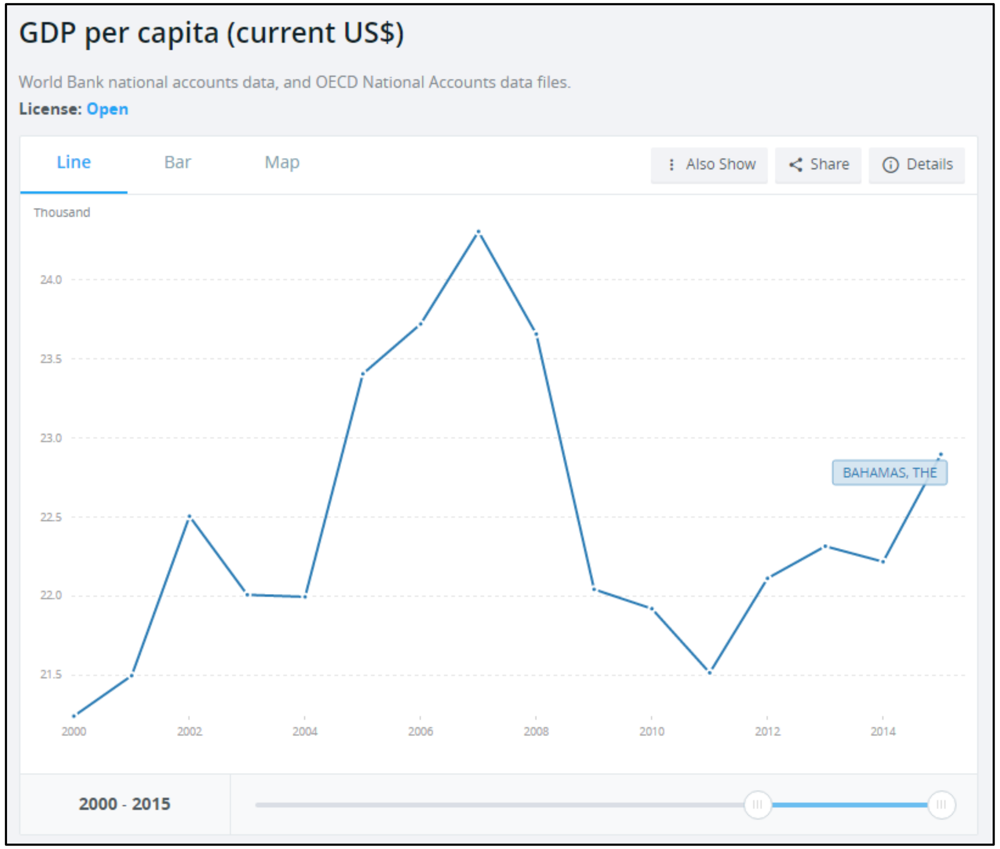
- GDP growth has been low (<2%) over the past few years, hasn't been >3% since mid-2000s

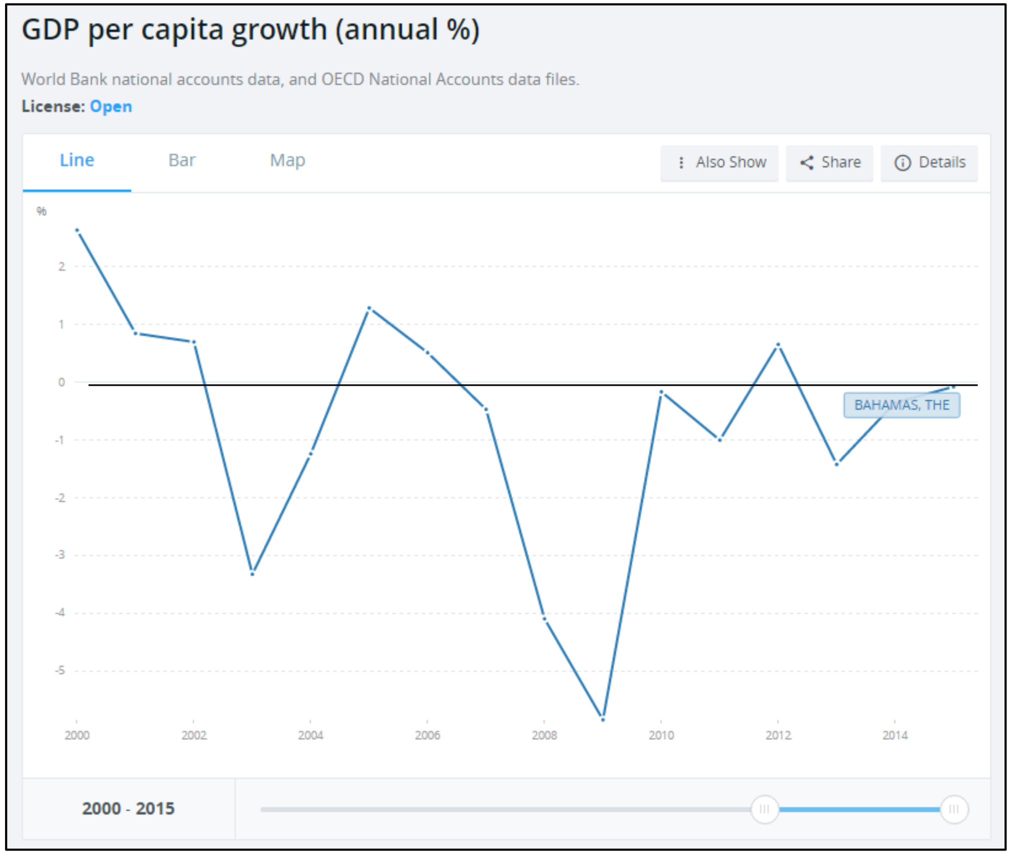


# The Bahamas: Economy

- GDP per capita declined quite a bit following the recession in the U.S. in 2008/9, whereby GDP per capita declined by about 10% over a 3-4 year period

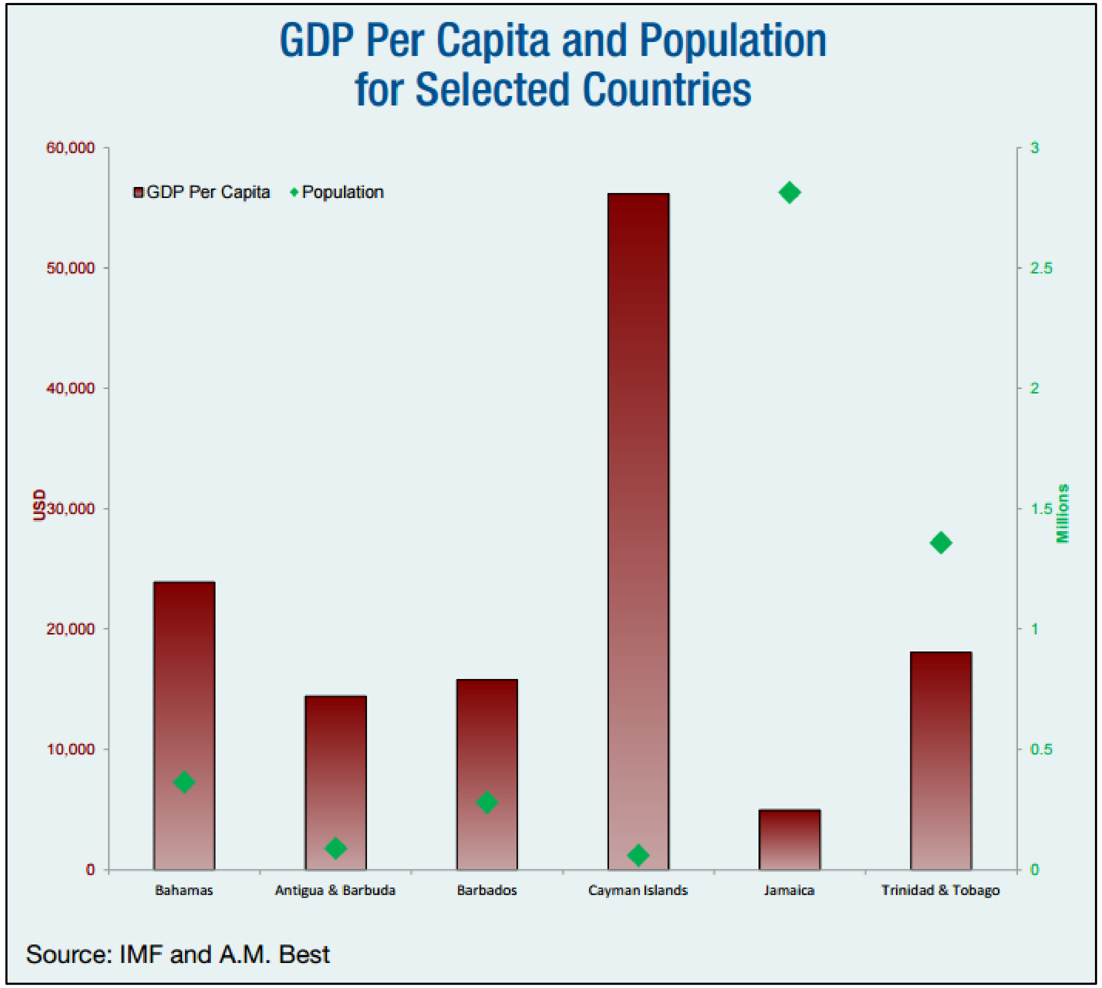



Source: World Bank

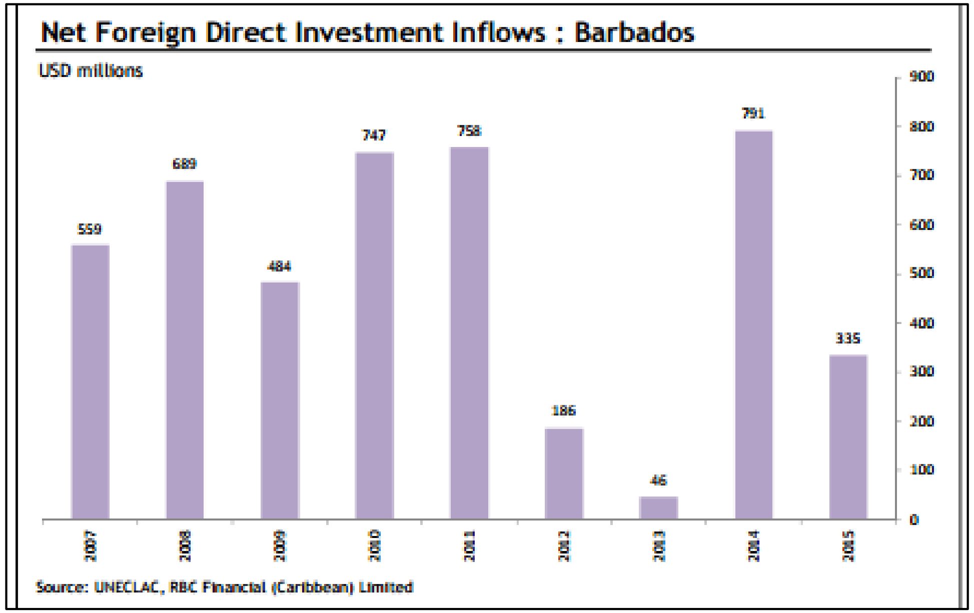
# Caribbean: Economy

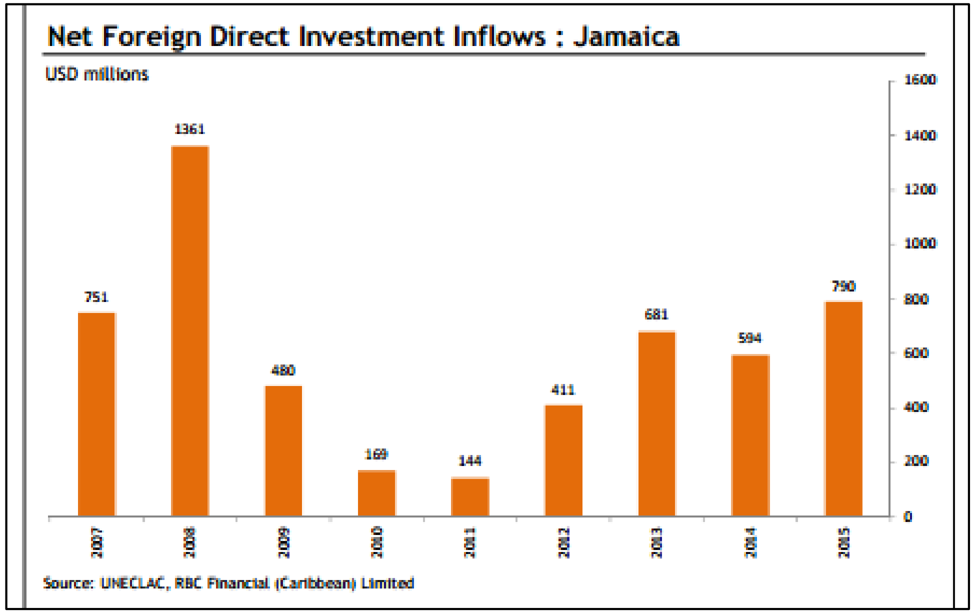
- Caribbean is expected to contract in GDP in 2016 (-0.3%) after a contraction in 2015 (-0.5%)
- Jamaica and Barbados are largest revenue sources for Cable & Wireless
- Jamaica has a low GDP per capita compared to many other larger countries in Caribbean/Bahamas (see chart right)



# Caribbean: Jamaica & Barbados

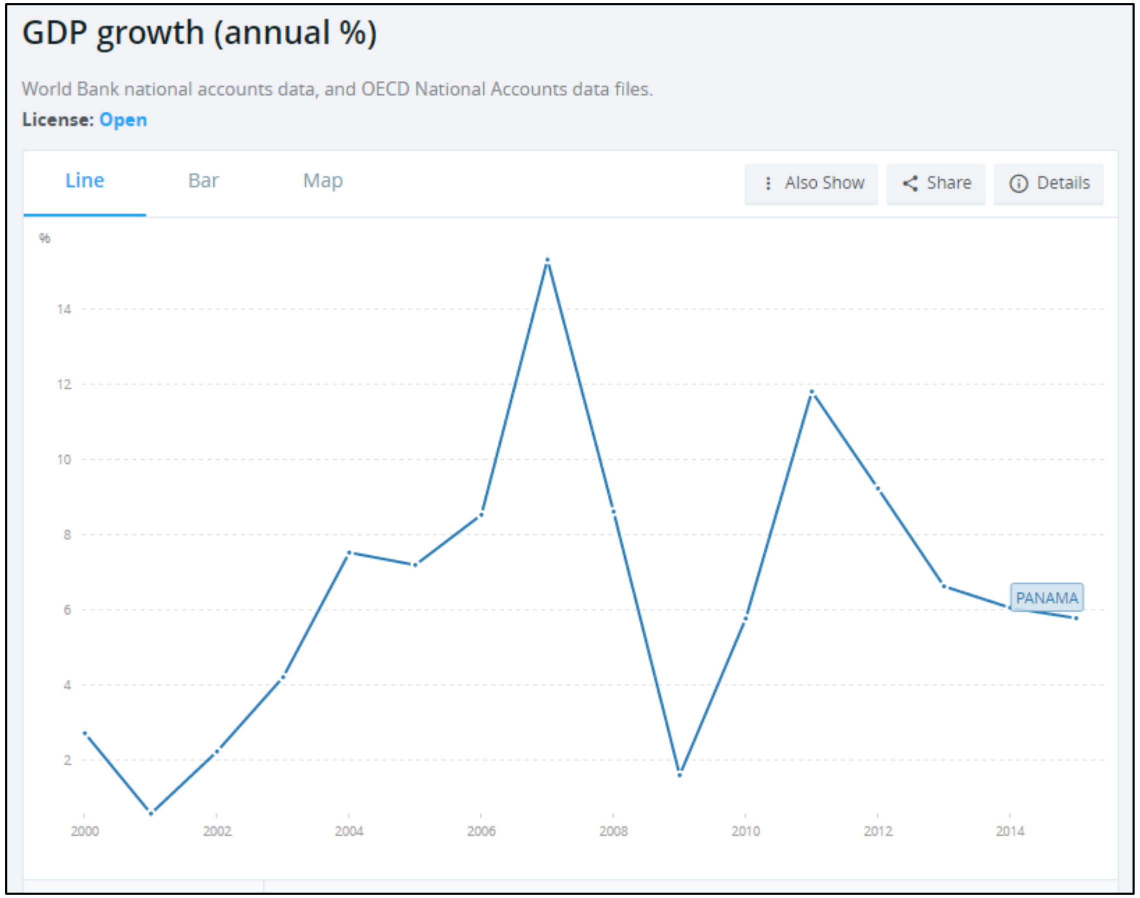
- Inflows of investment are showing positive trends for Jamaica, but a large drop off since 2011 in Barbados
- Barbados still has high unemployment (10.7%) which is down from year prior of 12.4%
- Cruise passengers were down in Barbados by 15.6% y/y in April 16 period



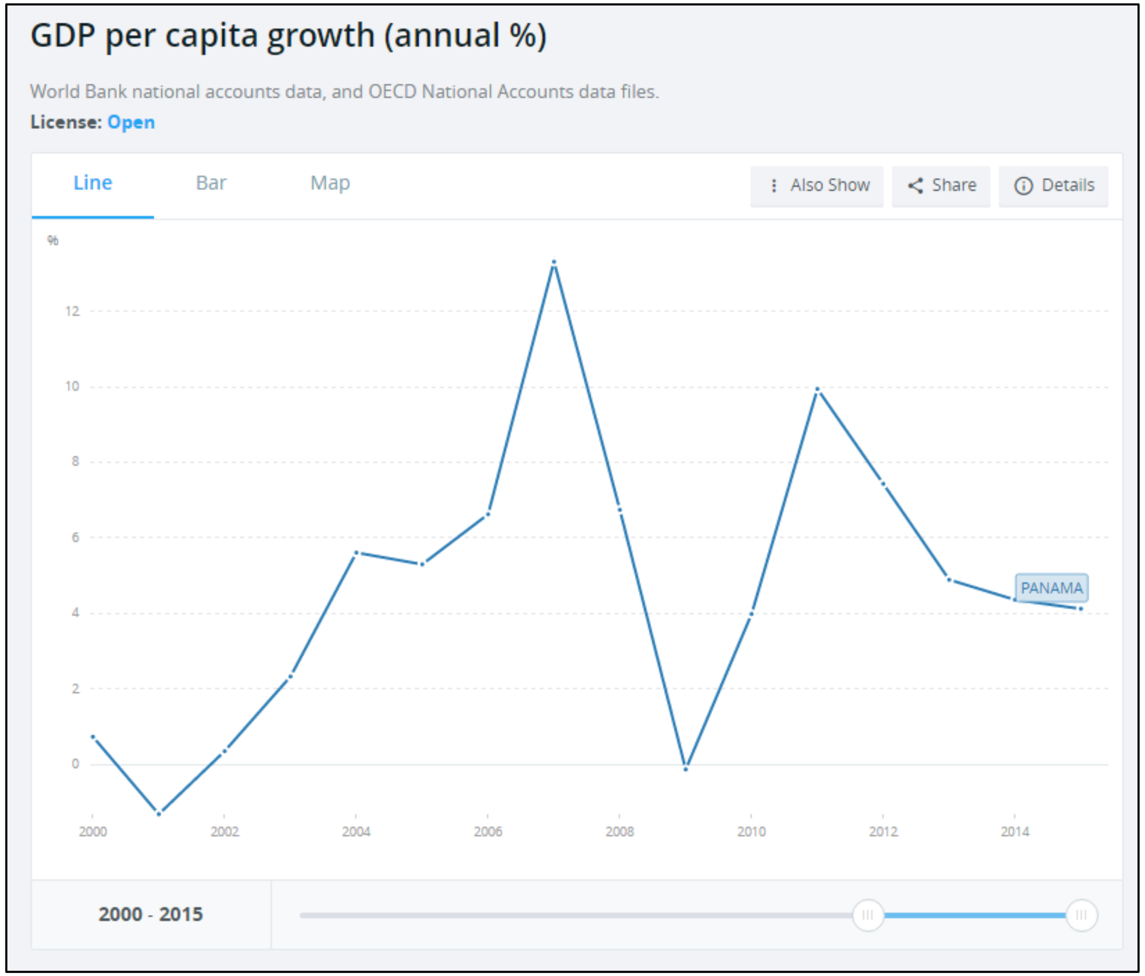
# Panama: Economy

- Panama is on pace to grow at the slowest rate in about 5 years, as government infrastructure projects have slowed
- Still, the economy is growing at above-average rates compared to many other LiLAC economies, around 6% in 2015
- Panama has been impacted by lower demand from Venezuela and Colombia
- Panama’s economic growth was improved through the expansion of the Panama Canal, but is currently around 6% of Panama GDP




Source: World Bank, Reuters

# Panama: Economy





Source: World Bank, Reuters

# Cable & Wireless (CWC)

History:

*2009 - Current*

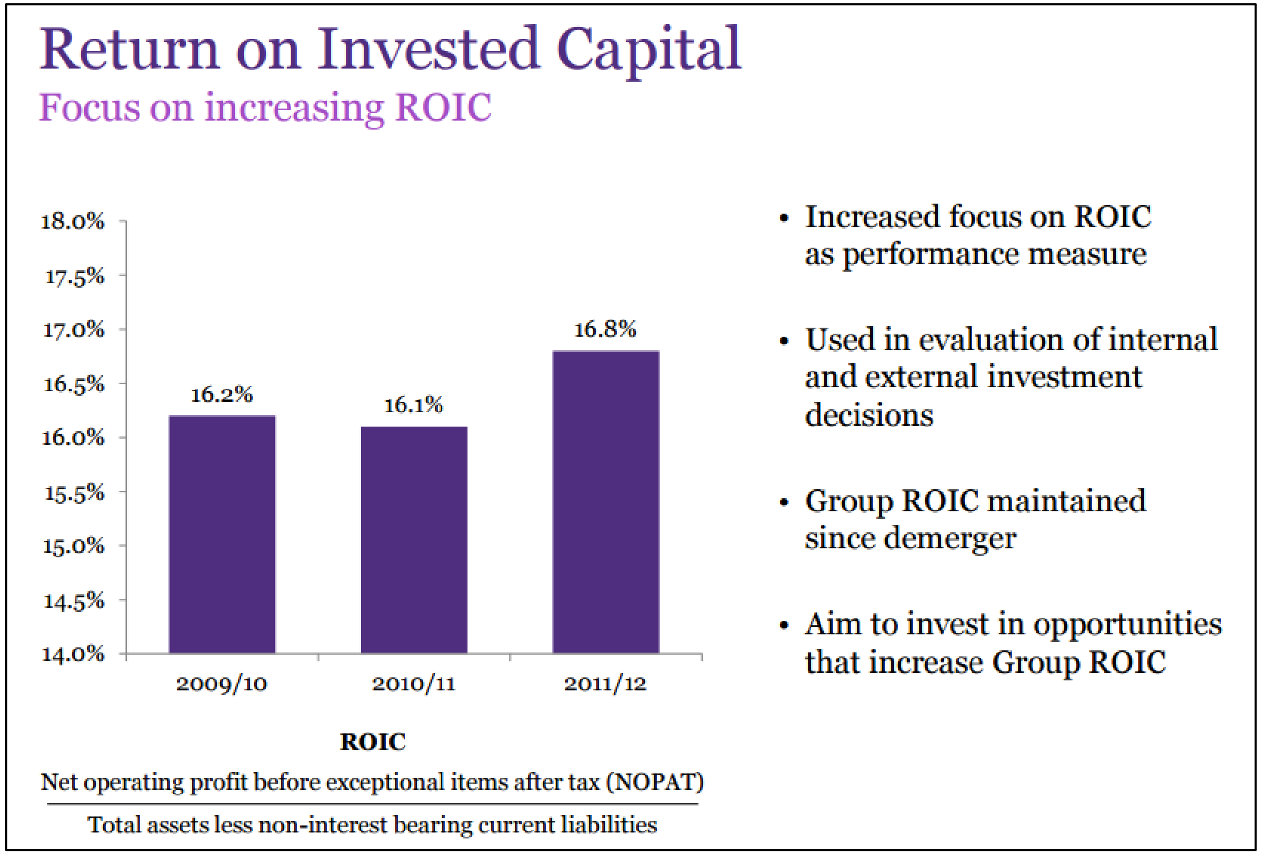
# 2009/10….

- **Four** regional business units: Caribbean, Panama, *Macau and Monaco & Islands*
- Provided mobile, broadband, fixed line, and enterprise (no video)
- Cable & Wireless was de-merged as the business was underperforming, unfocused, and the UK business was draining cash
- Three business units – Panama, Macau, and Monaco & Islands – operate in “premium GDP” territories
- Caribbean is exposed to tourism and more susceptible to global economic shocks
- Launched “pay TV” in Panama in late 2009 for the first time

Source:

# …2011/12….

- Focused on restructuring and improving the businesses
- Bahamas restructuring = 470 employees left, had major cash impact during the year
- Panama restructuring reduced headcount by 14%
- Total Caribbean restructuring costs = $30-$35 million
- Impairment of Jamaica, due to mobile assets
- Began high speed data rollout in Panama and Caribbean (FTTC)
- $125m spent on capex in Panama mostly due to mobile




Source: CWC filings, 2011/12 Annual Report

# ….2012/13….

- Agreed to sale of Monaco & Islands for $680m
- Agreed to sale of Macau division for $750m
- Shift to focusing on Latin American market only, not a cluster of unrelated geographical cable systems
- Set a target of $100m of annual cost savings over next 2 years from streamlining the businesses
- The business operations looks almost identical to what Cable & Wireless looked like prior to Columbus acquisition
- 32% of mobile handsets sold in Panama and Caribbean were smartphones, driving mobile data revenue +47% in Panama
- Plans to launch “LIME TV” in Caribbean
- Jamaica improved as regulations eased, “creating a more level playing field” for mobile, offset by a special telecoms tax

# ….2012/13….

Cable&Wireless Communications

## Disposal update

Successfully reshaped the portfolio to focus on Caribbean and Latam

Sold off non-core markets to focus solely on LatAm

| | Macau | Islands (ex-Seychelles) | Seychelles | Monaco |
|---|---|---|---|---|
| **Status** | Completed | Completed | Awaiting approval | Transaction to be unwound |
| **Consideration** | \$807m | \$601m[1] | \$110m[2] | Unwind Batelco agreement \$(100)m |
| **Completion timing** | June 2013 | April 2013 | 2013 | 2013 |

Total cash proceeds of \$1.4bn received in H1

Since demerger, CWC has exited 19 markets

[1] Includes \$100m for 25% of 55% stake in Monaco Telecom
[2] Cash and debt free basis excluding transaction costs



Source: Cable & Wireless 2012/13 Annual Report

# .2012/13…John Malone takes stake in Columbus

- Whether the selling off of Macau and Monaco was due to John Malone, or whether John Malone took a stake in Columbus following the announcements of the selling of these assets, the newly-LatAm focused cable company (Columbus) was setting the stage for future consolidation in LatAm
- John Malone purchased stake in Columbus in January 2013
- Stake was purchased around the time of the selling off of Macau and Monaco by Cable & Wireless
- Not too long after Malone purchased his stake in Columbus, Cable & Wireless (in which Malone did not have a stake in) formed a JV with Columbus International (John Malone had a stake in) called CNL-CWC Networks Ltd.

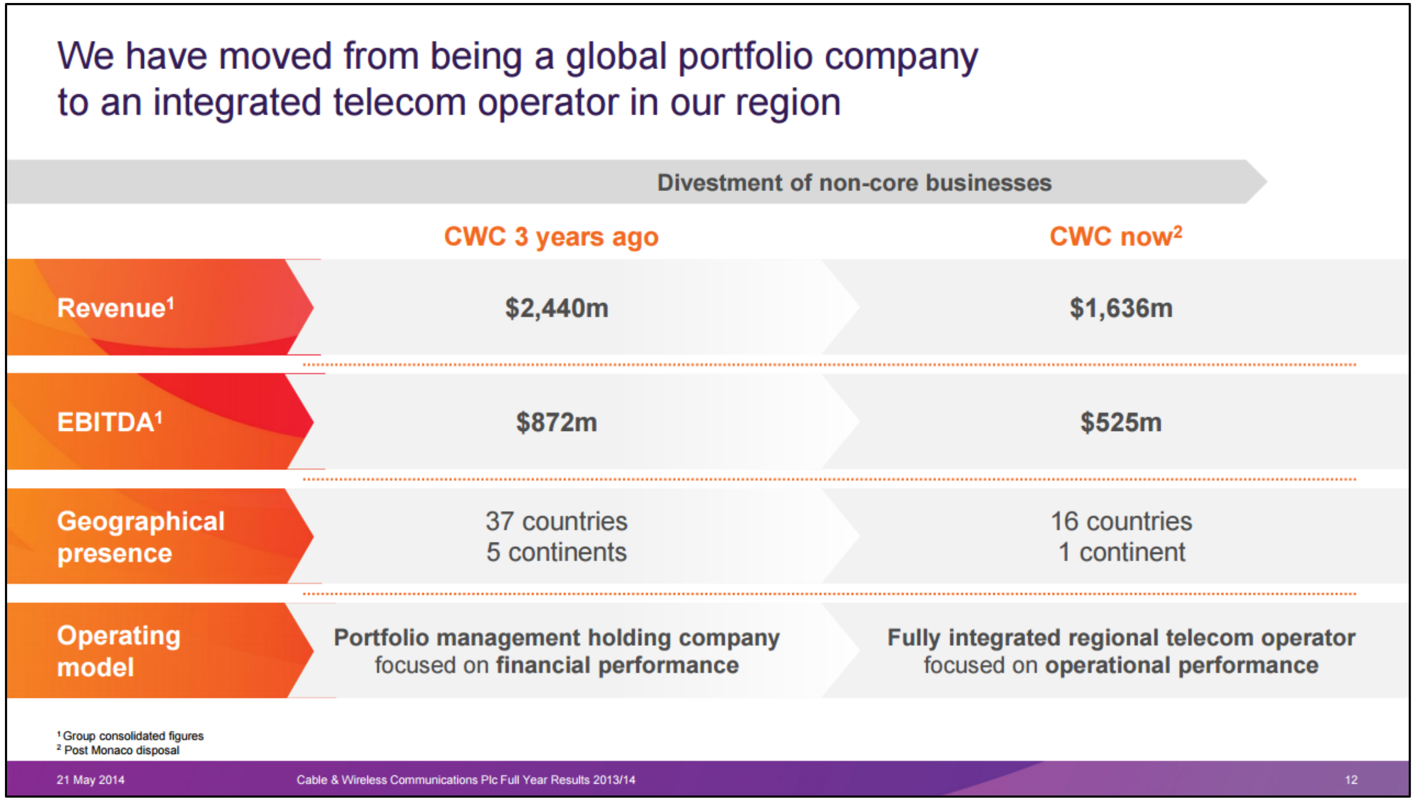
# ….2013/14….

- Panama mobile still above 50% market share
- Jamaica mobile gaining market share as LIME competing on *price and value*.
- Preparing for new mobile entrant in The Bahamas, currently have monopoly
- ***Project Marlin*** announced
  - Investments in 4G (HSPA+) cell sites
  - Expanding HFC in urban areas while deploying direct-to-home satellite services across Panama
  - Caribbean – deploy TV over broadband (IPTV) services, focusing initially on Cayman, Barbados, The Bahamas
- TV = 2% of total company revenues today
- B2B growth though 42,000 km sub-sea fiber-optic cable JV with Columbus, CWC has 27.5% economic interest
- Smartphone penetration of 30% across current markets
- Launched TV services in Cayman in 2013 as centerpiece of new quad play offer, and LTE services which resulted in data revenue increase of 53%
- Planning to launch LTE in Antigua and Barbuda
- Funded BTC Foundation with Bahamas government, contributed 2% of BTC equity shares
- Secured new 20 year license in Panama (until 2037) for mobile
- Secured new 15 year mobile license from 2015-2030 for $30m, giving access to 20 MHz of 1900 MHz spectrum to expand HSPA+ capacity and 24MHz of AWS spectrum for eventual LTE network deployment
- Laid off 1,240 employees in Caribbean, cost $174m, and had voluntary separation scheme in Trinidad & Tobago

Source: Cable & Wireless 2013/14 Annual Report

# ….2013/14….

- Cable & Wireless made shareholder friendly moves, completing the sales of non-core assets
- CWC got “smaller” in order to improve shareholder performance
- Keep in mind that CWC and Columbus have a Joint Venture at this point through the sub sea cable assets

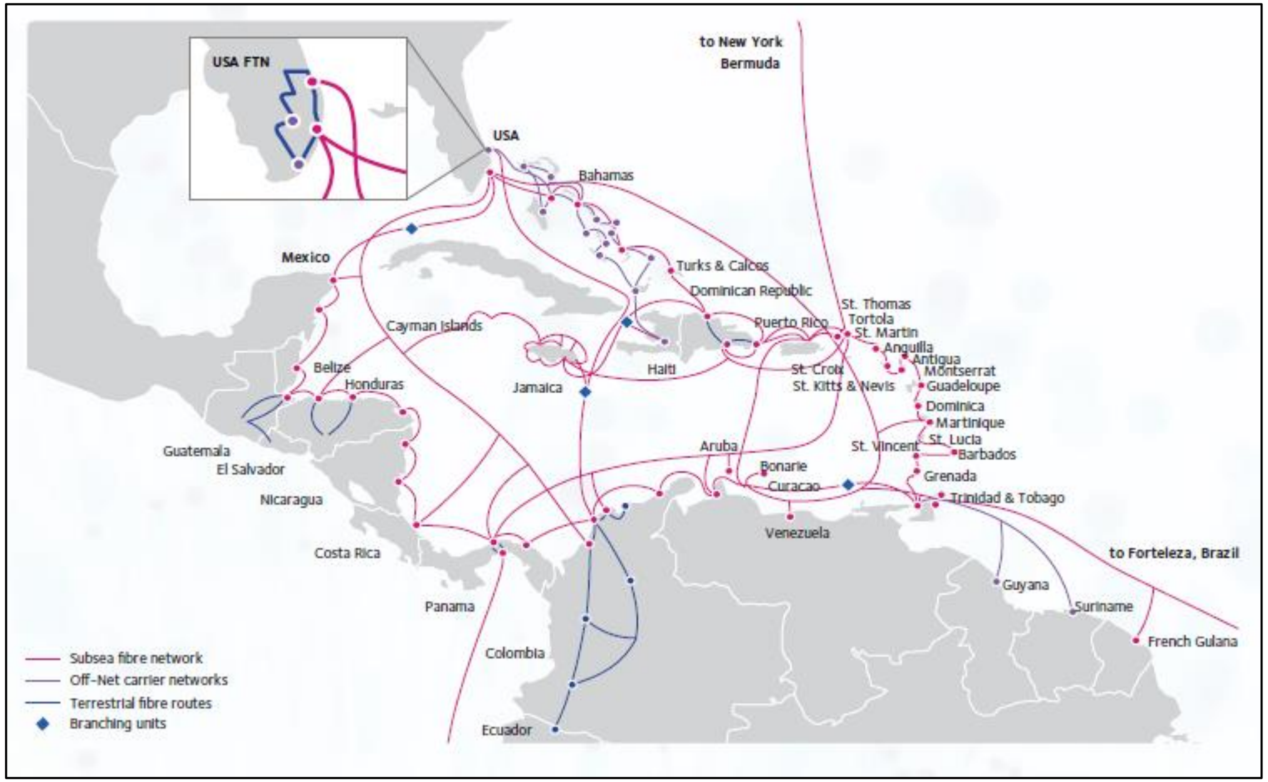


# ….2014/15….

- Officially launched Project Marlin, a 3 year $1 billion investment in networks – fixed and mobile
- Difficult economies in Caribbean markets, intense mobile competition in Panama, soon to be liberalization of mobile market in The Bahamas
- Capex increased from $251min 2013 to $442m in 2014, due to first year of Project Marlin
  - **Mobile networks** – "We launched LTE in four markets and HSPA+ in all markets. Our total number of HSPA+ sites grew by 110%. Our mobile networks showed improvement across all parameters with eight networks judged as 'best-in-class' based on international benchmarks. We have more work to do in terms of mobile network performance in our larger scale markets."
  - **Fixed networks** – "We rolled out over one thousand km of terrestrial fibre optic cables across all our markets and passed c. 114,000 homes. Traffic on our fixed networks grew 31% as we drove our fixed-mobile convergence strategy to most efficiently deliver data to customers. We saw our 'production cost' of data fall 38% measured by 'cost per gigabit carried' as we improved our delivery efficiency."
- New CFO – Perley McBride, joined June 2014
- CEO of Panama business stepped down after 15 years
- Data traffic increased 165% across Caribbean markets (LIME brand)

# ….2014/15….

- Backhaul fiber-optic networks (sub-sea and terrestrial) are core means of transferring large amounts of data traffic as customer usage grows
- Regardless of point of origin – mobile, broadband, B2B or B2G – backhaul networks ultimately carry all traffic to their destinations, which is becoming increasingly international
- 44% of customers now have a smartphone
- Data traffic grew 39%
- Achieved $100m run-rate savings goal as over 800 members exited the business over 2 years
- FTC and VDSL deployments completed in Barbados and Cayman, enabling 100 Mbps speeds
- Fiber upgrades in T&C and BVI, a 6x increase in speeds
- LIME = 100% 4G coverage in all 13 markets



# ….2015/16

- Unified “Flow” brand launched across Caribbean, replacing LIME
- Flow Sports channels launched, includes Premier League broadcast rights
- Increased capacity: completed Pacific Caribbean Cable System network, a 6,000 km sub-sea cable that connects Ecuador, Panama, Colombia, Aruba, Curacao, Tortola, and Puerto Rico, terminates in Florida, USA
- On pace to deliver $125m in cost savings, $47m achieved to date
- 2015 marked year 2 of Project Marlin completion
- Columbus acquisition led to disconnect of 33,000 video subscribers in 2015

** Annual Report for 2015/16 (ending March 2016) was less comprehensive than previous years due to the impending acquisition by LiLAC*

Source: Cable & Wireless 2015/16 Report

# CWC: Some Cable Growth Drivers (“macro”)

- Population growth
- Household growth
- Take Rate of Pay-TV (chart right)
- Take-Rate of Broadband
- Take Rate of Mobile
- Smartphone Penetration
- Expansion of next-generation Wireless Technology
- Data usage

# CWC: Growth Drivers ("micro")

- Customer Relationships
- Increased penetration (RGUs per Customer Relationship)
- More RGUs per Customer Relationship = higher ARPU
- Pricing power
  - Depends on competition
  - Depends on current share of customer wallet
  - Depends on value proposition vs. alternatives/substitutes
- Broadband speeds = if CWC increases speeds, do customers upgrade and utilize these higher speeds, thus increasing ARPU and margins?
- New-build opportunities?
- Quad Play
- Build out and improvement of wireless network and reliability

# Cable & Wireless (CWC)

Panama (+Movil)

# Panama (+Movil brand): *Brief Overview/History*

- Leader in mobile, fixed line, and broadband
- Began Video services at the end of **2009** for the first time, bundled with broadband and telephone for triple play
- **2009** saw entry of two new mobile operators, impacted pricing as competitors offered aggressive pricing and handset subsidies; still +Movil had a 54% market share.
- **2009**: only 22% of Panama homes are connected to high-speed broadband
- By **2011**, market share decline to ~50% amidst fierce competition/ pricing pressures
- **2012**: 196% mobile penetration (up from 185%) and 11% mobile data penetration. Only 36% of households have internet, up from 33% (country-wide).
- **2012**: "*this business is one of the most competitive mobile markets in Central America with four operators and mobile number portability giving customers the opportunity to freely move between networks*"

Source: CWC Filings

# Cable & Wireless (CWC)

The Bahamas (BTC)

# The Bahamas: *Brief Overview/History*

- April 2011, CWC expanded to The Bahamas, becoming the $14^{th}$ market in the region for CWC
- Acquired 49% stake “BTC” and began immediate restructuring process to improve the business
  - Introduced single rate for mobile call
  - Launched several refurbished retail outlets
- $204m acquisition price
- 2012: 4G came online for first time

Source: CWC filings

# Cable & Wireless (CWC)

Caribbean (“LIME”)

# Caribbean (LIME brand): *Brief Overview/History*

- 2009:
  - Services across 13 islands
  - LIME brand = Landline, Internet, Mobile, Entertainment
  - Caribbean suffered a deep economic recession in 2009/10 as tourist numbers contracted sharply
  - This led to pricing pressures, particularly in mobile, where there were free on-net minute offers, new handset subsidies
  - EBITDA was 20% lower due to lowering price to maintain subscriber count
  - Largest market – Jamaica – introduced a new 3G mobile network
- 2011:
  - Took a $184m non-cash write down on Jamaican assets
  - Caribbean recession remains, LIME continues to focus on “cost base” against backdrop of rising inflation in the region
  - Launched “Pay TV” in Barbados for first time
- 2012:
  - EBITDA margin is 24%, set target for above 30% in the medium term

Source: CWC Filings

# Cable & Wireless (CWC)

## Submarine Cable Assets

# "Sub Sea Cable"

- May 2013 announced strategic partnership with Columbus Networks Limited (Columbus International) to develop international wholesale capacity business
- This JV contained more than 42,000 km of sub-sea cable connecting 42 countries
- Puts CWC & Columbus in the position to meet the data capacity demands of the retail cable operations in the future, as well as optimizing capital expenditures on sub-sea cables in the future
- Now, combined, C&W and Columbus have over 48,000 miles of fiber-topic network
- Use Xtera Communications, Inc. to upgrade their systems to 100G

> C&W Networks has bolstered its subsea network capacity by upgrading several unrepeatered and repeatered segments to 100G, using Xtera's Nu-Wave Optima™ multi-purpose optical networking platform. The submarine cable systems were upgraded with new 100G channels to include the 1,570 km Gemini – Bermuda cable system, the 1,700 km Caribbean – US (CBUS) cable system, the 1,700 km East West Cable (EWC) system, the 1,440 km festoon Eastern Caribbean Fiber System (ECFS), and part of the 8,700 km ARCOS-1 submarine ring.
>
> "The global build-out of data centers, coupled with rapid deployment of cloud-based services, are driving renewed demand for even higher fixed and burst rate connections with emphasis on high availability through redundancy," said Paul Scott, President of C&W Networks. "Our goal is to proactively prepare our networks with the right technology to efficiently address the evolving business needs of today and the future. We are very excited to enhance our network performance to100G and 100G+ and Xtera was a natural choice for us."

Source: CWC and Xtera upgrade subsea announcement

# “Sub Sea Cable”

- From the Global Submarine Fiber Cable” market report
- Submarine fiber cable with high-capacity communications capability is an essential wireline communication medium between two continents, example: North America and South America
- Most submarine fiber cable projects take several months or years to complete
- Most submarine fiber cables have a capacity of 10-40 Gbps
- C&W upgraded some of their submarine cables to 100 Gbps to carry more capacity, using Xtera as the provider
- Currently, ***more than 97% of global data traffic is carried through submarine fiber cables***, with the remaining 3% over satellite systems
- Expectations by TechNavio are that Global Submarine Fiber Cable market will grow at 6.99% from 2014-2019
- In Latin America, growth in capacity demand is among the highest in any region
- Latin America is unique because of its strong integration with North American Internet infrastructure and web content, with Miami serving as a hub for much of the region’s international demand
- Brazil drives 5/8 of the international bandwidth demand in South America

Source: 2014 Submarine Cable Report by Terabit Consulting

# C&W Sub-Sea with Columbus "JV"

Cable&Wireless Communications

- May 2013: Columbus Networks and CWC Wholesale formed a JV to provide wholesale bandwidth solutions to Caribbean and Americas region
- JV called "CNL-CWC Networks Ltd."
  - Columbus Networks: managing partner
  - CWC Wholesale Solutions: provide support, management resources
- The forming of this JV was 4 months after John Malone took a stake in Columbus International
- From this point going forward, John Malone was able to watch Cable & Wireless more closely, deal with their management due to the JV in May 2013
- November 2014: Cable & Wireless announce bid for Columbus International

Source: CWC and Columbus May 2013 announcement

# “Sub Sea Cable”

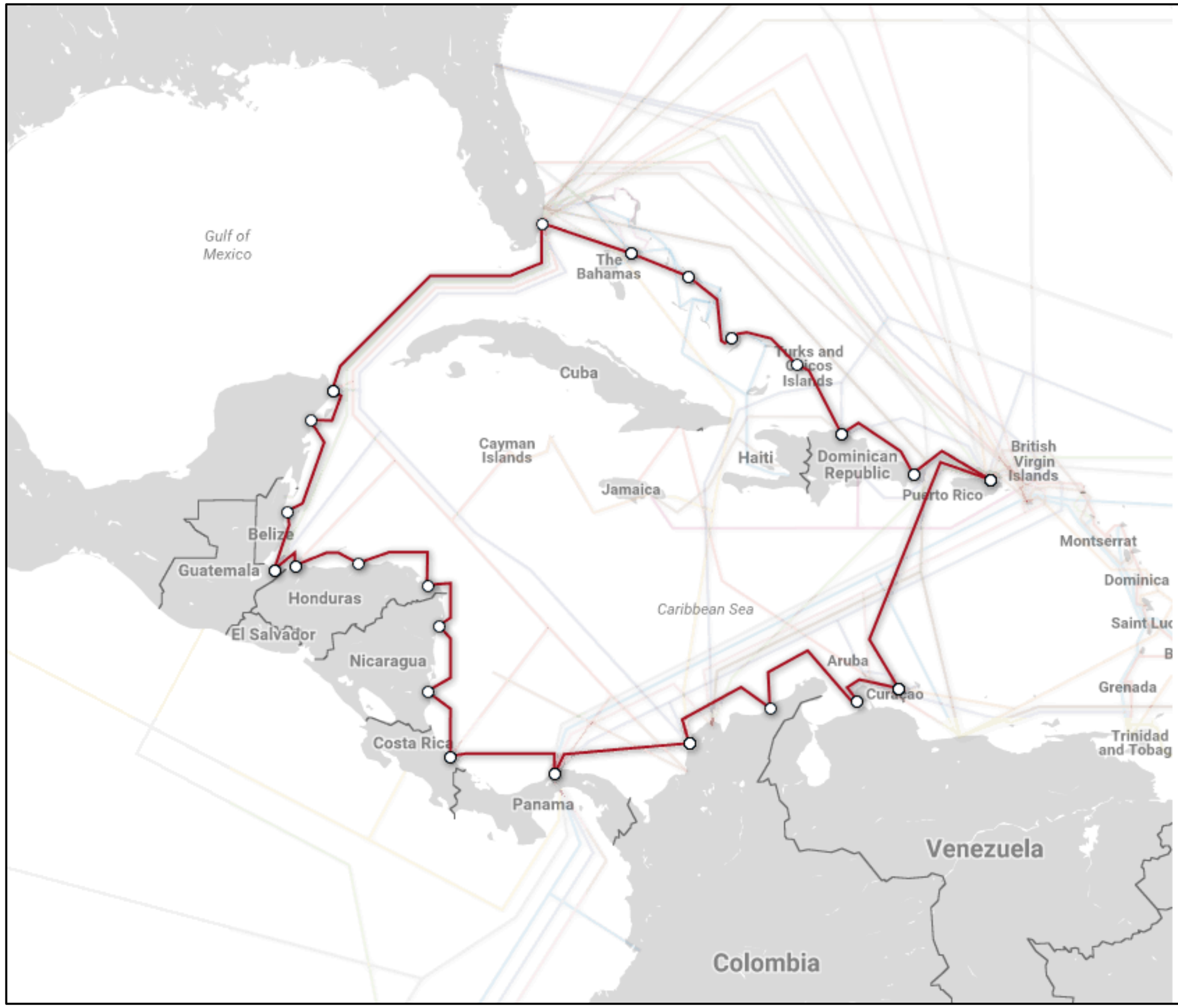
- 17 different submarine cable networks across Latin America and Caribbean
- Go to: http://www.cwnetworks.com/network-systems
- This site has the list of all of subsea cable systems that C&W has, as well as a description of each, the markets, the capacity

- ARCOS-1
- MAYA-1
- FIBRALINK
- CFX-1
- EC LINK
- TT-1
- GEMINI BERMUDA & CBUS-1
- CJFS & JSCFS
- EAST WEST CABLE (EWC)
- ECFS
- TAINO CARIB
- ANTILLAS-1
- AM-2 (AMERICAS-2)
- PAN-AM (PAN AMERICAN)
- PCCS
- BAHAMAS-2
- BDSNi

Source: CWC and Columbus May 2013 announcement

# Cable & Wireless Networks Map

# ARCOS-1




ARCOS
Email link

RFS: December 2001
Cable Length: 8,600 km
Owners: C&W Networks, CANTV, Codetel, Hondutel, Belize Telemedia, Enitel, AT&T, Alestra, Verizon, RACSA, United Telecommunication Services (UTS), Telecarrier, Tricom USA, Telecomunicaciones Ultramarinas de Puerto Rico, Internexa, Orbinet Overseas, Telepuerto San Isidro, Bahamas Telecommunications Company, Instituto Costarricense de Electricidad, Orbitel
URL: http://www.cwnetworks.com/

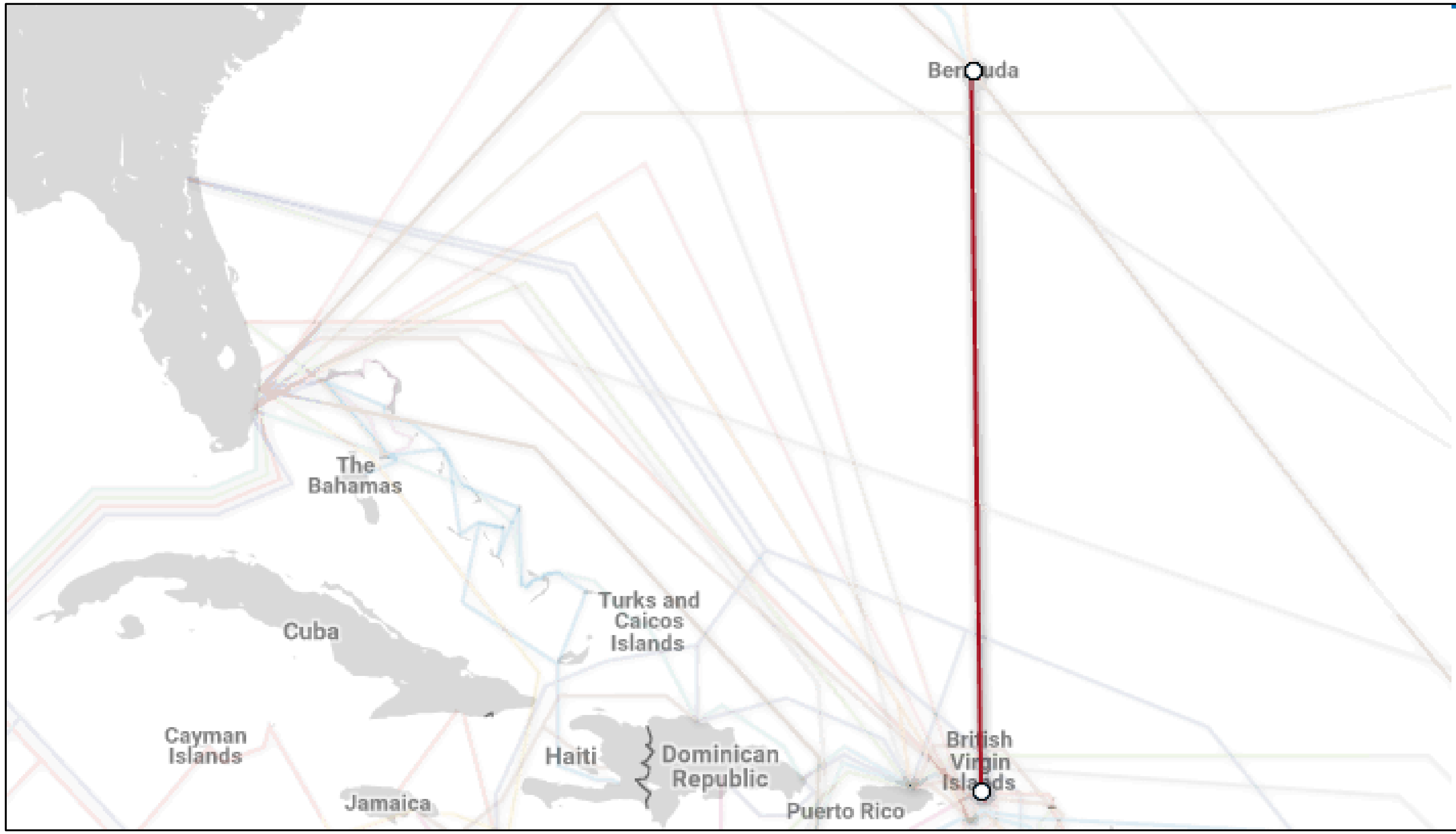
Landing Points

- Belize City, Belize
- Bluefields, Nicaragua
- Cancún, Mexico
- Cartagena, Colombia
- Cat Island, Bahamas
- Crooked Island, Bahamas
- Isla Verde, Puerto Rico, United States
- Maria Chiquita, Panama
- Nassau, Bahamas
- North Miami Beach, Florida, United States
- Providenciales, Turks and Caicos Islands
- Puerto Barrios, Guatemala
- Puerto Cabezas, Nicaragua
- Puerto Cortes, Honduras
- Puerto Lempira, Honduras
- Puerto Limon, Costa Rica
- Puerto Plata, Dominican Republic
- Punta Cana, Dominican Republic
- Punto Fijo, Venezuela
- Riohacha, Colombia
- Trujillo, Honduras
- Tulum, Mexico
- Willemstad, Curaçao

| |
|---|
| RFS YEAR: |
| 2001 |
| COUNTRIES CONNECTED: |
| USA (North Miami Beach), Bahamas, Turks and Caicos, Dominican Republic, Puerto Rico, Curacao, Venezuela, Colombia, Panama, Costa Rica, Nicaragua, Honduras, Guatemala, Belize, Mexico |
| LENGTH OF SYSTEM: |
| 8700 Km |
| OWNERSHIP MODEL: |
| Consortium |
| FIBER COUNT: |
| (12) Fiber Pair on Repeaterless Segments, (3) Fiber Pair on Repeatered Segments |
| FIBER TYPES: |
| SMF (Singe Mode) and PSF (Pure Silica) on Repeaterless, HDF/LMF/NDSF on Repeatered Segments |
| # OF SEGMENTS: |
| 26 |
| TECHNOLOGY VENDORS CURRENTLY DEPLOYED: |
| Xtera, Coriant, TE Subcom Latency on |
| LONGEST DLS: |
| 50 |
| CURRENT LIT CAPACITY: |
| 450 Gbits/s |
| CURRENT EOL (END OF LIFE) CAPACITY: |
| 8.4 Tbits/s |

Source: Submarine cable map

# Caribbean-Bermuda U.S. (CBUS)




Submarine Cable List

## Caribbean-Bermuda U.S. (CBUS)

Email link

RFS: October 2009

Cable Length: 1,600 km

Owners: C&W Networks

URL: http://www.cwnetworks.com/

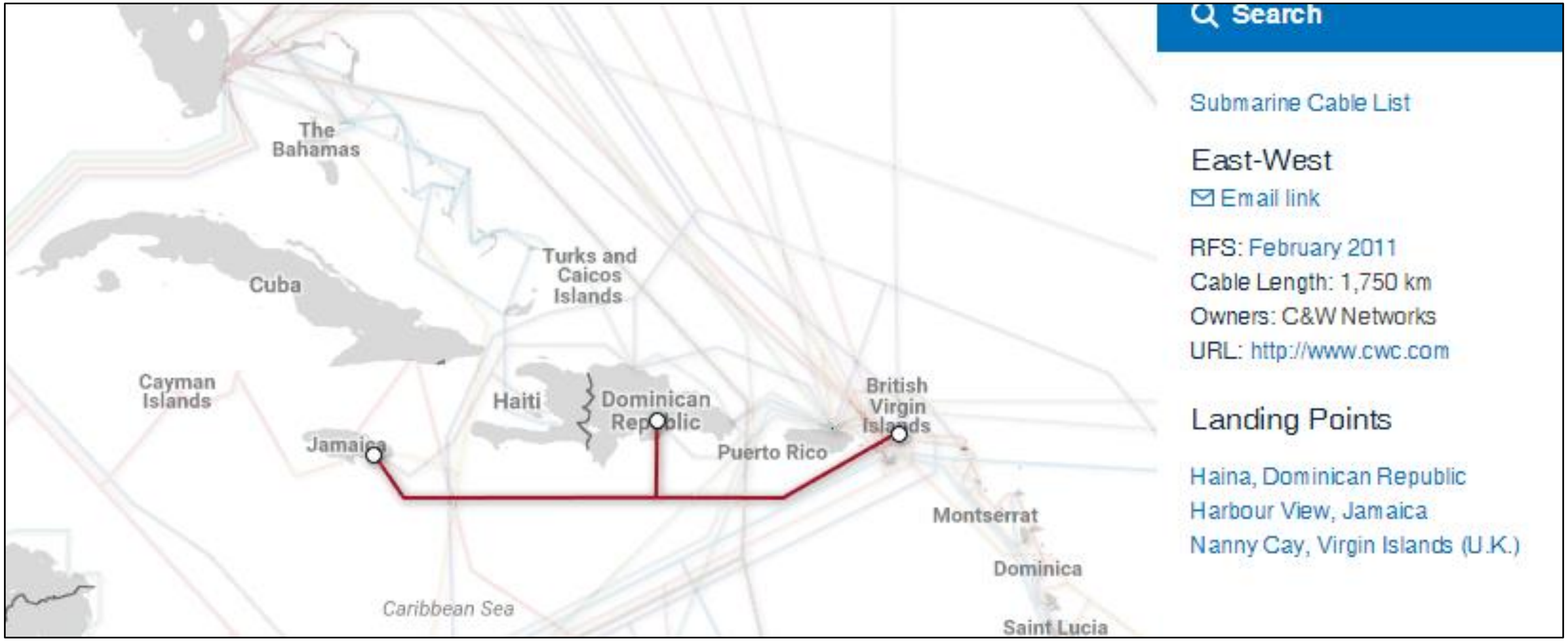
## Landing Points

St. David's, Bermuda

Tortola, Virgin Islands (U.K.)

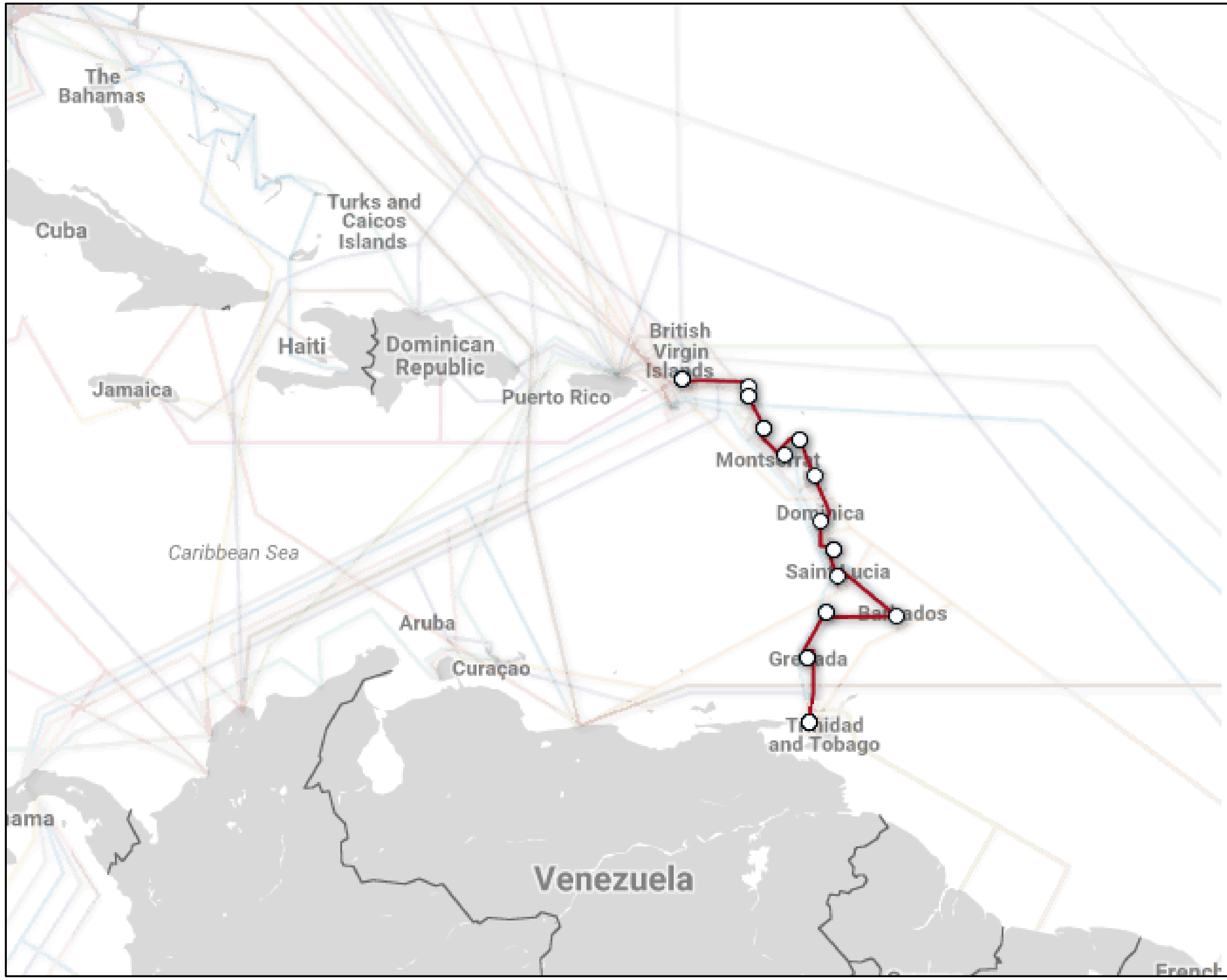
Source: Submarine cable map

# East-West (EWC)




Source: CWC and Columbus May 2013 announcement

# Eastern Caribbean Fiber System (ECFS)




Submarine Cable List

## Eastern Caribbean Fiber System (ECFS)

Email link

RFS: September 1995
Cable Length: 1,730 km
Owners: Orange, AT&T, BT, Verizon, Sprint, Guyana Telephone and Telegraph (GT&T), Codetel, C&W Networks
URL: n.a.

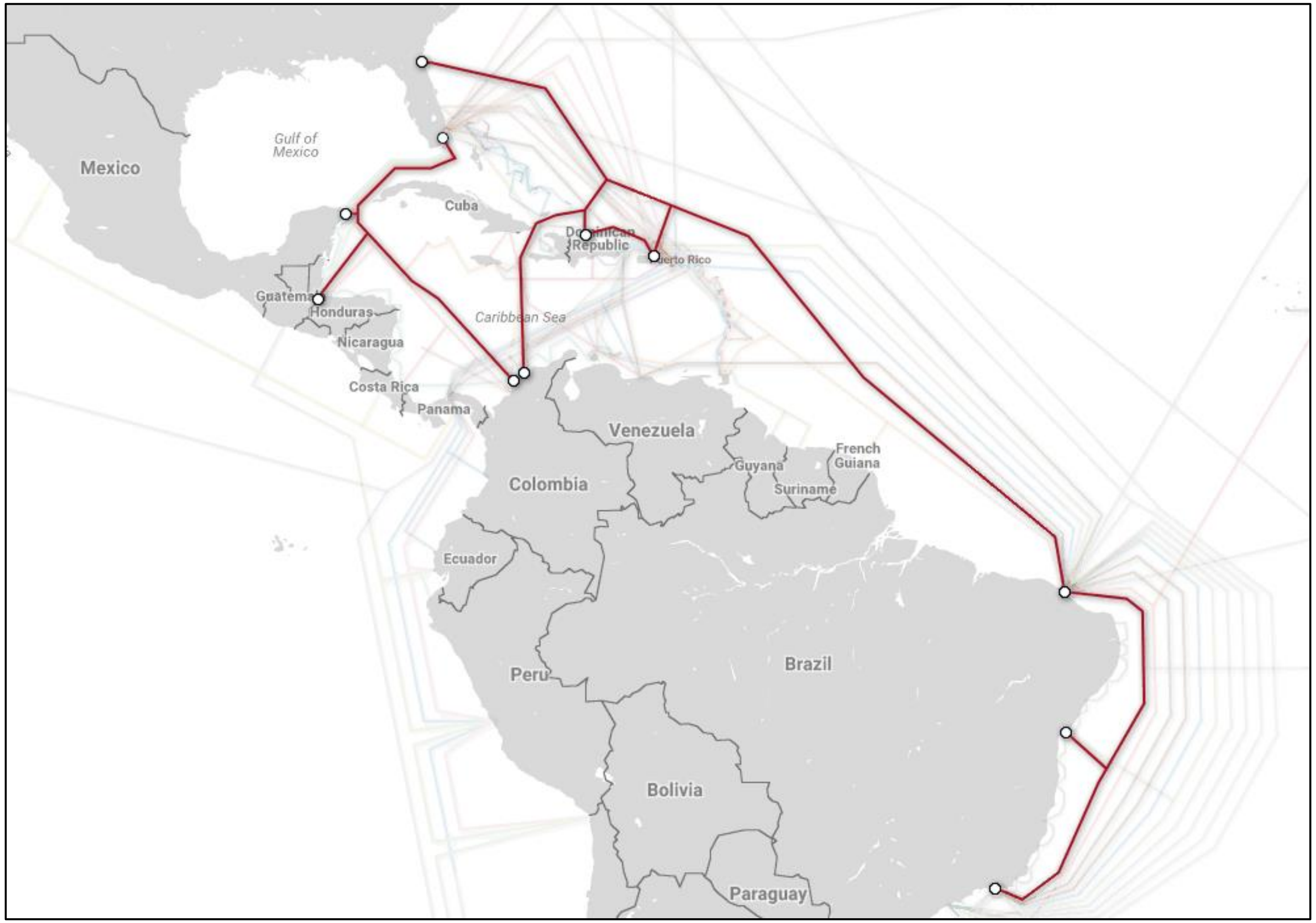
## Landing Points

Basseterre, Saint Kitts and Nevis
Bridgetown, Barbados
Castries, Saint Lucia
Chaguaramas, Trinidad and Tobago
Kingstown, Saint Vincent and the Grenadines
Le Lamentin, Martinique
Plymouth, Montserrat
Pointe-a-Pitre, Guadeloupe
Roseau, Dominica
Saint Maarten, Sint Maarten
St. George's, Grenada
St. John's, Antigua and Barbuda
The Valley, Anguilla
Tortola, Virgin Islands (U.K.)

Source: CWC and Columbus May 2013 announcement

# America Mobil – *Sub-sea Cable*

- America Movil (AMOV) has a 17,800 km submarine cable system “AMX-1” that connects Miami and Jacksonville to:
    - Cancun, MX
    - Guatemala
    - Colombia
    - Dominican Republic
    - Puerto Rico
    - Brazil in 3 locations

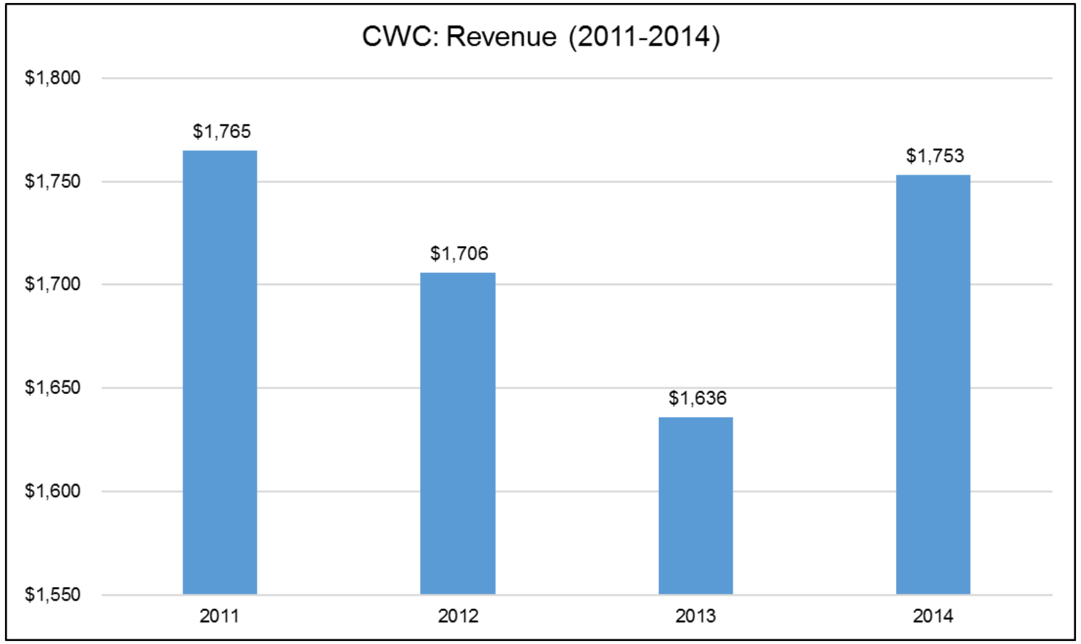


# Cable & Wireless (CWC)

Financial Overview

# Cable& Wireless: Turnaround Story

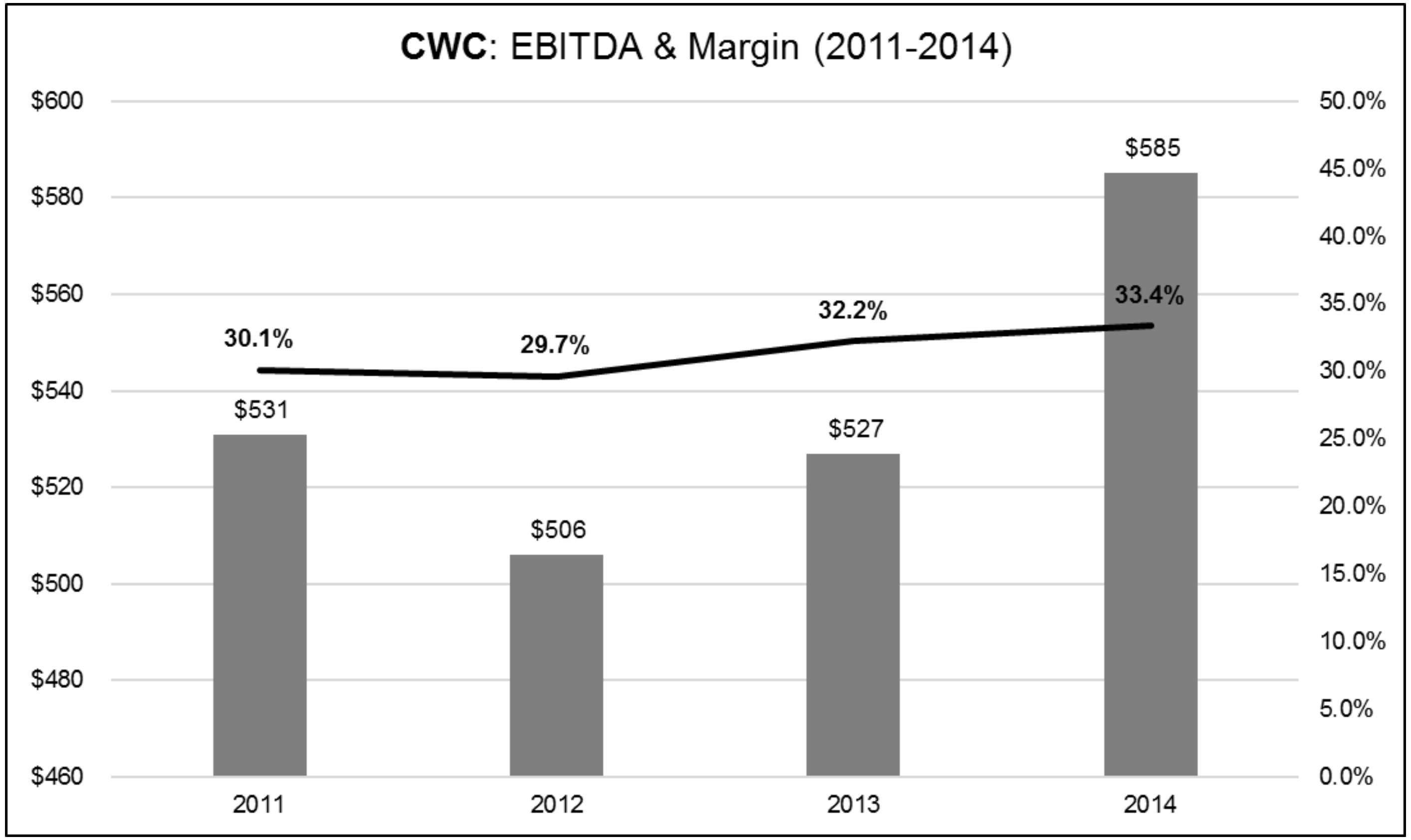
- Revenue growth began to pick up in 2014
- “*old*” CWC was unfocused, lack good vision, and was struggling to grow revenues
- Brought in new management, sold of some of their large assets: Monaco, Macau, added a hub in Miami to be closer to the operations versus the U.K., eliminated $100m of “waste” in operating expenses, and refocused specifically on Latin America cable
- Announced “Project Marlin” in 2014, a 3 year $1.05 billion reinvestment program to improve the mobile and fixed networks, drive growth again




Source: Cable & Wireless filings

# Cable & Wireless: EBITDA and Margin

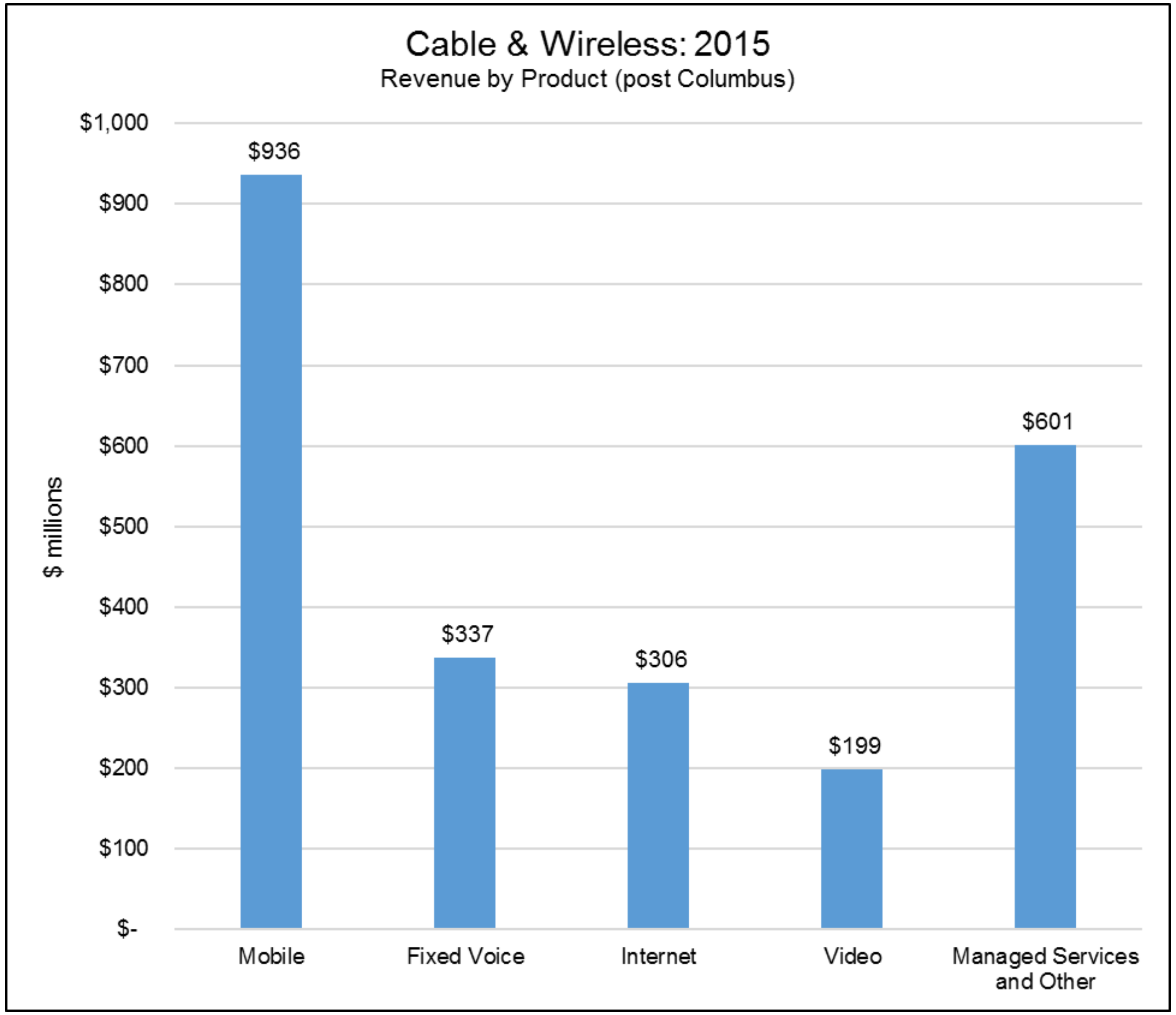
- CWC eliminated about $100m in “waste” through unnecessary staffing, specifically in the Caribbean
- Margin in the Caribbean improved from 19.5% in 2012 to 34.1% in 2014




Source: Cable & Wireless filings

# Revenue by Product: 2015/16

- Considering that CWC had larger mobile operations than cable in each market by a long shot, it is not surprising that 40% of revenues came from mobile, with only 21% from broadband and video.
- Much of the increase in percentage of revenue from video and broadband is due to the Columbus acquisition
- Prior, video was only 1% of revenues of CWC business
- Prior to Columbus, Panama contributed about 36% of CWC revenues, yet only had 180k RGUs in video/broadband versus over 2 million subscribers in mobile



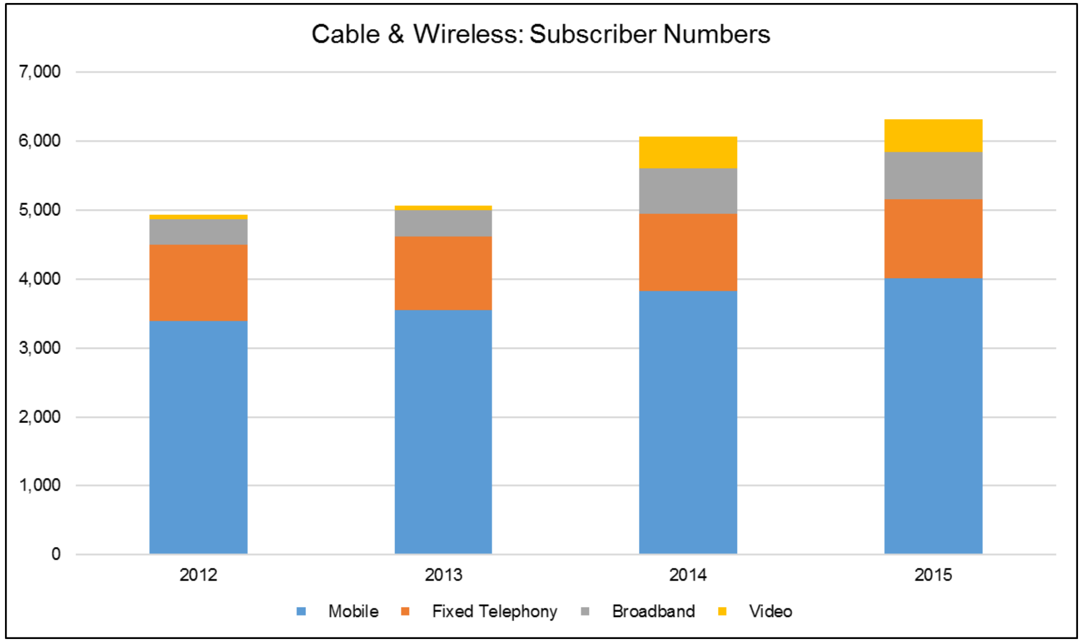

Source: CWC and Columbus filings

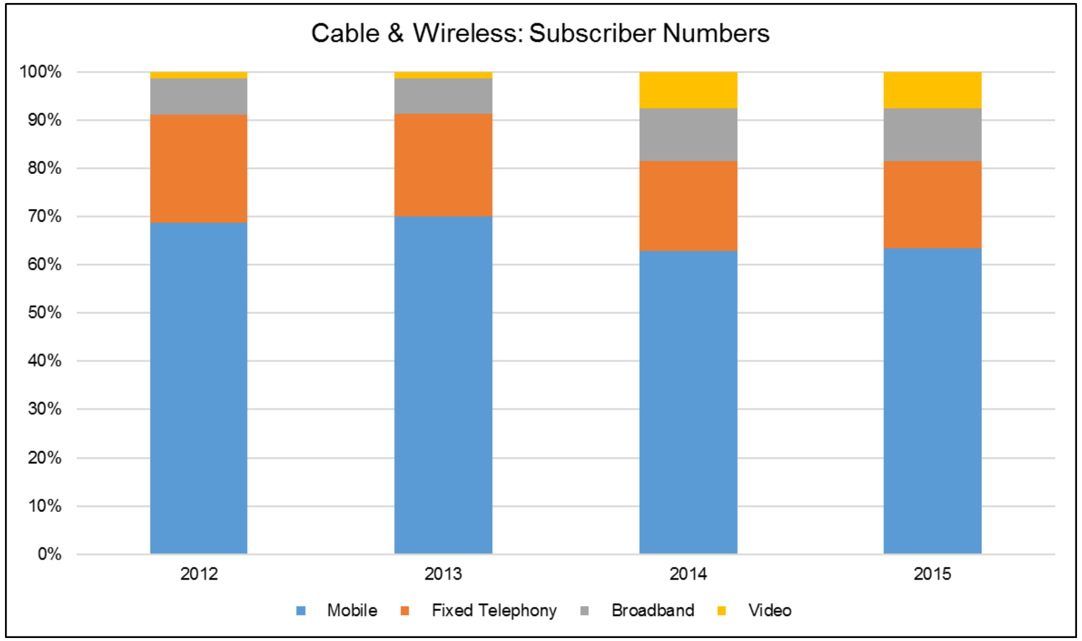
# Cable & Wireless (CWC)

Subscriber Numbers

# Cable & Wireless: A "Mobile" Company

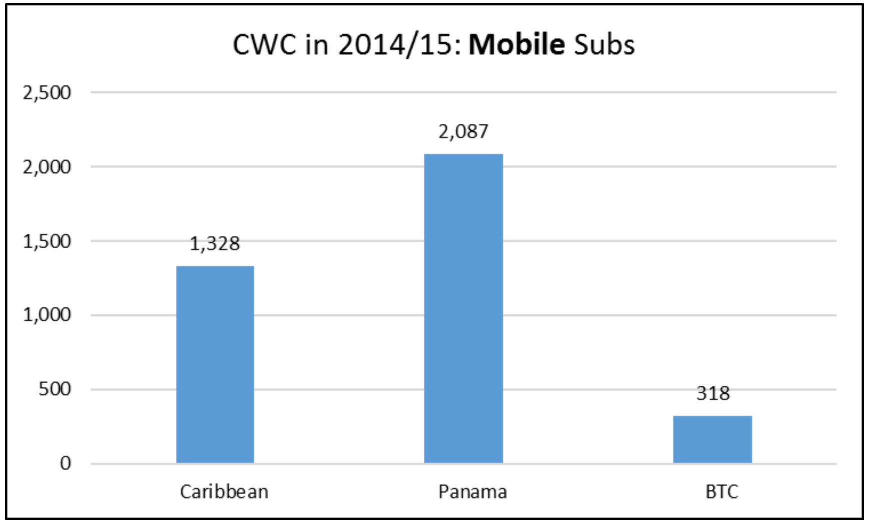
- 6.32m subscribers
    - ***Over 60% are mobile = 4.0m subscribers***
    - 1.13m are fixed telephony
    - Only 11% of subscribers are broadband
    - 7.5% of subscribers are video

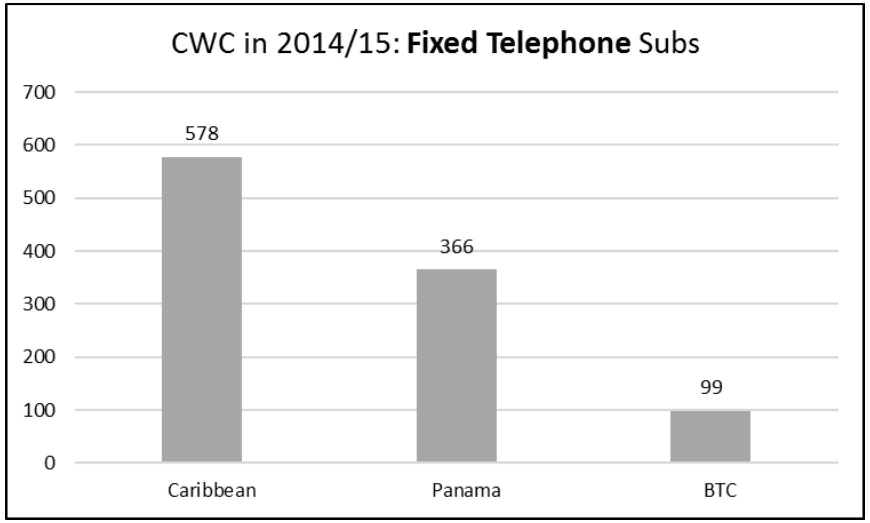


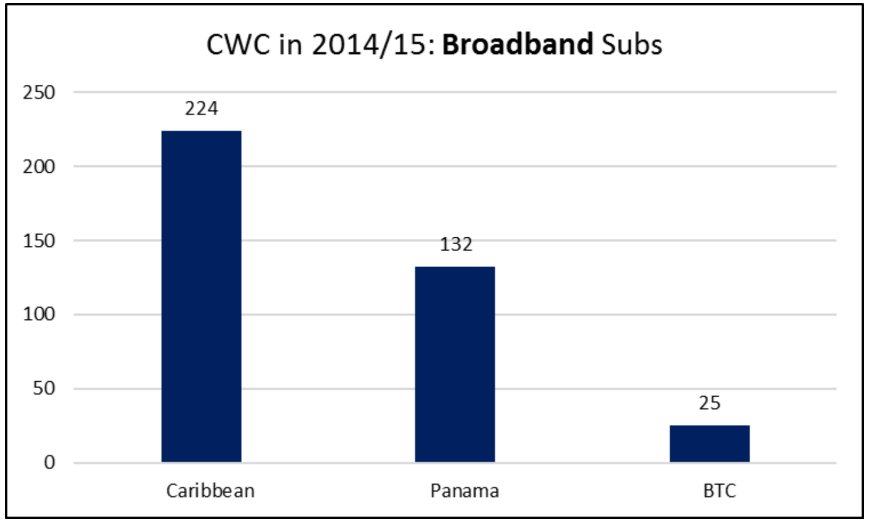



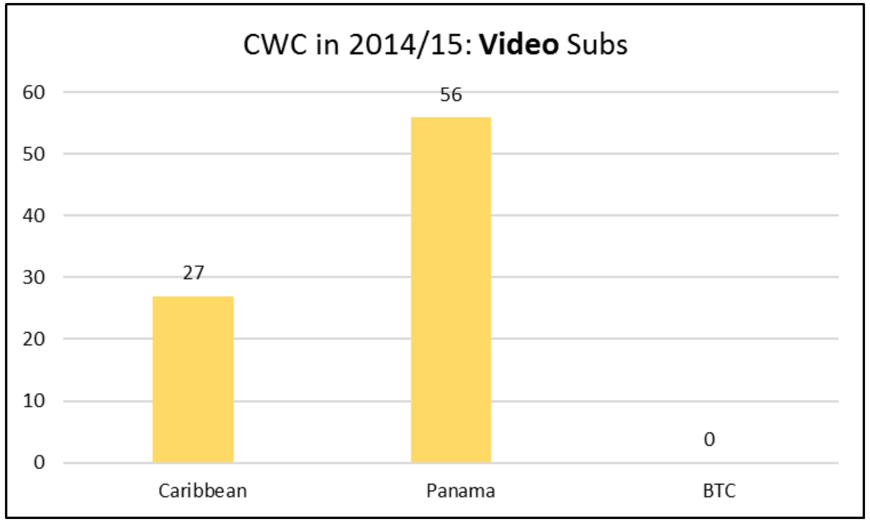

Source: Cable & Wireless filings

# Cable & Wireless: Subs by Market



# Cable & Wireless (CWC)

## Key Metrics

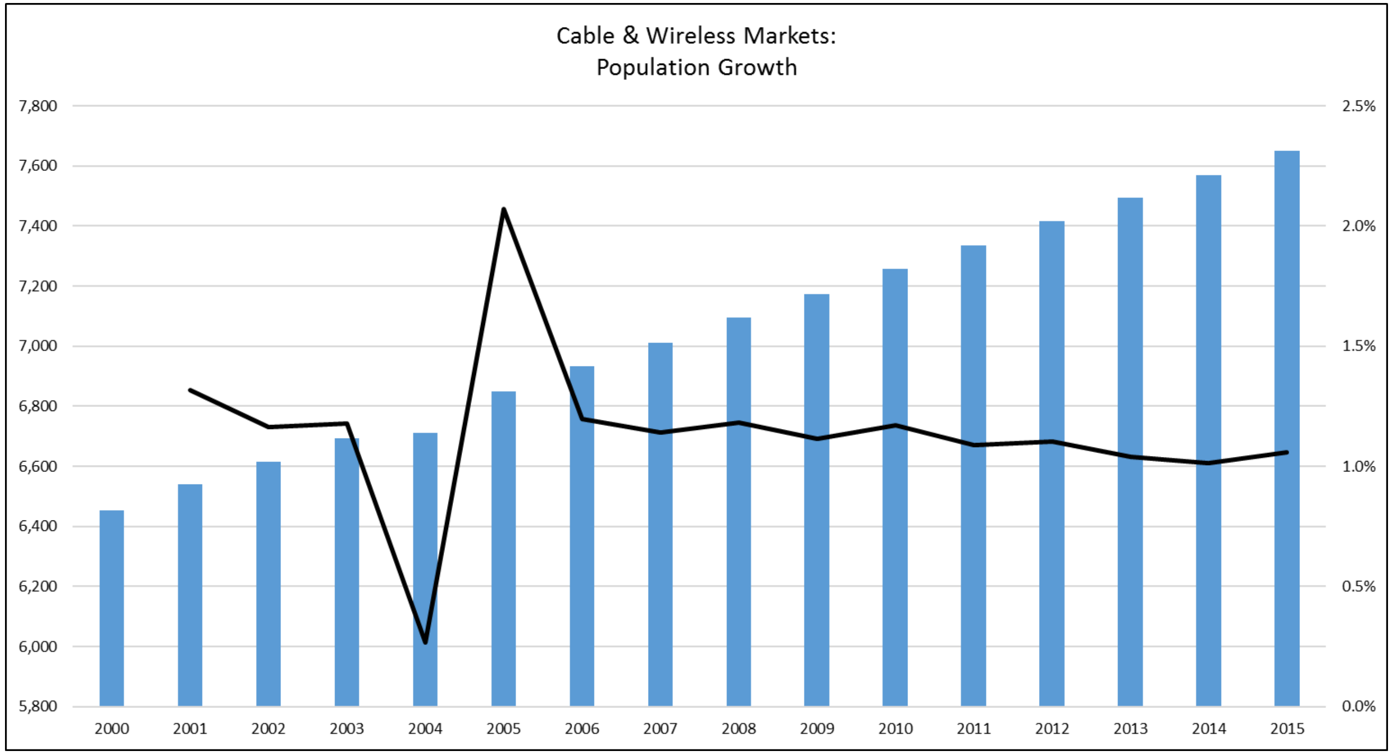
# CWC: Key Metrics & Information

- Population Growth in Chile → Household Growth
- Homes Passed (coverage)
- Newbuild of Homes Passed
- Technology vs. Competition
- Customer Relationships (lifeblood of cable)
- Overbuild with Competitors
- Market Share and Trends (and why)
- EBITDA & Margin (ability to operate cost effectively w/out influence of capital structure)
- Pricing Power (if any)

Source:

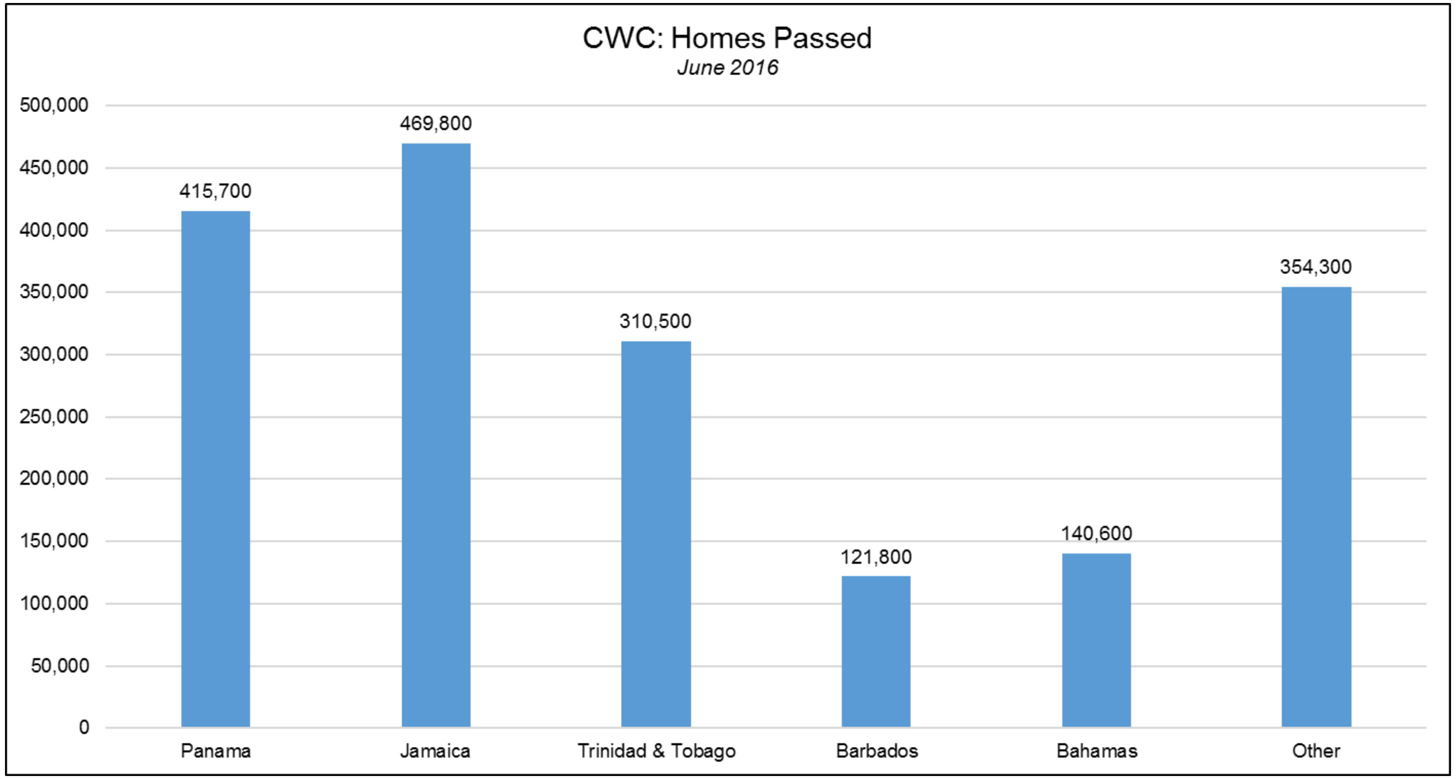
# CWC: Population & Household Growth

- Population dominated heavily by Panama and Jamaica, which contribute about 6.7 million of the 7.7 million people population in Cable & Wireless markets
- Population growth is somewhat steady around *1.0 – 1.1% per year*
- More difficult to break it down on a household level, as some of the data is difficult to find or not available



# CWC: Homes Passed

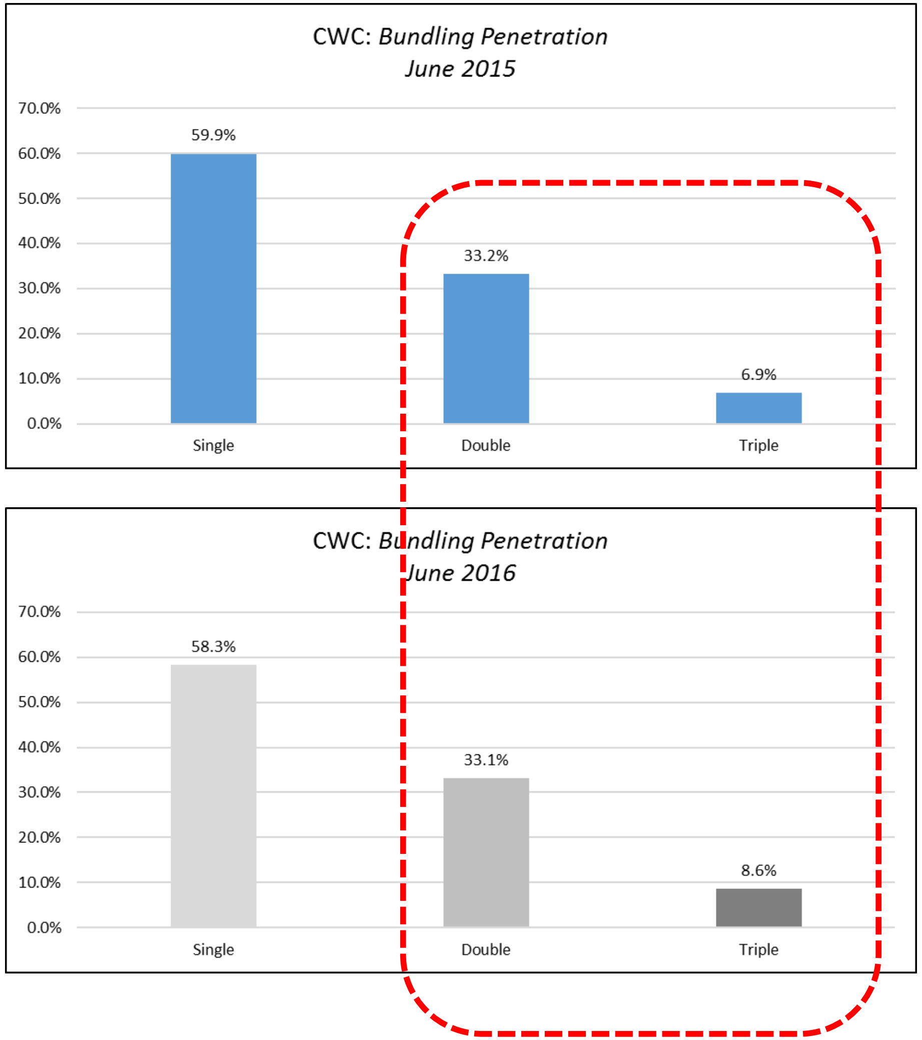
- Cable & Wireless (including Columbus) has 1.812 million homes passed
- 88.7% of those homes passed are “two way”
- CWC and Columbus did not provide adequate detail prior to being acquired by LBTYA as to homes passed, etc.




Source: CWC Fixed Income Filings

# CWC: Bundling Penetration

- The more a cable operator can bundle in products, the:
  - More scale
  - Operating efficiencies
  - More ARPU
  - Opportunities to upsell or cross-sell
  - Have unified bill for multiple products, creating stickier customer
  - Have better contract periods
- CWC has done a very poor job of bundling in 2 or more products
  - Double play penetration rate = 33.1%
  - Triple play penetration = 8.6%
- Even if there is a large substitution factor for people switching from home phone to mobile, there still should be an ample opportunity as smartphone/mobile penetration and usage increases to add a home phone *if offered at a value price*

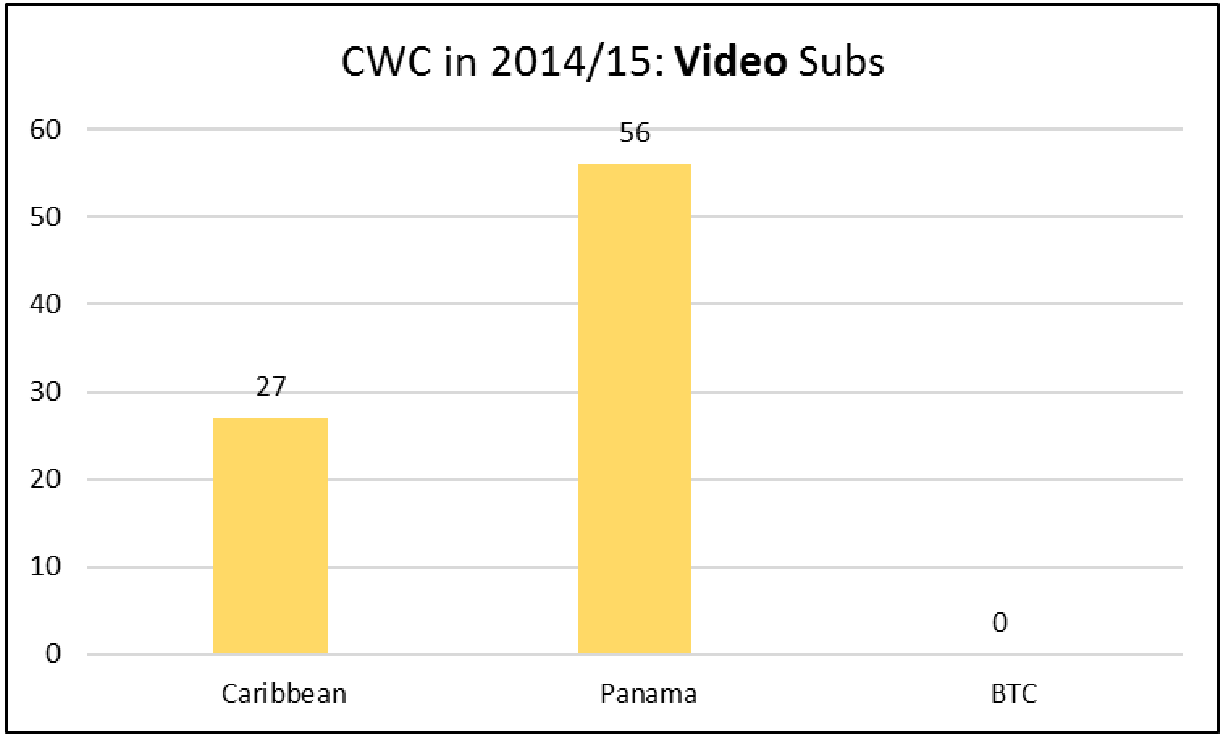


# Cable & Wireless (CWC)

## Pay-TV Landscape

# C&W: Pay-TV

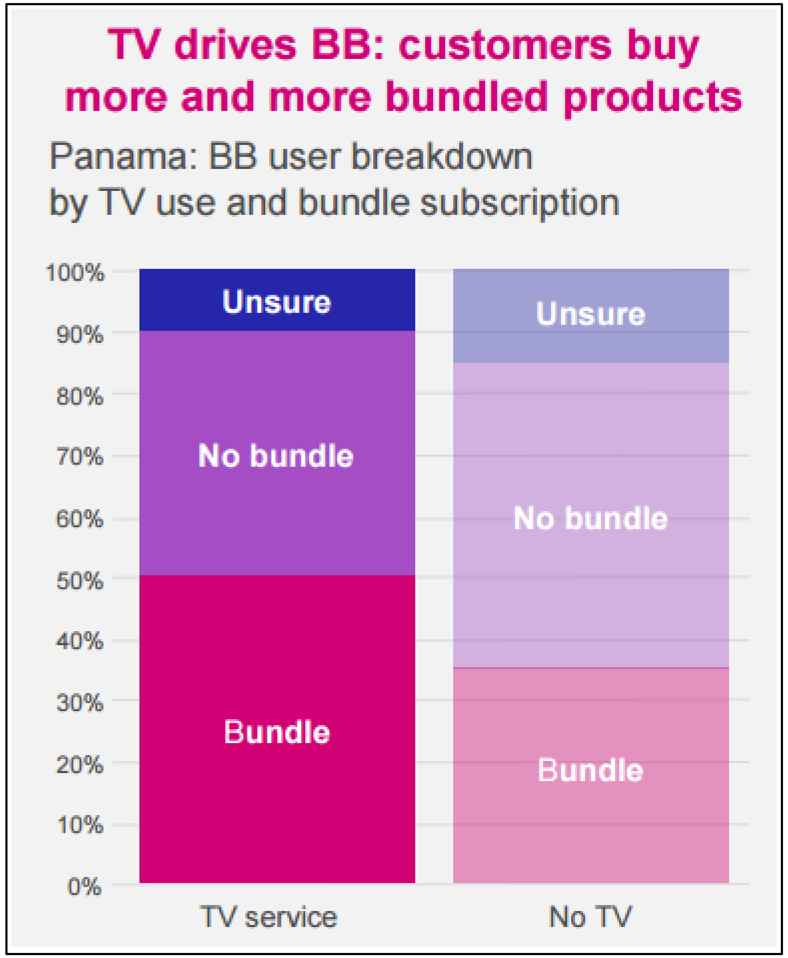
- Cable & Wireless's lowest penetrated product is video
- Should have long runway to improve penetration due to:
  - Competition in most markets are either satellite (DISH/ DirecTV) who do not have the fixed/mobile networks directly, or largely DSL providers (Telefonica, America Movil, Entel)




Source:

# C&W: Bundling TV with Broadband

- Video offering and broadband are highly complimentary services
- Purchasing one of these products encourages the purchase of the other, due to (1) often desire for the other product already, and (2) bundle pricing and packaging
- C&W studies in Panama show that if a subscriber has video service, there is about a 50% higher chance they will bundle with broadband than not.



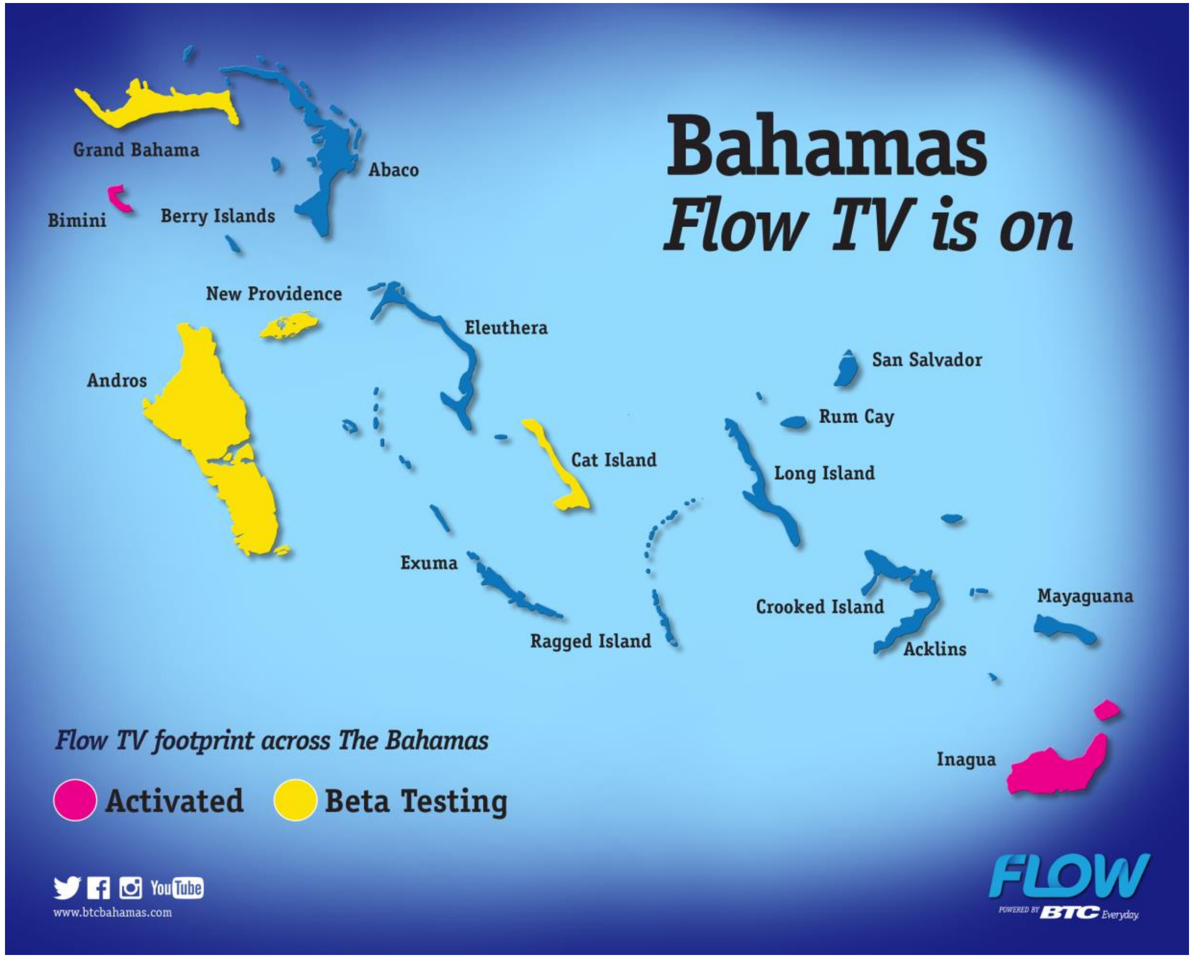
# C&W: Attempting to Improve Video

- In Panama, using both the HFC and satellite technology to extend reach to potential customers
- Caribbean, using higher quality TV service to compliment broadband offer

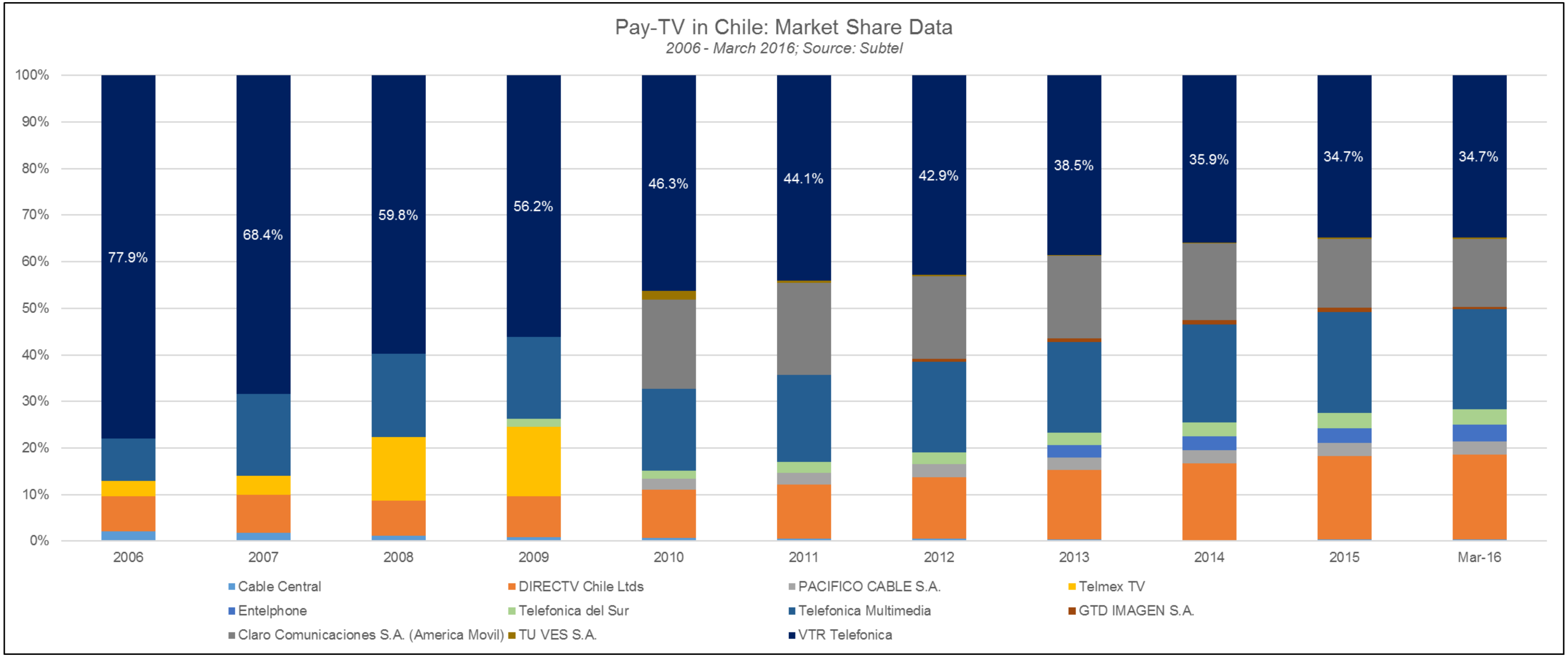
Using HFC and Satellite in Panama to extend reach

# Bahamas: Video

- Cable & Wireless is still working through improving and building out the Bahamas video market
- Essentially in “start-up” phase
- Activated:
  - *Bimini*
  - *Inagua*
- Beta Testing
  - *Long Island*
  - *Andros*
  - *Cat Island*
  - *Grand Bahama*
  - *New Providence*



# VTR: Pay-TV Market Share



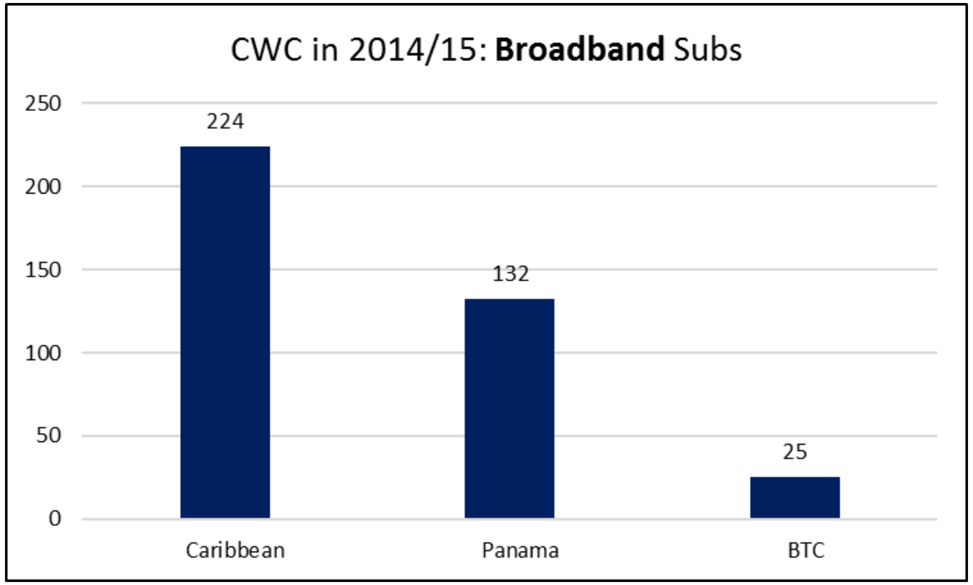

Source: Subtel

# Cable & Wireless (CWC)

## Broadband Landscape

# Broadband: Tremendous Opportunity

- *Tremendous* opportunity in broadband in Caribbean, Bahamas, and Panama
- Project Marlin invested in improved and expanding the footprint of the fixed infrastructure in some of these markets
- Early innings
- Improvements in bundling with TV offering makes the runway compelling in the medium-term
- Broadband and TV  = ~21% of C&W revenue



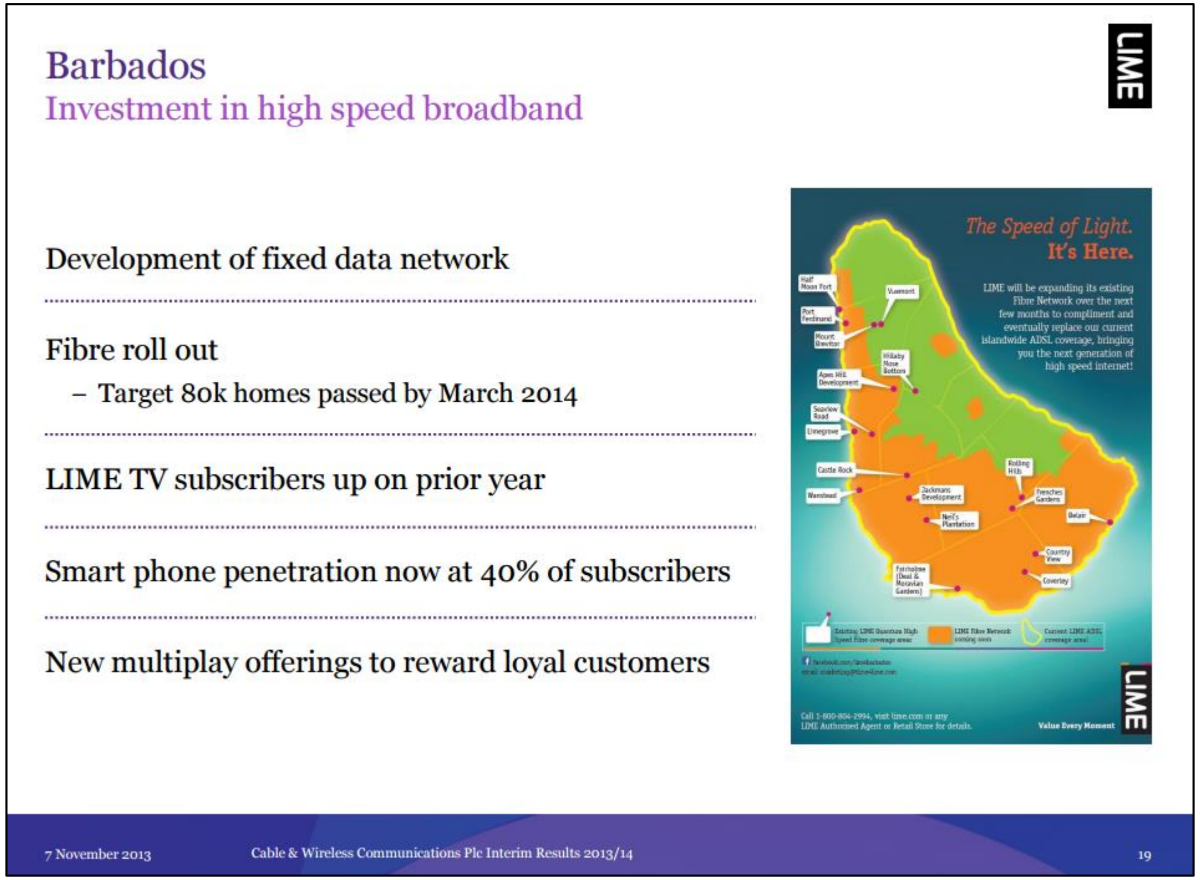
# Improved Fixed Infrastructure:

- Bahamas:
  - Stated on Q2/2016 LBTYA call: “ rolled out FTTH in Bahamas”
- Caribbean
  - Launched exclusive content and improved customer interface
  - Rebranding to “FLOW”

Source:

# Barbados

- Began rolling out FTTC in 2013
- Smartphone penetration of 40% of subscribers helping drive need for improved fixed broadband network




*November 2013*

Source:

# Cable & Wireless (CWC)

## Mobile Landscape

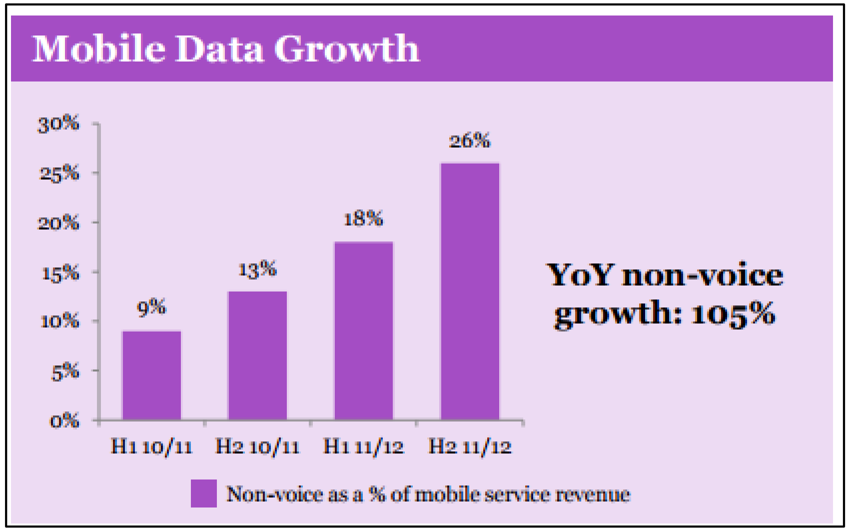
# Panama: Mobile

- Largest mobile market for “new” LiLAC with 2.09 million mobile subscribers
- Panama is Central America’s most competitive mobile market
- Secured licensing until 2037
- Greater than 50% market share but ***highly competitive***
- Up until 2009, +Movil (C&W) and Movistar (Telefonica0 enjoyed a duopoly in mobile
- Digicel Panama and Claro (America Movil) entered the market in 2009

| Band | Existing | Additional | Total |
|---|---|---|---|
| 700 | - | 20MHz | 20MHz |
| 850 | 25MHz | - | 25MHz |
| 1900 | 10MHz | 10MHz | 20MHz |

**65MHz**
US40¢ per MHz per pop

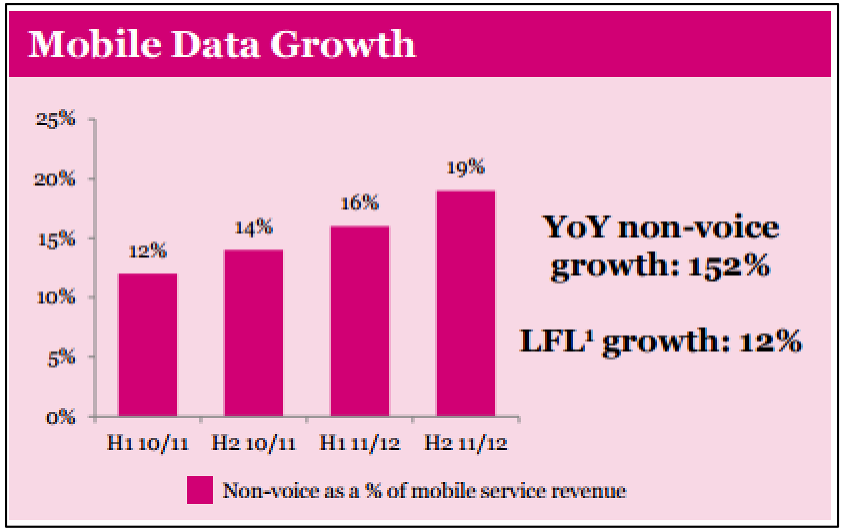
*November 2013*

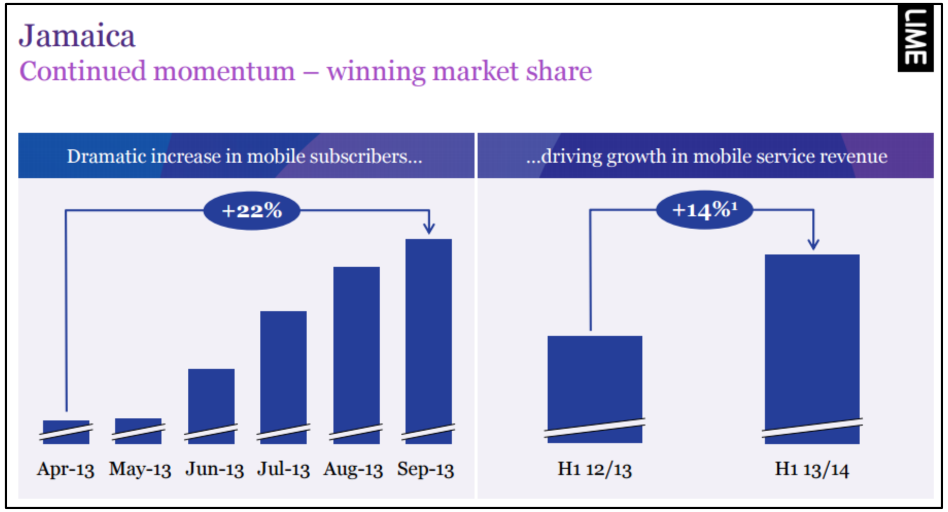



*November 2012*

# Caribbean

- 2nd largest mobile market for “new” LiLAC with 1.328 million subscribers
- Continues to see strong mobile data growth
- Jamaican (largest Caribbean market) economic climate still tough, pricing also a headwind




Source:

# Cayman Islands

- 2013: 60% smartphone penetration
- Smartphone penetration driving need for improved wireless and fixed networks

## Cayman
### Increased investment in high speed data solutions

LIME

One of our most technologically advanced businesses

- c.60% smartphone penetration

Island wide improvement in 4G speeds

- Now up to 42Mbps

LTE investment underway

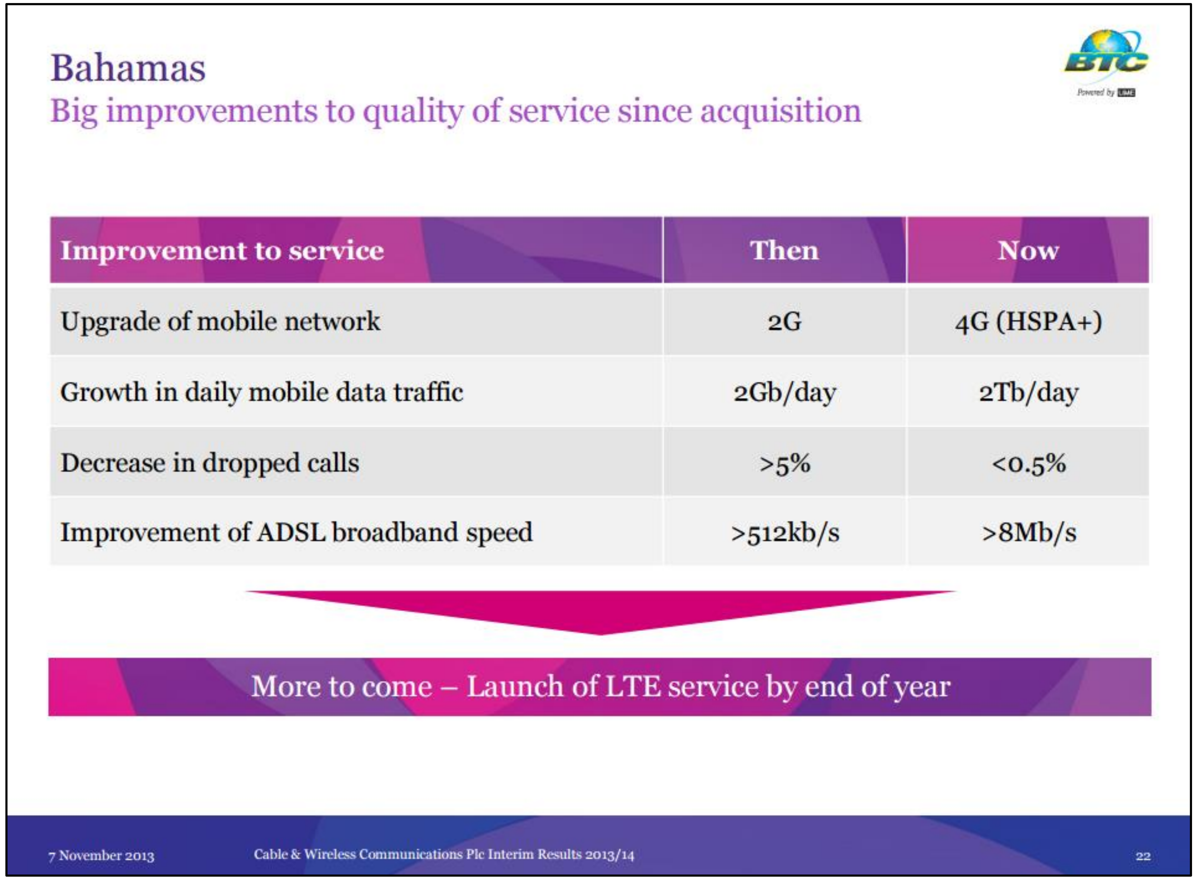
Continued fibre roll out progressing well

Good take up of LIME TV following launch


*November 2013*

# Bahamas

- Own 49% of BTC
- Acquired for $210m in April 2011
- Over 2 year period following acquisition, Cable & Wireless invested in improving the network, reducing operating costs
- Chart on right shows improvements in mobile network from 2011 to 2013


Bahamas

Big improvements to quality of service since acquisition

| Improvement to service | Then | Now |
|---|---|---|
| Upgrade of mobile network | 2G | 4G (HSPA+) |
| Growth in daily mobile data traffic | 2Gb/day | 2Tb/day |
| Decrease in dropped calls | >5% | <0.5% |
| Improvement of ADSL broadband speed | >512kb/s | >8Mb/s |

More to come – Launch of LTE service by end of year

7 November 2013 Cable & Wireless Communications Plc Interim Results 2013/14 22

*November 2013*

# Columbus International

# Columbus International

- Acquired by Cable & Wireless for $1.85b equity + $1.17b in debt
- Previous to CWC acquisition in 2014, was a privately owned company based in Barbados
- Had over 700,000 residential customers
- Markets: Caribbean, Central America, and Andean region
- Wholly owned “Columbus Networks” that provides backhaul connectivity to 42 countries throughout the region
- Customers under the “**Flow**” brand name in:
  - Trinidad
  - Jamaica
  - Barbados
  - Grenada
  - Curacao
  - St. Lucia
  - St. Vincent
  - Grenadines
  - Antigua (“Karib Cable” brand)

# Columbus International

- Columbus Networks: provides capacity to 42 countries and IP services
- Columbus was a 72.5% partner with CWC in largest undersea cable network in Caribbean, Central America, Andean region (42,000 km)
- 37,400 km terrestrial fiber (23,239 miles) and coaxial network
- Acquired Promitel on May 1, 2014
  - 191 employees
  - 3,400 Km of fiber optic cables
  - Local look services in (i) Colombia (Bogota, Santa Marta, Barranquilla, Cartagena, Sincelejo,
  - Montería, Bucaramanga, Cali and Popayán), (ii) San José, Costa Rica, and (iii) Panamá City, Panamá.
  - Had revenues of $33m, EBITDA of $17m
  - Acquired for $146m (8.59x TTM EV/EBITDA multiple)

Source:

# Columbus International

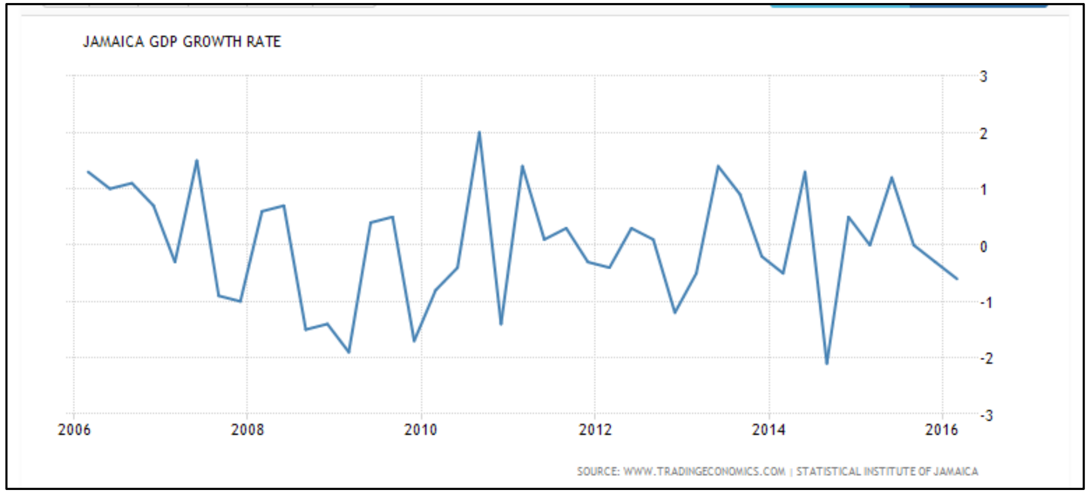
The Economy

# Columbus: Economy Overlap

- Columbus’ markets were in the Caribbean, predominantly in Jamaica and Barbados
- Some of the other Caribbean economic information was previously covered in the “Cable & Wireless” Economy section
- Refer to previous section on Caribbean economic data

# Jamaica: Economy

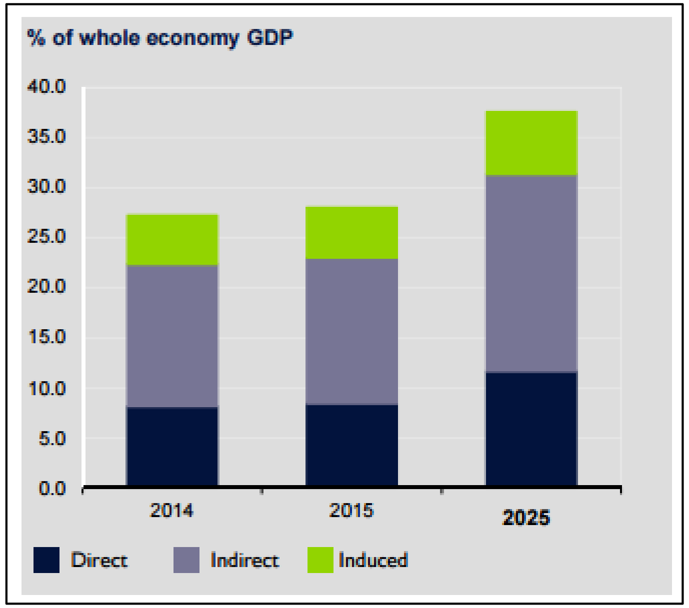
- Jamaican GDP growth has been limited over the last 5 years, from around -2% to around 1%
- This trend in GDP growth is similar to the last 10 years




# Jamaica: Economic Summary

- Jamaican Prime Minister – Andrew Holness – has signaled his desire for more growth in Jamaica
- In December 2015, the World Bank stated Jamaica's growth "remains anemic"
- One of the primary issues is an extended drought that has caused agricultural production to decline by 4.6%
- Tourists are slowly returning to Jamaica, but not enough to accelerate growth as of yet, with 0.8% YoY growth in tourism
- Jamaica still has high levels of poverty, and it worsened following the years of the U.S. recession, where poverty went from 17.6% in 2010 to 19.9% in 2012
- Tourism is, and will remain, and integral part of any recovery, as it accounts for 27.2% of GDP and accounts for 24.7% of jobs
- http://www.caribbeanhotelandtourism.com/wp-content/uploads/data_center/destinations/Jamaica-WTTC-EconomicImpact2015.pdf

*Tourism Contribution to GDP in Jamaica*

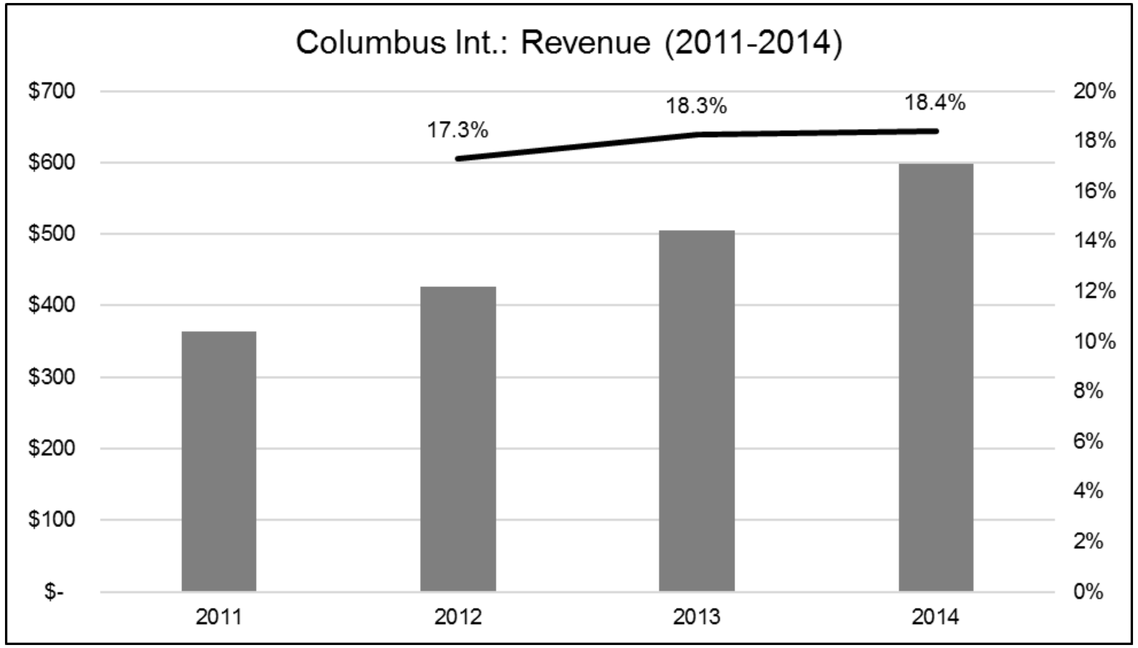


# Columbus International

Financial Overview

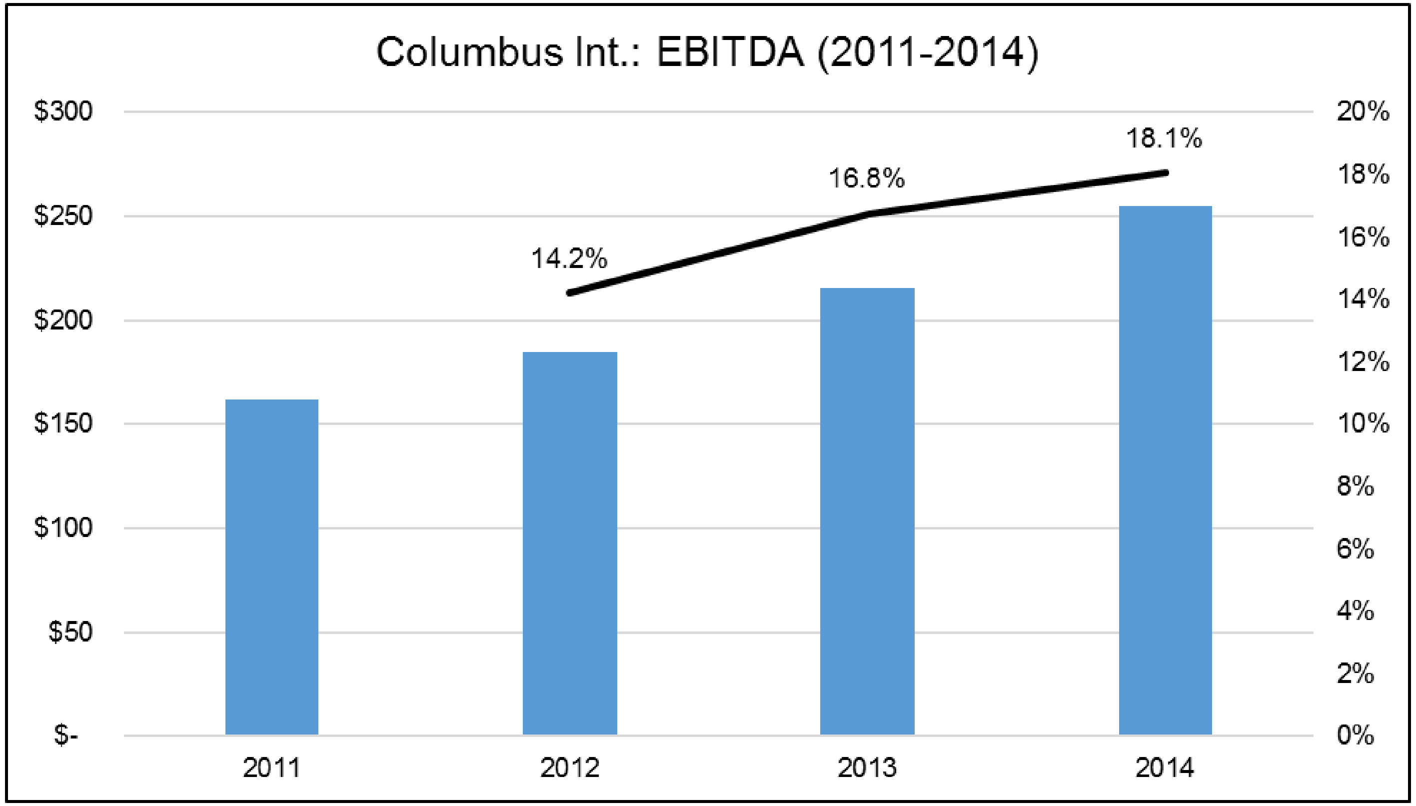
# “Columbus”: Financial Overview

- Columbus was a private cable company prior to CWC acquiring it
- Thus, there is minimal information in regards to ‘how’ they specifically grew (Customer Relationships, ARPU, how much organic vs. M&A, etc.)
- With the information we have, we can tell Columbus was growing quickly, with revenue growth at a ***18% CAGR*** from 2011 to 2014
- 2015: do not have separate information Columbus, as some of their markets were overlaid with CWC markets, and thus integrated.



# “Columbus”: Financial Overview

- Through the strong revenue growth, a majority of it flowed through to their operating margins
- EBITDA grew at an 16.3% CAGR from 2011 to 2014



# Columbus International

## Pay-TV Landscape

# VTR: Pay-TV Market in Chile

- Columbus had improved infrastructure versus Cable & Wireless
- However, video across the entire C&W and Columbus space is very underpenetrated
- Expect for LiLAC to continue:
  - Expanding both HFC and FTTH in some areas
  - Competing more in Panama with improved packaging and pricing
  - Add more marketing due to new re-branding of “FLOW”
  - Attempt to push packaging and bundling better, as <9% of total subscribers are triple-play

# Columbus International

Broadband Landscape

*Barbados*

# Barbados: Broadband

- Barbados is third in the America, according to ITU, in regards to broadband penetration, moving from 36th in 2014 to 29th in the world in 2015

## ICT STATISTICS For Barbados December 2015

| | ICT Statistics for Barbados ending December 2015 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| *Updated 10 May 2016* | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
| Fixed lines including ISDN and Payphones | **149,532** | **135,775** | 148,735 | 143,358 | 140,668 | 137,486 | 135,353 | 92,907 | 134,261 |
| Post-paid and pre-paid mobile subscribers | **334,792** | **305,456** | 307,708 | 349,296 | 347,917 | 350,725 | 330,593 | 288,662 | 257,596 |
| Prepaid mobile subscribers | **255,031** | **235,767** | 233,792 | 277,921 | 278,309 | 281,850 | 270,581 | 260,324 | 205,613 |
| Post-paid mobile subscribers | **79,761** | **68,689** | 73,916 | 71,375 | 69,608 | 68,875 | 67,687 | 66,912 | 56,654 |
| Mobile Internet subscribers | **172,716** | **305,456** | 191,823 | 246,296 | 213,345 | 211,123 | 196,533 | 254,951 | 240,115 |
| Fixed Internet subscribers (dial-up) | | **77,158** | 628 | 885 | 1,258 | 1,213 | 1,852 | 12,795 | 19,084 |
| Broadband Internet subscribers | **66,969** | **23,999** | 67,798 | 66,884 | 60,643 | 56,190 | 51,263 | 49,216 | 47,133 |
| DSL subscribers | | **52,730** | 57,121 | 57,592 | 58,538 | 53,441 | 50,486 | 41,012 | 28,029 |
| International Internet Bandwidth (Gb/s) | **54,148** | **80,750** | 11,110 | 8,275 | 7,505 | 4,605 | 3,540 | | |

Source: telecoms.gov.bb

# Columbus International

Mobile Landscape

*Jamaica*

# Mobile in Jamaica

- Digicel has commented on the strong growth in smartphone penetration, about double that of Latin America, according to the GSMA
- Digicel attributes this to: “offering affordable smartphones, which provide a wide range of features, has been a key pillar of the Digicel ‘Internet Everywhere’ goal, and the expansion of 4G network”
- Digicel also markets smartphones around 30% cheaper than other smartphone competitors

# VTR (Chile)

# VTR (Chile): *Overview*

- Market share *leader* in Pay-TV, broadband, and home telephony
- 3.15m homes passed, of which 2.64m are “two-way” (6.2m households in Chile, ~50% coverage)
- 2.77m RGUs on 1.30m customer relationships (2.13 RGUs per)
- Has had some foreign currency headwinds over the past few years that has (1) helped the outstanding debt, which was hedged, but (2) negatively impacted the operating results due to translation issues
- Currently in a “newbuild” expansion phase
- Offering quad-play through MVNO relationship (with Telefonica/ Movistar)
- Economy in Chile is “*sluggish*”, with providers being competitive/promotional and some services being more mature than others

# The Important "Stuff"

- VTR is #1 in broadband, Pay-TV, and fixed voice in Chile
- <1% market share in mobile (through MVNO contract)
- CLP currency headwinds have masked decent results and customer growth
- Mobile market = competitive, saturated, less attractive
- Cable market = seeing growth in fixed broadband data usage demand driving investment in broadband and cable bundles by VTR, Telefonica, Entel
- Population growth (1% CAGR) fuels household growth (~2.5% CAGR) = secular tailwinds for all providers, as the pie is growing larger
- VTR has expanded their footprint by 5% over last year, should drive growth over next 2-3 years +
- Telefonica is investing about $250m in fixed services due to stagnant mobile market, will push more FTTH technology, targeting 900,000 FTTH subs by 2019

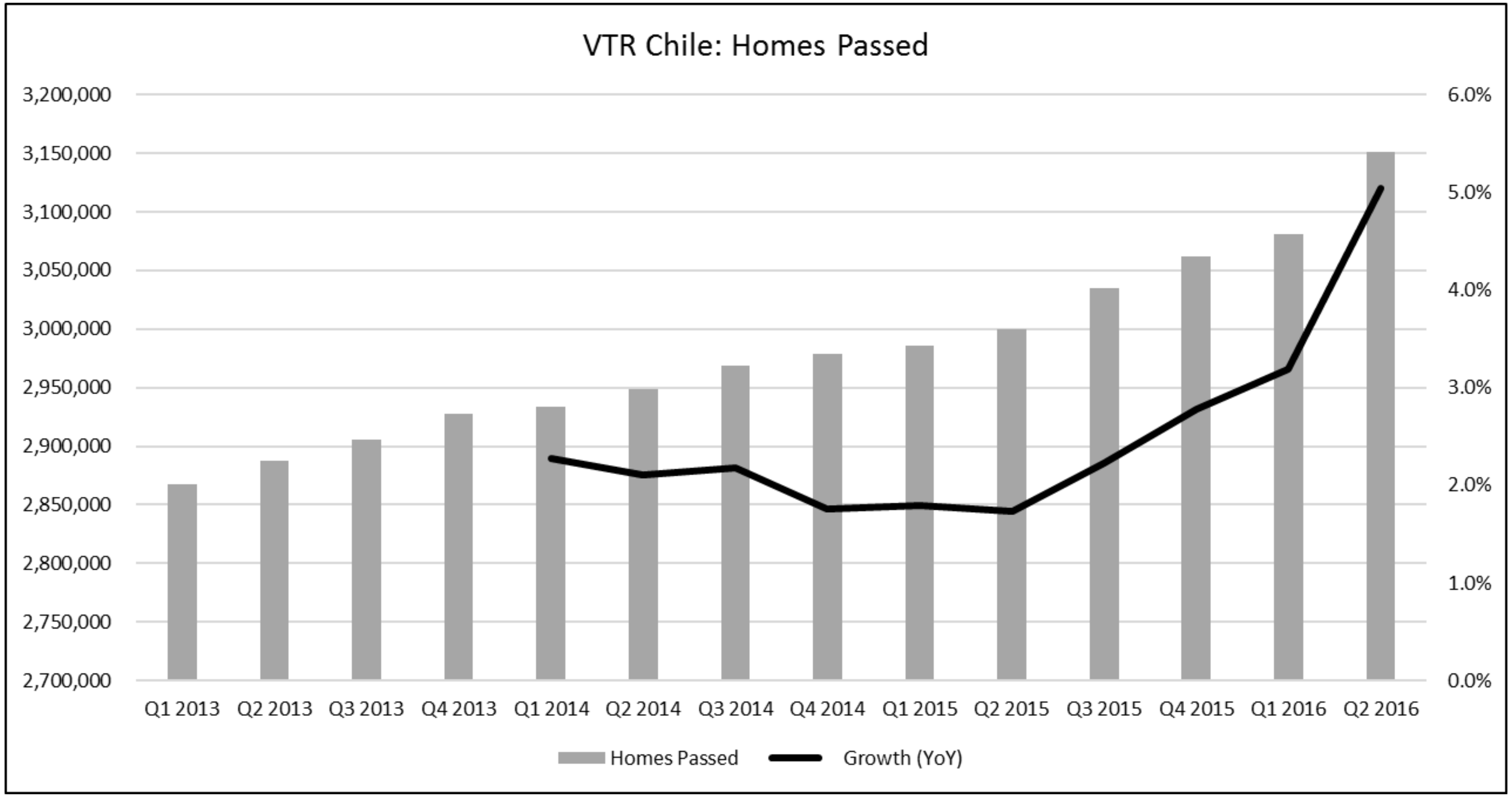
# VTR (Chile): Growth Opportunities

- **Horizon TV:** Liberty Global's next-generation IPTV/ VOD/ cloud TV service, enables users to watch TV on-the-go; allows televisions to become "Smart TVs"
- Speed leadership versus competition (Telefonica/Movistar, Claro, Grupo GTD)
- Mobile MVNO model with Movistar (Telefonica) pushes quad-play offer, while highlight VTR's fixed broadband speeds through offloading
- Mobile market = ~52% penetrated in smartphones, up from 25% in 2013. More smartphones = more data usage, more offload, desire for more content, appreciation for higher quality broadband networks
  - Entel is at 82% data plan penetration (% of postpaid mobile subs), up from 28% in 2011
- Mobile leader (Entel) has essentially non-existing presence in Pay-TV and Broadband, displaying opportunity for VTR and quad-play

Source:

# VTR (Chile): 5% Increased in Homes Passed YoY

- VTR is in “expansion mode” with a 5% increase in homes passed from Q2/16 vs. Q2/2015
- Increase in footprint = increase in customer relationships




Source:

# VTR (Chile): Growth Opportunities: Data Increase

- Increased data traffic across both fixed and mobile networks will separate the good from bad networks, the reliable and unreliable
- Telefonica monitors data traffic usage
  - Saw a 27.6% in Q2/2016 from Q2/2015 in fixed broadband data traffic, despite only 1% increase in broadband subs

Source:

# VTR (Chile): Data Usage Increasing

| ACCESSES | 2015 | | | | 2016 | | |
|---|---|---|---|---|---|---|---|
| *Unaudited figures (Thousands)* | March | June | September | December | March | June | % Chg |
| Final Clients Accesses | 13.861,3 | 13.610,4 | 13.387,4 | 13.158,3 | 12.741,5 | 12.481,1 | (8,3) |
| Fixed telephony accesses (1) | 1.557,7 | 1.537,4 | 1.510,3 | 1.486,0 | 1.459,0 | 1.438,4 | (6,4) |
| Internet and data accesses | 1.067,9 | 1.093,6 | 1.106,4 | 1.112,0 | 1.109,1 | 1.150,8 | 5,2 |
| Broadband | 1.056,7 | 1.082,5 | 1.095,4 | 1.101,1 | 1.098,4 | 1.093,3 | 1,0 |
| Fibre and VDSL | 192,2 | 216,3 | 240,7 | 256,7 | 268,9 | 290,2 | 34,2 |
| Mobile accesses | 10.619,5 | 10.345,1 | 10.129,6 | 9.915,6 | 9.527,9 | 9.235,1 | (10,7) |
| Prepay | 7.817,5 | 7.503,0 | 7.268,0 | 6.995,3 | 6.524,9 | 6.150,1 | (18,0) |
| Contract | 2.802,0 | 2.842,1 | 2.861,7 | 2.920,3 | 3.002,9 | 3.085,0 | 8,5 |
| M2M | 293,0 | 291,0 | 294,3 | 310,0 | 331,2 | 354,8 | 21,9 |
| Pay TV | 616,2 | 634,3 | 641,0 | 644,7 | 645,6 | 656,8 | 3,5 |
| Wholesale Accesses | 5,9 | 5,9 | 5,8 | 5,7 | 5,2 | 5,1 | (13,0) |
| Total Accesses | 13.867,2 | 13.616,3 | 13.393,2 | 13.164,0 | 12.746,7 | 12.486,2 | (8,3) |

*(1) Includes fixed wireless and VoIP accesses.*

| SELECTED OPERATIONAL DATA | 2015 | | | | 2016 | | |
|---|---|---|---|---|---|---|---|
| *Unaudited figures* | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | % Chg Local Cur |
| Voice traffic (Million minutes) | 8.725 | 8.693 | 8.927 | 9.296 | 9.130 | 8.248 | (5,1) |
| Fixed voice traffic | 1.354 | 1.353 | 1.320 | 1.301 | 1.127 | 1.194 | (11,7) |
| Mobile voice traffic | 7.372 | 7.340 | 7.607 | 7.995 | 8.003 | 7.053 | [illegible] |
| Data traffic (TB) | 252.756 | 289.259 | 309.838 | 322.994 | 348.695 | 372.277 | 28,7 |
| Fixed data traffic | 238.140 | 269.957 | 288.230 | 296.880 | 321.246 | 344.595 | 27,6 |
| Mobile data traffic | 14.616 | 19.302 | 21.607 | 26.114 | 27.449 | 27.682 | 43,4 |
| Mobile ARPU (EUR) | 9,4 | 9,7 | 9,0 | 8,8 | 8,9 | 9,2 | 6,5 |

A clear example of how data usage is increasing in Chile, on both fixed and wireless networks

Source: Telefonica filings and presentatons

# VTR (Chile)

The Economy

# Chile: Economy

- “Chilean economy has been of the most *negatively* impacted economies due to unraveling of the commodity boom cycle spearheaded by the strong growth in the Chinese economy during the past several decades” (Wells Fargo, June 2016)
- Chile is highly dependent on the performance of copper
- Many Latin American economies suffered setbacks from the commodity fallout, as fiscal expenditures were financed by strong commodity prices and export growth
- The reign in of the fiscal expenditure expansion created weak economic growth and high inflation
- “Chile, which is one of the best, if not the best, managed economy in the region…not as bad as in other countries.” (Wells Fargo, June 2016)
- GDP growth has *slowed* down considerably from 2010 – 2012, from around 6% to current approx. 2%
- Average real GDP growth from 1997 – 2013 was 4.3%; since, it has grown an average of 2.0%

Source:

# Chile: Economy

- Declines in copper prices and the demand drivers from China decreased exports and thus decreased GDP growth
- Approx. 1/3 of the government revenues come from copper (as of 2012)
- As of 2014, copper represented about 50% of Chile’s exports
- The unemployment rate of 6.8% of three months through May 2016 was the highest in almost five years
- As the labor market is slowing down, almost the only jobs created over the past year were in self-employment
- Retail spending is also struggling, as retail sales in Santiago fell 4.1% in May, the biggest decline since 2014.

Source:

# Chile: CLP vs. USD$

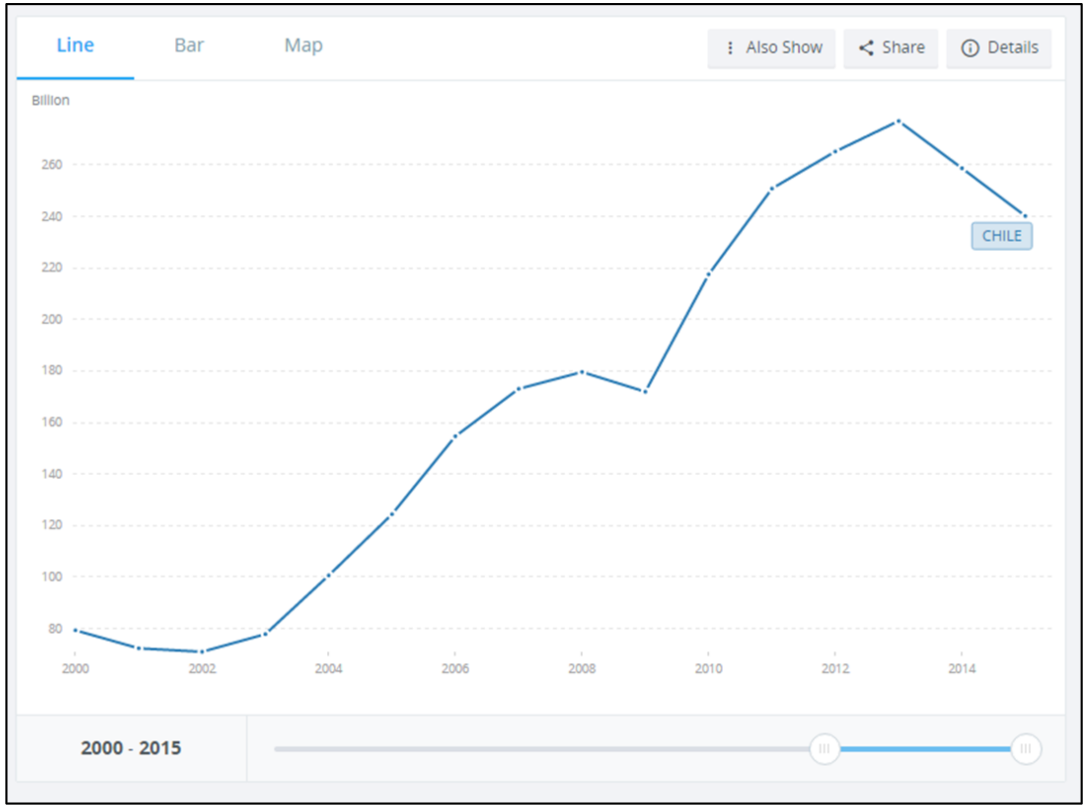
- Chilean Peso (CLP) has been volatile over the past 1, 5, and 10 year periods
- As of recent (past 1 year) the CLP has been appreciating in value against the USD, but still around USD $1 = CLP 670
- In 2011, CLP was 450 versus USD, and thus has depreciated about 50% since then
- From late 2015, when the CLP was 730, it has appreciated about 10% versus the USD, a positive trend

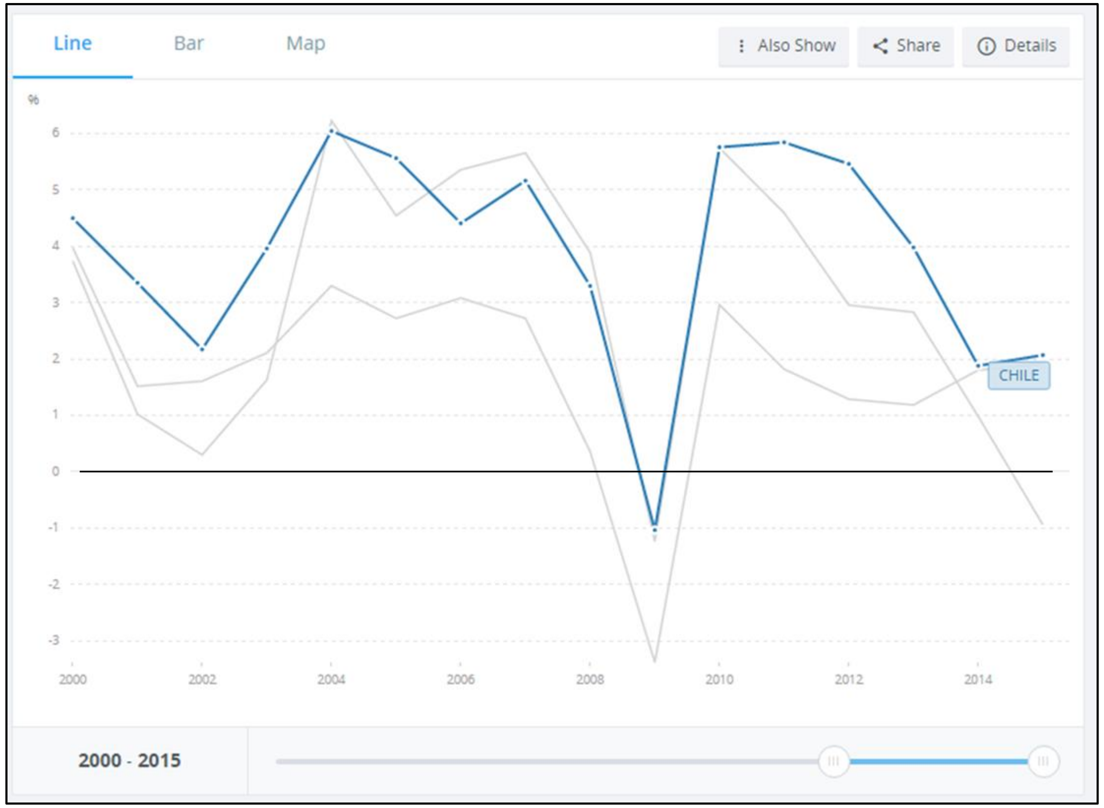



Source:

# Chile: Economic Statistics (Macro)

- Charts:
  - **GDP**: strong up until 2012/2013, has been on decline since
  - **GDP growth rate**: strong coming out of 2009, has struggled since 2012 (about 1/3 of what is was 2010-2012)



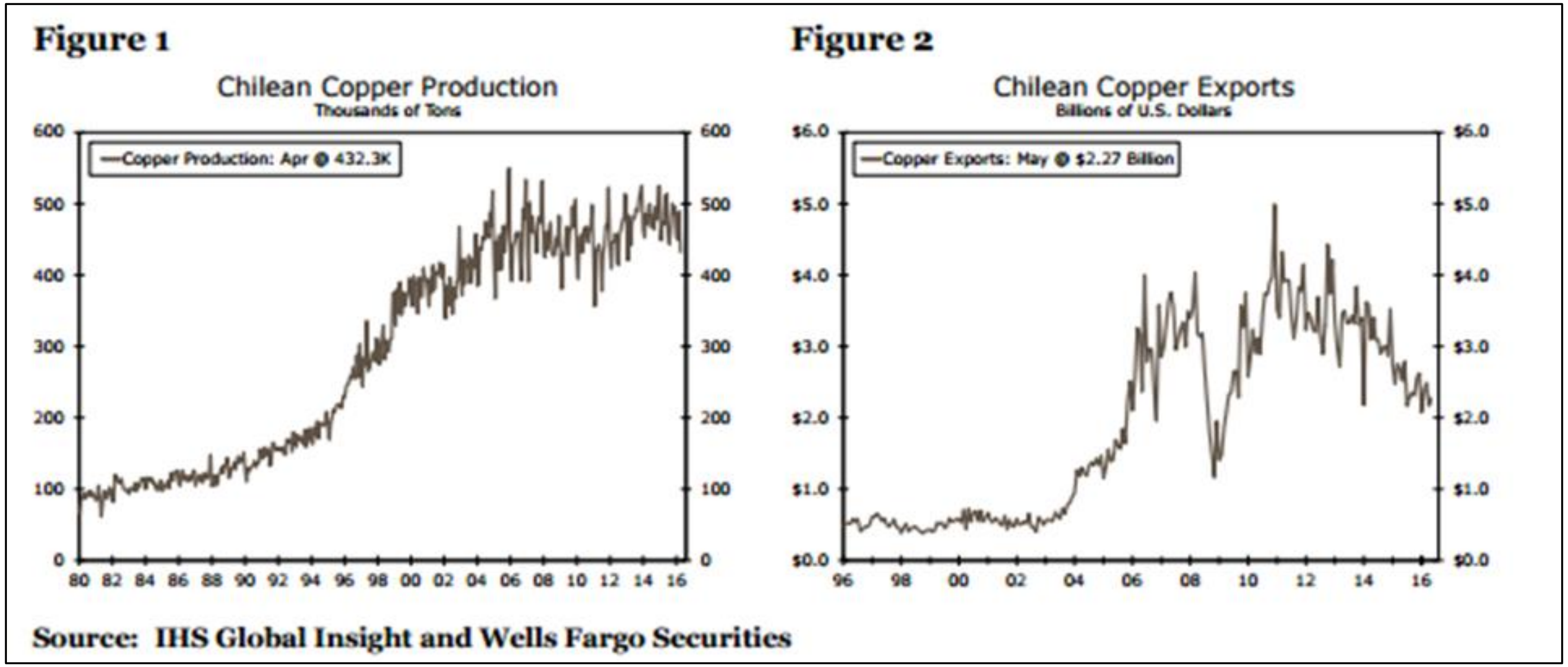



# Chile: Economic Statistics - Inflation

- Despite GDP around 2%, inflation is still around 4-5%, creating a strain

# Chile: Copper

- Copper remains a large portion of government revenue and export revenue
- Copper production is showing declines, as well as exports of copper by Chile, impacting growth rates

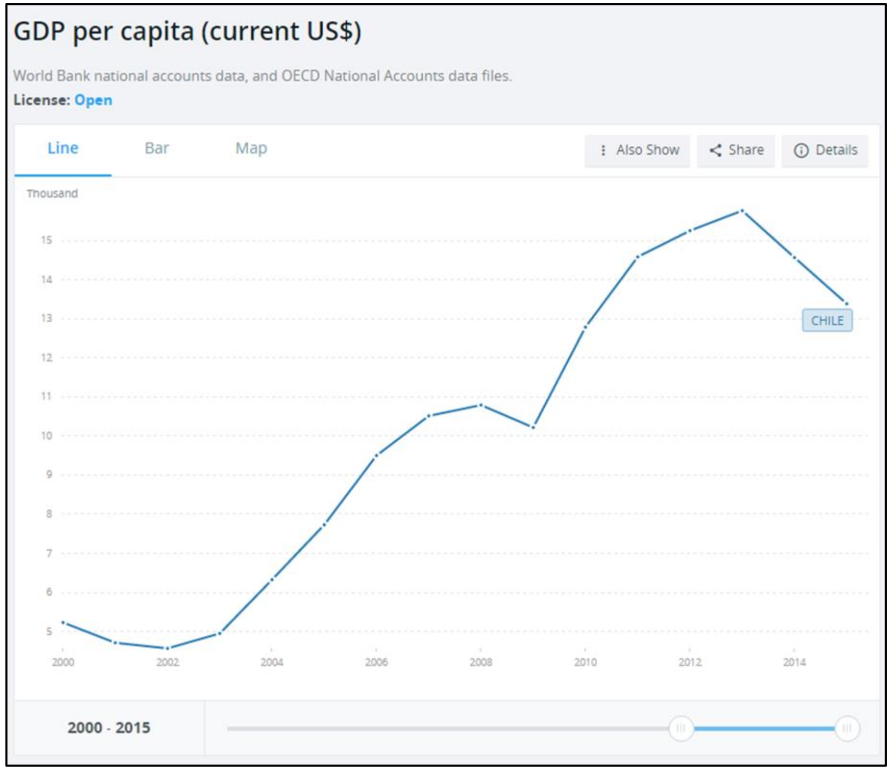


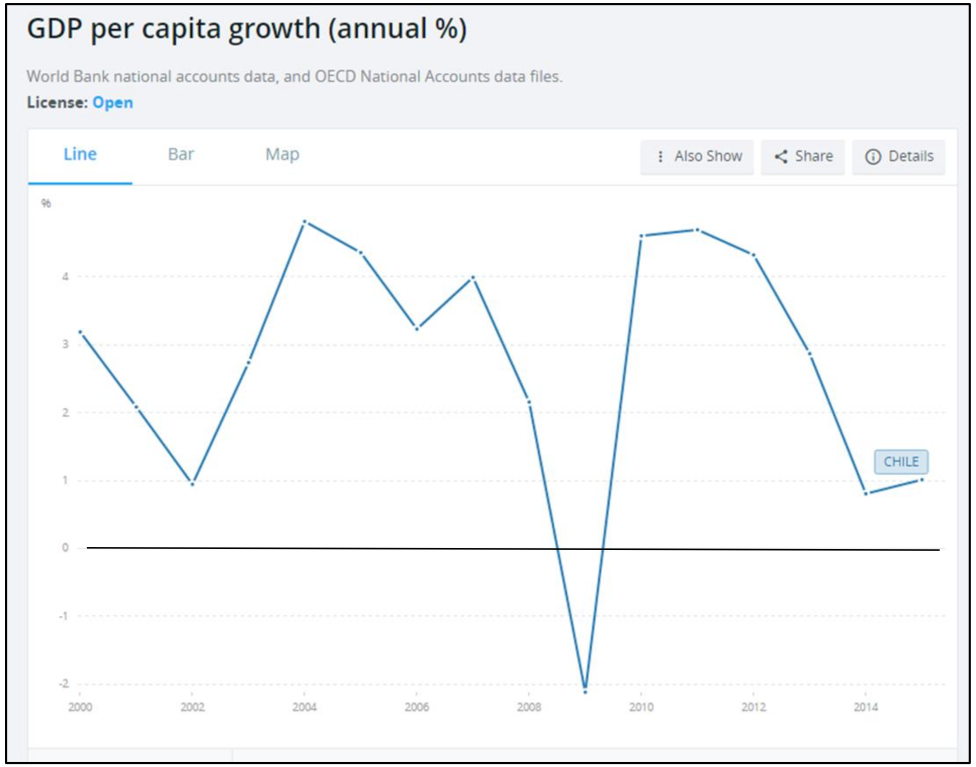



LIBERTY GLOBAL

# Chile: Economic Statistics (Micro)

- Charts:
  - **GDP per capita**: Very similar to GDP of Chile
  - **GDP per capital growth**: similar to GDP growth, but hovering around 1% past 2-3 years



# Chile: Economic Summary

- Similar to other Latin American countries, Chile is feeling some pain from the slowdown of copper prices and copper exports
- GDP is still growing, but at a much slower pace (2%) than historical levels (>4%)
- Inflation and lower fiscal expenditures is negatively impacting retail sales, consumer spending, and job growth, as unemployment levels are the highest in ~5 years, retail sales are down, and inflation remains above average
- Given the current weakness, I would expect pricing to be a large determinant of whether the Chilean people choose VTR vs. DirecTV vs. Telefonica vs. Claro, rather than VTR having large pricing power and expecting people will ‘need’ much faster speeds and will subsequently pay for that.
- *Expectation*: struggling economy will hurt pricing power, and thus the providers will compete more on price (+ value proposition) versus “premium packages” at elevated price points

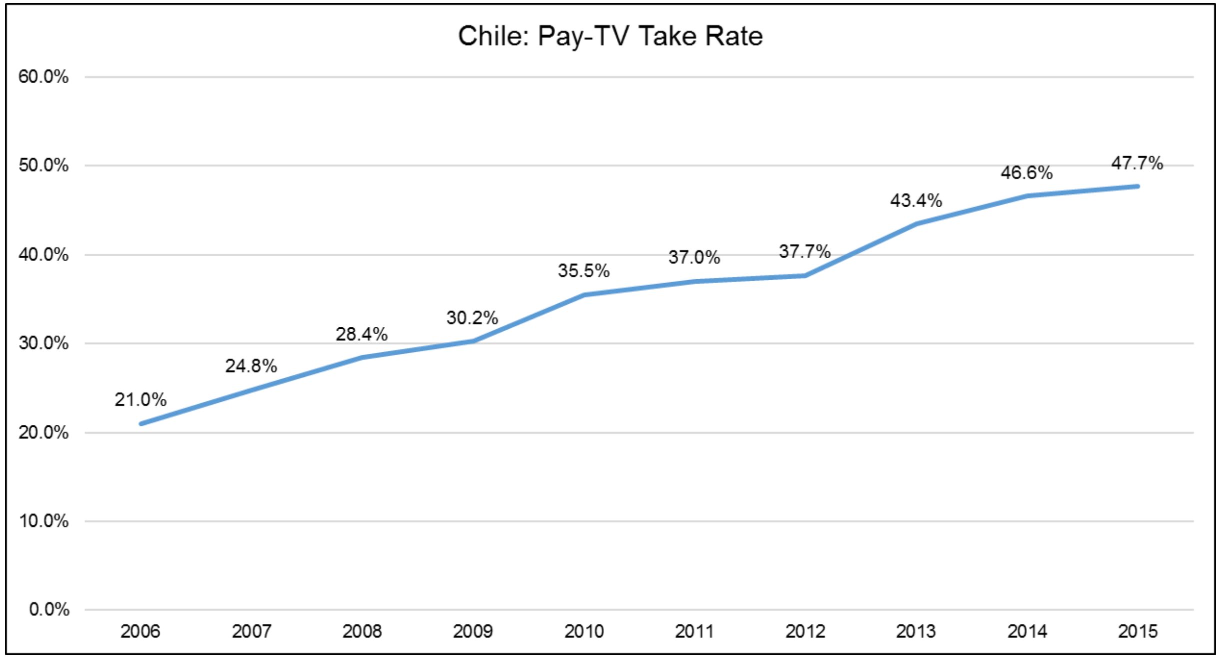
Source:

# VTR (Chile)

## Growth Drivers

# Chile: Some Cable Growth Drivers (“macro”)

- Population growth
- Household growth
- Take Rate of Pay-TV (chart right)
- Take-Rate of Broadband
- Take Rate of Mobile
- Smartphone
- Data usage




The increase in “pay-tv” take rate in Chile has been a massive tailwind for industry; however, VTR was largely a non-participant.

Source:

# VTR: Growth Drivers (“micro”)

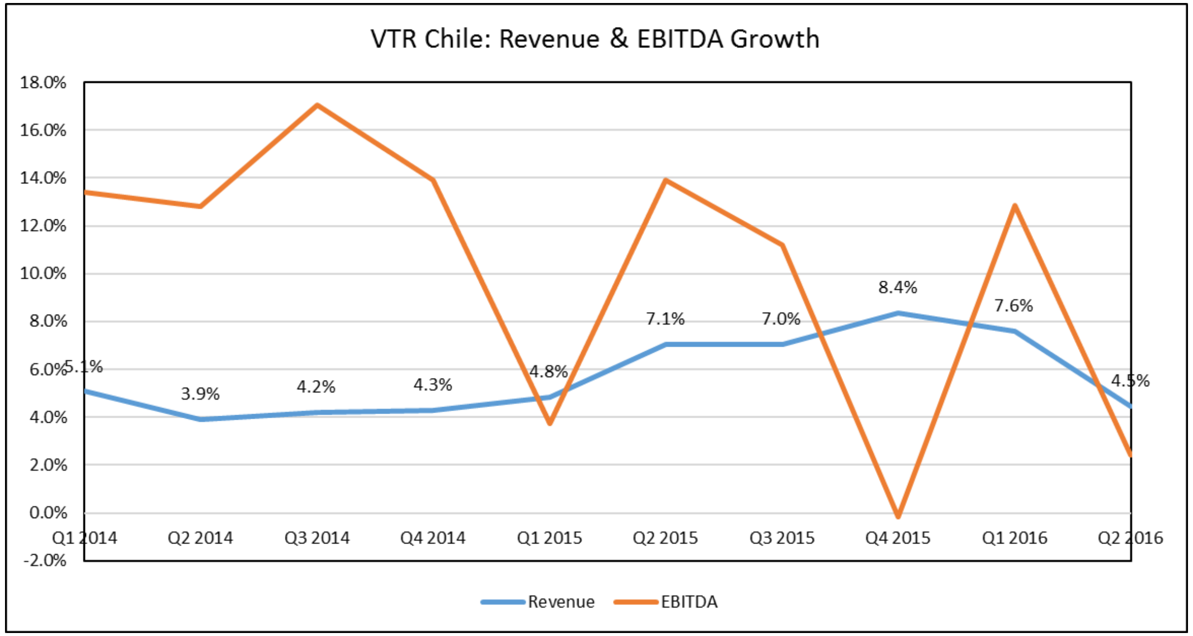
- Customer Relationships
- Increased penetration (RGUs per Customer Relationship)
- More RGUs per Customer Relationship = higher ARPU
- Pricing power
  - Depends on competition
  - Depends on current share of customer wallet
  - Depends on value proposition vs. alternatives/substitutes
- Broadband speeds = if VTR increases speeds, do customers upgrade and utilize these higher speeds, thus increasing ARPU and margins?
- New-build opportunities
- Quad Play

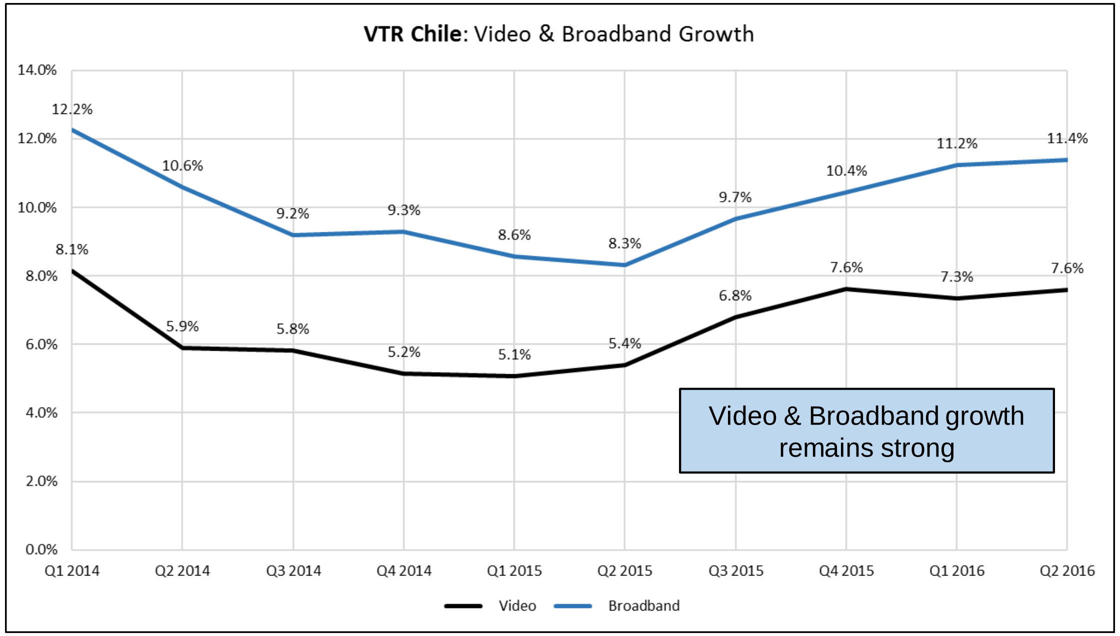
# VTR (Chile)

## Financial Overview

# VTR: Financial Overview

- Top line growth has been **mid-single digits**, masking some of the strong video and broadband growth due to headwinds in pricing and subscriber growth in fixed line telephone as customers migrate to mobile
- Broadband revenue growth has been >10% for last 3 quarters
- As broadband and video revenue strength continues, it will outweigh the headwinds in home phone, as video/broadband = 76.4% of total revenues, up from 70.6% at the beginning of 2014

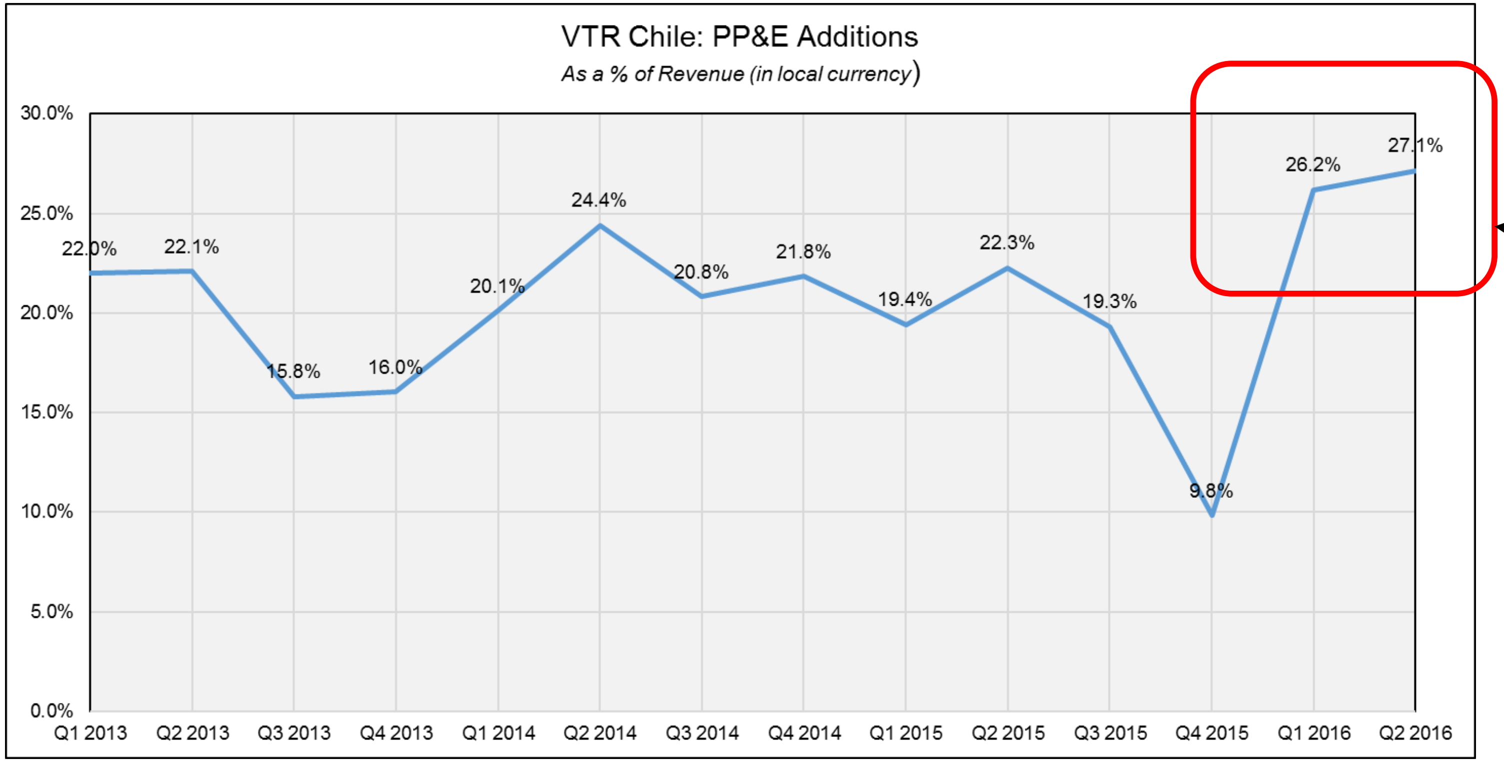



Source:

# VTR: Growth Drivers ("micro")

- VTR has been expanding their footprint recently, thus the large increase in capital spending
- This should lead to increased customer relationship →more RGUs → increased penetration → more revenues




Increase due to "Line Extension", CPE, and Scalable Infrastructure spend

Went from 3.06m HP to 3.15m HP in 6 months

Source:

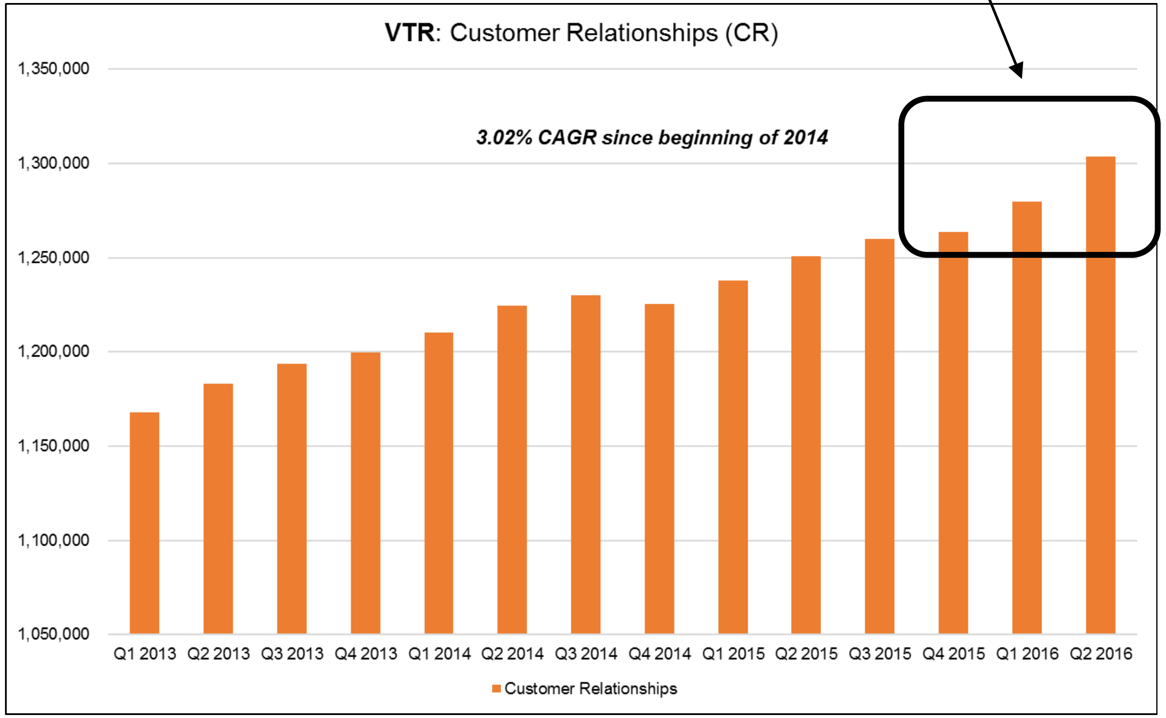
# VTR (Chile)

## Subscriber Numbers

# VTR: Customer Relationships

- **One of the most important metrics for any cable company is total “customer relationship” numbers**
- Once a cable company gets a new customer, they:
  - Have access to them
  - Can attempt to up-sell them
  - Can cross-sell other products
  - People are often lazy, do not like switching providers
- Without having customers:
  - Hard to drive top line growth from price increase alone
  - Implies strategy flaws or heavy competition, both of which lead to further issues (promotions, discounting, losing subs, no pricing power)
  - May encourage increase investment to try to drive growth, which may/may not work (more risk)

Uptick due to increased footprint expansion, ***up 4.3%*** from Q2/15 to Q2/16



# VTR (Chile)

## Key Metrics

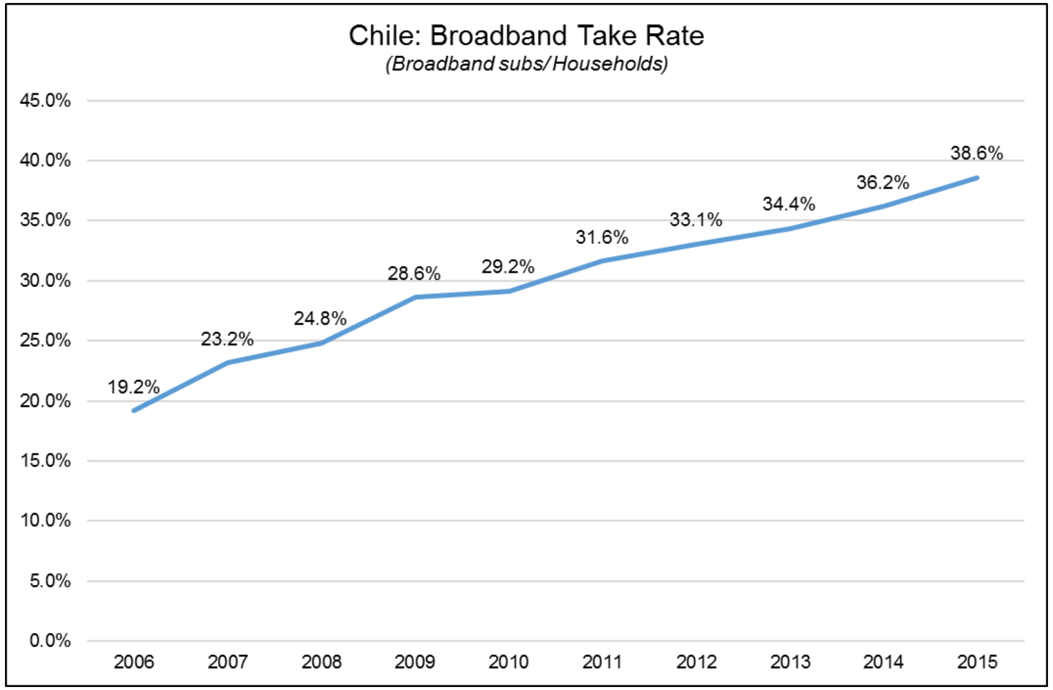
# VTR: Key Metrics & Information

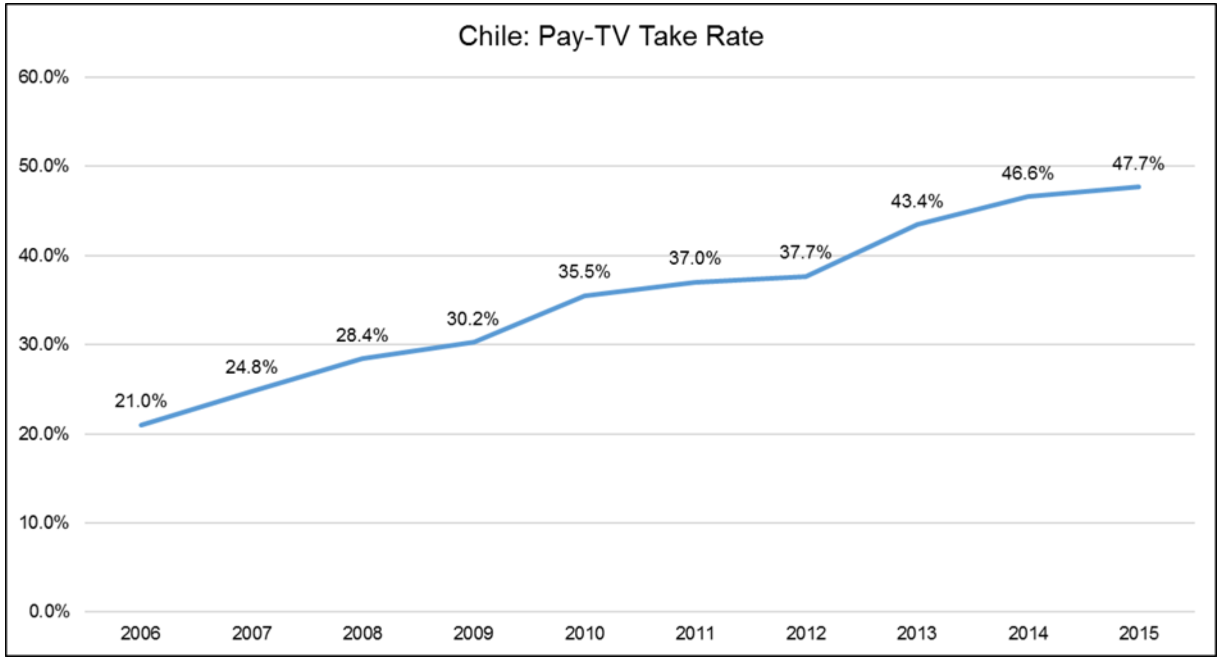
- Product Penetration Levels
- EBITDA-per-Home Passed
- Population Growth in Chile → Household Growth in Chile
- Homes Passed (coverage)
- Newbuild of Homes Passed
- Technology vs. Competition
- Customer Relationships (lifeblood of cable)
- Overbuild with Competitors
- Market Share and Trends (and why)
- EBITDA & Margin (ability to operate cost effectively w/out influence of capital structure)
- Pricing Power (if any)

Source:

# VTR: Product Penetration Rates

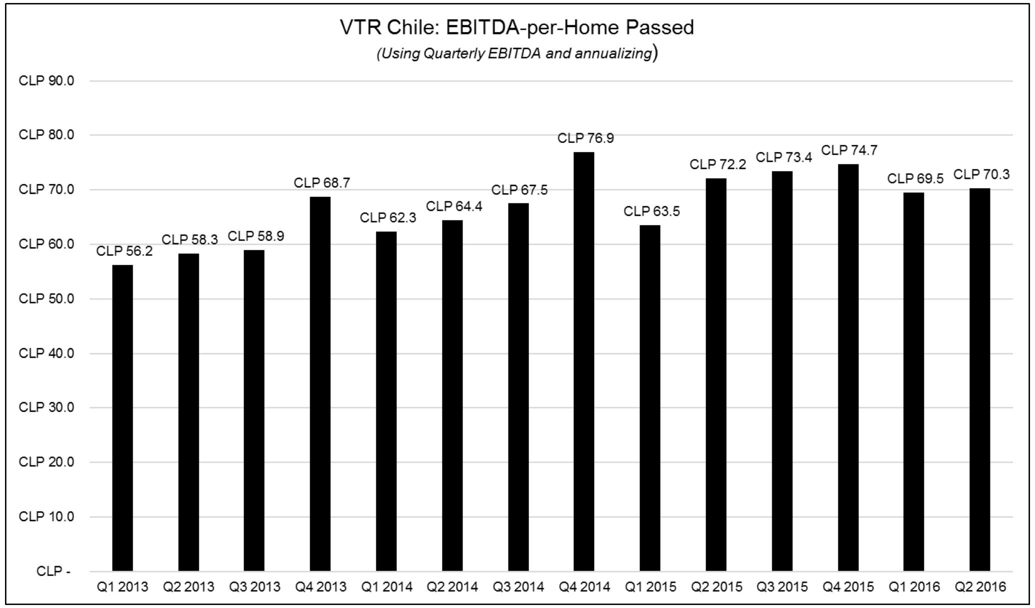
- Penetration rates for fixed broadband and Pay-TV have increase quite a bit over the last decade



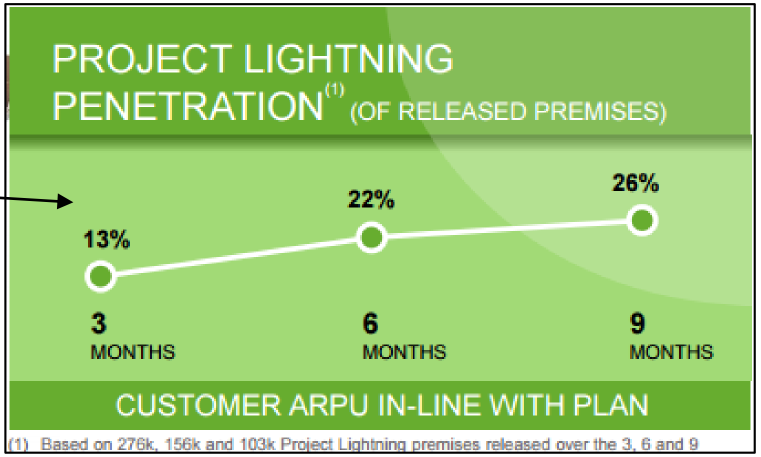



# VTR: Maximizing Large Upfront Capex Costs

- A key metric of a cable company's ability to maximize their large capital investment in PP&E is "***EBITDA per Homes Passed***"
- Important to remember that for VTR, the EBITDA/HP metrics will be understated over the last couple of quarters
- *Why*? Larger than normal capital investment are upfront costs, but penetration is not immediate
- ***Example***: Virgin Media (UK) expansion ("Project Lightning") is targeting full penetration in 36 months, with about 13% in first quarter after expansion in an area




ROI is not immediate (see Project Lightning expectations)

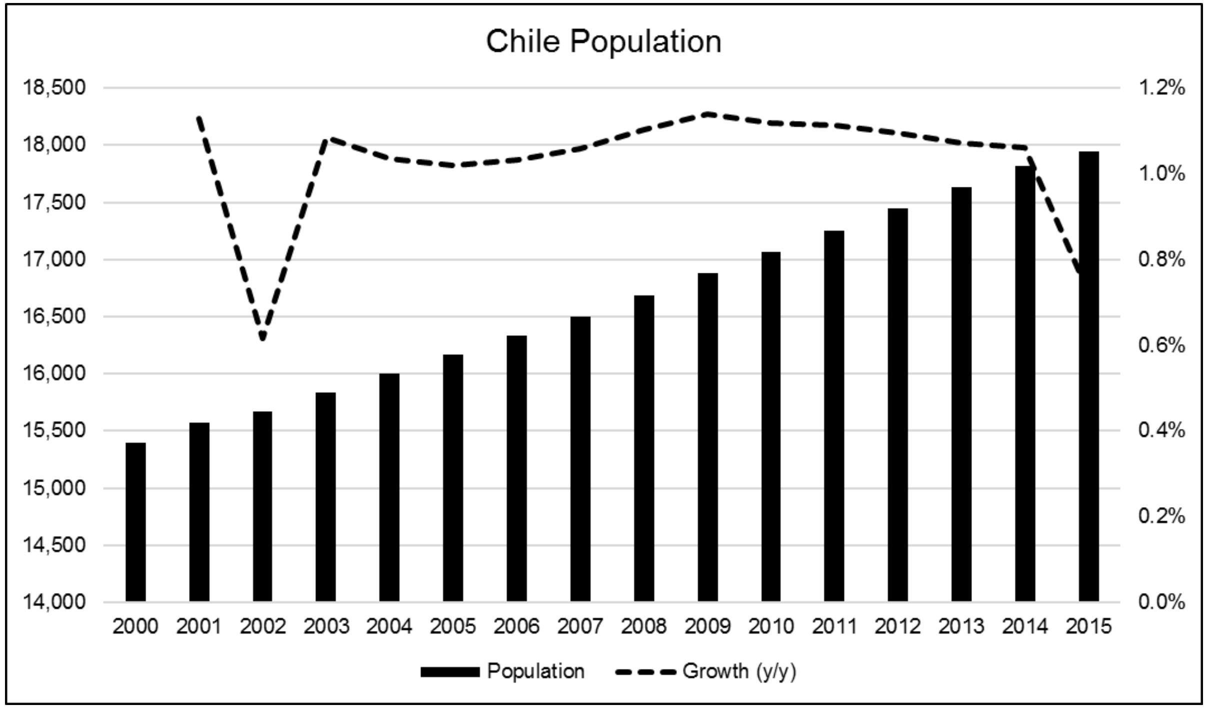


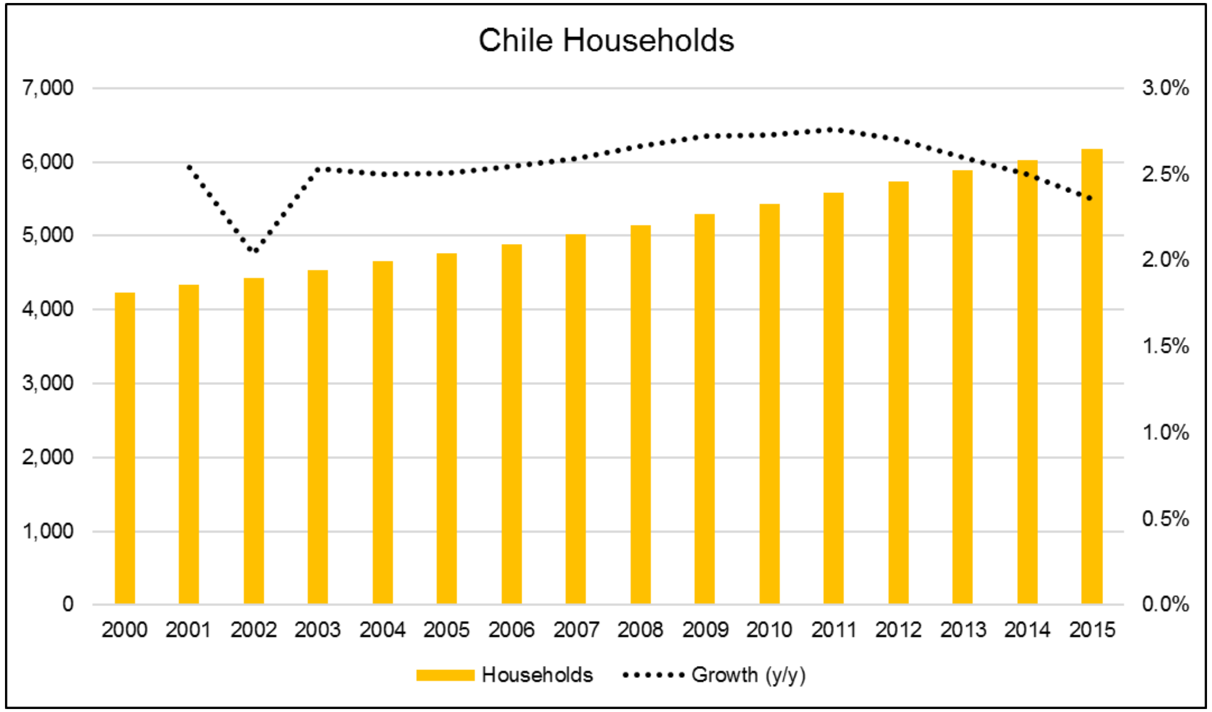

Source:

LIBERTY GLOBAL

# VTR: Population & Household Growth

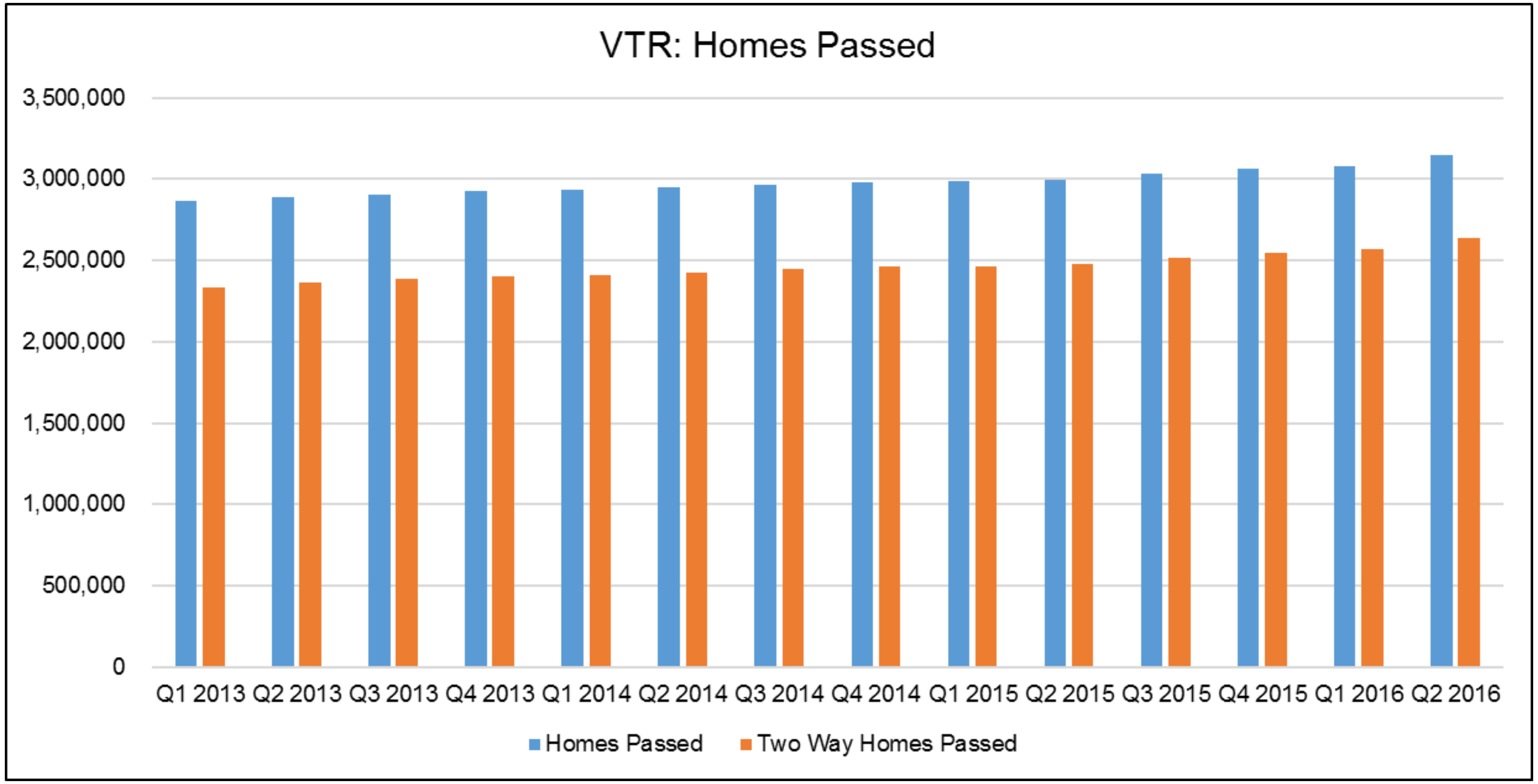
- Population growth in Chile has been modest, around 1% per year
- Household growth has grown fast than population growth at > 2%, a nice tailwind for providers of video/broadband services



# VTR: Homes Passed

- Homes passed has increased at *2.72%* CAGR since early 2013
- Video subscribers have increased at 2.5%, broadband at 6.5%, and RGUs at 3.2% over the same period. Customer Relationships grew at 3.2% CAGR since early 2013.



# VTR: Newbuild Opportunity

- VTR has increased their footprint over the last year
- 3.0 million homes passed Q2/2015 → 3.15m homes passed Q2/2016 (+5% YoY)
- Newbuild opportunity is “trading capex for revenues”
- Just because VTR is expanding their footprint doesn’t automatically mean they will earn satisfactory ROI
- How to check if investment is “paying off”?
  - Look at Customer Relationship growth
  - RGU growth in comparison to CR growth
  - Revenue growth in each category
  - EBITDA and ARPU = is VTR having to offer deep discounts to attract new customers, take market share?

Source:

# VTR: *Technology vs. Competition*

- VTR has hybrid-fiber-coaxial (HFC)
  - Fiber to the node, coaxial cable from the node to the home
  - Similar to most cable companies, except when they choose to have newbuild as fiber optics directly from plant to the home (FTTH)
- Closer a home is to the node, faster the speeds, as they are closer to the fiber optics
- HFC is superior in speeds (Mbps) to copper-based DSL
- HFC has the capability of using DOCSIS 3.0, 3.1, 3.x technology to improve speeds without the need to have increased investment or upgrading the entire last mile from coaxial cable to fiber optics
  - DOCSIS 3.0 can get up to 1.0 Gbps through channel bonding, etc.
  - DOCSIS 3.1 can get ~ 10 Gbps
- HFC is inferior to FTTH, as FTTH is 100% fiber optic, has symmetrical up/download speeds

Source: Liberty Global presentation June 2015

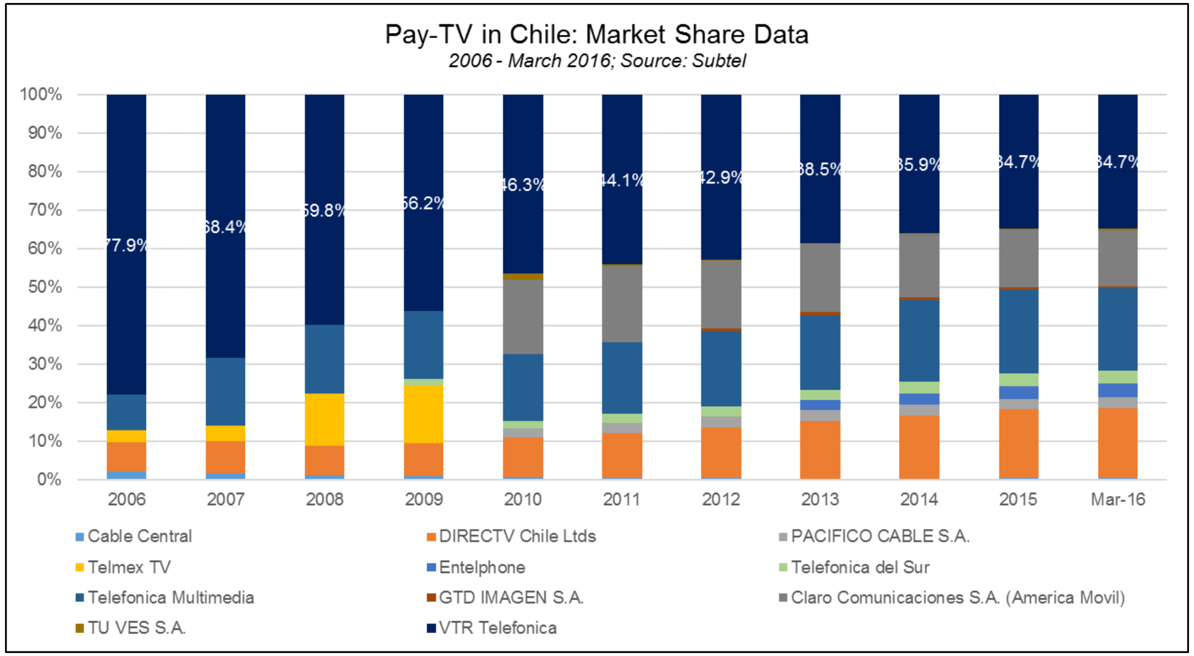
# VTR: *Overbuild with Competitors*

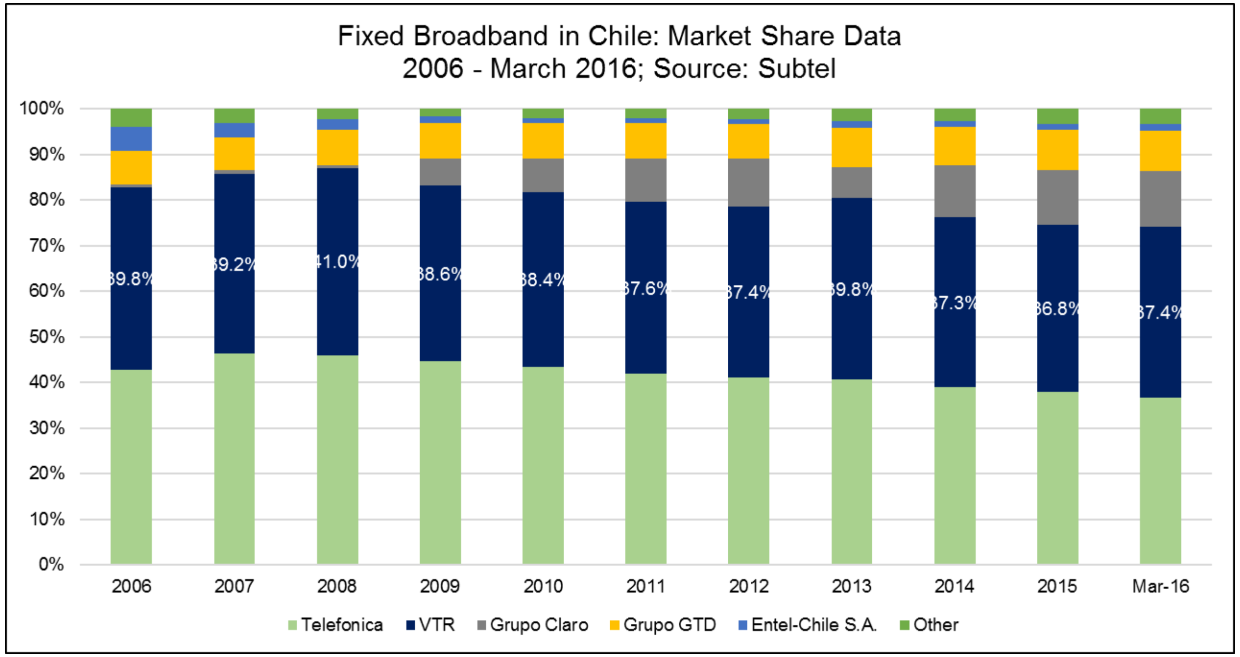
- Minimal FTTH overlap
- Of the 2.74m broadband subscribers in Chile as of Q2/2016, only 160,000 are on FTTH
- FTTH expansion has increased quite a bit, starting from 0 in 2010
- There isn't much data on exactly how much the FTTH overbuild is with VTR's footprint; however, if FTTH had a 40% penetration rate, this would imply 400,000 FTTH homes passed, which would be a *maximum of 12.7% overlap* with VTR
- This is unlikely and high, as lot of these FTTH connections are B2B
- Risk:
  - Telefonica is getting frustrated with the "competitive and saturated" mobile market, looking for new growth opportunities
  - Announced in early 2016 they will be investing ~$250 million to expand FTTH, targeting 900,000 FTTH subscribers by the end of 2019

Source:

# VTR: Market Share & Trends

- On a total household and population basis, VTR:
  - #1 in Pay-TV with 34.7% market share (subs stable, but share decline)
  - #1 in Fixed Broadband with 37.4% market share (stable)
- Based on their footprint only, VTR:
  - 57% market share in Pay-TV
  - 59% in fixed broadband
  - 54% in fixed line telephone
- Minimal wireless mobile market share, has MVNO model with Movistar

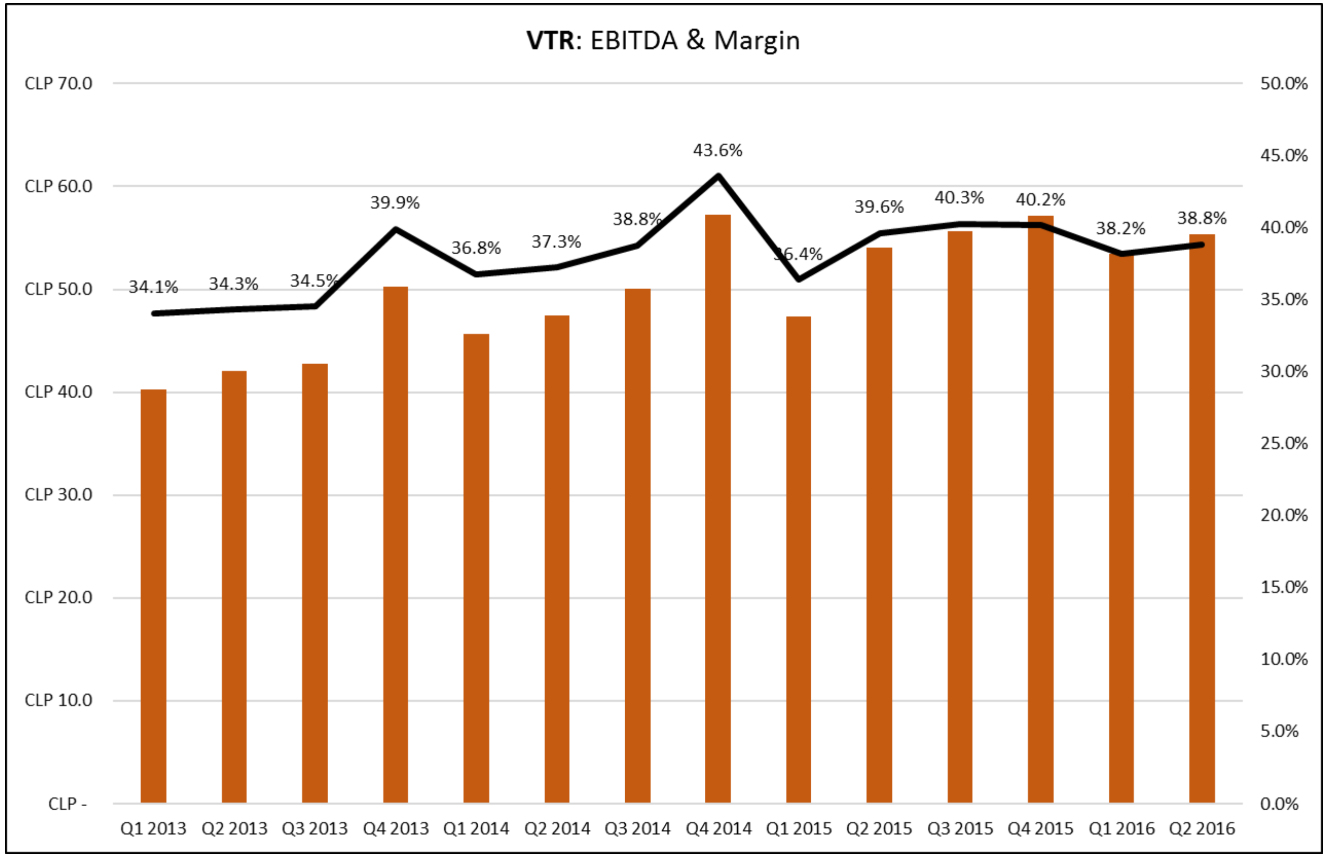



Source:

# VTR: EBITDA & Margin

- EBITDA is an important financial metric for a cable company
- Takes out the capitalization differences of the company versus others, more apples-to-apples
- Depreciation & Amortization are often a large portion of "EBITDA", as cable companies have to invest heavily upfront prior to obtaining the customer relationship
- Margin influenced by:
  - Video subs and programming cost
  - Broadband/telephone are higher margin products (no content costs to content owners)
  - Capital spent can be overlaid across multiple products (video/ broadband/ telephone)
- VTR's EBITDA margin is higher than closest-competitor Telefonica (Movistar) (~33%)
  - Movistar has much more mobile business



# VTR: Pricing Power (if any)

- Based on my conversations with LiLAC, VTR attempts to increase prices ****at**** the rate of inflation
- With increased competitiveness in some products (mobile/ broadband?) there may be less room for pricing increases unless other providers do similar, which is likely as long as GDP and inflation is modest
- Historically, ARPU increases only account for 1/3 of the total revenue growth of VTR
- VTR has grown mostly through increasing customer relationships and driving RGU penetration to these customer relationships

Source:

# VTR: Summary of Key Metrics

- Customer Relationships are crucial to drive RGUs, scale, and are a sign of the effectiveness of the company’s strategy and how they deal with competitive forces
- VTR’s **customer relationships** are improving, some due to secular growth, some due to taking market share
  - HH growth in Chile provides secular tailwind
  - VTR expanding footprint ~5% YoY also driving increased customer relationship penetration
- **EBITDA-per-Home Passed** has been improving, due to:
  - More broadband subscribers and ARPU growth associated with broadband
  - Strong bundling (at least 75% of customers take 2+ products from VTR)
  - Should increase once the recent capital investments in footprint expansion begin to bear fruit, as penetration and ROI takes some time
- **EBITDA margin** has been *steady*
  - Some headwinds from lower fixed line telephony
  - Offset by higher fixed broadband subscribers and revenue
  - Not impacted by low mobile revenue compared to other cable products

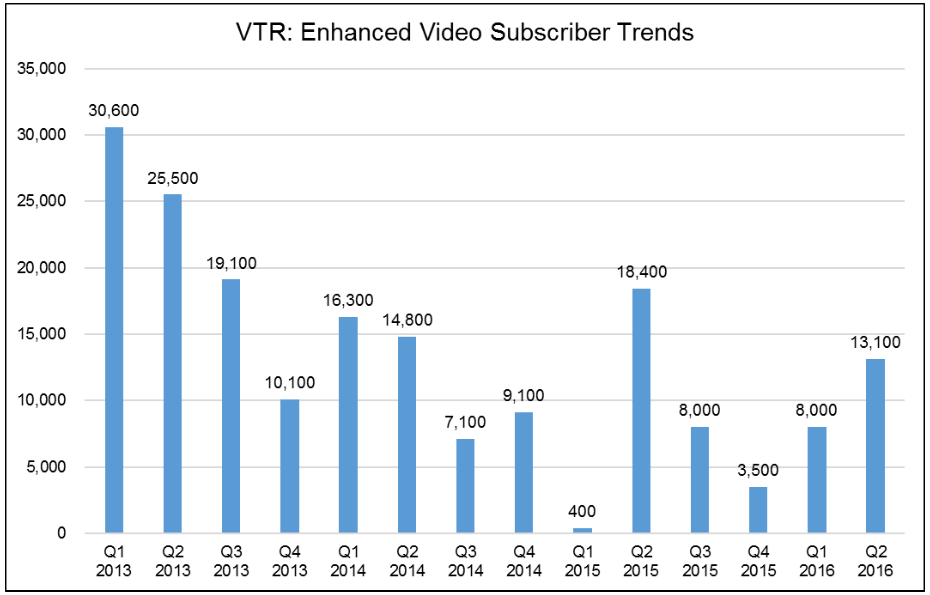
# VTR (Chile)

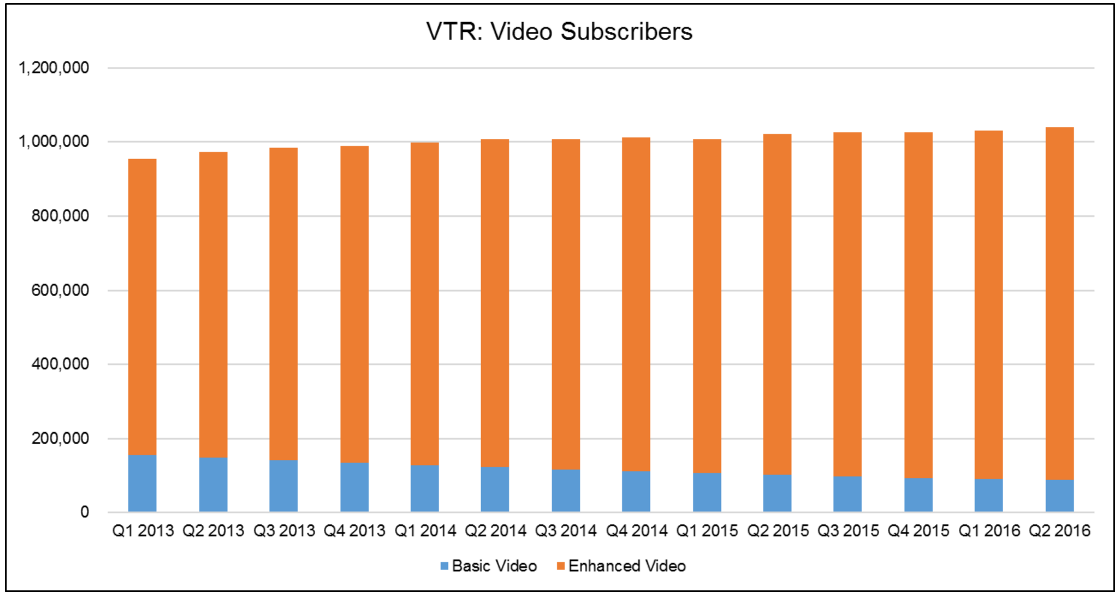
**Pay-TV Landscape**

*#1 Provider in Chile (34.7% share)*

# VTR: Pay-TV

- About 8% of the total ***1.04m*** video subscribers are “basic”, with the remaining 950k “enhanced video”
- Basic video subscribers have declined by ***~50%*** since the beginning of 2006 as they transitioned to “enhanced” cable TV
- Total video subscribers have grown 2.49% CAGR since the beginning of 2013




Source:

# VTR: Pay-TV Market in Chile

- Trends have slowed quite a bit from a few years ago of strong growth; however, subscriber growth remains positive for TV
- The Pay-TV market has 10 providers; in 2006 there were only 5 providers.
- Still, the market is dominated by the large 4 providers (*89% market share*): VTR, Telefonica (Movistar), DirecTV, Claro
- VTR has benefitted primarily from the increased penetration of Pay-TV in Chilean households
  - 2006: 1.03m Pay-TV subscribers on ~4.9m households (21% take rate)
  - 2010: 1.93m Pay-TV subscribers on 5.43m households (35.5% take rate)
  - 2015: 2.96m Pay-TV subscribers on 6.17m households (47.7% take rate)
- Households in Chile have grown by about 2.6% per year, yet Pay-TV subscribers has *tripled* since 2006
- Who has benefitted most from the "Pay TV Penetration" opportunity?
  1. DirecTV Chile: 78k subs in 2006 to 540k as of Q1 2016 (*23.2% CAGR*)
  2. Telefonica: 94k subs in 2006 to 636k as of Q1 2016 (*22.9% CAGR*)

  ………..

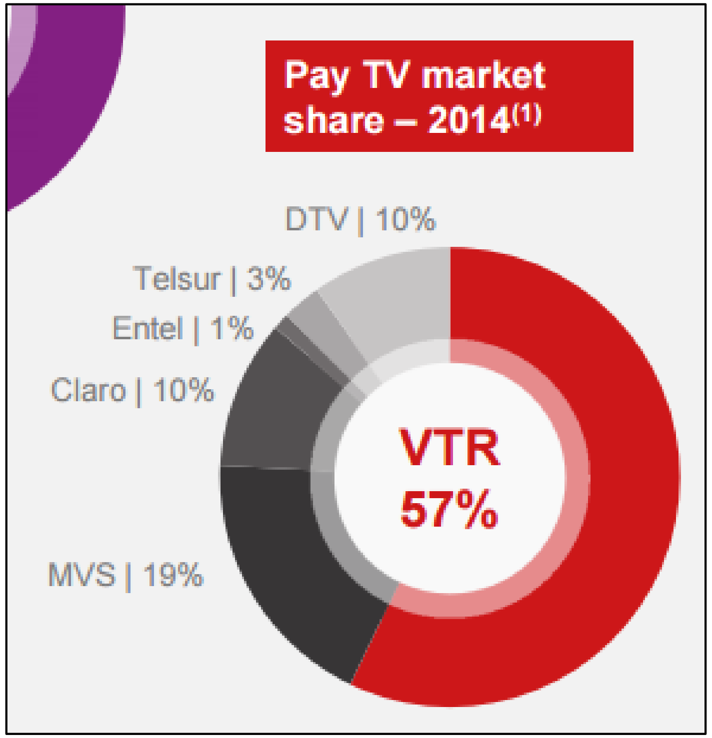
  ….. VTR Chile: 800k subs in 2006 to 1.03m as of Q1 2016 (*2.7% CAGR*)

# VTR: Pay-TV

- In reality, VTR has only grown their video subscriber base *in-line* with household growth in Chile
- VTR has completely “missed the boat” on the massive increases in the Chilean population choosing to pay for TV services
- **What does the mean going forward?**
  - As satellite market share of Chilean Pay TV subscribers has grown from 20% in 2006 to 51% in Q1 2016, the ability for DirecTV in Chile, as well as other wireline companies, to offer a compelling triple + quad-play offer with “satisfactory broadband speeds” could determine the future market share
  - As VTR mostly competes with Telefonica (dba Movistar) and Claro, how VTR prices their bundles, their broadband speed offerings, content, and technology will determine if they can (1) compete against the wireline competitors, and (2) take back market share as people show preference for higher broadband speeds

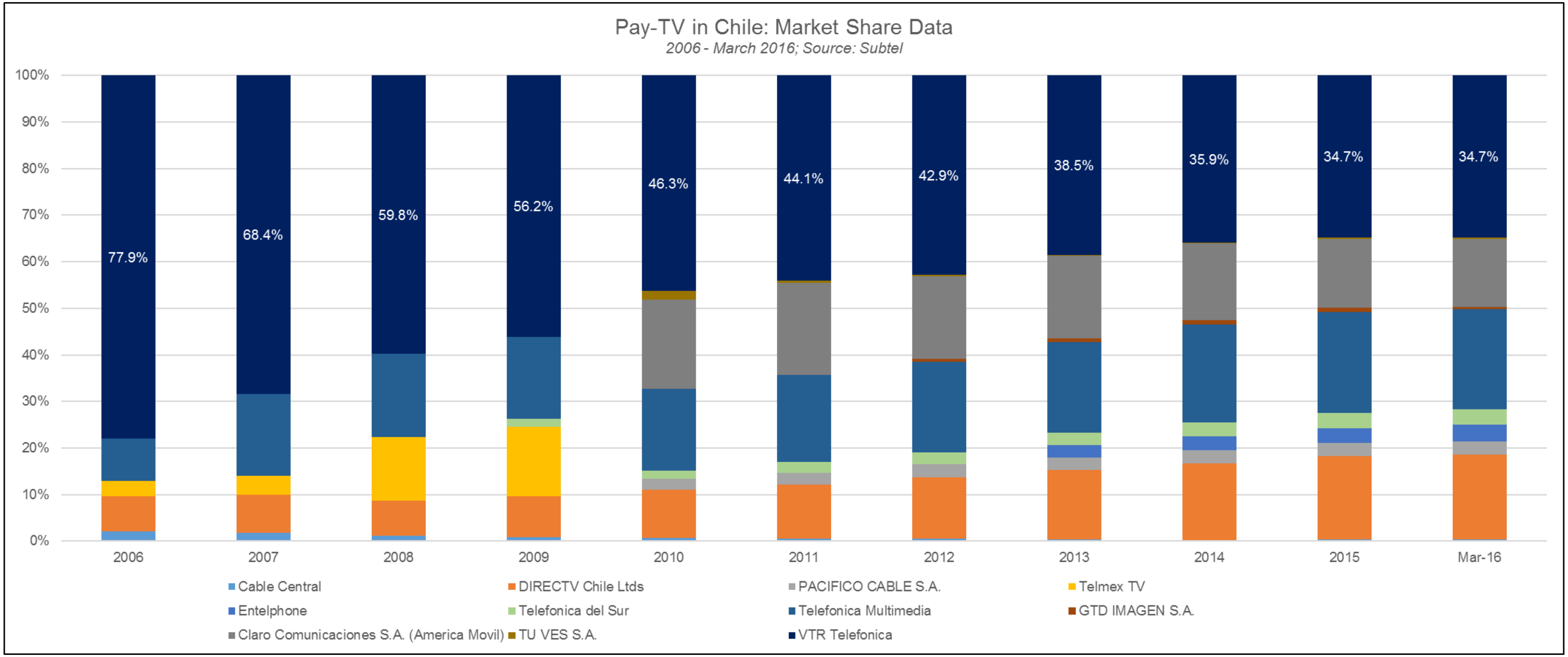
# VTR: Pay-TV

- VTR market share in entire Chile has gone from *78%* in 2006 to *34.7%* in Q1/2016
- Based on their footprint of 3.15m homes passed/ 2.64m two-way homes passed, VTR estimates to have around 57% market share (while DirecTV has around 10%)
- **What does this imply?**
    - VTR has strong market share *in their footprint*, despite a decline in overall Chilean market share
    - VTR and DirecTV compete less in VTR's market; or, in other words, DirecTV has less competition in certain areas of Chile (suburban areas) which has gained traction over the last 10 years in Pay-TV take rate
    - Urban Chile, where VTR has a strong footprint, is where they have a better competitive advantage and can offer more




*Market share (to the right) is from June 2015 presentation, based on subscribers inside VTR's footprint*

# VTR: Pay-TV Market Share



# VTR (Chile)

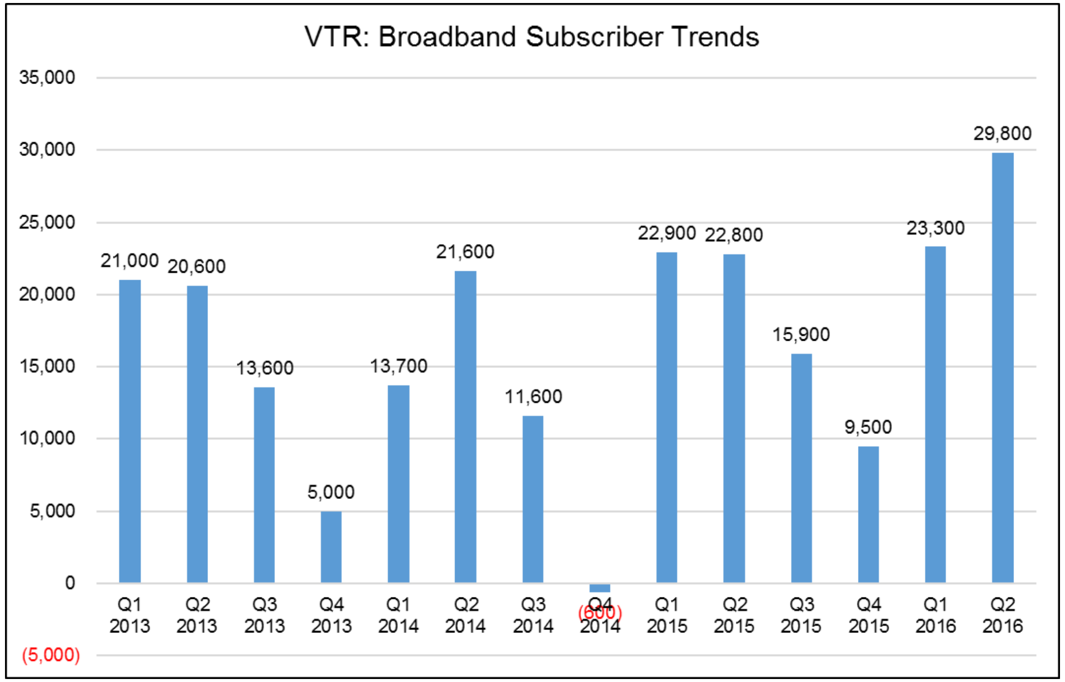
**Broadband Landscape**

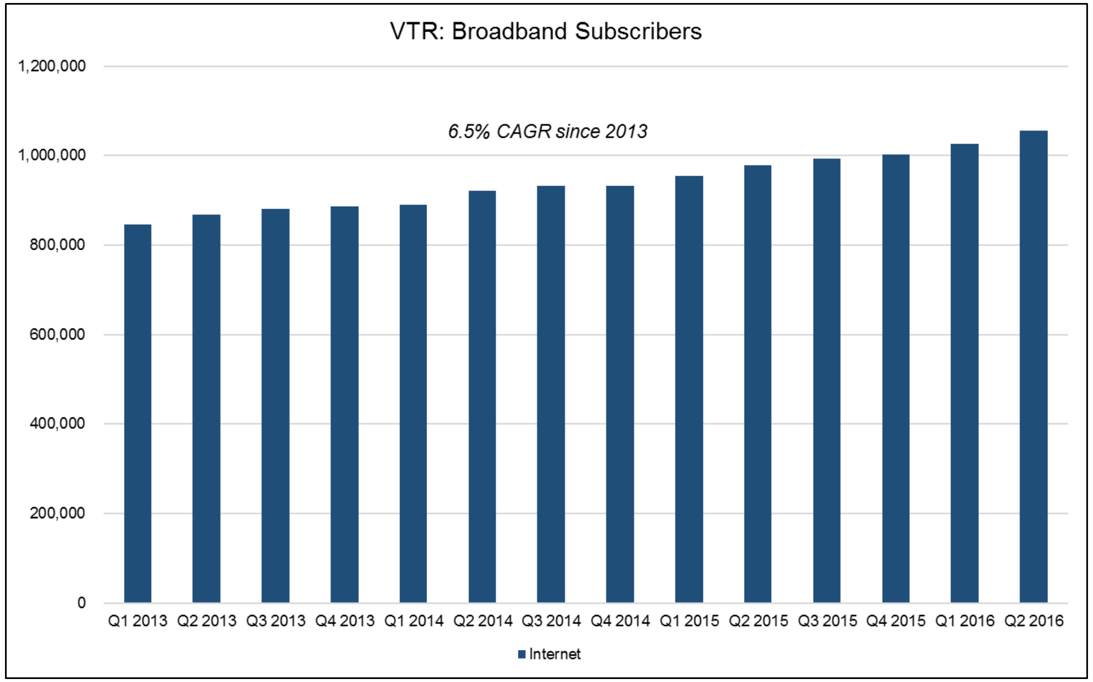
*#1 Broadband Provider in Chile*

*~Duopoly market (VTR/Telefonica have >70% market*)

# VTR: Broadband Overview

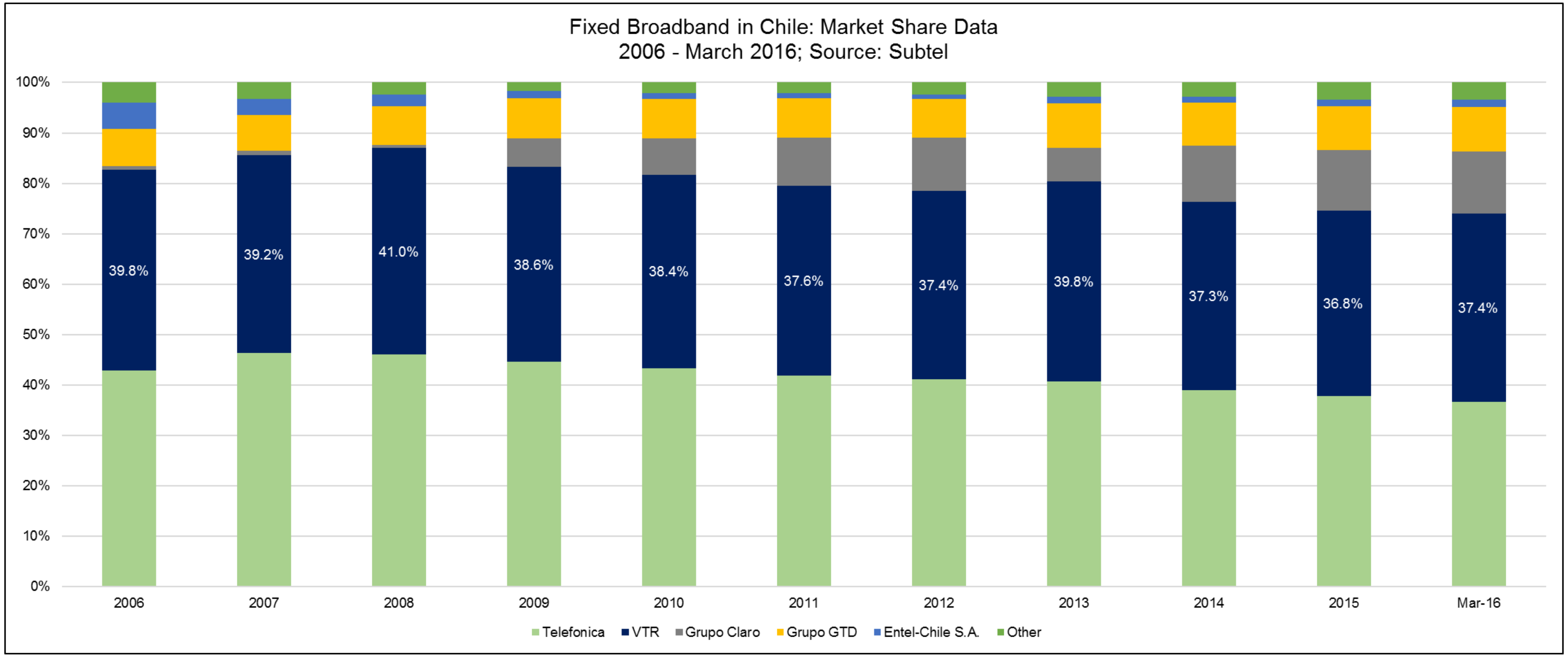
- VTR has 1.56m broadband subscribers
- Q2/2016 was first quarter ever VTR had more internet subscribers than video
- Recent trends in broadband subscriber numbers are positive, with 4 of the last 6 quarters adding over 20,000 subs (*prior 6 quarters added cumulatively 64,900 subscribers, average of <11,000 per*)



# Broadband Market in Chile

- Market share = ***stable*** between VTR and Telefonica (Movistar)
- Broadband market in Chile has been *dominated* by VTR (LiLAC) and Telefonica (Movistar) for many years
- However, Claro is the only provider that has a respectable market share in Chile besides VTR/ Telefonica, with about 12.2%, up from 0.7% in 2006




Source:

LIBERTY GLOBAL

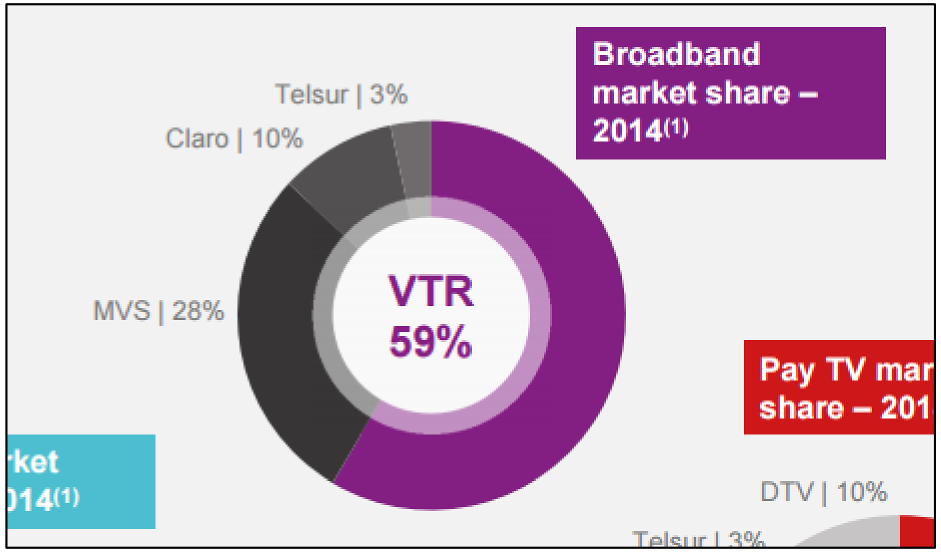
# Market Share Overview: **Broadband** in Chile

| | 2006 | 2016 |
|---|---|---|
| vtr.com | 39.8% | 37.4% |
| Telefonica movistar | 42.8% | 36.7% |
| Claro | 0.7% | 12.2% |
| Gtd Grupo Gtd | 7.4% | 8.9% |

Source:

# Market Share Overview

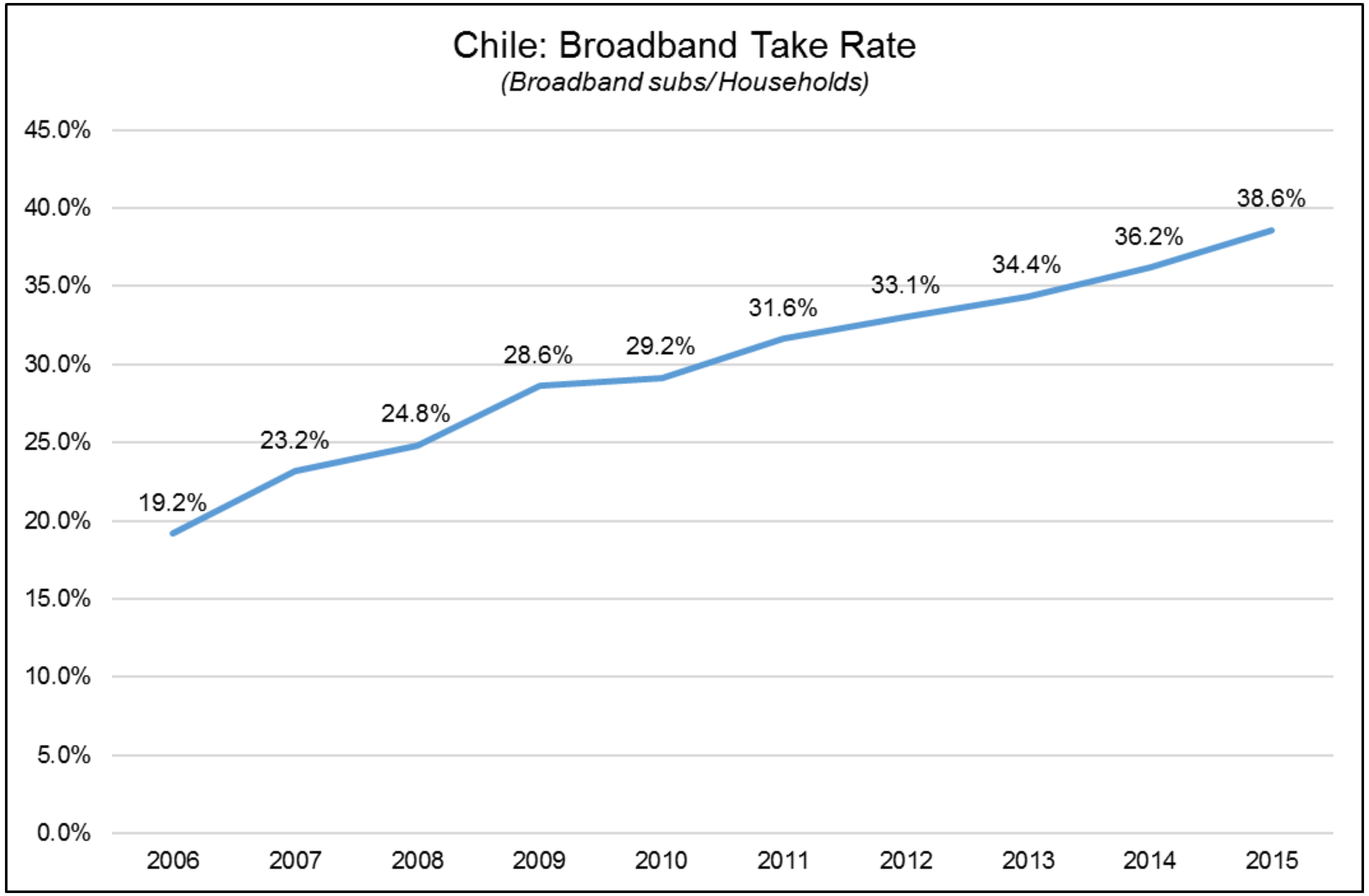
- Despite on a subscriber/ Chile household calculation of only 37% market share, **VTR says they have about 60% market share**
- Not surprisingly, this would mean the other providers have less overlap/are less strong in VTR markets
- #2 provider in VTR markets has 28% share, #3 has 10%
- Some data research companies calculate penetration on a per-person basis, instead of per-household basis




*Market share calculations possibly swayed by % of HH that don't have a TV at all, are not considered

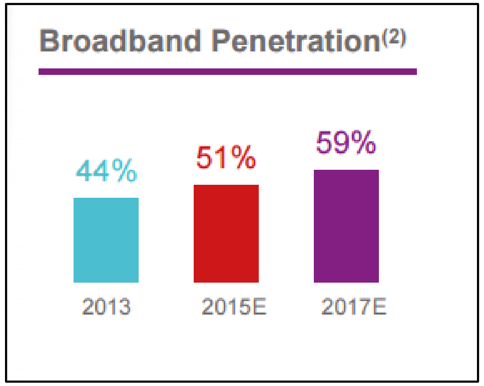
# Chilean Broadband Penetration

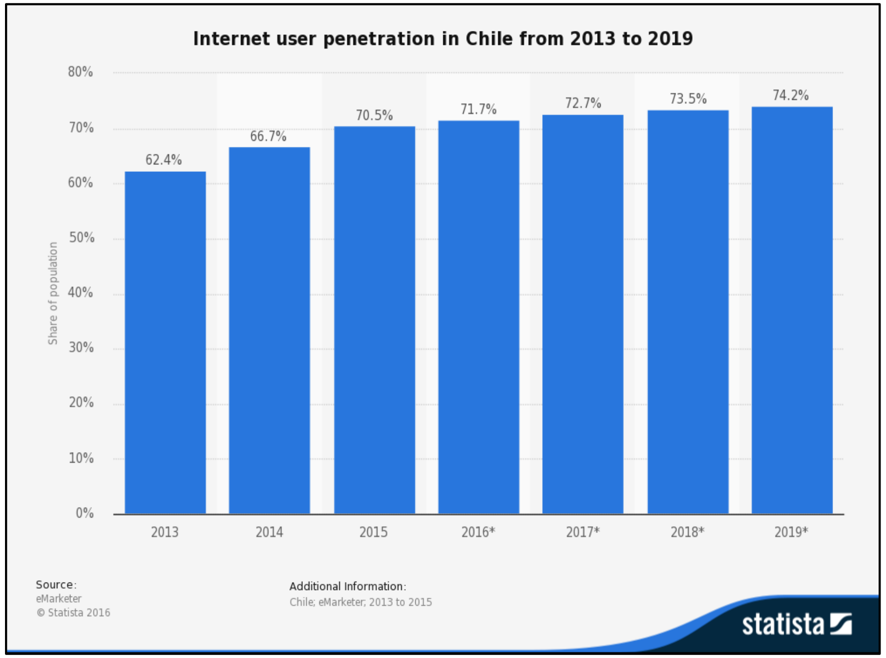
- Using broadband subscribers as a % of the total Chilean households, there is only a ~39% penetration rate
- Admittedly, this could be skewed, due to:
  - Number of households not available to receive broadband
  - Subscriber count may double count people, multiple homes
- This does exclude business subscribers, which are around 338,000 at the end of Q2/2016, versus 2.40m residential broadband subs.



# Chilean Broadband Penetration

- In previous reports and presentations, LiLAC has showed national penetration levels using Dataxis as the source
- Looking through Dataxis, some of their calculations use subscribers as a percentage of total populations, which is incorrect, in my opinion.
- Dataxis had 2013 broadband penetration at **44%;** my calculations were **34.4%**
- According to some reports, Chile (on a sub-per-population basis) has some of the highest penetration levels in Latin America
- Regardless, the penetration level is low compared to Europe and U.S., but this does not mean Chile should have equal penetration in the near future
- It does provide for an ample runway of secular growth, however, as the market will expand



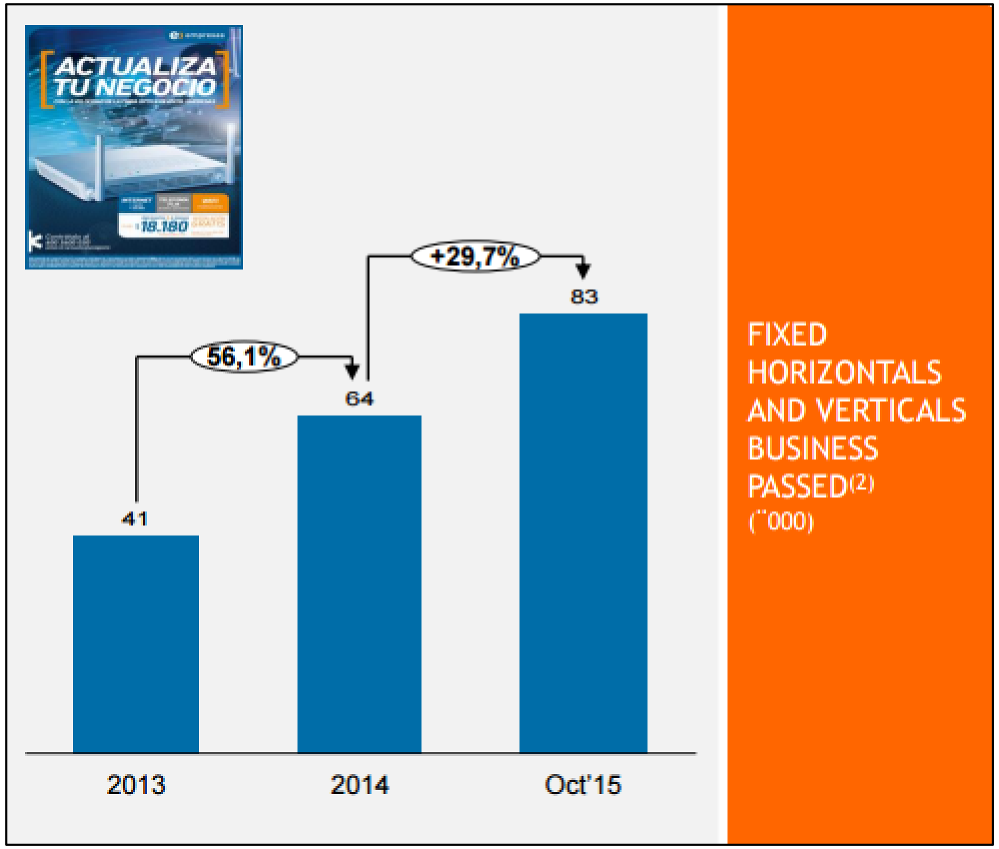
# Broadband Technology

- See earlier slide for more information
- VTR has very limited FTTH overbuild
- 84% of homes as two-way capable for VTR, a total of 2.64m homes passed
- Entel, Chile's #1 mobile provider, has been expanding FTTH, but mostly to small-and-medium enterprises; however, Entel has gained little ground with subscribers, going from 30,500 in 2014 to 35,960 in Q1/2016
- Telefonica is pushing to invest heavily in Chile to improve and expand its fiber-to-the-home (FTTH) netowrks
  - $500 million investment
  - By 2019, intend to have 900,000 customers connected to "fibre", currently have about 500,000
  - Over 80% will be connected to FTTH network

Source:

# Entel

- Entel has operations in Chile and Peru
- Entel approved of a FTTH expansion in 2013
- Has not been very successful
- Now, focusing more on FTTH to small and medium businesses, and cross-selling mobile to them
- Cross-selling mobile = 50% penetration thus far
- As of the end of 2015, Entel has 83,000 “homes passed” (12% of total business passed in Chile) with FTTH
- To further cross-sell, Entel is working on a OTT TV trial




Source:

# VTR (Chile)

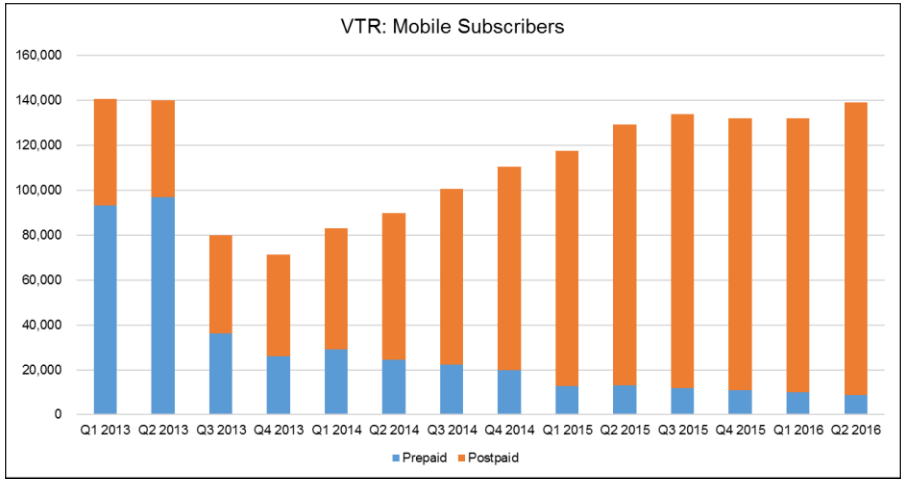
Mobile Landscape

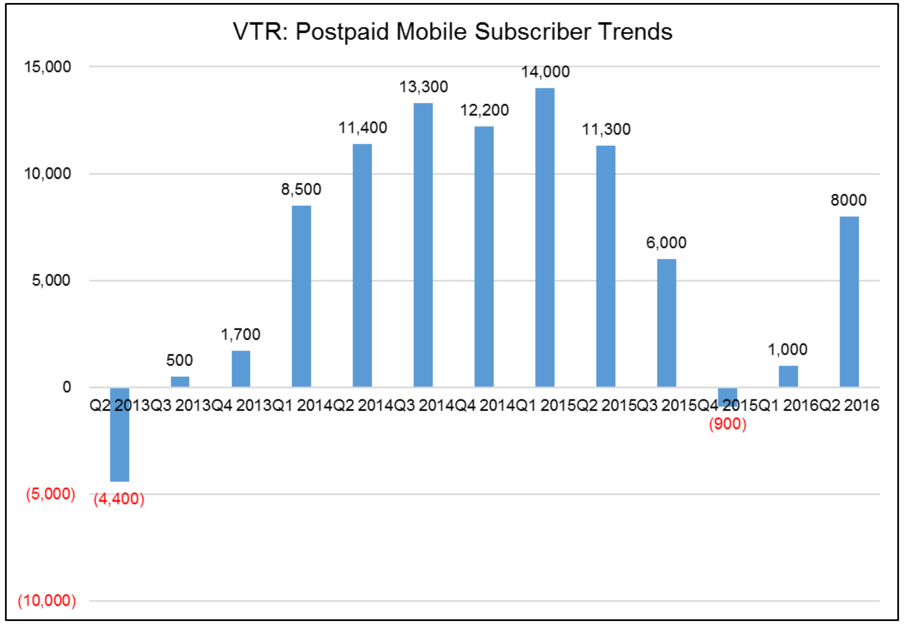
# Mobile in Chile

- The mobile market in Chile has been characterized as:
  - “stagnated” (Telefonica)
  - Fully saturated” (Telefonica)
  - Highly competitive and mature” (Entel)
- This competition and “**saturation**” of the mobile market is pushing competitors to try to grow in other ways, i.e. Pay-TV and broadband
  - Telefonica announced in early 2016 they will invest about $500m back in Chile from 2016-2019
  - About $250 million will be to drive more FTTH into homes
  - Targeting 900,000 FTTH subscribers
- Mobile market dominated by huge wireless providers
  - Movistar  = Telefonica
  - Claro = America Movil
- 4G launched in Chile in 2015

# VTR and Mobile

- VTR has highlighted they think mobile is "**large runway for organic growth**" (*June 2015 Presentation*)
- Only ~1% Chilean wireless market share
- VTR is "**well positioned to drive mobile growth**"
- At this point, mobile is still in infancy stake, with a cumulative CLP60.3 billion since beginning of 2014 (~$90m at current CLP/USD exchange rates)
- Postpaid trends have slowed down from the strong 2014/2015 timeframe
- A stronger Q2/2016 resulted from "refreshed packaging" by VTR

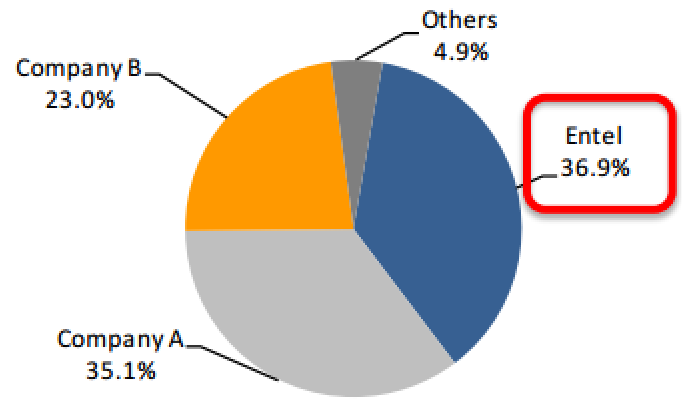


# Mobile Market in Chile

- Mobile in Chile is led by **Entel**, with 36.9% market share
- Entel describes mobile in Chile as: "*a more mature and competitive mobile industry*"
- Mobile industry is slowing down in terms of total growth. Subscriber numbers are still doing well, mid-single digit in post-paid, but ARPU is being impacted by competition and regulation
- Mobile is the largest telecom service in Chile, based on revenues, with *about 51%* of the entire market
- VTR was attempting a mobile network of its own until shutting it down in 2014 to transition to a full MVNO model
  - VTR launched its own wireless network in May 2012
  - Used hybrid model of its own platform with Movistar (Telefonica) agreement on roaming
  - Instead, VTR decided to go full MVNO with Movistar (Telefonica)

MOBILE MARKET SHARE AS OF DECEMBER 2015*




* Others: Virgin, VTR Mobile, WOM. Average Market Share of Active Clients.
* Source: SVS Filings, Market estimates Entel.
* MBB included.

# Mobile Market in Chile

- SUBTEL (Chilean regulator) set new mobile termination rates for 2014-2018 at CH$ 9.5, a reduction of 18%, which started in January 2016
- As approved in 2014, corporate tax rate will increase from 22.5% to 24.0% in 2016
- Market dominated by Entel and Telefonica (Movistar), with a combined >70% market share of mobile in Chile
- VTR, through the MVNO, has ~1% market share

Telefónica

COMPETITIVE POSITION EVOLUTION

| Telefónica | Mobile Market Share[1] | |
|---|---|---|
| | 2014 | 2015 |
| Spain | 31.2% | 30.8% |
| Germany | 36.9% | 38.1% |
| Brazil | 28.4% | 28.4% |
| Argentina | 31.3% | 32.3% |
| Chile | 39.4% | 36.7% |
| Peru | 55.2% | 49.7% |
| Colombia | 23.5% | 22.4% |
| Venezuela | 33.7% | 34.2% |
| Mexico | 20.8% | 22.7% |
| Central America | 31.5% | 33.2% |
| Ecuador | 27.9% | 29.7% |
| Uruguay | 34.4% | 34.9% |

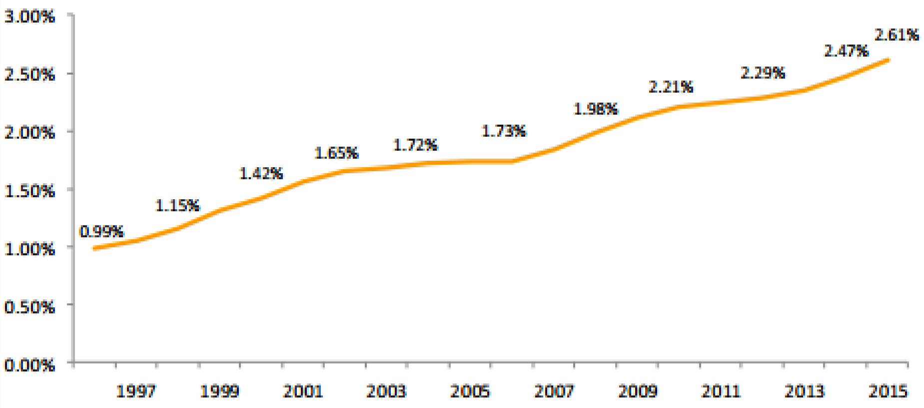
(1) Internal estimation in both years.

Source:

# Telecom Sector in Chile

- There has been an increasing amount of spend (% of GDP) on the telecommunications space; now  = 2.61% of GDP
- The telecom market is $7.9 billion, with mobile at 51%
- Pay-TV is a mere $1.02b market in Chile, based on revenues, up 11% YoY

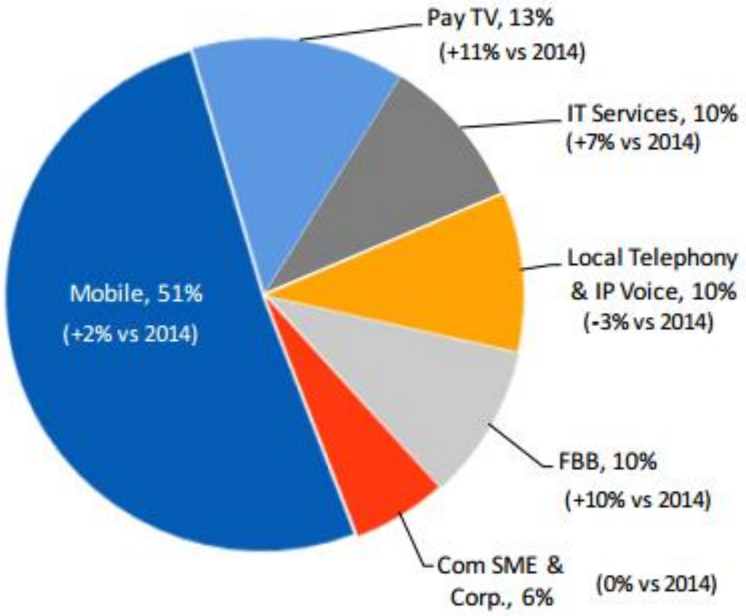
TELECOMMUNICATIONS GDP / TOTAL GDP




Source: Chile Central Bank.

CHILEAN TELECOM MARKET YEAR 2015

Telco Market Size (Revenues): US$ 7.9 bn (+4% vs 2014)

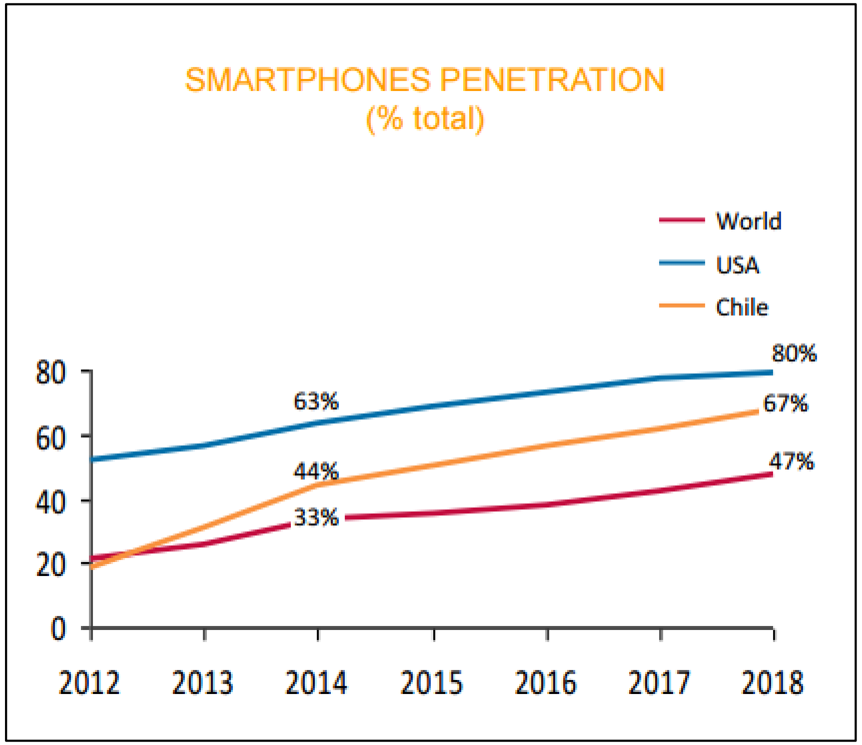



IT Services includes: O/S and data center services.
Source: SVS Filings, Market estimates Entel.

Source:

# Smartphones in Chile

- Increase in penetration of smartphones increases data traffic
- Smartphone penetration in Chile has increased substantially from 2012 to current, and is expected to hit 67% by 2018
- Current smartphone penetration = 52%
- The increase in smartphones has increased data plan take-rate, which was 28% in 2011, is 82% currently



# VTR (Chile)

## Competition

# Pay-TV

- Telefonica
  - Large competitor, one of the largest of call LiLAC's competitors from a capability standpoint
  - Investing $500m in Chile to bring FTTH expansion
  - Targeting to have 900,000 broadband subs on FTTH by 2019
  - The expansion of FTTH will result in: more promotional activity, a higher quality bundle offer of quad play, as they are already strong in each category of the quad-play
  - Also has their own OTT video service, with about 110,000 subscribers to "Movistar Play", intend to reach 300,000 by the end of 2016

# Fixed Broadband

- Telefonica
  - Investing $500m to bring FTTH subscribers from ~500,000 to 900,000 by 2019
  - Investing in FTTH because of “the demand for faster speeds and the mobile business stagnations due to market saturation”
  - November 2015, Telefonica was involved in a conflict as they set a limit of 500 Gb monthly consumption in residential internet plans

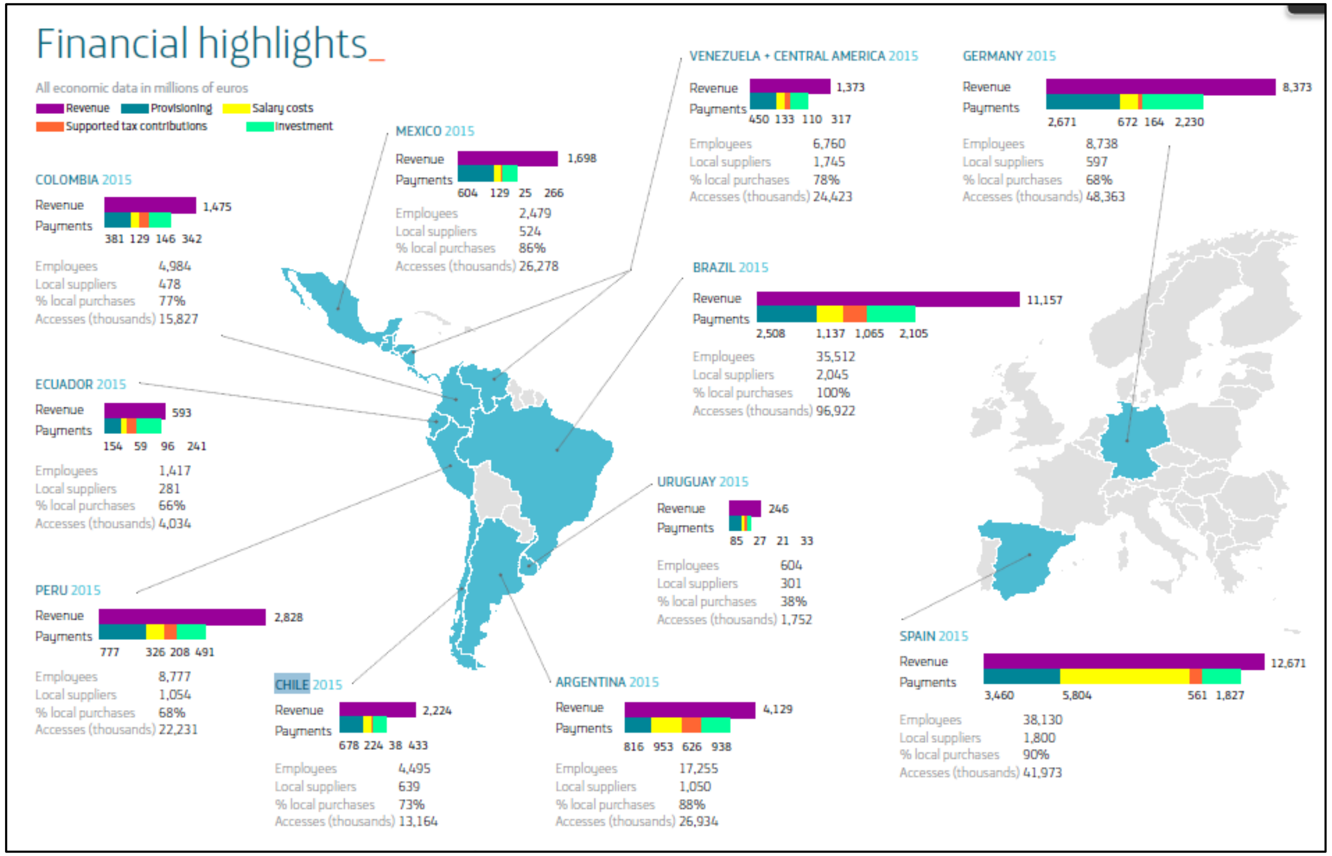
# Mobile

- Telefonica
  - Continuing to invest in mobile
  - $250m of the $500m investment in Chile from 2016-2019 will be in mobile
  - Looking to add more customers to its 4G network to reach 1.5 million subs by the end of 2016
- Claro (America Movil)
  - 6.48m wireless subscribers, up 7.8% YoY

Source: Telefonica filings, presentations

# Telefonica (Movistar)

- #2 market share in Pay-TV with 21.5% share and 636,000 subscribers
- #2 in fixed broadband in fixed broadband with 36.7% share, 1.006m subscribers
- ~$55b in revenues, $16b in EBITDA
- Telefonica has operations in:
  - Argentina
  - Chile
  - Ecuador
  - Mexico
  - Panama
  - UK
  - Brazil
  - Colombia
  - Germany
  - Nicaragua
  - Peru
  - Venezuela
- Contributes 1.2% to Chile's GDP



# Telefonica (Movistar)

- Broadband ARPU around 17.0 Euros/ month, up 5.9% on CLP-neutral basis
- Pay-TV ARPU was down 8.6% on local currency basis, now at 24.8 Euros/month
- Broadband = inferior network to VTR
  - About 28% of subscribers are on “Fibre” and VDSL
  - Remaining >70% of subscribers are on DSL, which has vastly superior speeds versus VTR’s HFC network

| ACCESSES | 2015 | | | | 2016 | | |
|---|---|---|---|---|---|---|---|
| *Unaudited figures (Thousands)* | March | June | September | December | March | June | % Chg |
| Final Clients Accesses | 13.861,3 | 13.610,4 | 13.387,4 | 13.158,3 | 12.741,5 | 12.481,1 | (8,3) |
| Fixed telephony accesses (1) | 1.557,7 | 1.537,4 | 1.510,3 | 1.486,0 | 1.459,0 | 1.438,4 | (6,4) |
| Internet and data accesses | 1.067,9 | 1.093,6 | 1.106,4 | 1.112,0 | 1.109,1 | 1.150,8 | 5,2 |
| Broadband | 1.056,7 | 1.082,5 | 1.095,4 | 1.101,1 | 1.098,4 | 1.093,3 | 1,0 |
| Fibre and VDSL | 192,2 | 216,3 | 240,7 | 256,7 | 268,9 | 290,2 | 34,2 |
| Mobile accesses | 10.619,5 | 10.345,1 | 10.129,6 | 9.915,6 | 9.527,9 | 9.235,1 | (10,7) |
| Prepay | 7.817,5 | 7.503,0 | 7.268,0 | 6.995,3 | 6.524,9 | 6.150,1 | (18,0) |
| Contract | 2.802,0 | 2.842,1 | 2.861,7 | 2.920,3 | 3.002,9 | 3.085,0 | 8,5 |
| M2M | 293,0 | 291,0 | 294,3 | 310,0 | 331,2 | 354,8 | 21,9 |
| Pay TV | 616,2 | 634,3 | 641,0 | 644,7 | 645,6 | 656,8 | 3,5 |
| Wholesale Accesses | 5,9 | 5,9 | 5,8 | 5,7 | 5,2 | 5,1 | (13,0) |
| Total Accesses | 13.867,2 | 13.616,3 | 13.393,2 | 13.164,0 | 12.746,7 | 12.486,2 | (8,3) |

*(1) Includes fixed wireless and VoIP accesses.*

Source:

# Telefonica (Movistar)

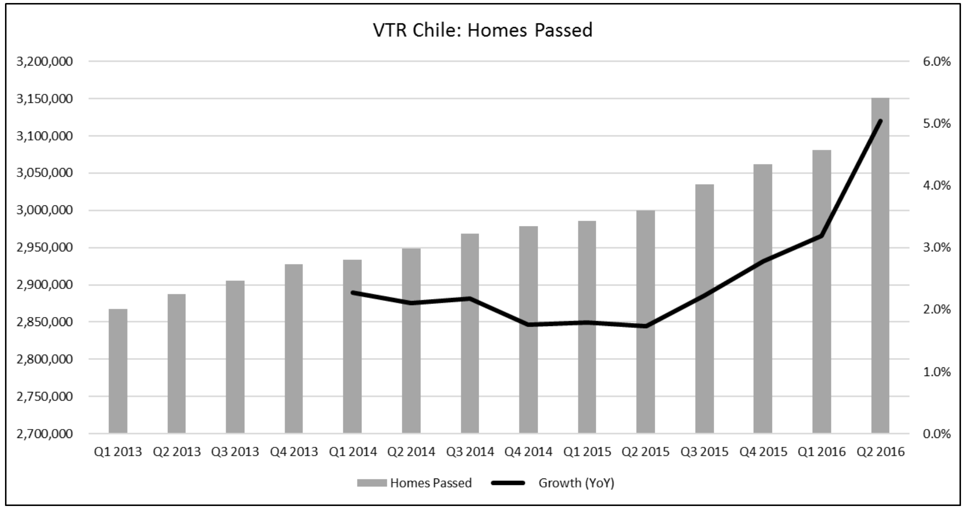
Telefonica

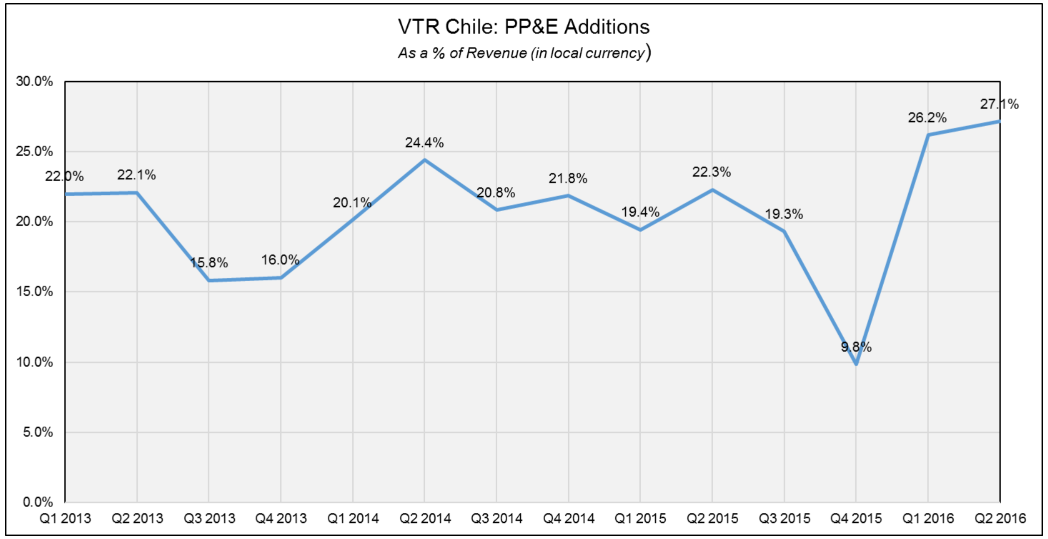
- > 60% coverage of 4G in Chile and >90% in 3G
- “We have 77% of fixed broadband network” has broadband speeds greater than 4 Mb (2015 AR)
- Chile is a small part of overall Telefonica, embedded in the “Telefonica Hispanoamerica” subgroup within the company, that includes: Argentina, Chile, Peru, Colombia, Mexico, Venezuela, Central American, Ecuador, Uruguay
- Has the potential to impact VTR through its expansion in FTTH, their own OTT service
- Due to “mobile market competition and saturation” they are focusing more on broadband and TV, both of which VTR has the #1 market share

> This focus on fixed networks, says the company, is based on two fundamental reasons: the increase in demand for such services and mobile business stagnation due to market saturation.
>
> Roberto Muñoz, CEO of Movistar Chile, said that "since 2012 Internet traffic has increased four two-thirds of all traffic that crosses the network are videos. If three years ago the structure of our company's growth was composed of 75 percent mobile and fixed 25 percent in 2015 77 percent of the growth came from the fixed business. "

# VTR (Chile): Footprint Expansion

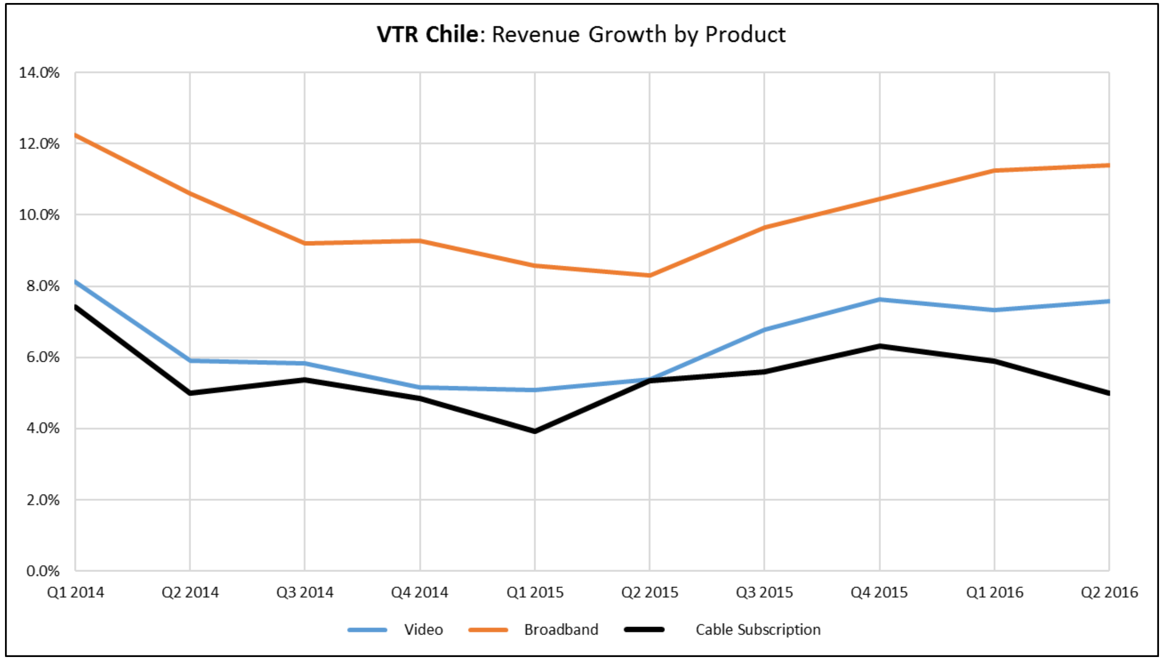
- VTR is in “expansion mode” with a 5% increase in homes passed from Q2/16 vs. Q2/2015
- Approx. 50-60% of capex on PP&E in USD (Q1/2016 Report)
- Capital Spending on PP&E has increase from ~20% to mid-high 20% the last 2 quarters
- This is commensurate with the increase in “homes passed”
- If VTR continues to expand their footprint, capital spending will increase *but* they should see increased revenues and subscriber numbers as well
- A lot of cable capex is success-based
  - New subscriber wants VTR, thus VTR completes last mile/ home connection (PP&E capex)
  - Subscriber wants video/broadband from VTR, VTR purchases Horizon TV set-top-box and places it in home (PP&E capex)
- Low growth cable companies should have lower capex spend
  - Set-top-boxes can be maintained, refurbished from churn, reused for new” gross subscriber
  - No footprint expansion
  - If no new set-top-box planned, or if provider is more “cloud based”, will substantially increase STB spend (CPE)



# VTR (Chile): Footprint Expansion = Revenue Uptick

- As expected, growth in "homes passed" has resulted in an uptick in video and broadband revenues, although at a faster clip than footprint expansion
  - Market Share
  - Pricing
- Total cable revenue subscription has a *headwind* from fixed line telephone, as customers are substituting fixed phone lines with mobile, which is also verified through an increase in smartphone penetration



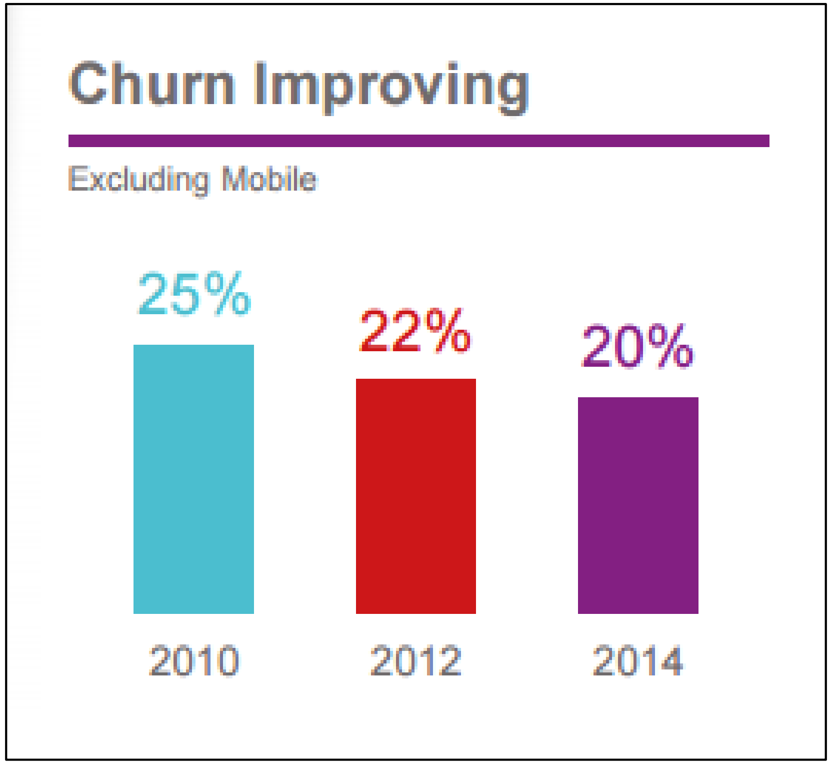
# VTR (Chile): Growth by RGU Increase

- Historically, VTR has grown revenues through increasing
  1. "Customer Relationships" (~3% CAGR since beginning of 2014)
  2. Which flows through to RGU growth, mostly in Internet (7.1% CAGR since beginning of 2014), less so by video (1.7% since beginning of 2014), with a headwind from fixed line telephony (-1.3% CAGR over same period)
  3. ARPU increases (broadband and video)
  4. Less so in mobile (CLP 9.7 total since beginning of 2014 on a total of CLP 58.8 revenue growth)
- In order for VTR to grow, most will have to come from:
  - Network/ footprint expansion
  - Less so ARPU increases (pricing)
- The "homes passed" expansion should drive revenue increases for VTR

| Where does Growth Come from? (Since beginning 2014) | | |
|---|---|---|
| RGU Increase % of Total | 73.5% | |
| ARPU increase as % of Total | 33.5% | |
| Other/Mobile % of Total | -7.0% | |

# Notes on Churn:

- Churn has been improving, driven by continued strength in double and triple play tack-rate
- Still, compared to European and U.S. markets, churn of ~20% is still above average



# Liberty Puerto Rico

Summary

# Liberty Puerto Rico

- **60%** owned by LiLAC/ **40%** owned by Searchlight due to OneLink acquisition in 2012
- Combination of OneLink acquisition in 2012, Choice acquisition (2nd largest Puerto Rico cable provider) in 2014, with prior “Liberty Broadband Operations”
- 1.073m homes passed (~1.23m homes in Puerto Rico = 87% coverage)
- 782,000 RGUs (as Q1/16) including 320k broadband and 260k video
- Population and household declines are a headwind for subscriber growth and pricing power

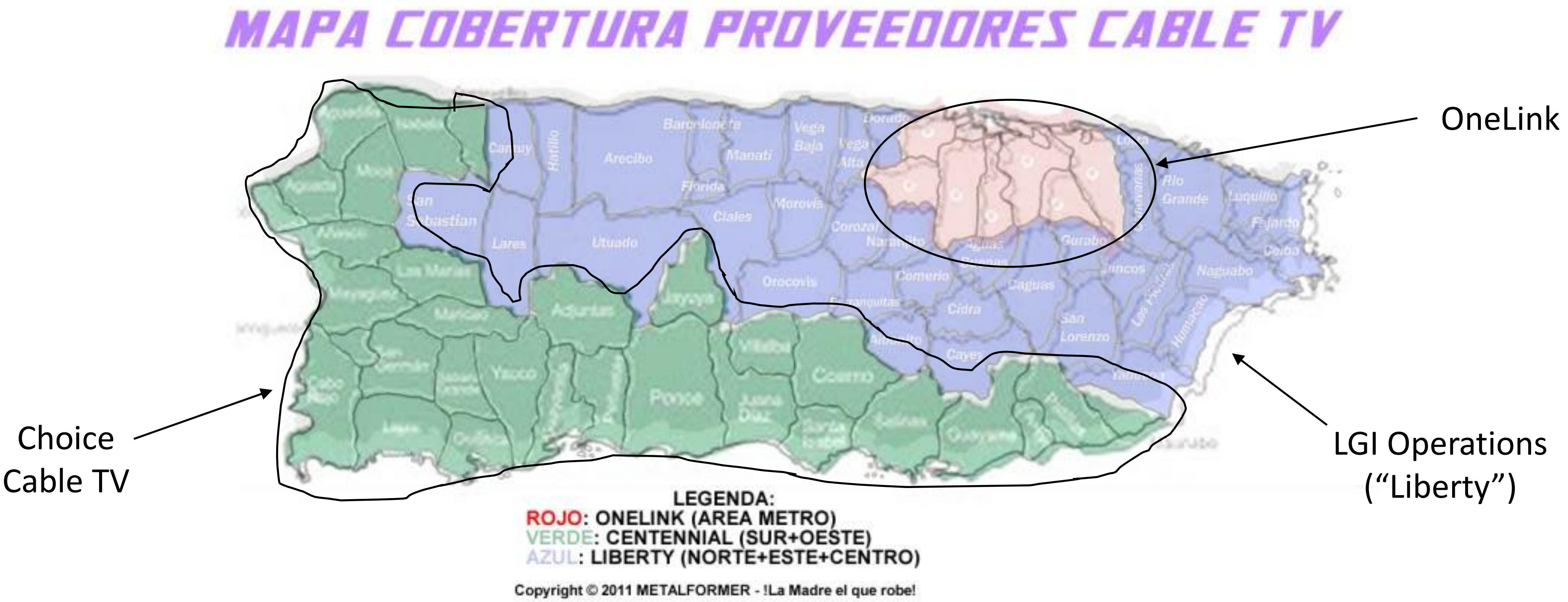
# The Important "Stuff"

- LPR is 60% owned by LiLAC, 40% by Searchlight (thus, adjustments to EBITDA is necessity to reflect ownership)
- Puerto Rico is facing headwinds: declining population, fiscal issues
- Liberty Puerto Rico consolidated the major cable players, and is now the #1 cable operator in Puerto Rico
- *Only* <u>one</u> other cable competitor on broadband and fixed telephone = Claro
- Broadband and Fixed Telephone = **Duopoly**
- Pay-TV market = **more fragmented**, as Dish and DirecTV are major competitors as well
- Historical LPR revenue growth dominated heavily by acquisitions; excluding acquisitions, all of the growth has come from growing RGUs (through customer relationships) offset by ARPU declines

Source:

# Cable Coverage Map in Puerto Rico

- Using the coverage map (below), you can see where OneLink operated in Puerto Rico



# OneLink: Acquired in 2012

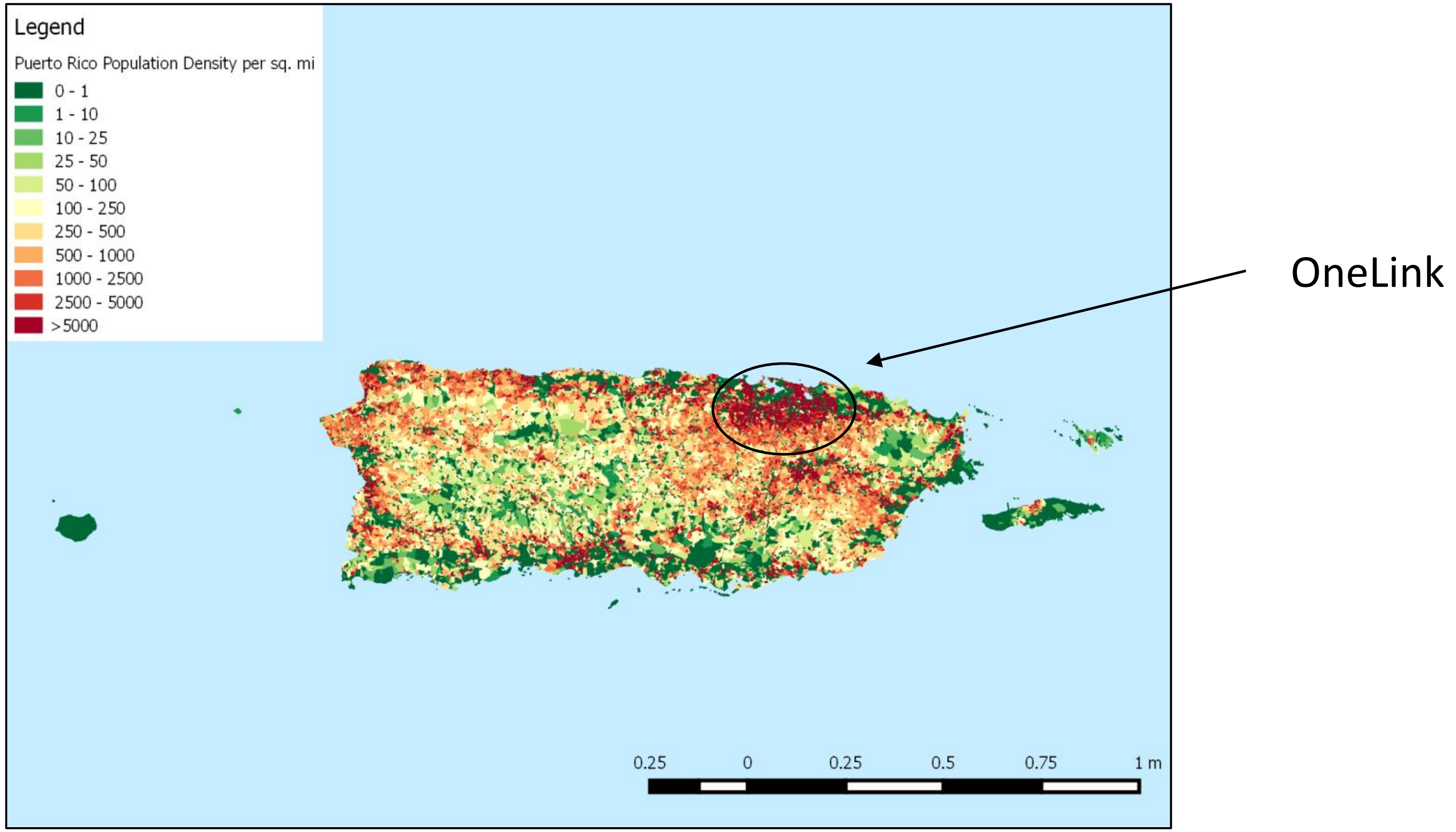
- San Juan Cable, LLC, dba OneLink was acquired in Q4 2012
- Had 347,000 homes passed, served 262,500 RGUs
- Was owned by Searchlight, thus new entity would be 60% owned by Liberty shareholders/ 40% owned by Searchlight
- Previous to the acquisition, Liberty was called “LGI Broadband Operations”
- EV of $585 million, or 6.3x full-year EBITDA before transaction costs

Mike Fries, President and Chief Executive Officer of Liberty Global stated, “Consistent with our strategy of consolidating markets within our footprint, this transaction will make us the leading provider of cable services in Puerto Rico, passing approximately 70% of the cable homes on the island and adding substantial scale to our existing operation. As a leader in innovation in Puerto Rico, particularly in high-speed broadband and HD, we aim to bring that expertise to the OneLink business. On a combined basis, we will have approximately 700,000 homes passed and 480,000 RGUs, generating nearly $300 million in pro forma 2011 revenue. Finally, we are excited about working together with Searchlight and driving value to our respective stakeholders.”

Eric Zinterhofer, co-founder of Searchlight said, "There is clear strategic logic to this transaction, which will enhance the combined company's ability to offer high-quality communications services throughout Puerto Rico. Liberty Global is a best-in-class operator, and we look forward to being their partner on this exciting transaction."

# OneLink: San Juan Cable LLC

- OneLink (San Juan Cable, LLC) acquisition was important because they had a footprint in the higher population density areas in Puerto Rico (including San Juan with ~390,000 people)




Source:

# Choice: Acquired in 2014

- Choice Cable TV acquired Q4 2014, closed Q1 2015
- Choice was the #2 cable provider in Puerto Rico
- 345,000 homes passed and 154,000 customer relationships
- Merger created coverage area of 80% of Puerto Rico homes (i.e. obtain scale)
- "*It was a natural move for us to essentially have an island-wide network that we can drive greater growth and opportunity from,"* Fries told the UBS Conference.

# Choice Acquisition in 2014

- EV of $272.5 million
- 6.1x 2015 full year EBITDA, adjusted for synergies

This transaction values Choice at an enterprise value, before transaction costs, of approximately $272.5 million. This equates to a multiple of 6.1 times our estimate of Choice's 2015 full-year operating cash flow, as customarily defined by Liberty Global and adjusted for the projected annual impact of synergies following full integration. Liberty Global expects to attribute its 60% interest in the combined company to its new tracking share group, the Liberty Latin America and Caribbean Group, or "LiLAC Group", once the tracking share proposal is approved by Liberty Global shareholders and completed.

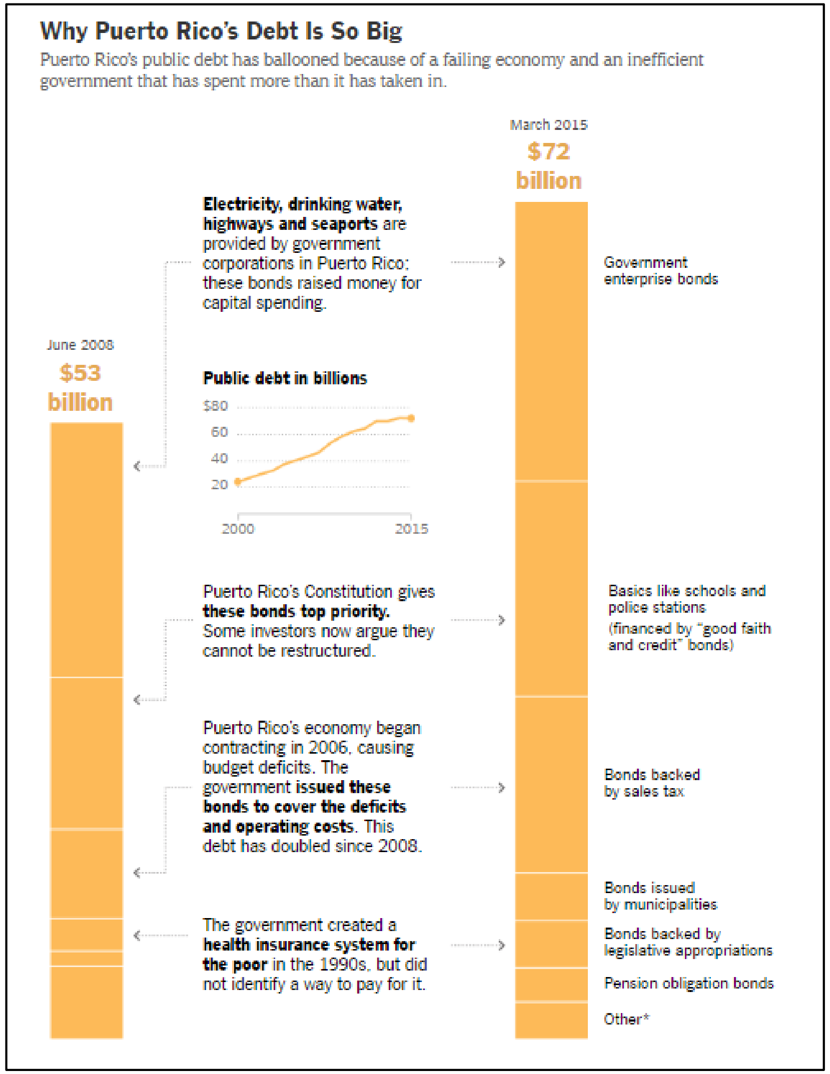
The purchase price is expected to be substantially funded through incremental debt borrowings at the combined Puerto Rican business. The transaction is subject to customary closing conditions, including regulatory approvals, and is expected to close in the first half of 2015. LionTree Advisors acted as financial advisor in the transaction.

# Puerto Rico

The Economy

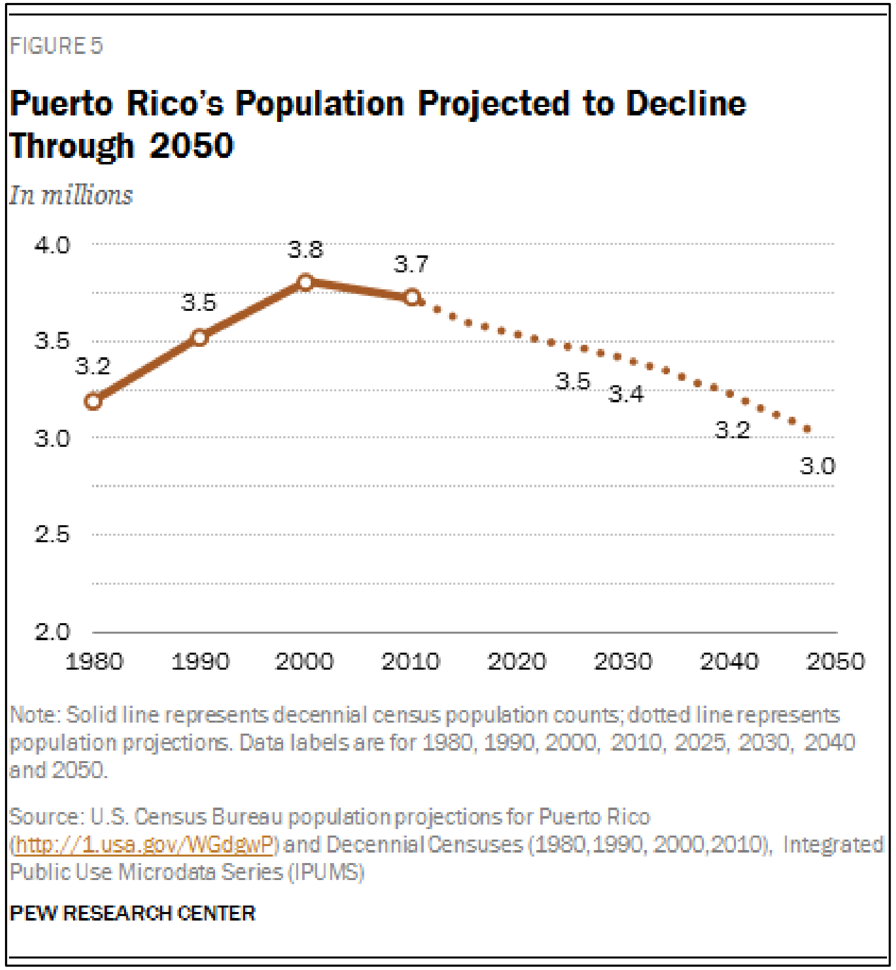
# Puerto Rico: Debt Problems

- Corporate tax breaks designed to spur economic growth expired in 2006, and manufacturing and other business activity began to leave Puerto Rico
- When jobs started leaving, people left or people lost their jobs, lowering Puerto Rican tax revenue
- The government began to borrow money through municipal bonds, which were tax advantaged for US investors and paid higher yields than many other bond investments



# Puerto Rico: Migration *from* the Island

- Migration from Puerto Rico to the US since 2010 is larger than anytime in the 1970s, 1980s, 1990s, and 2000s
- The large migration is mostly due to US-born people moving to Puerto Rico and then migrating back to the U.S.
- More migrants to Puerto Rico are less educated and more likely to hold less skilled jobs
- Combination of high unemployment rate from 2006 economic crisis in Puerto Rico, with a low labor participation rate




Source: Pew Research Center

# Puerto Rico: Population Outflows

Liberty

**Total Puerto Rico Population by Municipality**

**2013**

**All of Puerto Rico:** 3,615,086


| Population | |
|---|---|
| > 200,000 | |
| 100,000 to 200,000 | |
| 75,000 to 100,000 | |
| 50,000 to 75,000 | |
| 25,000 to 50,000 | |
| < 25,000 | |

**Municipalities with largest population in 2013**

| | | | |
|---|---|---|---|
| 1. San Juan | 374,682 | 6. Guaynabo | 94,645 |
| 2. Bayamón | 198,958 | 7. Arecibo | 93,396 |
| 3. Carolina | 169,597 | 8. Toa Baja | 85,971 |
| 4. Ponce | 157,118 | 9. Mayagüez | 84,170 |
| 5. Caguas | 139,559 | 10. Toa Alta | 75,292 |

**2000**

**All of Puerto Rico:** 3,808,603

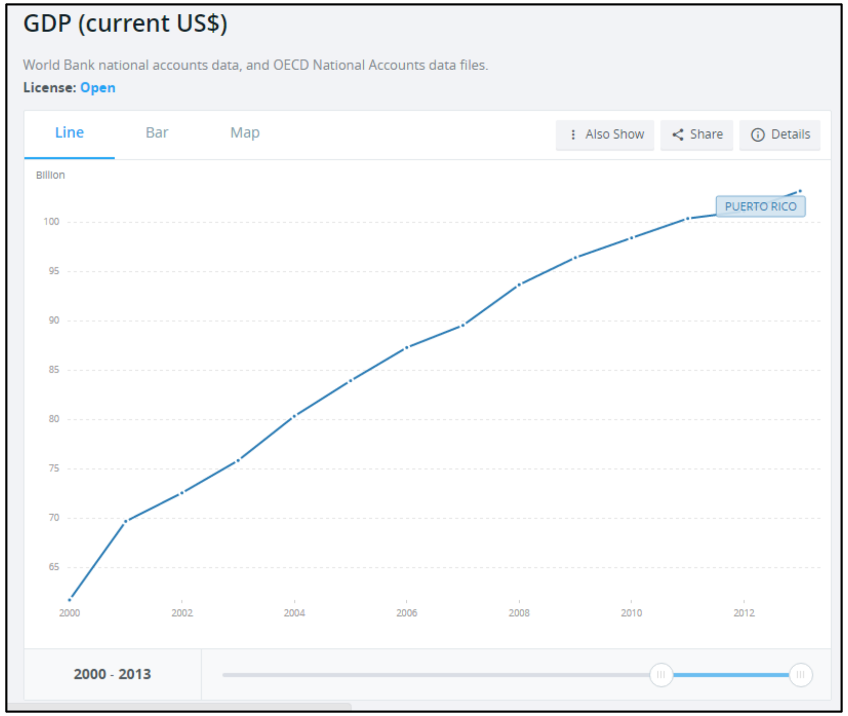

| Population | |
|---|---|
| > 200,000 | |
| 100,000 to 200,000 | |
| 75,000 to 100,000 | |
| 50,000 to 75,000 | |
| 25,000 to 50,000 | |
| < 25,000 | |

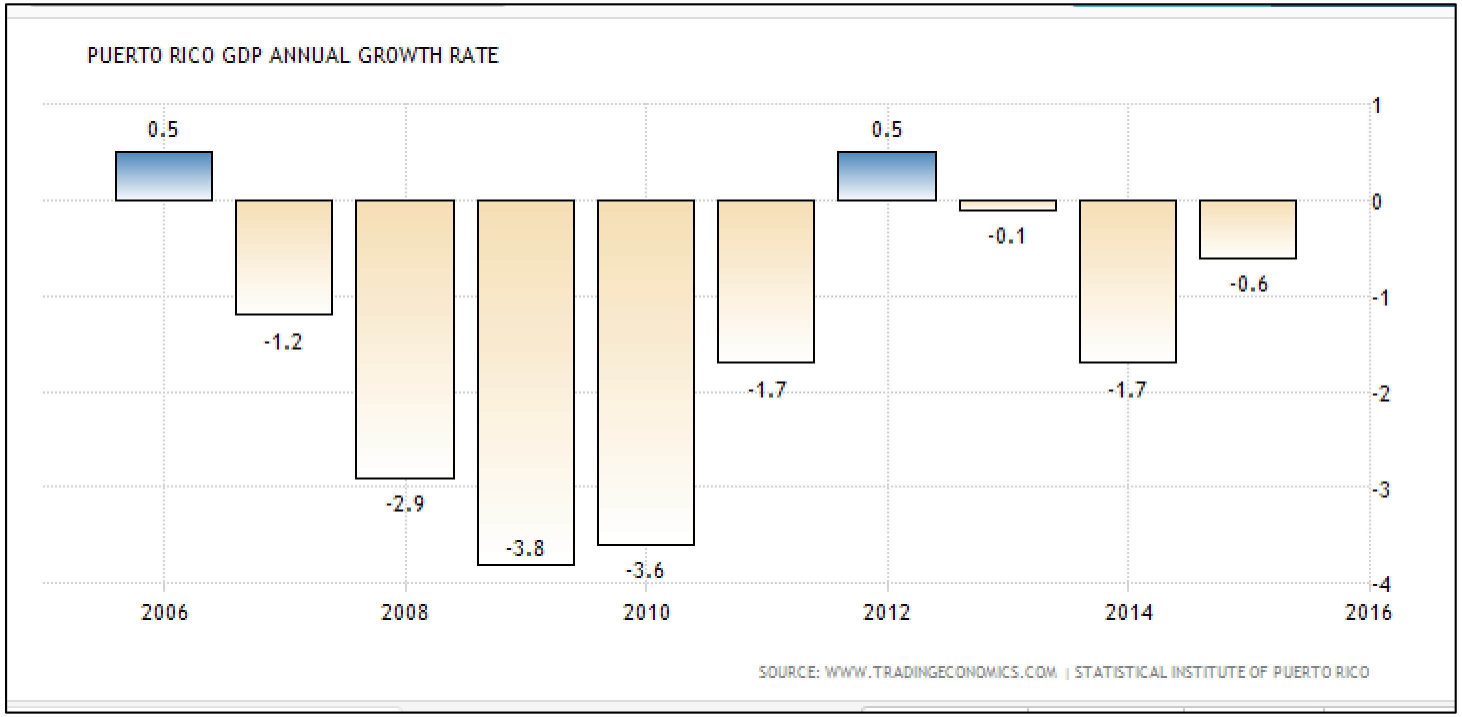
**Municipalities with largest population in 2000**

| | | | |
|---|---|---|---|
| 1. San Juan | 434,374 | 6. Arecibo | 100,131 |
| 2. Bayamón | 224,044 | 7. Guaynabo | 100,053 |
| 3. Ponce | 186,468 | 8. Mayagüez | 98,434 |
| 4. Carolina | 186,076 | 9. Toa Baja | 94,085 |
| 5. Caguas | 140,502 | 10. Trujillo Alto | 75,728 |

# Puerto Rico: Economic Statistics (Macro)

- Charts:
  - **GDP**: has seen minimal growth since early 2000s
  - **GDP growth rate**: negative all but once year since 2006 (2012) but improving from 2008-2010

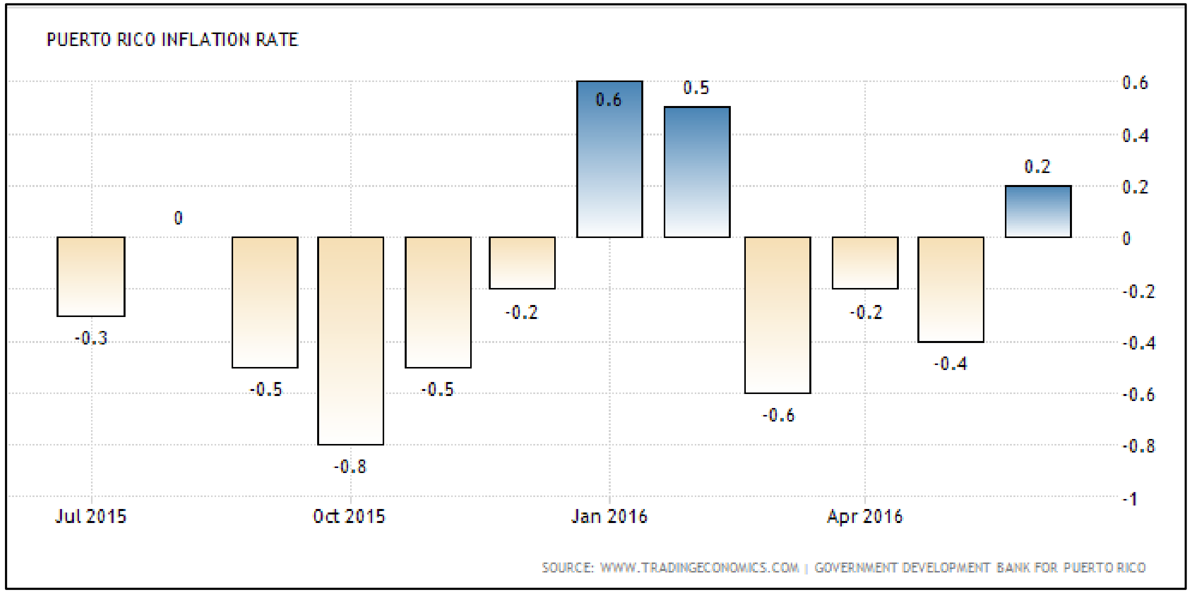


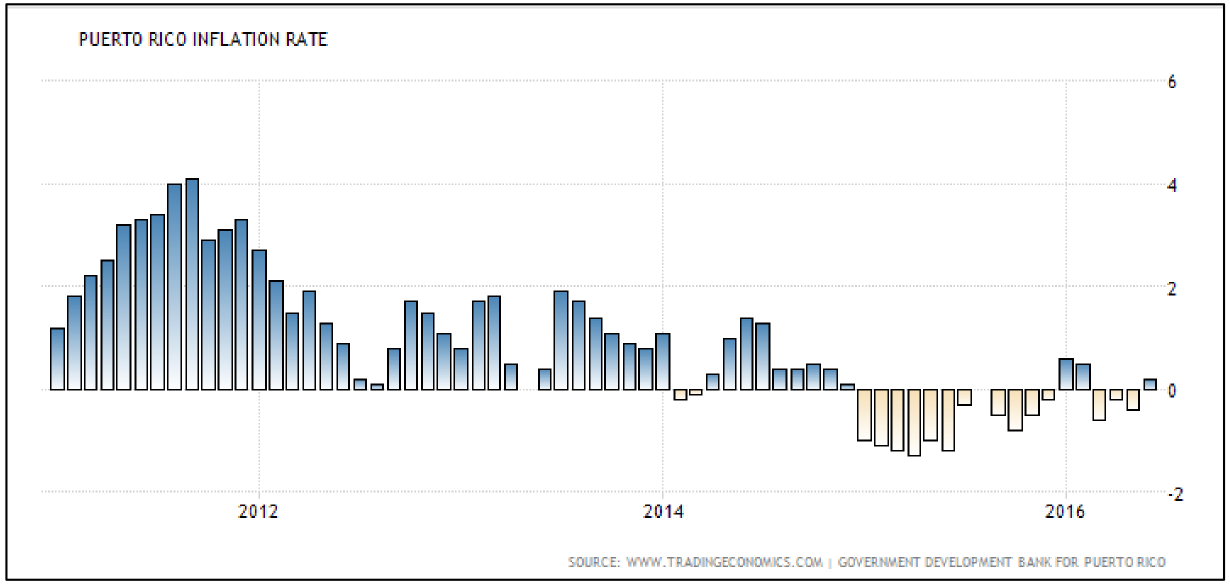




Source: World Bank

# Puerto Rico: Economic Statistics - Inflation

- With GDP struggling, inflation has also remained subdued, being mostly deflationary
- Modest inflation occurred up until mid-2015

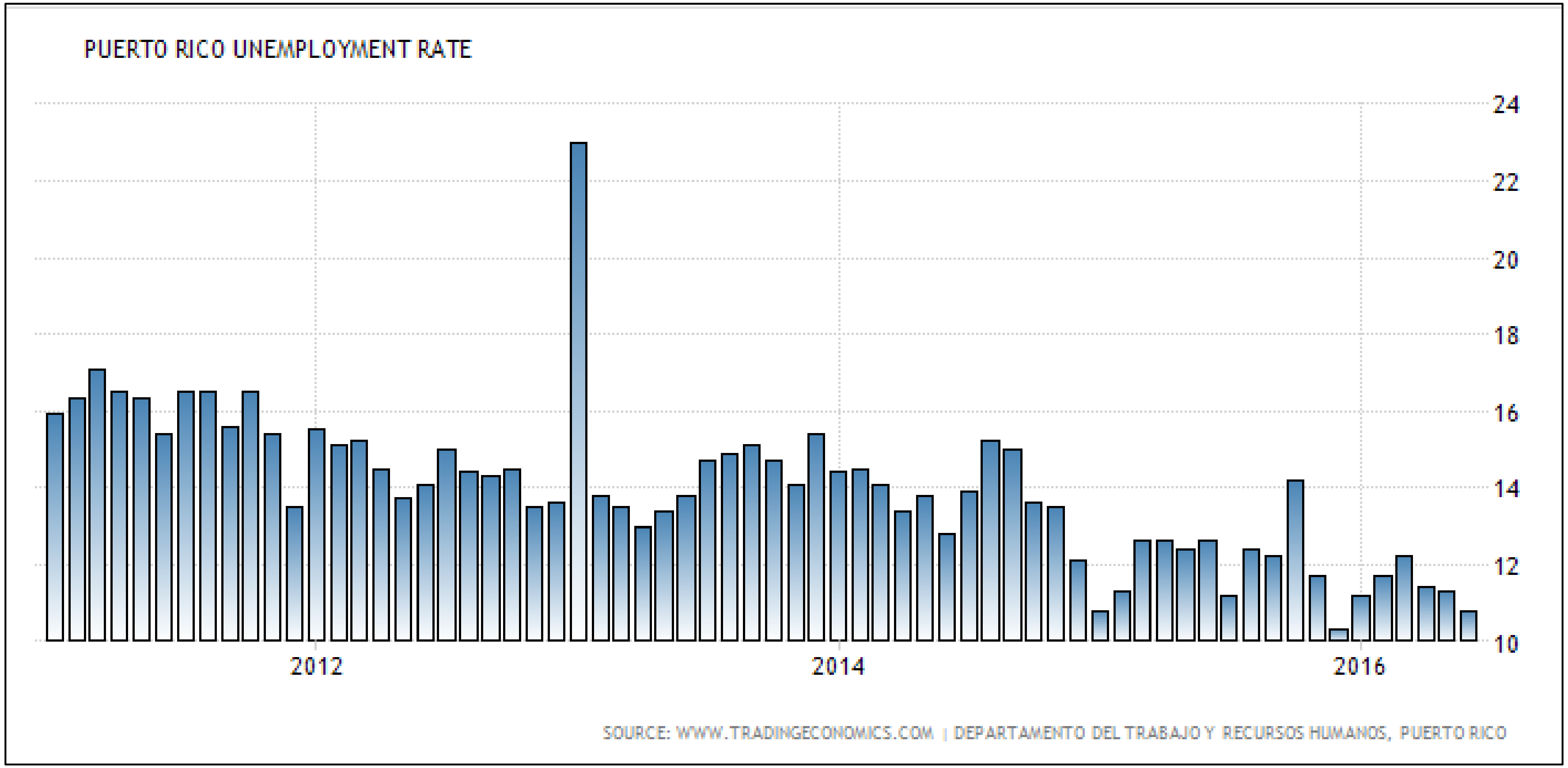



Source:

# Puerto Rico: Unemployment

- Unemployment remains very elevated (>10%) but is showing positive signs/trends



# Puerto Rico: Economic Summary

- Government debt overhang and economic issues spanning over 10 years is large overhang for Puerto Rico
- Population outflows are a real problem, as leads to lower household numbers, less economic growth, higher unemployment, and a more price-sensitive customer base
- Additionally, the migration to US mainland from Puerto Rico, as well as business migration will impact subscriber numbers in both residential and B2B services
- ***Conclusion***: Expect a struggle for subscriber growth, unless LiLAC wants to lower pricing/lower margins, and there will be continued focus on “pricing” of the bundle versus a desire “for the premium package”

# Liberty Puerto Rico

Growth Drivers

# LPR: Some Cable Growth Drivers (“macro”)

Liberty

- Population growth
- Household growth
- Take Rate of Pay-TV (chart right)
- Take-Rate of Broadband
- Take Rate of Mobile
- Smartphone
- Data usage

# LPR: Growth Drivers ("micro")

- Customer Relationships
- Increased penetration (RGUs per Customer Relationship)
- More RGUs per Customer Relationship = higher ARPU
- Pricing power
  - Depends on competition
  - Depends on current share of customer wallet
  - Depends on value proposition vs. alternatives/substitutes
- Broadband speeds = if VTR increases speeds, do customers upgrade and utilize these higher speeds, thus increasing ARPU and margins?
- New-build opportunities
- Quad Play

# Liberty Puerto Rico

Financial Overview

# LPR: Financial Overview

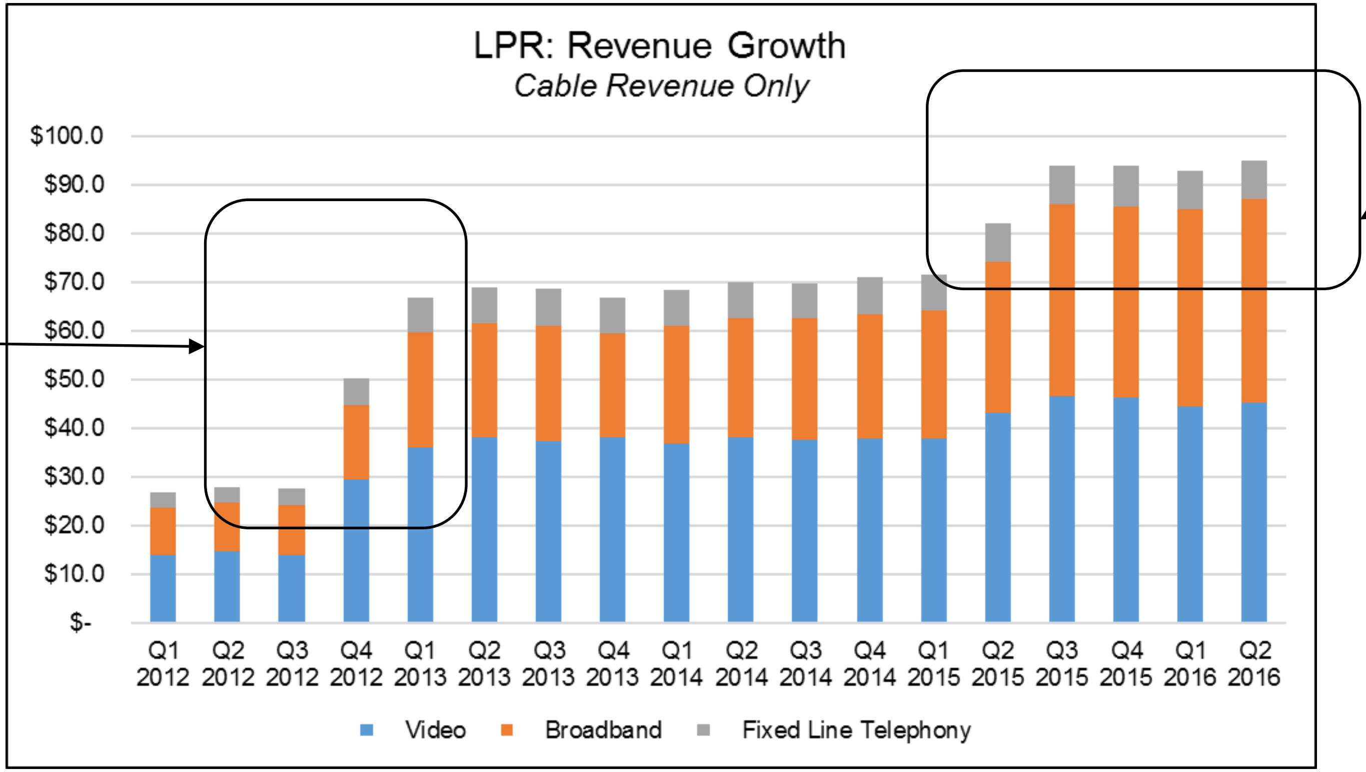
- Revenue growth has slowed but consolidated of the cable market by Liberty has left only two remaining players – LPR and Claro
- Choice acquisition was helpful to cross-sell subscribers, as Choice has a 16% broadband market share but inly 7% Pay-TV market share in Puerto Rico
- Growth has come from:
  - Acquisitions of Choice and OneLink
  - RGU Growth
  - Offset by ARPU declines
- **86.3%** of the total revenue growth since the beginning of 2013 is from acquisitions
- ARPU has had a *negative* impact on revenue every quarter since 2013 (and possibly prior)
- Only other revenue source = increasing customer relationships and RGUs

**Since beginning 2013**

| *"Reason" for Revenue increases:* | |
|---|---|
| Cable Subscription | |
| RGU increase | $ 68.2 |
| ARPU | $ (41.7) |
| Total Cable | $ 26.8 |
| Increase B2B Revenue | $ 7.9 |
| Decrease Other Revenue | $ 1.5 |
| Total Organic | $ 36.2 |
| Impact Choice & OneLink | $ 226.2 |
| Total | $ 262.4 |
| | |
| Non-Acquisition Growth | $ 36.2 |
| Acquisition Revenue Add | $ 226.2 |

# LPR: Revenue

OneLink acquisition

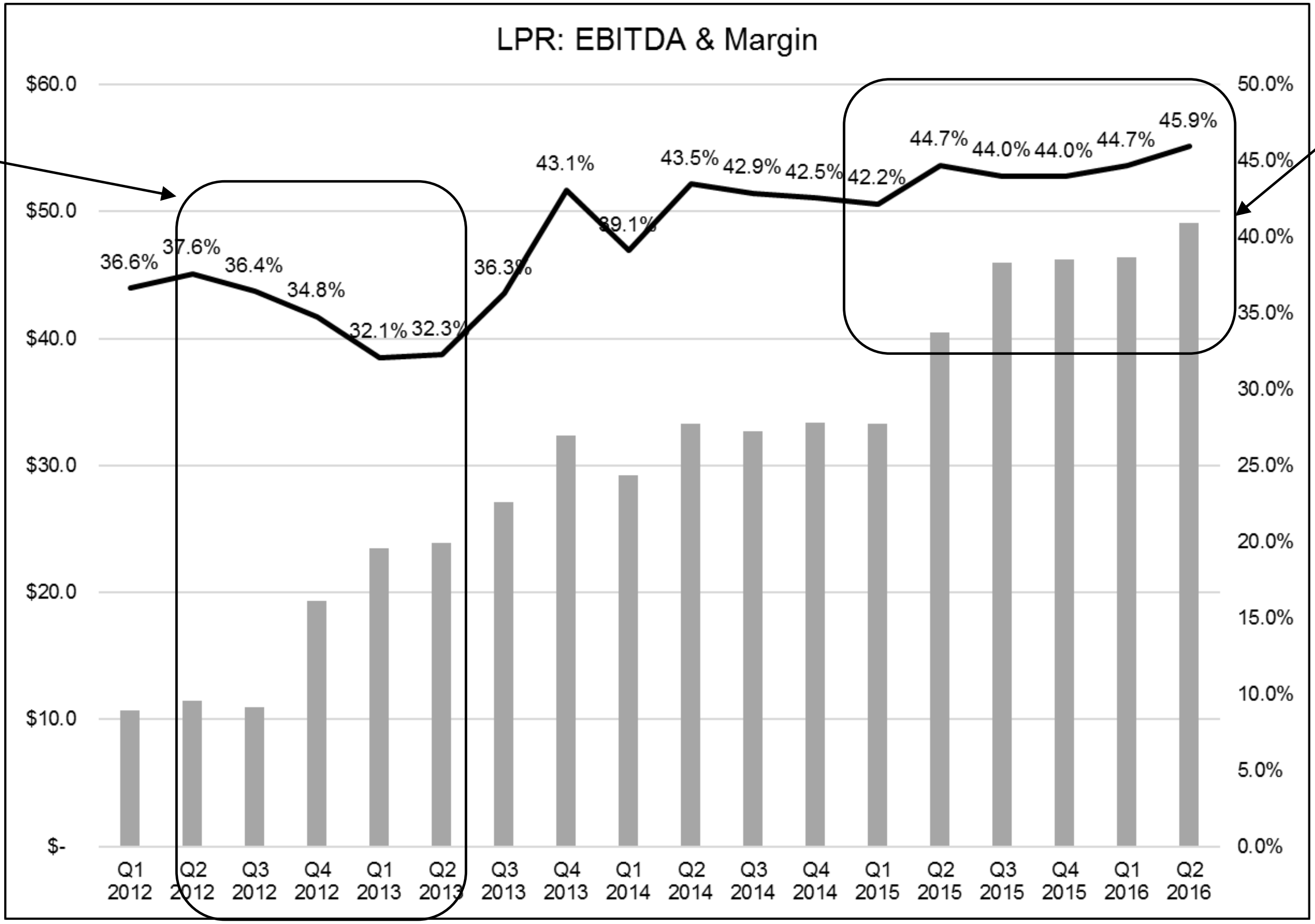



Choice acquisition

Source: LPR filings

# LPR: EBITDA & Margin

OneLink acquisition



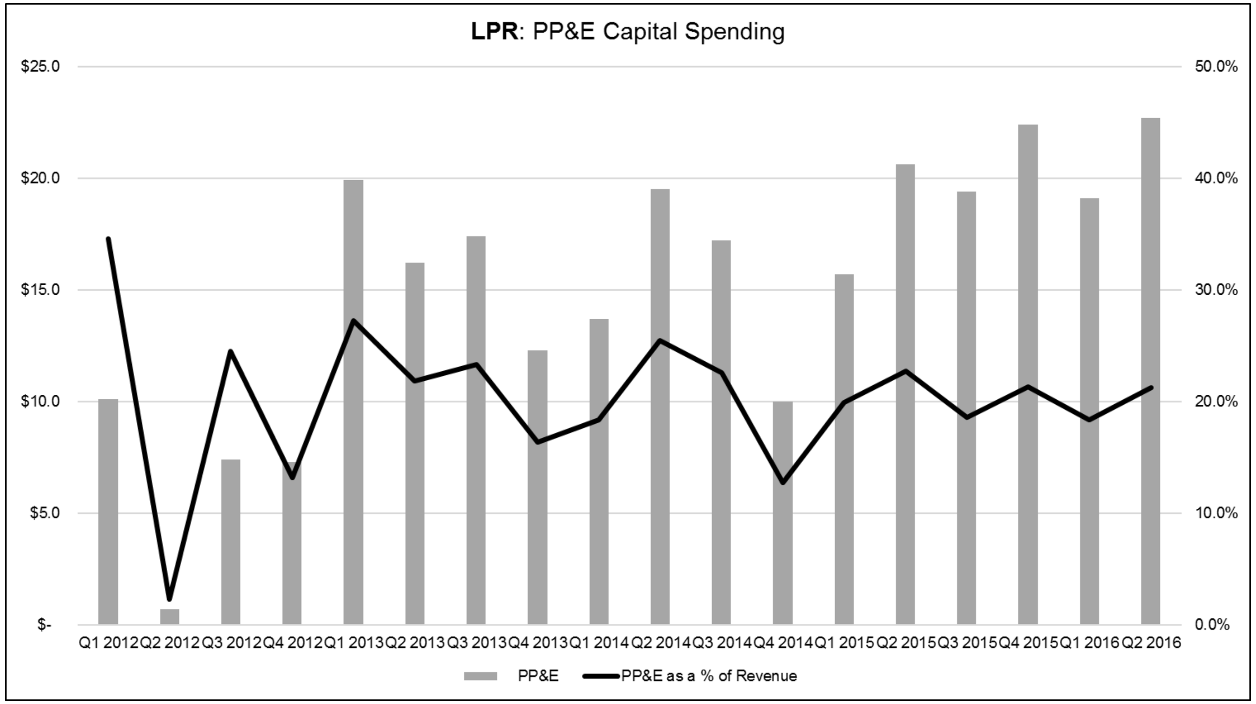

Choice acquisition

Margin likely improved as Choice had much more broadband subscribers than Pay-TV

Source: LPR filings

# LPR: EBITDA & Margin

- Capital Spending dependent on:
  1. Newbuild activity
  2. IT spend, upgrades
  3. CPE: modems, set-top-boxes
  4. Repair, maintenance
- As LPR has limited newbuild opportunities, in theory, their PP&E spend should decline as a % of revenue
- As LPR increases their bundling, will see lower capex as % of revenues because capital spending will be spread on more revenue (RGUs)

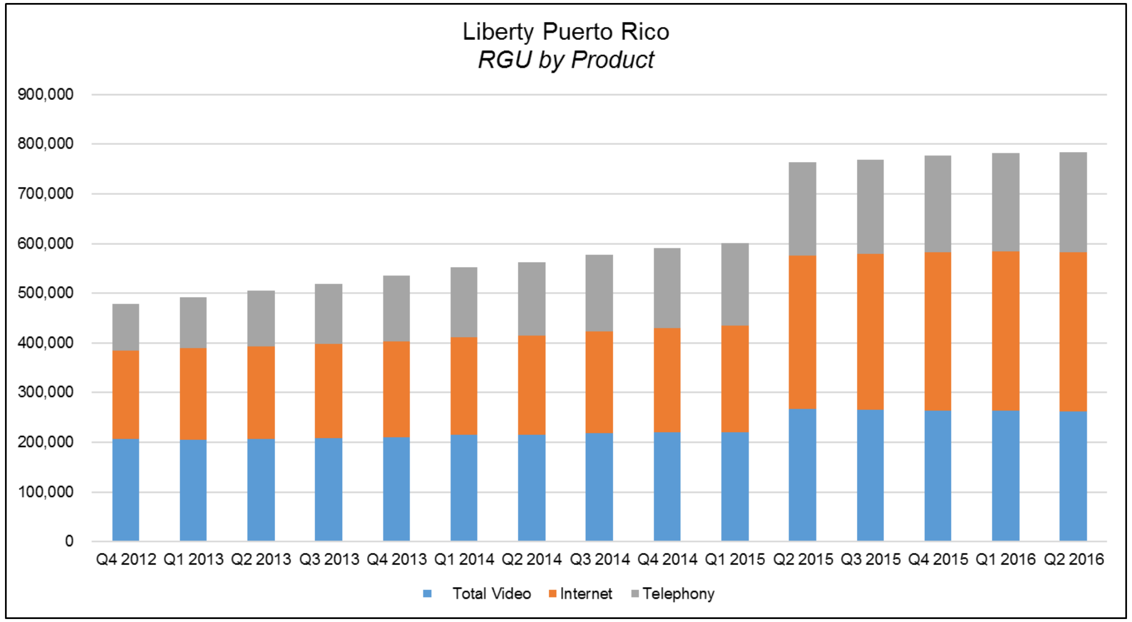


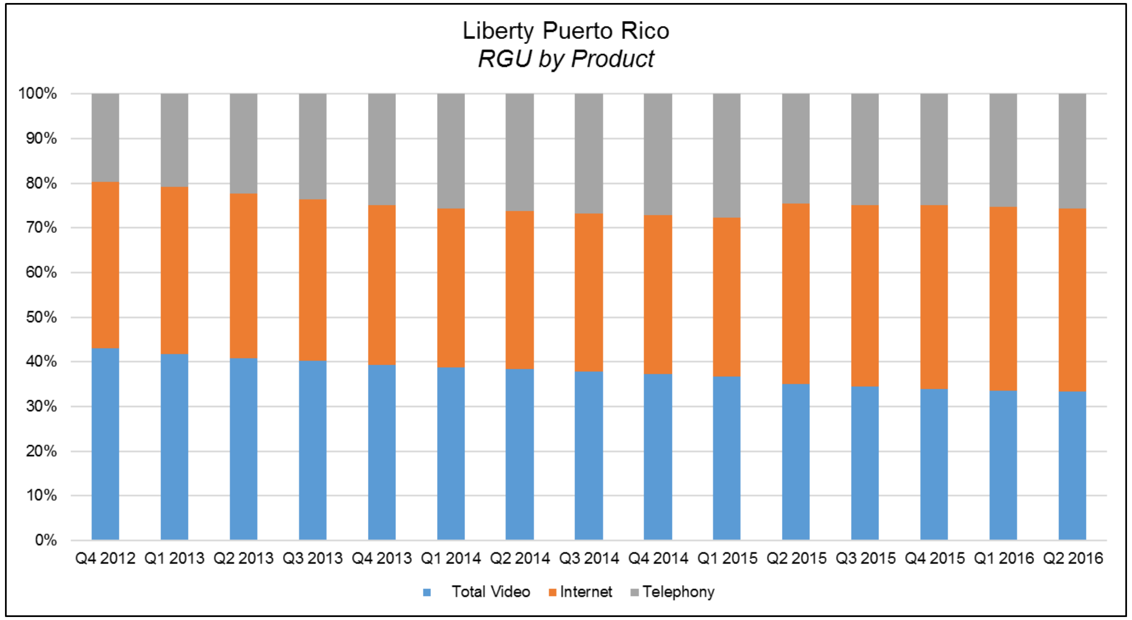
# Liberty Puerto Rico

## Subscriber Numbers

# Total Subscriber Numbers

- Since Q4 2012, LPR has seen growth of 323,723 RGUs, about 70% growth from Q3/2012
- Of the 323k RGU growth, 50% has come from the Choice acquisition
- By Product:
  - **Video** continues to struggle, has historically been the lowest growing product of the three (video/ broadband/ telephone) and has had 5 consecutive quarters of declines in subscribers
  - **Broadband** growth has come to a halt, with Q2/2016 showing 0 (zero) subscriber growth
  - **Fixed telephony** is still showing growth, and is about 25% of the total RGU base

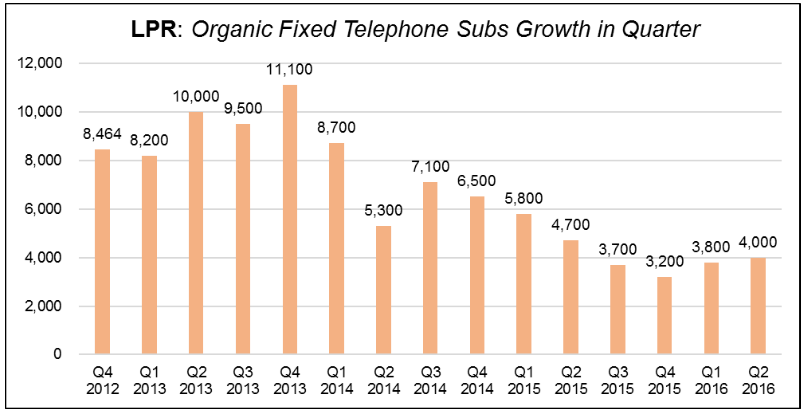


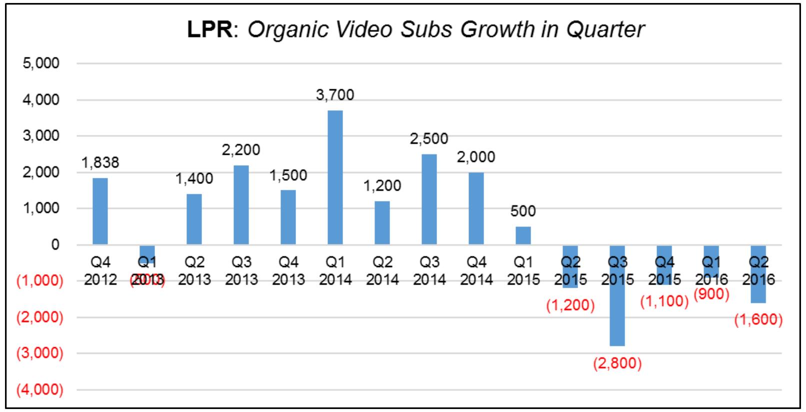



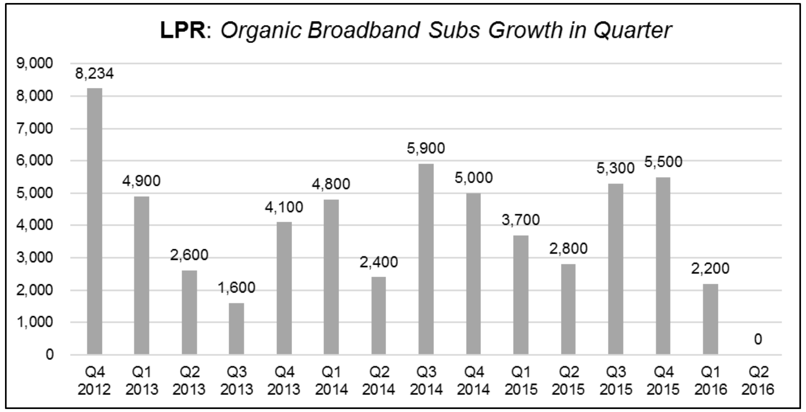

Source:

# Subscriber *Trends*

- Subscriber trends in the two most important product categories – video and broadband – are *worsening*
- *Negative* trends overall
- Still doing decent in fixed telephone, but this continues to be deflationary on ARPU




Source:

# *Disappointing* Sub Trends:

- The disappointing part of the subscriber trends are that the acquisition of Choice was meant to have revenue synergies of cross-selling
- Choice had larger presence in broadband
- LPR (prior to Choice) had larger presence in video
- Combined, LPR was going to try to cross-sell the categories, drive subscriber growth, and in turn, it would drive ARPU and margins higher

- *In summary:*
  - The video trends are problematic
  - Broadband trends are disappointing, coming to a halt as of Q2/2016 for the first time in LPR public history
  - Telephone positive trends are deflationary on ARPU

# Liberty Puerto Rico

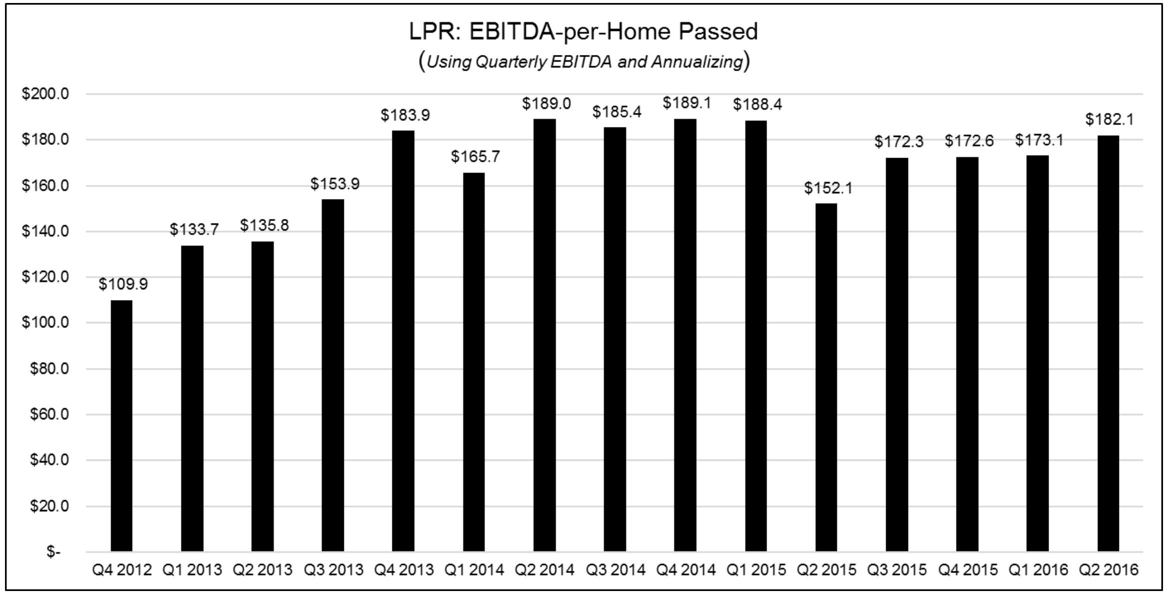
Key Metrics

# LPR: Key Metrics & Information

- EBITDA-per-Home Passed
- Product Penetration Levels
- Population Growth in Chile → Household Growth in Chile
- Homes Passed (coverage)
- Newbuild of Homes Passed
- Technology vs. Competition
- Customer Relationships (lifeblood of cable)
- Overbuild with Competitors
- Market Share and Trends (and why)
- EBITDA & Margin (ability to operate cost effectively w/out influence of capital structure)
- Pricing Power (if any)

# EBITDA-per-Home Passed

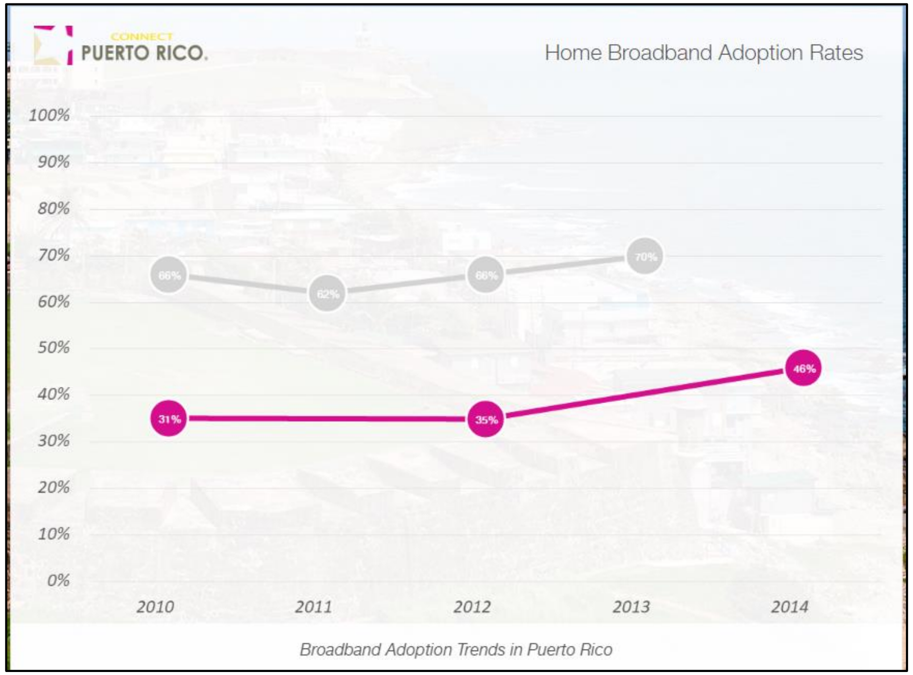
- A key metric of a cable company's ability to maximize their large capital investment in PP&E is "***EBITDA per Homes Passed***"
- This metric is more telling than for VTR, as VTR was in recent "growth mode"; LPR has seen minimal newbuild activity, instead has grown through acquisitions
- The more RGUs per customer, as long as pricing remains similar, EBITDA per HP should improve, as more products are utilized over the same costly infrastructure
- LPR has seen no growth in their EBITDA/HP metric, likely due to:
  - Slow/recently declining video growth
  - Slower broadband growth
  - Steady telephone growth



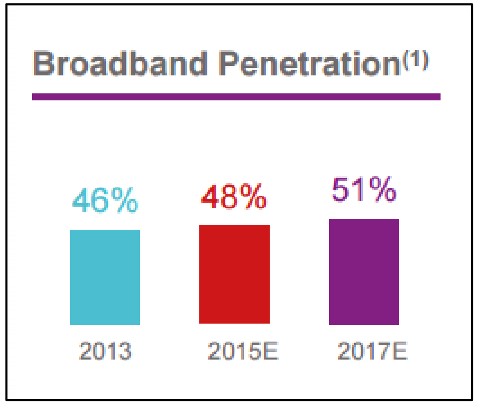

Source: LPR filings, my calculations

# LPR: Product Penetration Rates

- As of 2014, **46%** of Puerto Rico has broadband adoption, compared to 70% in U.S.
- The primary reasons for broadband not being purchased:
  - 29% “belief that broadband is not relevant”
  - 20% “cost”
  - 14% “lack of digital literacy skills”
  - 5% “broadband not available”
- Based on data obtained by Liberty, broadband adoption is estimated to increase to 51%
- 51% penetration  = additional 40,000 broadband subscribers
- ***Unfortunately, it is not very impactful to LPR***
  - Assuming 50% market share (they have ~53% currently), increased penetration equals additional ~20,000 subs, which is <6% additional to current broadband sub base.
  - Equates to about 2% per year growth (i.e. not meaningful)

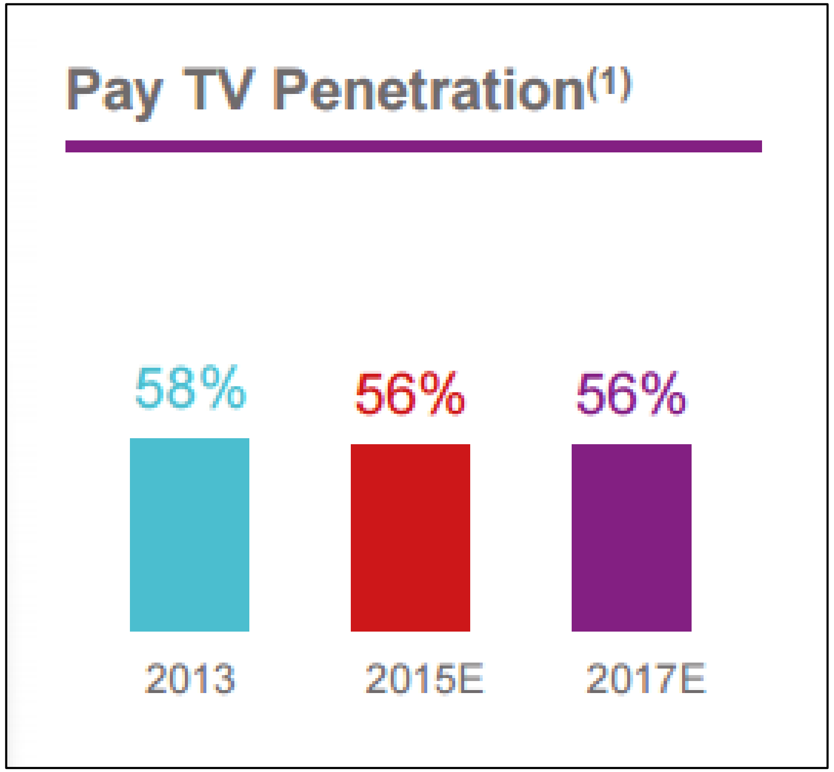


Broadband Adoption Trends in Puerto Rico



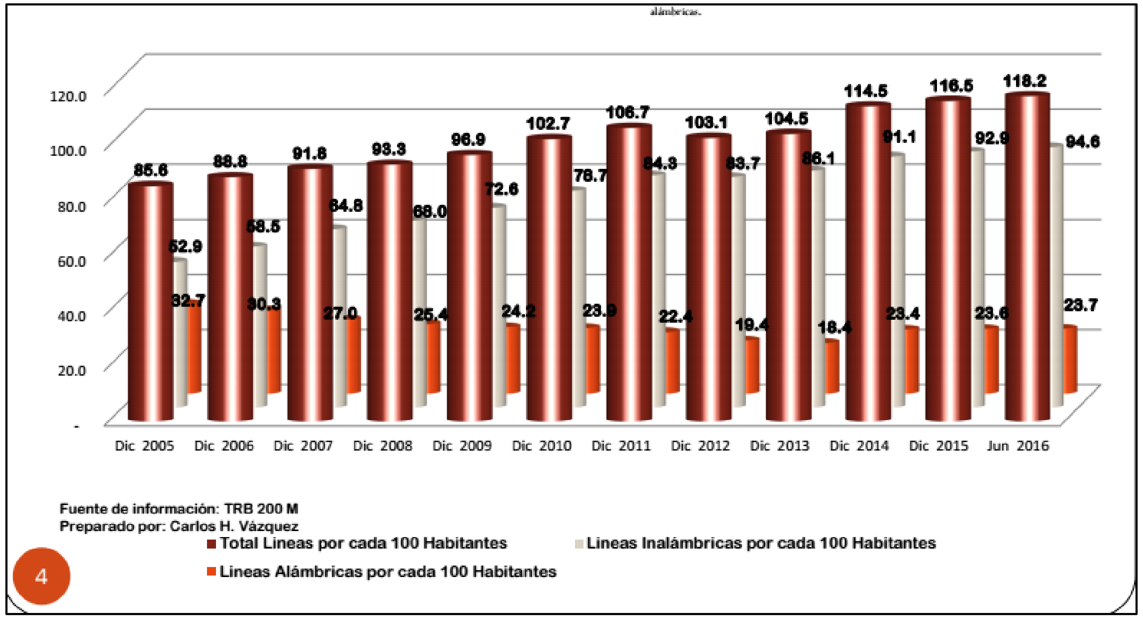
# LPR: Product Penetration Rates

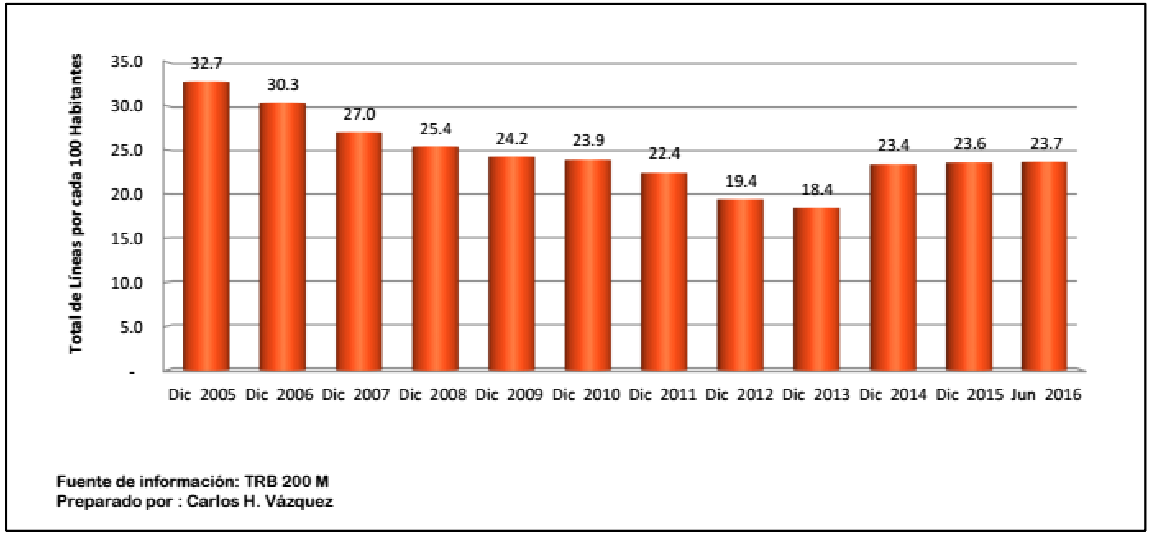
- As of 2014, **58%** of households had Pay-TV
- Not surprisingly, given the 5 consecutive declines in video subscriber growth by LPR, video penetration is expected to remain ~flat over the near term
- Video penetration growth in Puerto Rico is not a growth driver for LPR in the future, at least on a secular basis
- Due to economic issues and the video market, many people still use DBA/ FTA instead of “pay TV”



# LPR: Product Penetration Rates

- Penetration of "wired" remains low (this is on a *population* basis, which is better on a *household* basis)
- Wireless penetration has grown from 53% in 2005 to 95% in June 2016
- https://docs.google.com/viewerng/viewer?url=http://www.jrtpr.pr.gov/estadisticas/2016-Estadisticas_Telefonia.pdf?1472764841&hl=en_US

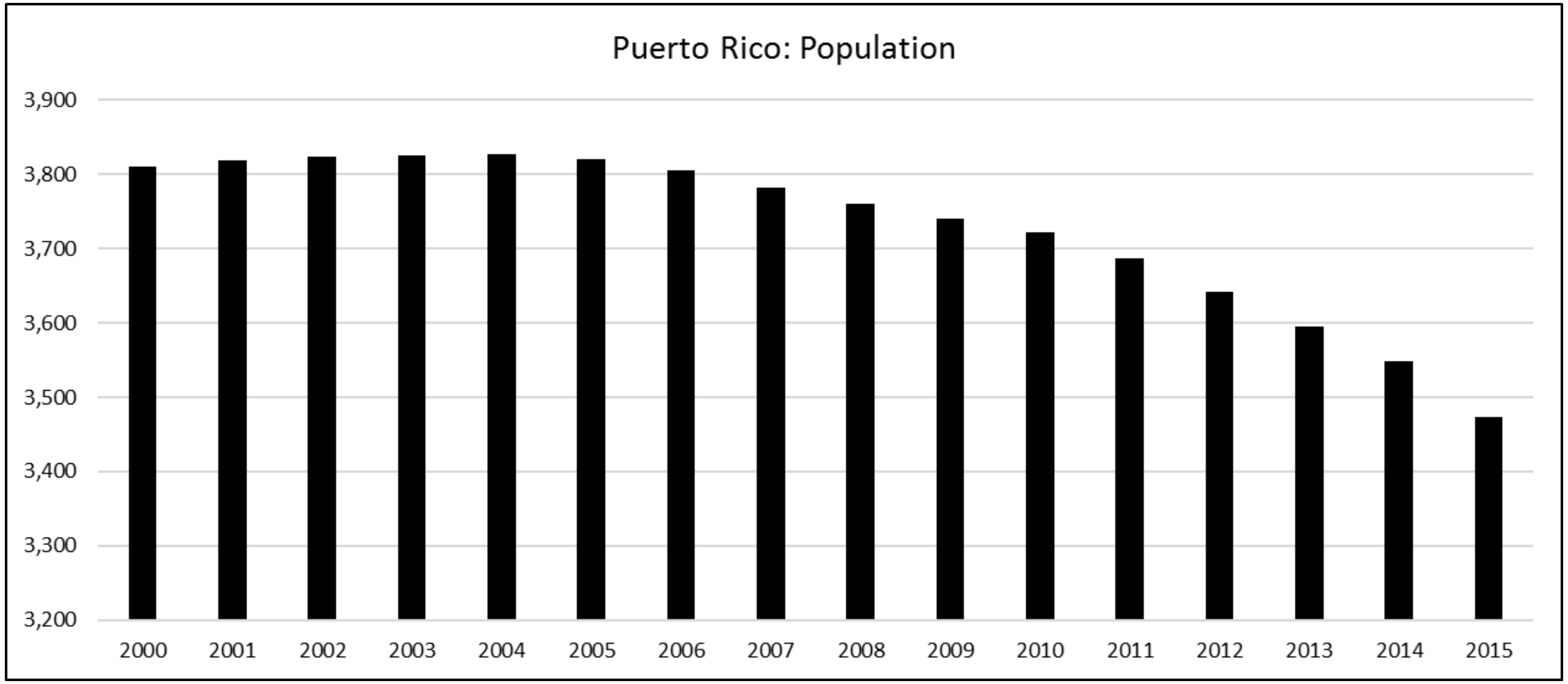



Source: Puerto Rico government, June 2016

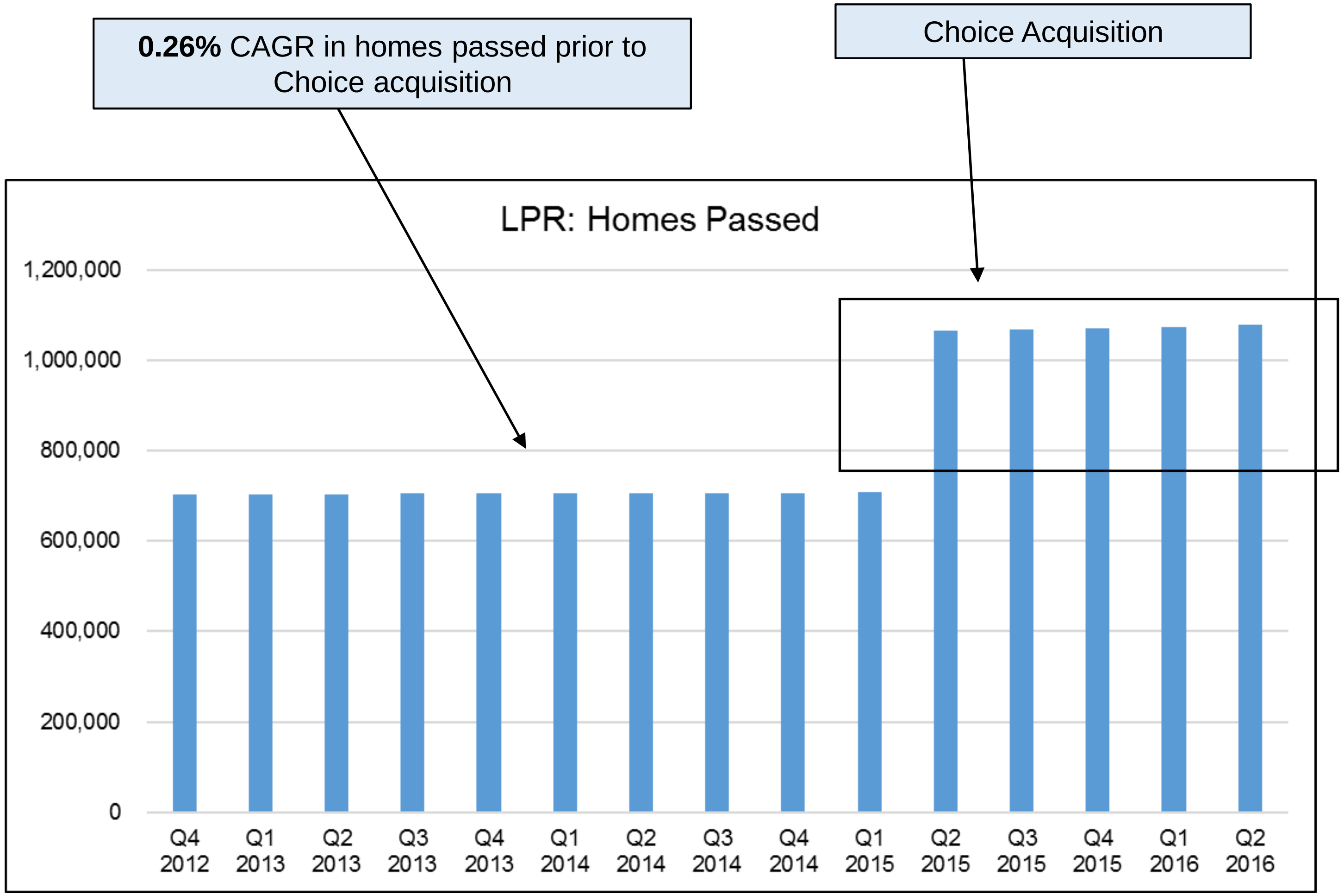
# Puerto Rico: Population & Household Growth

- Population growth is a ***headwind***
- A decline of 1.4% per year of population declines in Puerto Rico
- However, people-per-household has declined, meaning there are similar amounts of households as there were 15 years ago:
  - 2000: 1.26m households
  - 2014: 1.24m households
- The decline in population, and household formation = large secular driver working ***negatively*** against LPR, as lower HH = less demand for cable services



# LPR: Homes Passed

- Population decline = lower households in Puerto Rico = headwind for expansion of footprint
- The declines in HH in Puerto Rico has truly put a damper on any newbuild opportunities
- From Q4/2012 to Q1/2015, prior to the Choice acquisition, LPR
  - Q4/12 = 702,400 homes passed
  - Q1/15 = 706,900 homes passed (0.26% growth per year)



# LPR: Newbuild Opportunity

- **Limited**
- Puerto Rico = population declines
- Population declines = household declines
- Struggling demand for video and broadband products
- However, LiLAC mentioned it is a “possibility” in June 2015

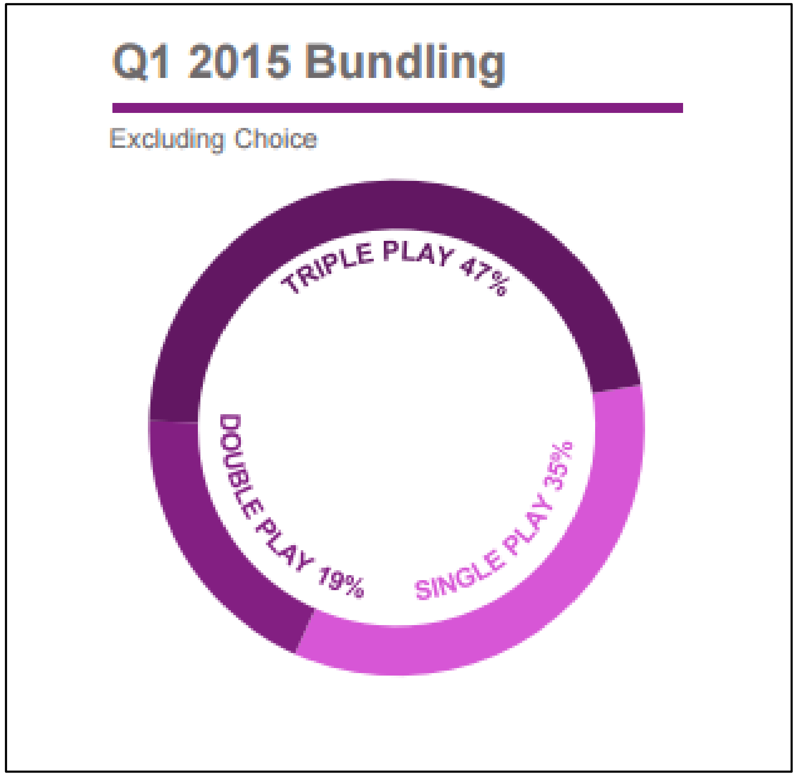
# LPR: Technology vs. Competition

- LPR has a 360-mile fiber ring around its network providing enhanced interconnectivity points
  - Hybrid-Fiber-Coaxial (HFC) network
  - DOCSIS 3.0
  - Speeds starting from 10 Mbps up to 200 Mbps
  - Unlimited WiFi data
- Claro is predominantly a copper DSL provider
  - 85% is DSL, copper
  - 15% is FTTH
  - Minimal overbuild with LPR

Source: LPR, conversations with LiLAC IR

# LPR: Customer Relationships

- 397,000 customer relationships
- 784,400 RGUs = 1.98 RGUs per customer relationship
- On average, customer has ~2 products with LPR (*lower than VTR, which has 2.13 RGUs per CR*)
- Fixed income filings for LPR do not disclose customer relationships



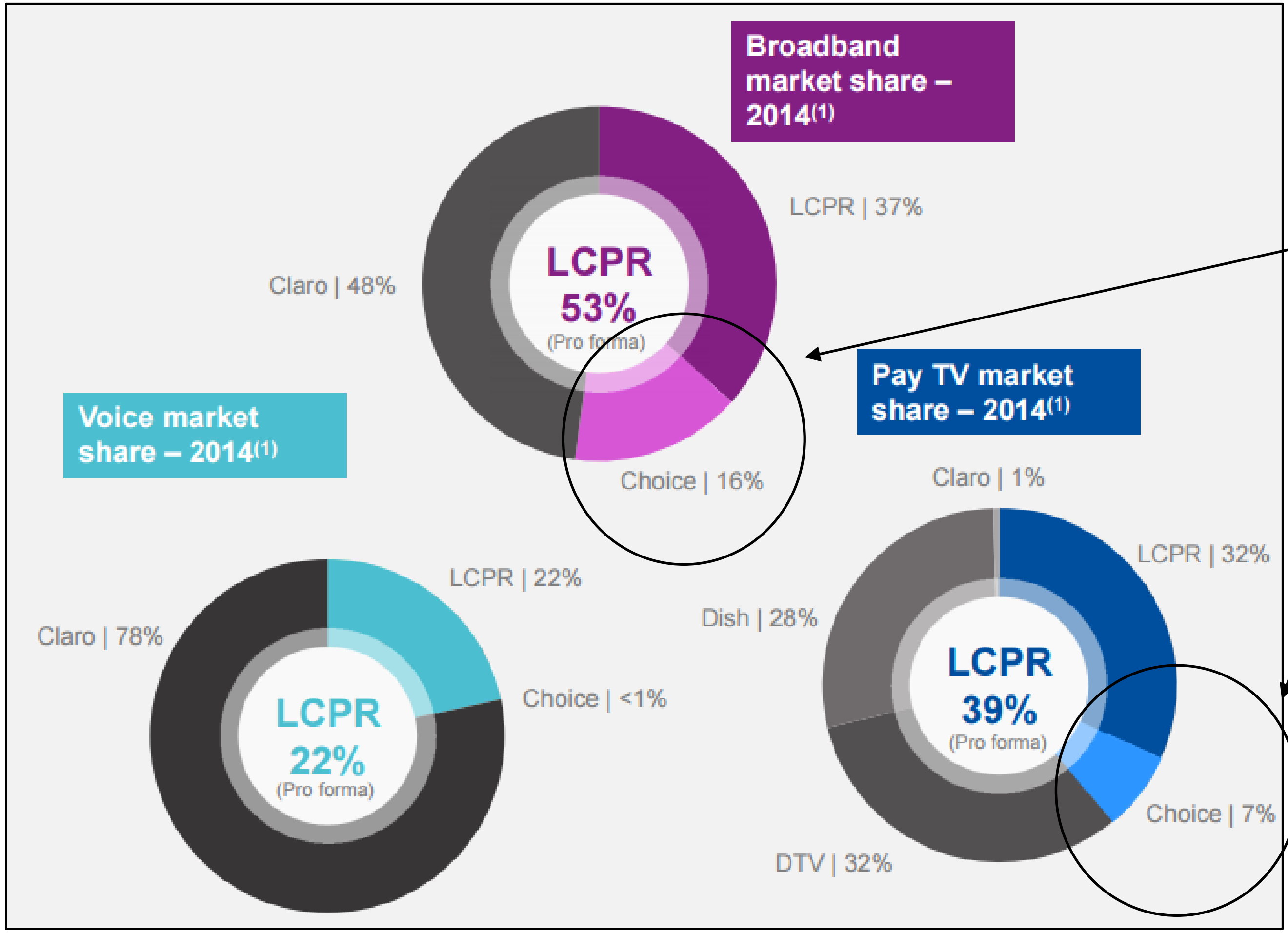
# LPR: Overbuild with Competitors

- "Limited FTTH overbuild"
- Only potential overbuild would be with Claro
- Claro has only ~15% of their network is FTTH

| Broadband Availability by Broadband Platform* | | | | |
|---|---|---|---|---|
| Platform | % of Households Served at ≥ 3 Mbps Down / 768 Kbps Up | | | |
| | 2011 | 2012 | 2013 | 2014 |
| Cable | 61.3 | 77.9 | 76.9 | 77.0 |
| DSL | N/A | 62.6 | 65.0 | 67.1 |
| Fiber** | 0.0 | 0.3 | 0.3 | 0.1 |
| Fixed Wireless | 25.2 | 31.7 | 49.9 | 58.0 |
| All Platforms Except Mobile | 56.9 | 85.0 | 89.1 | 90.9 |
| Mobile Wireless | 98.9 | 99.7 | 99.8 | 99.9 |
| All Platforms | 99.0 | 99.8 | 99.8 | 99.9 |

*Source: Connect Puerto Rico.*

# LPR: Market Share & Trends



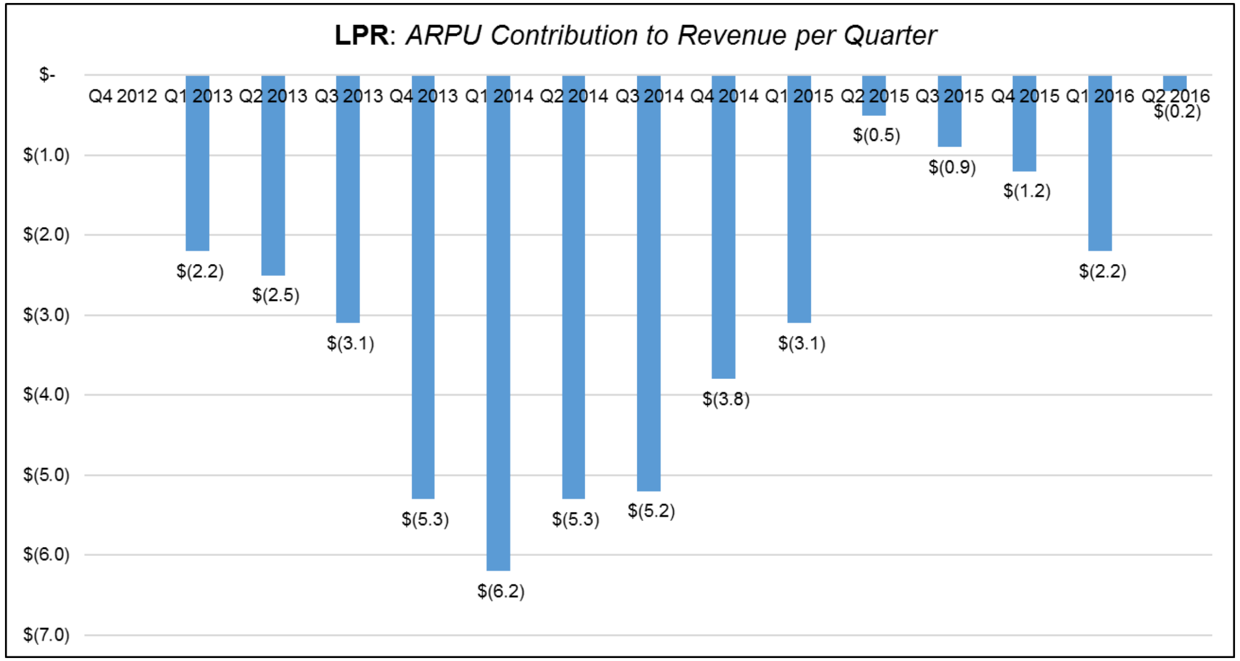

LPR acquired **Choice** in ~2015, consolidated the video and broadband markets

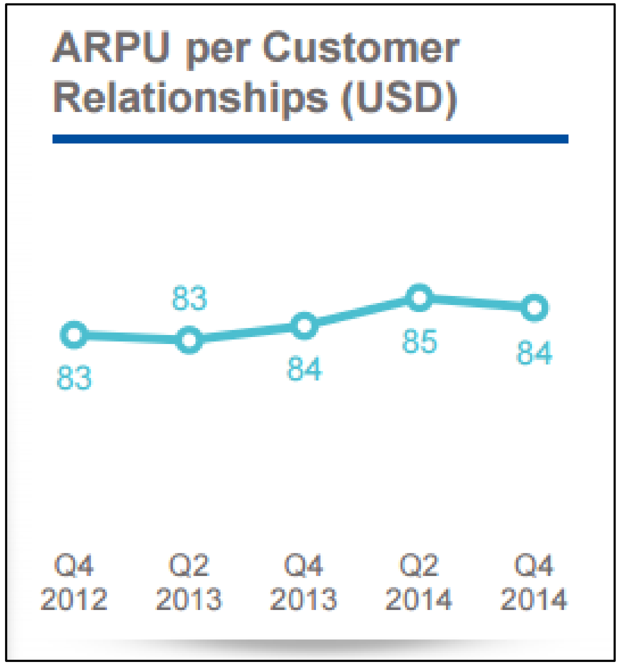
# LPR: Free Cash Flow

- Despite solid and improving EBITDA margins, LPR has reinvested all of it back into the business
- From Q1/2012 to Q2/2016 (current), LPR has had a cumulative $236.9m in EBITDA
- Over this same time period, they have spend a total of $254.5m on capital expenditures
- If it weren't for improved working capital, FCF would be much more negative than the ($17.6m) over that 4.5 year span
- PP&E spend since Q1/2012 has been $271.6 million
- Typically, higher capex spend is viewed as "good", as much of it is "success-based"; however, LPR has shown:
  - Minimal footprint expansion
  - Minimal organic growth in customer relationships, video and broadband subscribers
- It may be more realistic to assume the current level of capex is near "maintenance levels"

# LPR: Pricing Power (if any)

- LPR has seen essentially no ARPU increases going back to 2012 (furthest back on Liberty Fixed Income Filings)
- Looking at the ARPU per Customer Relationship, pricing is ~stagnant
- Based on quarterly discussion of revenue contributors, ARPU has <u>not</u> has a single positive impact on revenue



# LPR: Summary of Key Metrics

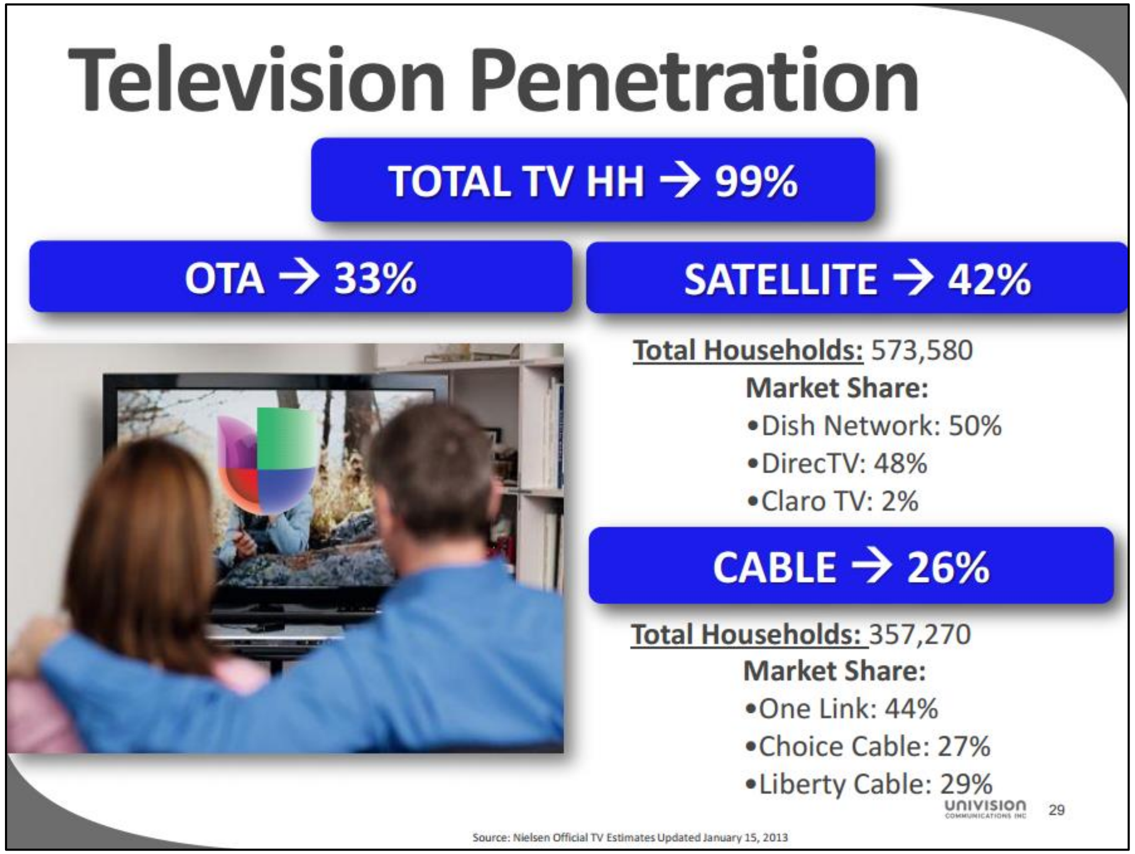
- EBITDA per HP = stagnant
- Puerto Rico demographics = struggling, population in decline as people move to U.S.
- Remaining Puerto Ricans are lower income, creating additional headwinds for:
    - Increased video and broadband penetration
    - Any potential pricing power
    - Economic growth in Puerto Rico
- LPR has grown through acquisitions, far less from increasing customer relationships on an organic basis
- Very little footprint expansion organically, which has the headwind of declining households in Puerto Rico
- Video growth has been negative for the past 5 quarters
- Broadband subscriber growth was 0 for the first time since public information filed on LPR (2012)
- *Conclusion*: Hard to see LPR grow much on the top line; the dominant way I see them growing is through cost control and capex control, thus improving FCF

# Liberty Puerto Rico

## Pay-TV Landscape

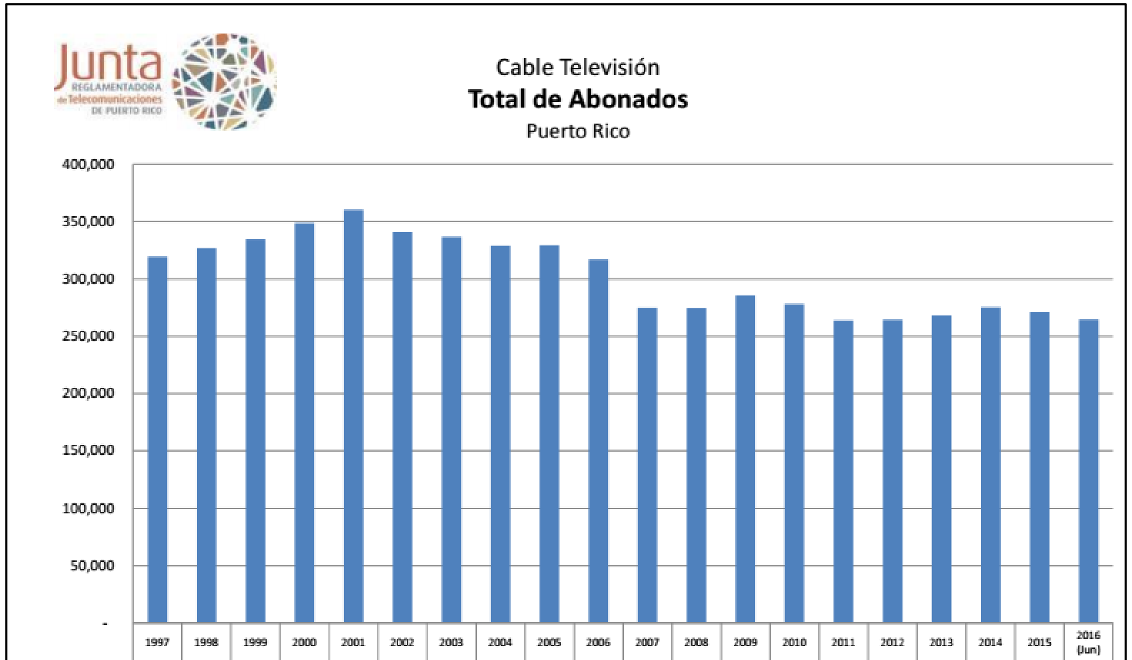
# Puerto Rico: TV Market

- Out of ~1.2 million households in Puerto Rico, LPR passes 1.078m
- LPR only has 261,400 video subscribers
- The acquisition of Choice and OneLink by LPR makes them essentially the only fixed TV provider to offer bundled services
- Claro offers wireless, internet, telephone over their fixed network, and partnered with DISH to offer pay-TV



# Puerto Rico: TV Market

- TV market, from cable perspective, has been a slow decline since the mid-1990s
- Hard to expect much cable video growth going forward given:
  - Cable dominant in more urban areas
  - Limited newbuild by LPR in suburban areas due to lower income, low ROIC
  - Suburban areas are more easily served by DISH and DirecTV
  - Free DBS is still a viable option for many Puerto Ricans
  - Household declines in Puerto Rico provide additional headwind

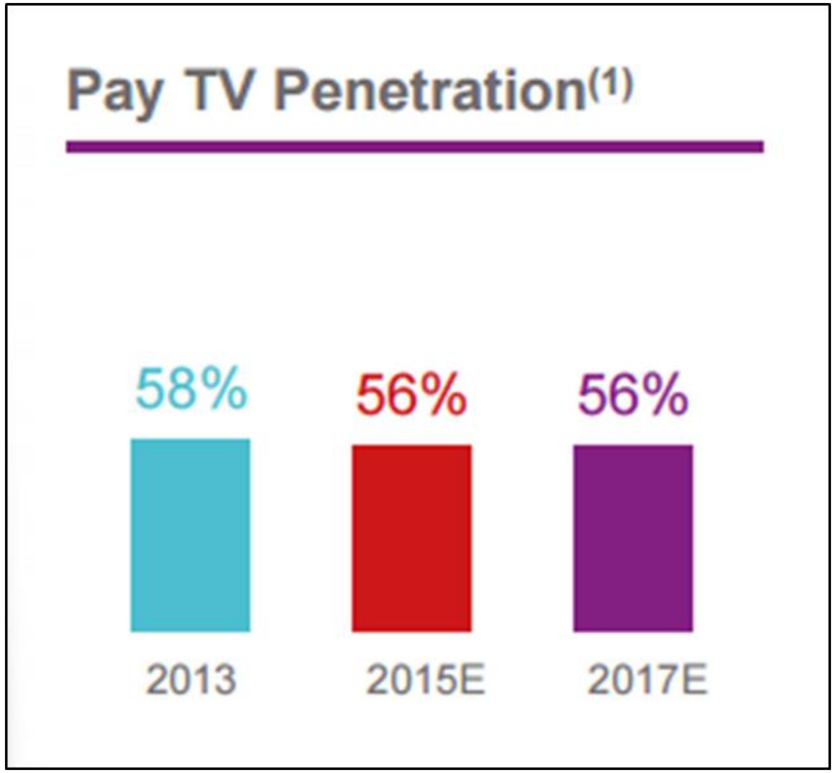



| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 (Jun) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total Abonados | 319,154 | 326,756 | 334,483 | 348,751 | 360,102 | 340,793 | 336,461 | 328,701 | 329,178 | 316,818 | 274,827 | 274,690 | 285,553 | 277,839 | 263,851 | 264,369 | 268,093 | 275,254 | 271,073 | 264,534 |

Source: Puerto Rico government

# Puerto Rico: TV Market

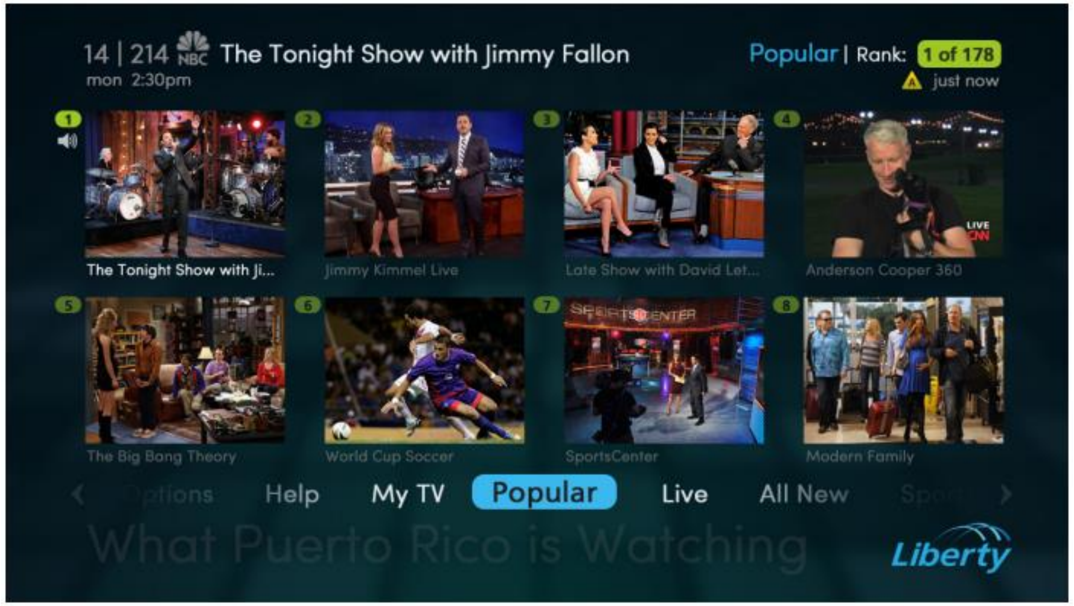
- Penetration of Pay-TV remains *lower*
- Free DBS is competitive versus Pay-TV
- Population declines, a struggling Puerto Rican economy, lower income levels as many wealthier leave for U.S. creates “pricing and value” issues for Pay-TV providers



# Puerto Rico: The Players

# LPR: Active Video Case Study (2015)

- Active Video: "*Liberty Puerto Rico's growth strategy has presented it with the difficulty of delivering new services ubiquitously over heterogeneous device environments. Efforts to bring advanced services to customers must take into account limitations in the capabilities of existing set-top boxes, as well as variations in device hardware and software*."
- Problem: LPR offered more than 100 channels, each subscriber only watching subset of these, leading them to question the value in Pay-TV
- To be more customized, LPR began to offer real-time social trending insights into viewing patterns by other Puerto Ricans; problem was multiple set-top-boxes, technology, models, operating systems, chipsets
- Solution: cloud-based, could ovffer consistent user experience to every STB
- Study: [http://www.activevideo.com/fl-2894/LibertyPuertoRico_CaseStudy.pdf](http://www.activevideo.com/fl-2894/LibertyPuertoRico_CaseStudy.pdf)



# Liberty Puerto Rico

## Broadband Landscape

# Puerto Rico: Broadband Providers

47% market share

53% market share

# Broadband in Puerto Rico

Liberty

- Using the “Connected Nation” report from early 2015:
  - 78% of Puerto Rican households had broadband service available at download speeds of 10 Mbps or higher, much higher than the 25% reported in 2011
  - 52% of households have speeds of 100 Mbps available to them, which was 0% in 2011; *due to cable speed increases.*
- Pushes by multiple government agencies to make Puerto Rico “The Gigabit Island”

### THE GIGABIT ISLAND GOALS

“Gigabit Island” status requires a policy framework that will encourage public and private investment in broadband capacity build-out and growth. To do so, the Gigabit Island Plan proposes the following goals:

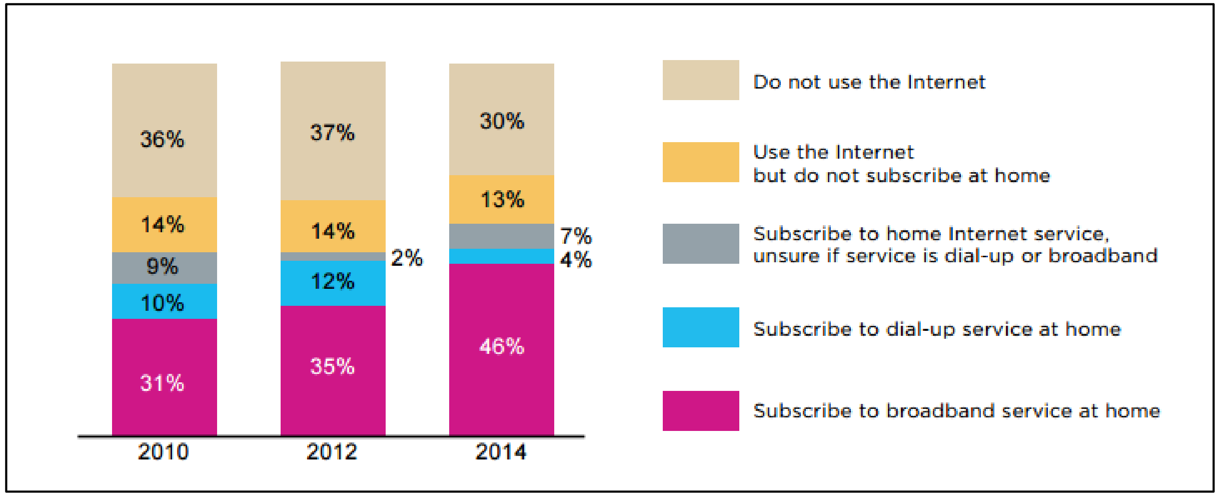
- By 2018, 90% of Puerto Rico households will have broadband available at download speeds of 10 Mbps.
- By 2018, 50% of Puerto Rico households will have broadband available at download speeds of 1 Gbps.
- By 2020, 99% of Puerto Rico households will have broadband available at download speeds of 10 Mbps.
- By 2020, 70% of Puerto Rico households will have broadband available at download speeds of 1 Gbps.

Source: Puerto Rico Broadband Strategic Assessment, February 2015

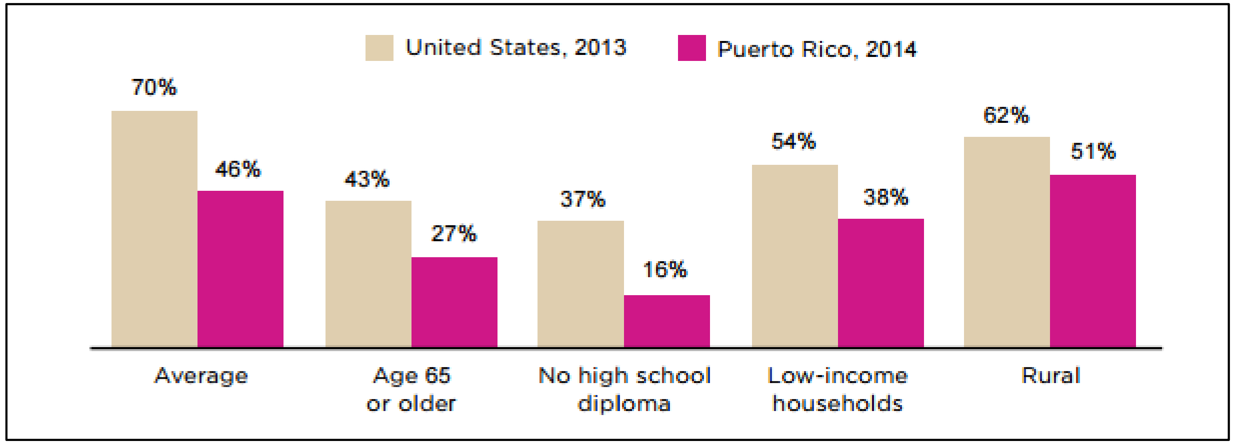
# Broadband in Puerto Rico

- Across Puerto Rico, cable offers services to > 80% of households
- DSL is offered to ~64% of households
- Most of central/ urban Puerto Rico does not have adequate access to broadband

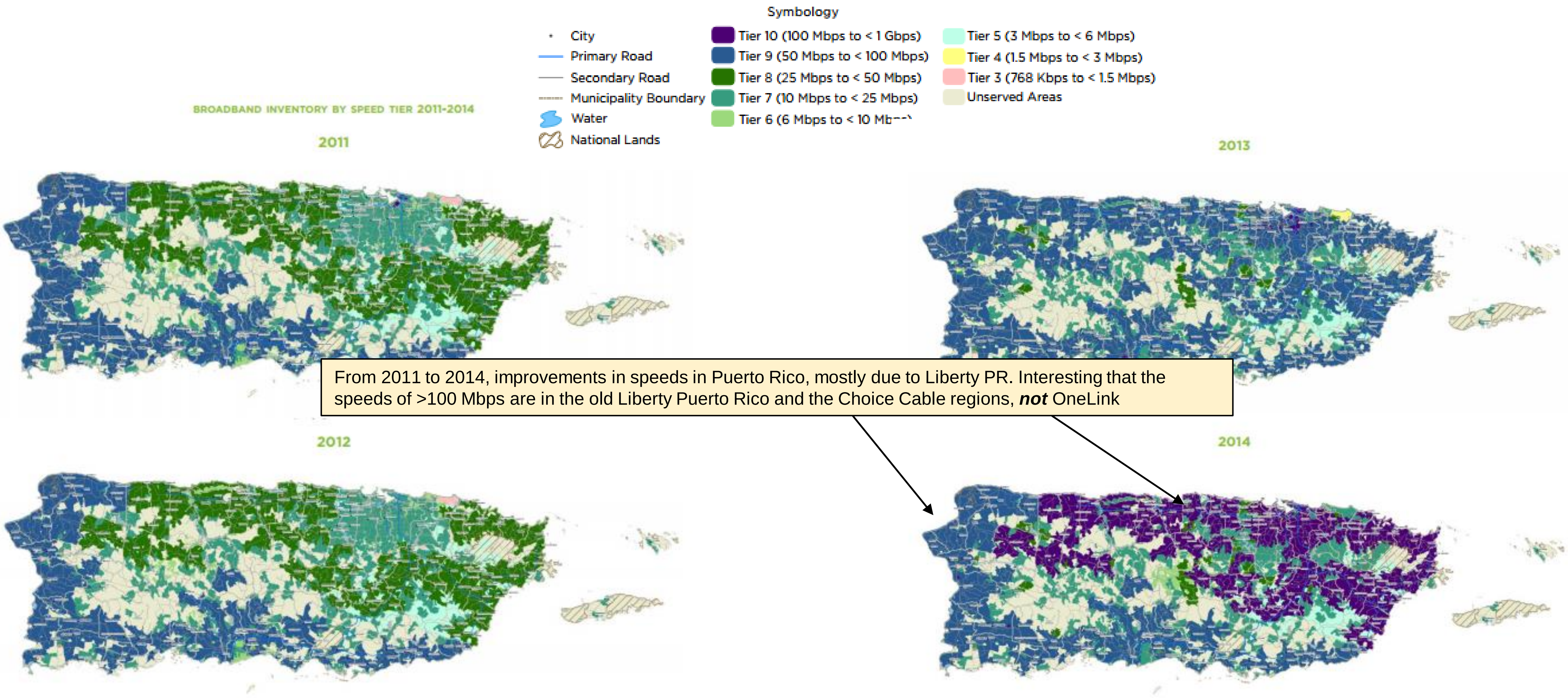
Broadband Adoption *Trends* in Puerto Rico




Broadband Adoption by Type-of-person, versus U.S.



# Speeds Increases in PR = ‘Thanks to LPR’

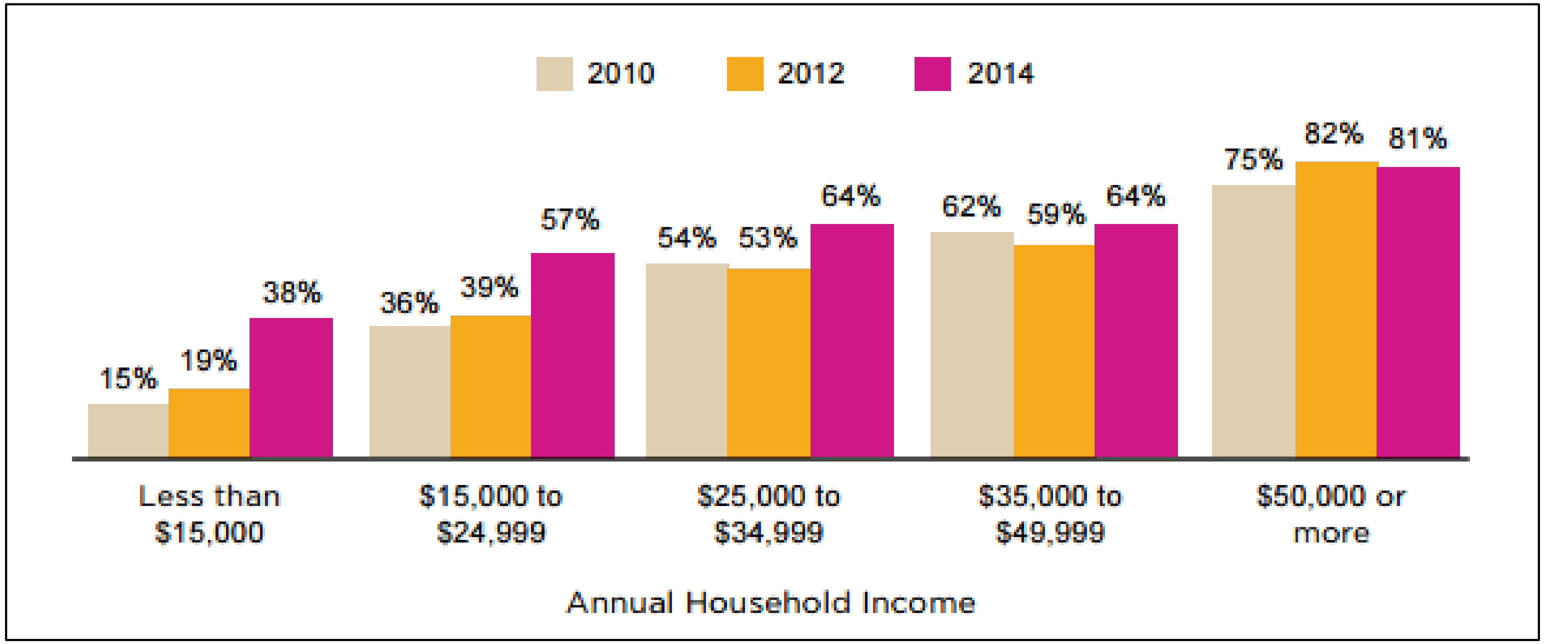



From 2011 to 2014, improvements in speeds in Puerto Rico, mostly due to Liberty PR. Interesting that the speeds of >100 Mbps are in the old Liberty Puerto Rico and the Choice Cable regions, ***not*** OneLink

Source:

# Broadband Adoption: An Income "Problem"

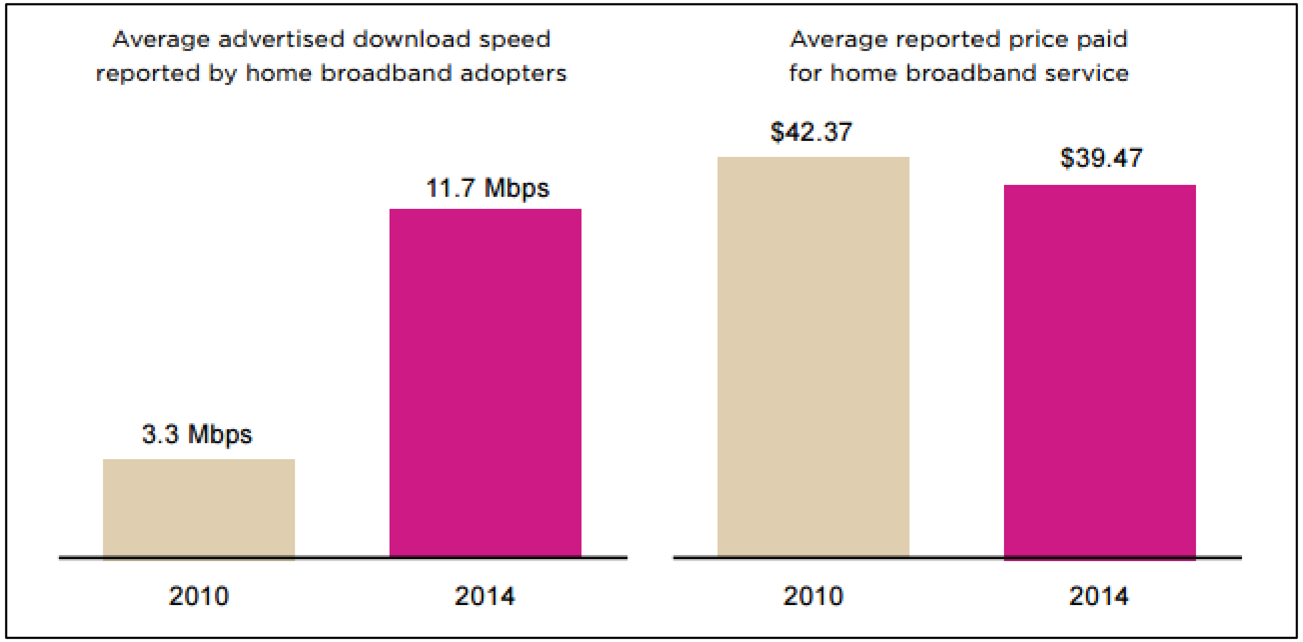
- This has been discussed many times by cable executives in talking about the cable bundle, tiers, etc. on take rate
- Similarly, studies show that U.S. fixed broadband adoption is low in lower income households, who choose to use mobile-only broadband
- In Puerto Rico, studies have shown similar results = higher income equates to higher take rate of broadband




Source: Connect Puerto Rico, 2015 Report

# Broadband: No Pricing Power?

- Despite the increases in fixed broadband speeds, broadband pricing has not had much “pricing power”
- According to the 2015 Connect Puerto Rico Broadband Report, the average broadband subscriber reported they paid $39.47 per month
- In 2010, broadband subscribers were reported to paying an average $42.37 per month
- If you break it down on an income level basis, the higher income levels (+$35,000 or more HH income per year) spend an average of $46.49 per month on an average 14.0 Mbps, which is 30% higher than those who make less than $15,000 per year in Puerto Rico




Source: Connect Puerto Rico, Feb 2015

# LPR: Broadband Overview

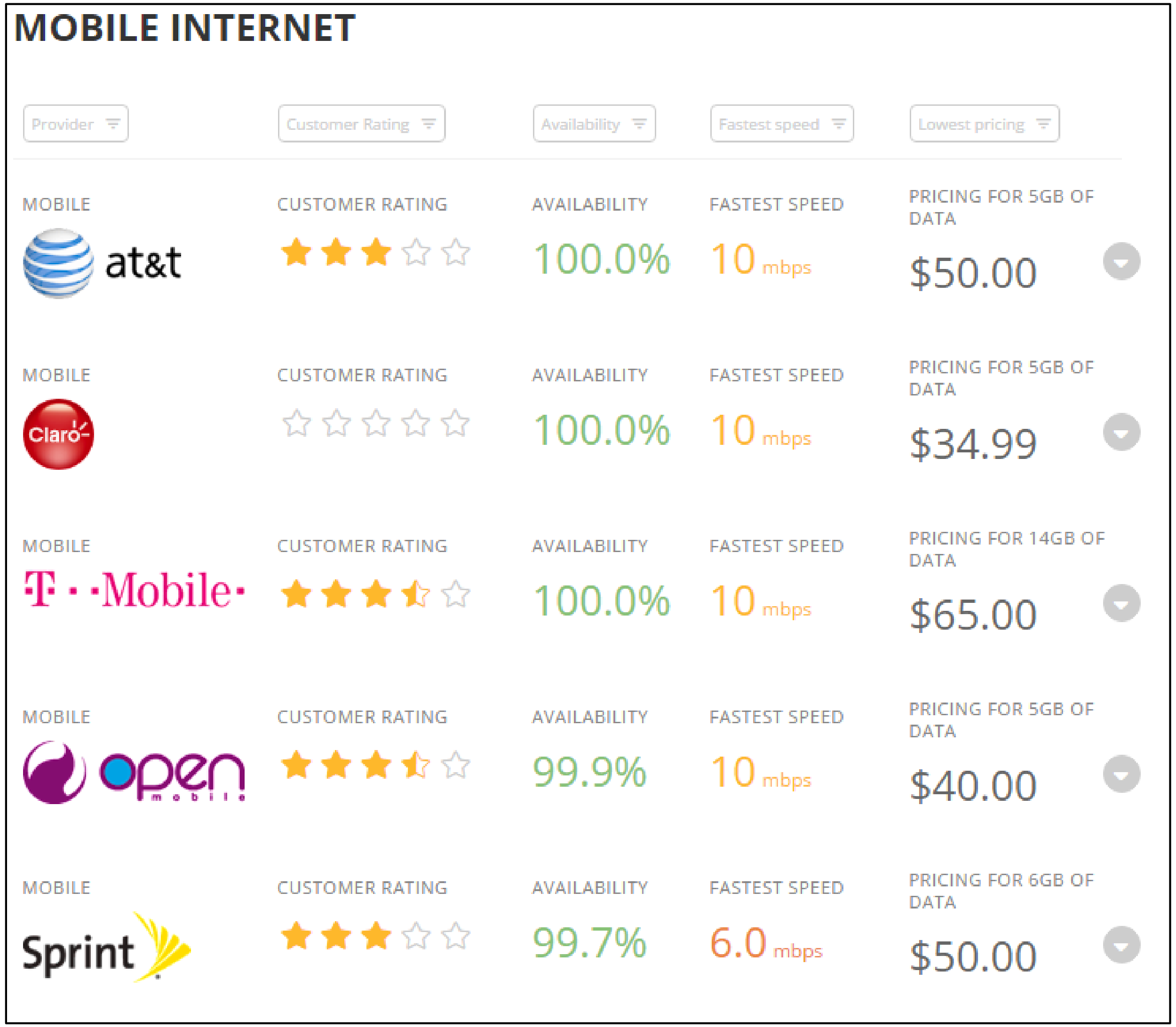
- Liberty is working with Puerto Rican government to drive it to be “The Gigabit Island”
- There is likely limited newbuild opportunity
- However, Puerto Rican government is pushing for 1 Gb speeds on the island
- Ultimately, given the lack of competition in most areas, this could be a huge competitive advantage for LPR

# Liberty Puerto Rico

## Mobile Landscape

# Pricing in Mobile/Wireless:

- Liberty PR is a non-player
- Main players are:
  - AT&T
  - Claro (America Movil)
  - T-Mobile
  - Open Mobile
  - Sprint



**MOBILE INTERNET**

| Provider | Customer Rating | Availability | Fastest speed | Lowest pricing |
|---|---|---|---|---|
| MOBILE at&t | CUSTOMER RATING ★★★☆☆ | AVAILABILITY 100.0% | FASTEST SPEED 10 mbps | PRICING FOR 5GB OF DATA $50.00 |
| MOBILE Claro | CUSTOMER RATING ☆☆☆☆☆ | AVAILABILITY 100.0% | FASTEST SPEED 10 mbps | PRICING FOR 5GB OF DATA $34.99 |
| MOBILE T··Mobile· | CUSTOMER RATING ★★★½☆ | AVAILABILITY 100.0% | FASTEST SPEED 10 mbps | PRICING FOR 14GB OF DATA $65.00 |
| MOBILE open mobile | CUSTOMER RATING ★★★½☆ | AVAILABILITY 99.9% | FASTEST SPEED 10 mbps | PRICING FOR 5GB OF DATA $40.00 |
| MOBILE Sprint | CUSTOMER RATING ★★★☆☆ | AVAILABILITY 99.7% | FASTEST SPEED 6.0 mbps | PRICING FOR 6GB OF DATA $50.00 |

Source: broadbandnow.com

# Liberty Puerto Rico

## Competition

# “Claro” (América Móvil )

- Was a subsidiary of Verizon Communications until acquired by América Móvil in 2007
- AMOV owns 100% of Claro
- AMOV is a large telecommunications provider
  - 282.85m wireless subscribers globally (June 2016)
  - 81.68m fixed-line RGUs globally (June 2016)
- 85% of footprint is DSL-based, remaining is FTH
- Claro offers more bundle packages at the lower end
  - Prices started at $48.49/month for triple play, but only 512 Kbps speeds, in increments of 1/2/3/4 Mbps…
  - 24 month contract
- Offers mobile & triple-play bundles
- Using the Claro Puerto Rico site is difficult, can’t click on purchasing bundles online (at least when I attempted to a few times)
- Website not very user friendly

Source: Claropr.com

# DISH

- DISH was the largest Pay-TV provider in 2013 with a little over 1/3 of the market
- To expand footprint and grow, partnered with Claro to begin offering bundled services
  - DISH = video
  - Claro = wireless, fixed telephony, fixed broadband
- Partnered in mid-2013
- Goal was to grow to over 50% Pay-TV market share in Puerto Rico
- Claro was in infancy stage of their DTH business, which was launched in April 2010 but wasn’t very successful

# DISH

- DISH packages start at $34.99/month
- 24 month contract
- Premium movie channels free for first 3 months

# Liberty Puerto Rico

Pricing

# Pricing Comparisons

- Based on my own research, it is difficult to get some pricing and offers through the Claro PR website
- Liberty PR website is much more user-friendly, cleaner, more modern
- Claro offers a combo of DSL with some FTTH
  - Launched DTTH in late 2012
  - Also rolled out FTTC (fiber to the curb) over a wider footprint, will use ADSL2+
  - Invested $150m in 2011/12 in FTTH/FTTC infrastructure connections in last mile

Source:

# Pricing Comparisons

Liberty

- Based on my research…
- LPR triple play starts at $59.99/month
    - 21 HD channels
    - 10 Mbps/ 1 Mbps
    - Unlimited talk to Puerto Rico and U.S.
- Low price for Claro triple play starts at $48.49/month
    - 512 Kbps
    - Unlimited talk only to Puerto Rico
- Speeds for LPR range from 10 Mbps up to 200 Mbps
- Speeds for Claro range from 512 Kbps up to 500 Mbps; however, they do not disclose where exactly these speeds are.
    - Most will be in the <50 Mbps range as 85% of their footprint is DSL, not FTTH

Source:

# Pricing Comparisons

- Using “broadbandnow.com”

**WIRED PROVIDERS**

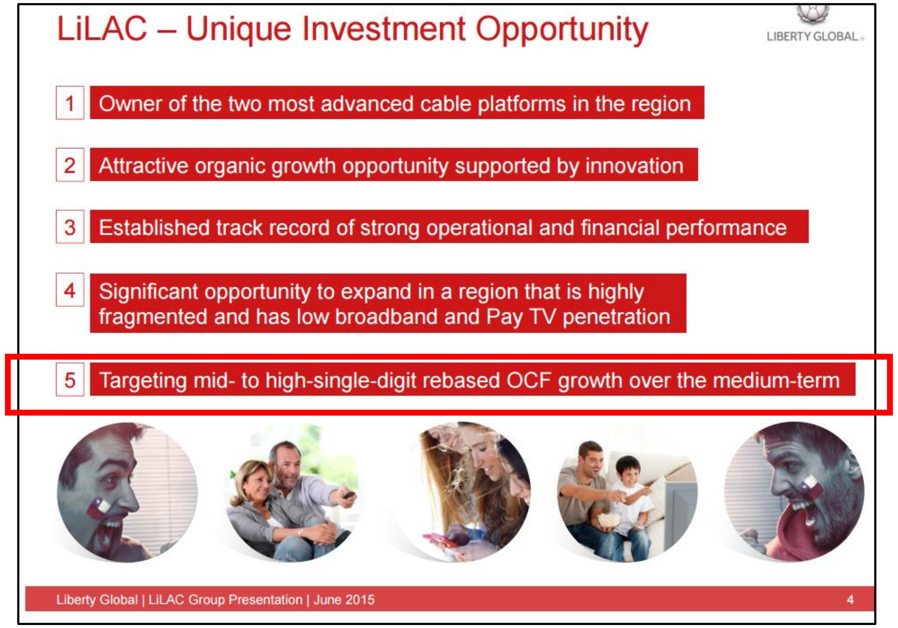
| Provider | Customer Rating | Availability | Fastest speed | Lowest pricing |
|---|---|---|---|---|
| DSL<br>Claro | CUSTOMER RATING<br>★★☆☆☆ | AVAILABILITY<br>98.8% | FASTEST SPEED<br>50 mbps | PRICING FOR 10 MBPS<br>$54.99 |
| CABLE<br>Liberty | CUSTOMER RATING<br>★★★☆☆ | AVAILABILITY<br>94.8% | FASTEST SPEED<br>100 mbps | PRICING FOR 10 MBPS<br>$39.99 |
| FIBER<br>Claro | CUSTOMER RATING<br>★★☆☆☆ | AVAILABILITY<br>83.9% | FASTEST SPEED<br>75 mbps | PRICING<br>-- |
| FIBER<br>Optico FIBER | CUSTOMER RATING<br>☆☆☆☆☆ | AVAILABILITY<br>16.4% | FASTEST SPEED<br>1,000 mbps | PRICING FOR 1,000 MBPS<br>$70.00 |

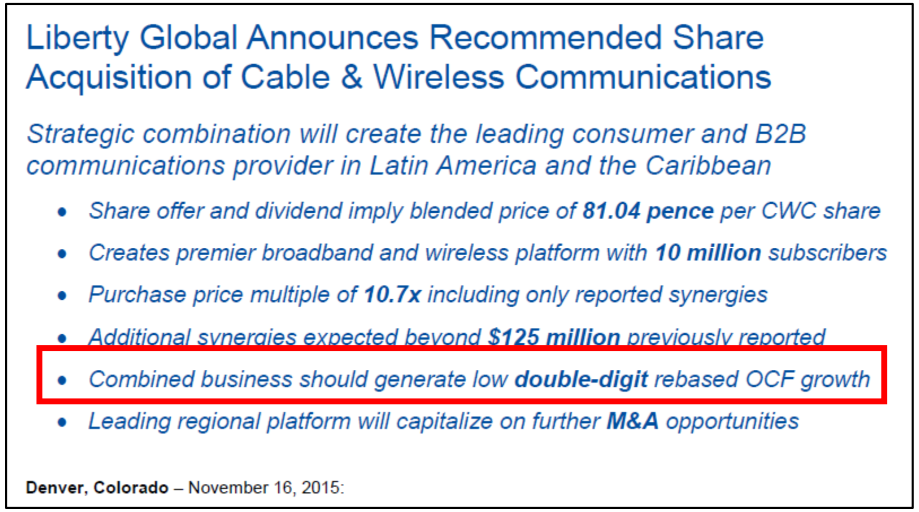
# Valuation:

LIBERTY GLOBAL

# Forecasts by LiLAC

- **<u>June 2015</u>:** Prior to CWC acquisition, targeted "mid-to-high single digit rebased OCF growth over the medium term" (5-9%)
- **<u>November 16, 2015</u>**: Announced Cable & Wireless deal, did not provide additional synergies beyond those CWC announced when they acquired Columbus a year prior. Estimated pro-forma business should grow "low double-digit rebased OCF" (10-13%)
- **<u>August 2016, on Q2/2016 call</u>**: Confused investors by announcing targets for LiLAC, but now excluding CWC over the medium term. This made investors believe LiLAC realized the business was not growing as fast as originally thought and was back-tracking the original "guidance" of "10-13%"





Source:

# Valuation: Current

- Using proportionate percentages of debt and EBITDA, which is appropriate given LiLAC does not have full ownership of all the assets, nor has full responsibility of all of the debt

**LiLAC (09/02/2016)**

| | Consolidated LiLAC | Minority Stakes | Proportionate LiLAC |
|---|---|---|---|
| Equity Value Per Share | | | $ 28.70 |
| Shares Outstanding | | | 173 |
| Equity Value | | | $ 4,965.1 |
| Gross Debt | $ 5,849.0 | | $ 5,348.0 |
| VTR (Chile) | $ 1,400.0 | | $ 1,400.0 |
| Liberty Puerto Rico | $ 942.5 | $ 377.0 | $ 565.5 |
| Cable & Wireless | $ 3,506.5 | $ 124.0 | $ 3,382.5 |
| Cash | | | |
| VTR (Chile) | $ 117.6 | | $ 117.6 |
| Liberty Puerto Rico | $ 70.4 | $ 28.2 | $ 42.2 |
| Cable & Wireless | $ 248.2 | *$ 100.0* | $ 148.8 |
| LiLAC Group | $ 64.4 | | $ 64.4 |
| ***Net*** Debt | $ 5,477.2 | | $ 5,103.7 |
| VTR (Chile) | $ 1,282.4 | $ - | $ 1,282.4 |
| Liberty Puerto Rico | $ 872.1 | $ 348.8 | $ 523.3 |
| Cable & Wireless | $ 3,258.3 | $ 24.0 | $ 3,233.7 |
| Enterprise Value | | | $ 10,068.8 |
| 2016 EBITDA estimate | | | $ 1,100.0 |
| Proportionate EV/EBITDA 2016 | | | 9.15 x |

Proportionate Net Debt/ Consolidated = **93.2%**

Estimated Proportionate EBITDA/ Consolidated EBITDA = **78%**

*Debt: Used fixed income filings for each; total carrying amount of 3rd party debt and finance lease obligations*

# The Estimates

- As an investor, you can play with the estimates, adjusting revenue growth, EBITDA growth, and so on.
- What is important are not whether the numbers are correct to the decimal; rather, I want to be in the general vicinity of how they may shape out.
- What is more important is: if the story plays out as it should, LiLAC should grow high-single digit/ low double-digit EBITDA over the next 2-3 years
- As with any company, it is near pointless to estimate beyond 3+ years out and expect much precision
- So how to deal with this? => Focus on the advantages LiLAC has and if management will “do the right thing” to create value
    - The submarine assets are a true competitive advantage, will continue to be
    - LiLAC is very underpenetrated in Bahamas, Caribbean in video and broadband
    - Newbuild opportunity in Chile will add growth, early numbers are strong and encouraging
    - Competitive advantages in their footprint versus DSL and satellite will remain
    - Synergies are within LiLAC’s “control” and thus I would expect them to become realized
    - We don’t know the synergies yet from C&W and LiLAC, but I would expect it to be decent but not a game changer as the assets didn’t really overlap with the exception of the data traffic carried over the C&W subsea cables from Puerto Rico and Chile
    - More capital spending, leveraging content costs in Puerto Rico, more using LBTYA scale for vendor financing, and the final year of Project Marlin will bring capital down

# LiLAC: Not *Stupid* Cheap but **Still** Upside Potential

| | 2016 | 2017 | 2018 |
|---|---|---|---|
| **EBITDA (Proportionate %)** | | | |
| VTR | $ 335 | $ 356 | $ 375 |
| *Growth (YoY)* | | *6%* | *5%* |
| CWC | $ 630 | $ 675 | $ 720 |
| *Growth (YoY)* | | *7%* | *7%* |
| LPR | $ 114 | $ 116 | $ 120 |
| *Growth (YoY)* | | *2%* | *3%* |
| LiLAC | $ 1,079 | $ 1,147 | $ 1,215 |
| *Growth (YoY)* | | *6%* | *6%* |
| Synergies (CWC/Columbus) | $ 30 | $ 50 | $ 50 |
| Synergies (LiLAC/CWC) | $ - | $ 25 | $ 75 |
| EBITDA | $ 1,109 | $ 1,222 | $ 1,340 |
| *Growth (YoY)* | | *10%* | *10%* |
| EV/ EBITDA | 8.96 | 8.13 | 7.42 |
| | | | |
| **Capital Spending (Proportionate %)** | | | |
| VTR | $ 150 | $ 155 | $ 140 |
| CWC | $ 390 | $ 312 | $ 312 |
| LPR | $ 45 | $ 48 | $ 48 |
| LiLAC | $ 585 | $ 515 | $ 500 |
| | | | |
| FCFF | $ 524 | $ 707 | $ 840 |
| FCFF/ EV | 5.3% | 7.4% | 9.1% |

| | 2016 | 2017 | 2018 |
|---|---|---|---|
| D&A | $ 525 | $ 550 | $ 575 |
| EBIT | $ 584 | $ 672 | $ 765 |
| Interest Expense | $ 350 | $ 350 | $ 350 |
| Pre-Tax Income | $ 234 | $ 322 | $ 415 |
| Taxes | $ 82 | $ 113 | $ 145 |
| Tax Rate | 35.0% | 35.0% | 35.0% |
| Net Income | $ 152 | $ 209 | $ 270 |
| FCFE (post-tax) | $ 92 | $ 244 | $ 345 |
| | | | |
| Cash | $ 465 | $ 709 | $ 1,054 |
| Debt | $ 5,348 | $ 5,348 | $ 5,348 |
| Equity Value | $ 4,965 | $ 4,965 | $ 4,965 |
| Enterprise Value* | $ 9,848 | $ 9,604 | $ 9,259 |
| EV/EBITDA | 8.88 | 7.86 | 6.91 |

** If stock stays same price, no share repurchases, no increase/decrease in debt*

| | | | |
|---|---|---|---|
| Leverage | 4.0 | 4.0 | 4.0 |
| Net Debt | $ 5,687 | $ 6,267 | $ 6,872 |
| Incremental Borrowing (YoY) | $ 210 | $ 579 | $ 605 |

# LiLAC: Scenario Analysis

**Scenario Analysis**

| EV/EBITDA (x) | 2016 | 2017 | 2018 |
|---|---|---|---|
| Accumulate Cash, no change to Debt, Stock same | 8.9 | 7.9 | 6.9 |
| Repurchase shares, debt stays same | 8.9 | 8.1 | 7.3 |
| Repurchase shares, 4.0x levered | 8.9 | 8.3 | 7.5 |

*Use on FCFE to repurchase shares*

| | 2016 | 2017 | 2018 |
|---|---|---|---|
| Repurchase Price/Sh. | $ - | $ 30.00 | $ 33.00 |
| Repurchase Amount | $ - | $ 250 | $ 500 |
| Shares Repurchased (mil) | | 8.3 | 15.2 |
| Shares Outstanding (mil) | 173 | 164.7 | 149.5 |
| FCFE/share | $ 0.53 | $ 1.48 | $ 2.31 |
| Yield on Current | 1.9% | 5.2% | 8.0% |
| EV | $ 9,848 | $ 9,854 | $ 9,759 |
| EV/EBITDA | 8.9 | 8.1 | 7.3 |

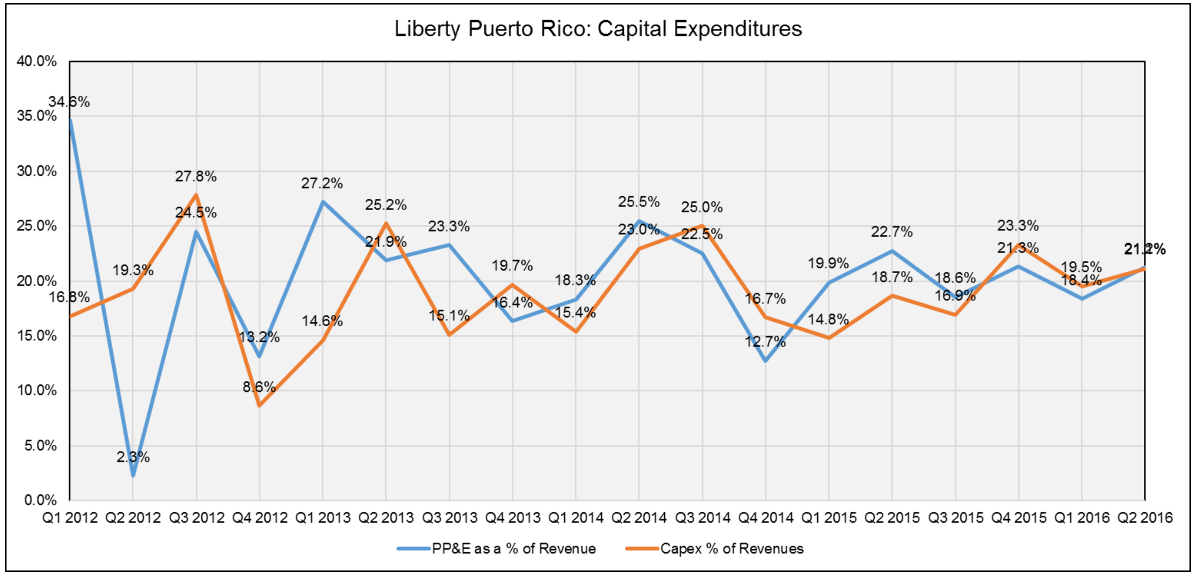
*Use on FCFE + Incremental Debt to repurchase shares*

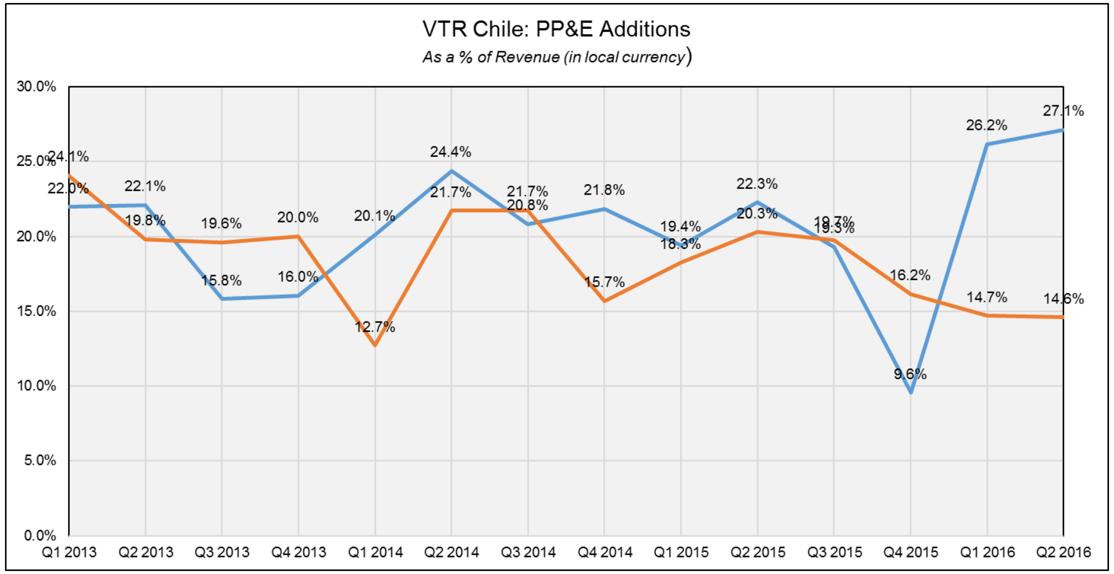
| | 2016 | 2017 | 2018 |
|---|---|---|---|
| Repurchase Price/Sh. | $ - | $ 30.00 | $ 33.00 |
| Repurchase Amount | $ - | $ 500 | $ 750 |
| Shares Repurchased (mil) | | 16.7 | 22.7 |
| Shares Outstanding (mil) | 173 | 156.3 | 133.6 |
| FCFE/share | $ 0.53 | $ 1.56 | $ 2.58 |
| Yield on Current | 1.9% | 5.4% | 9.0% |
| EV | $ 9,848 | $ 10,104 | $ 10,009 |
| EV/EBITDA | 8.9 | 8.3 | 7.5 |

# Other Notes:

# Capital Spend Notes

- Panama:
  - Wireless upgrades and spectrum to build out mobile data network
  - Billing/ CRM systems
- Caribbean:
  - Mobile network and spectrum in key market
  - Broadband/ fiber rollout
  - Billing, CRM systems



# Capital Spending

- Historically, about 45% of Cable & Wireless's capital spending is towards improving and upgrade the mobile networks in Panama, Bahamas, and Jamaica
- With the completion of "Project Marlin", C&W has stated their capex should fall to a more normalized ~14% of revenues
  - Recall, about 25% of Project Marlin was on "maintenance"
  - 75% on growth projects
- VTR (Chile) has elevated capex due to newbuild activity, could get to around 16-18% gross PP&E versus current 26-27%
  - With vendor financing, current capex is 15% of revenues

**Capex** — **Reduction to normalised levels** – post Marlin, capital intensity to fall to c.14% of revenue in FY17/18

Network quality and coverage are main drivers for Net Promoter Score (NPS)

Mobile data growth of 23% offsetting voice decline of 5% - data will drive future growth

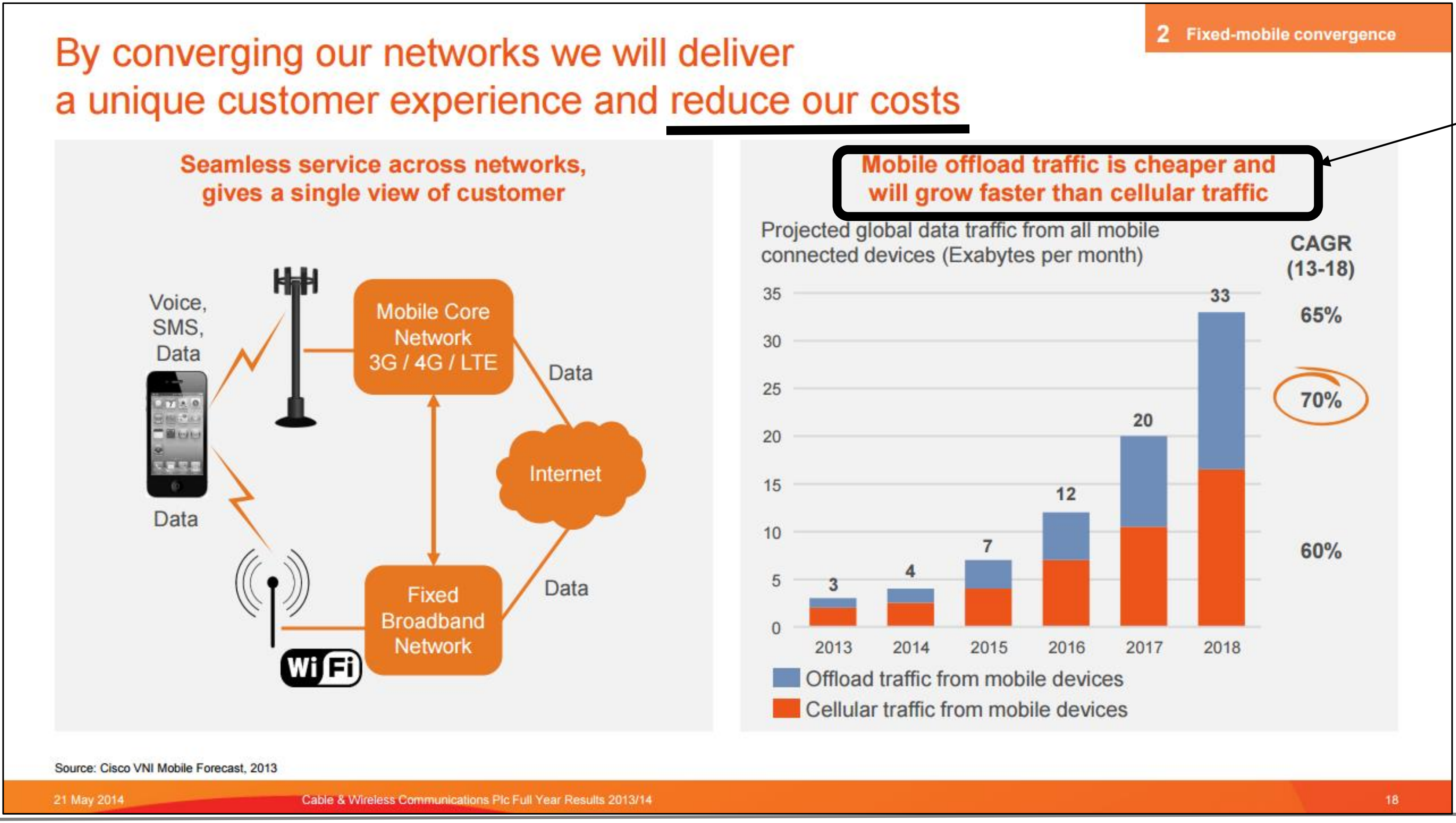
We have to improve network performance and capacity to become #1 in customer experience

~45% of our capex in the next 3 years will be spent on upgrading our networks

Source: May 2014 Earnings CWC

# Cable & Wireless: Competitive Advantages

# Cable & Wireless: Fixed + Mobile Network Overlap




The benefit of "fixed-mobile convergence" is lower costs, offloading mobile traffic is cheaper; also increases demand for fixed broadband speeds = win-win for fixed/mobile providers

Source: May 2014 Earnings CWC

# John Malone

- Malone owns:
  - 6.5% of the LiLAC “A” Shares
  - 81.4% of the LiLAC “B” shares
- https://www.sec.gov/Archives/edgar/data/937797/000110465916123381/a16-12187_1sc13da.htm

Source:

LIBERTY GLOBAL

# John Malone

| Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. Title of Security (Instr. 3) | 2. Transaction Date (Month/Day/Year) | 2A. Deemed Execution Date, if any (Month/Day/Year) | 3. Transaction Code (Instr. 8) | | 4. Securities Acquired (A) or Disposed Of (D) (Instr. 3, 4 and 5) | | | 5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4) | 6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4) | 7. Nature of Indirect Beneficial Ownership (Instr. 4) |
| | | | Code | V | Amount | (A) or (D) | Price | | | |
| Liberty Global Class A | 07/15/2016 | | J[1] | V | 1,345,685 | A | $0 | 2,297,862[2] | D | |
| Liberty Global Class C | 07/15/2016 | | J[1] | V | 2,978,202 | A | $0 | 6,916,397[2] | D | |
| LiLAC Class A | 07/15/2016 | | J[1] | V | 540,496 | A | $0 | 706,906[2][3] | D | |
| LiLAC Class C | 07/15/2016 | | J[1] | V | 1,284,496 | A | $0 | 2,002,467[2][3] | D | |
| Liberty Global Class A | 07/15/2016 | | J[1] | V | 34,505 | A | $0 | 124,808[2][4] | I | By Spouse |
| Liberty Global Class C | 07/15/2016 | | J[1] | V | 76,364 | A | $0 | 756,405[2][4] | I | By Spouse |
| LiLAC Class A | 07/15/2016 | | J[1] | V | 13,859 | A | $0 | 29,641[2][3][4] | I | By Spouse |
| LiLAC Class C | 07/15/2016 | | J[1] | V | 32,936 | A | $0 | 151,785[2][3][4] | I | By Spouse |
| Liberty Global Class A | 07/15/2016 | | J[1] | V | 1,380,190[5] | D | $0 | 2,140,050[1][6] | I | by Columbus Holding LLC |
| Liberty Global Class C | 07/15/2016 | | J[1] | V | 3,054,566[5] | D | $0 | 4,736,253[1][6] | I | by Columbus Holding LLC |
| LiLAC Class A | 07/15/2016 | | J[1] | V | 554,355[5] | D | $0 | 859,555[1][3][6] | I | by Columbus Holding LLC |
| LiLAC Class C | 07/15/2016 | | J[1] | V | 1,317,432[5] | D | $0 | 2,042,742[1][3][6] | I | by Columbus Holding LLC |
| Liberty Global Class C | | | | | | | | 7,117,225[7] | I | By A Trust |
| LiLAC Class C | | | | | | | | 1,263,869[3][7] | I | By A Trust |



LIBERTY GLOBAL

# Adjusting Historical Financials for Monaco

- For my historical numbers, I've adjusted to exclude Monaco revenues, EBITDA


| Continuing operations<br>Year ended 31 March 2014 | Caribbean<br>US$m | Panama<br>US$m | Monaco<br>US$m | Other and eliminations[1]<br>US$m | Total<br>US$m |
|---|---|---|---|---|---|
| Revenue | 1,045 | 591 | 237 | – | 1,873 |
| Cost of sales | (218) | (193) | (91) | – | (502) |
| **Gross margin** | 827 | 398 | 146 | – | 1,371 |
| Pre-exceptional operating costs | (529) | (156) | (65) | (13) | (763) |
| **EBITDA**[2] | 298 | 242 | 81 | (13) | 608 |
| Depreciation and amortisation | (133) | (95) | (27) | (7) | (262) |
| Net other operating expense | – | – | – | (15) | (15) |
| Exceptional operating costs | (132) | (3) | – | (39) | (174) |
| **Group operating profit/(loss)** | 33 | 144 | 54 | (74) | 157 |
| Share of loss after tax of joint ventures and associates | – | – | (2) | (60) | (62) |
| **Total operating profit/(loss)** | 33 | 144 | 52 | (134) | 95 |
| Net other non-operating expense | – | – | (6) | – | (6) |
| Net finance income/(expense) | 15 | (11) | – | (163) | (159) |
| **Profit/(loss) before income tax** | 48 | 133 | 46 | (297) | (70) |
| Income tax | (6) | (28) | (2) | 7 | (29) |
| **Profit/(loss) for the year from continuing operations** | 42 | 105 | 44 | (290) | (99) |
| *Income taxes paid*[3] | *(19)* | *(27)* | *(3)* | *(4)* | *(53)* |

1 'Other and eliminations' includes corporate centre expenses, eliminations for inter-segment transactions and the results of our joint ventures and associates (with the exception of our joint venture in Afghanistan, which is managed and reported within Monaco).
2 EBITDA is used in management reporting as it is considered by management to be a key financial metric. It is defined as earnings before interest, tax, depreciation and amortisation, net other operating and non-operating income/expense and exceptional items (see page 89).
3 Income taxes paid represents cash tax paid during the year by consolidated subsidiaries.

# Thank You

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