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Altice U.S. (ATUS)

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Find Me Value Investment Research, LLC
Findmevalue.net
@Find_Me_Value

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Snapshot: Altice U.S. (ATUS)

Stock Price	$ 11.10	3/3/2022		
FDSO	453.23			
Market Capitalization	$ 5,031		EV/EBITDA	6.65 x
Cash & Equivalents	$ 196			
Gross Debt	$ 24,595			
Enterprise Value	$ 29,430			

	2021	2022 est.	2023 est.	2024 est.
EBITDA	$ 4,427	$ 4,100	$ 4,100	$ 4,200
EBITDA - CapEx	$ 3,195	$ 2,400	$ 2,250	$ 2,350
Unlevered FCFF	$ 2,582	$ 1,825	$ 1,675	$ 1,750
FCFE	$ 1,622	$ 950	$ 800	$ 900
D&A	$ 1,787	$ 1,800	$ 1,800	$ 1,800
CapEx	$ 1,232	$ 1,700	$ 1,850	$ 1,850
Cash & Equivalent	196	200	200	200
Gross Debt	$ 24,595	$ 23,680	$ 22,915	$ 22,050
Net Debt to LTM Adj EBITDA	5.51 x	5.73 x	5.54 x	5.20 x
Shares Outstanding	453.23	456	459	462
FCFE/Share	$ 3.58	$ 2.08	$ 1.74	$ 1.95
Current Px-to-FCFE/Share	3.10 x	5.33 x	6.37 x	5.70 x
FCFE Yield (%)	32.2%	18.8%	15.7%	17.6%
Stock Price (flat)	$ 11.10	$ 11.10	$ 11.10	$ 11.10
Enterprise Value	$ 29,430	$ 28,542	$ 27,810	$ 26,978
EV-to-FCFF (YE)	11.40 x	15.64 x	16.60 x	15.42 x
FCFF Yield (%)	8.8%	6.4%	6.0%	6.5%

Altice U.S. (ATUS) stock price is at an all-time low, falling over 60% in the last year.

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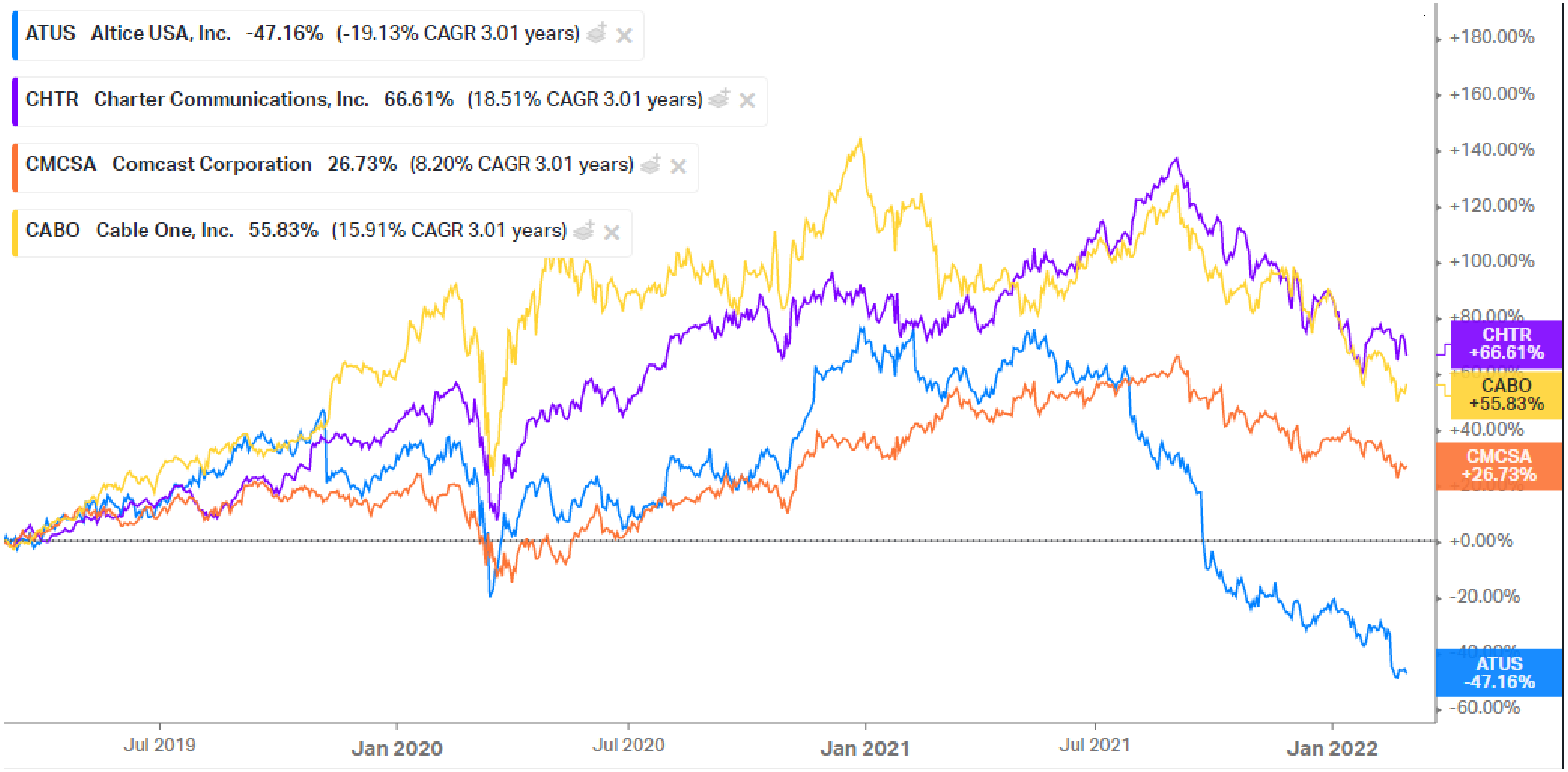
Snapshot: Altice U.S. vs. Comps

- It is common practice to share relative valuation metrics, especially for cable operators, such as on an EV/EBITDA basis, EV/HP, EV/customer relationship, and so on.
- The problem is that these cable operators all have different business models, competitive dynamics, growth potential, balance sheet leverage, and footprint demographics.
- All things being considered, ATUS has underperformed its peers as it has much higher competition, more leverage, higher penetration already which limits growth potential, and is on the cusp of a very capex cycle over the next 3-4 years which really altered its return of capital policy. These massive investments bring an uncertain ROI.



Events History

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- Altice, a European cable operator, entered the U.S. market with a bid for 70% of **Suddenlink**, in 2015
- The same year, 2015, Altice also made a $17.7bn bid for **Cablevision**, a cable operator in the NY tri-state area, which closed mid 2016
- June 2017 – Altice U.S. IPO'd out of Altice N.V. at a price of $30/share under the symbol "**ATUS**"
- May 2020 – Canada Pension Plan sold remaining 11.2m shares in Suddenlink. CPPIB was an early backer of Suddenlink Communication, which was acquired by ATUS in 2015 for $9.1bn. When ATUS purchased Cablevision in 2016, CPPIB helped finance the deal along with BC Partners, acquiring a 30% stake in ATUS for ~ $1bn.
- Beginning in 2018, ATUS began aggressively repurchasing shares, and has purchased over $7.8bn since, or 39% of shares outstanding
- 2021 – due to increased competition and a slowing down of their business, ATUS halted share repurchases completely, and decided to invest heavily in building out FTTH (fiber) to ~6.5m homes in their footprint, representing about 2/3rd of their footprint.
- Since mid-2021 ATUS stock is at an all-time low of ~$11/share, down over 65% in the last year

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2017 Altice USA Spin-Off from Altice S.A.

- Altice entered the U.S. markets first with the acquisition of 70% of Suddenlink (“Cequel”) in late 2015, then in 2016 acquired Cablevision for $17.7bn.
- Given the different landscape and needs that the US cable businesses need versus Altice NV’s other international cable companies, it made sense to spin-off the U.S. business.
- Furthermore, they could adjust the balance sheet leverage for both companies, which they did through:
  - Spinning off Altice NV’s 67.2% interest in Altice US through an in-kind distribution to Altice NV shareholders
  - Altice US would pay a $1.5bn special cash dividend prior to separation, of which a majority of the dividend would go to Altice NV (€900m). Of this, they used €625m to prepay a portion of their Corporate Financing Facility and keep €275m for additional liquidity.
- Founder of Altice NV, Patrick Drahi, was able to retain ~43% equity ownership in Altice U.S. and 51% voting ownership, post spin-off

Ownership Pro Forma

	100% Free Float elect to receive B-Shares					0% Free Float elect to receive B-Shares				
	Class of Shares			Percentage		Class of Shares			Percentage	
	A	B	Total	Capital	Voting	A	B	Total	Capital	Voting
Next ATUS Concert (7)	187.8	129.2	**317.1**	43.0%	51.2%	69.4	247.7	**317.1**	43.0%	93.7%
o/w Next ANV Concert	*122.6*	*122.6*	***245.2***	*33.3%*	*47.7%*	*10.2*	*235.0*	***245.2***	*33.3%*	*88.1%*
o/w ANV Shareholders	*6.6*	*6.6*	***13.2***	*1.8%*	*2.6%*	*0.6*	*12.7*	***13.2***	*1.8%*	*4.8%*
o/w A4 & Uppernext	*7.5*	*0.0*	***7.5***	*1.0%*	*0.1%*	*7.5*	*0.0*	***7.5***	*1.0%*	*0.1%*
o/w US Top Management	*4.9*	-	***4.9***	*0.7%*	*0.1%*	*4.9*	-	***4.9***	*0.7%*	*0.1%*
o/w Altice NV	*25.0*	-	***25.0***	*3.4%*	*0.4%*	*25.0*	-	***25.0***	*3.4%*	*0.4%*
o/w Management (Neptune)	*21.1*	-	***21.1***	*2.9%*	*0.3%*	*21.1*	-	***21.1***	*2.9%*	*0.3%*
Sponsors	107.5	-	**107.5**	14.6%	1.6%	107.5	-	**107.5**	14.6%	1.6%
Free Float	194.1	118.4	**312.5**	42.4%	47.2%	312.5	-	**312.5**	42.4%	4.7%
Total	**489.4**	**247.7**	**737.1**	**100%**	**100%**	**489.4**	**247.7**	**737.1**	**100%**	**100%**

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Brief Overview of the Business

- Altice U.S. is a cable operator that was created through the acquisitions of Suddenlink and Cablevision in 2015 and 2016 from their parent company at the time, Altice NV out of Europe, who spun the U.S. cable operations out in 2017 as a standalone entity
- Altice is much smaller than the larger U.S. cable operators of Charter Communications (55m HP) and Comcast (60.5m HP) with about 9.3m HP and 5m customer relationships
- Home broadband is the primary product, with about 4.4m residential broadband subscribers generating around 40% of revenues and is currently offered through a hybrid-fiber-coax cable plant. ATUS believes that fiber is superior to HFC, and will be spending an incremental $3-4bn in the next few years to overlay 2/3rd of its footprint with FTTH (fiber to the home)
- ATUS has run a levered equity shrink model since mid 2018, whereby they would lever up the business ~6x EBITDA, maintain that leverage, and repurchase as much of their own stock as possible. Any EBITDA growth would go towards adding incremental debt and utilizing it for share repurchases. Since mid 2018, ATUS has repurchased 39% of its shares outstanding, but has since halted the buyback program to fund the FTTH overlay buildout from 2022-2025.
- The playbook for Altice is focused around making acquisitions, then cutting costs in the ensuing 2-4 quarters, which always boosts the EBITDA margins by around 700-1000bps. After the initial margin bump, Altice hopes to upgrade subscribers or pass-through price increases, which are very high margin as well. This is the playbook, but over the last year growth has stalled, competition has increased, and the share repurchases made were at woefully higher prices than the current stock price.

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Business Model

- As of just a couple of years ago, Altice US was still focused on improving the video product for cable subscribers, as well as attracting a bundled customer. Some of this was due to the cash flow and financial characteristics of many Optimum (Cablevision) customers, who at the time ~25% of customers still had the triple play package of voice, video, and fixed broadband and >50% of them were customers for over 5 years.
- Post-COVID, with video subscriber losses accelerating, and now only ~30% of gross adds taking video (in addition to being higher churn subs due to promos) versus 55-60% a few years ago, ATUS is all-in on home broadband
- ATUS's business model is built around driving subscriber growth and revenue by offering high broadband speeds. ATUS first upgraded their cable plants (DOCSIS QAM to IP), and since 2017 began overlaying their cable plant with FTTH, which will drive cost efficiencies, less capital intensity, and be better at retaining customers through an improved experience.
- Given the competitiveness over the last few quarters in their footprints, while the strategy of bringing high broadband speeds to their customers remains the same goal, they are now forced to accelerate and increase investment with a less clear path of financial return on these investments. Competition will do this, unfortunately.
- Over the next 3-4 years:
    - Will expand from YE2021 1.2m HP on FTTH to ~6.5m HP on FTTH across their entire footprint. This will encompass more than 2/3rd of their footprint.
    - 4m HP in the Optimum Footprint + 2.5m in the Suddenlink Footprint will be covered in FTTH
    - Original expectations of capex to remain "comfortably" in the $1.2bn - $1.3bn are shot, with 2022 being in the ballpark of $1.8bn, and 2023-2025 being in the $2.0bn ballpark for capex.

Fiber > Hybrid-Fiber Coax / DOCSIS

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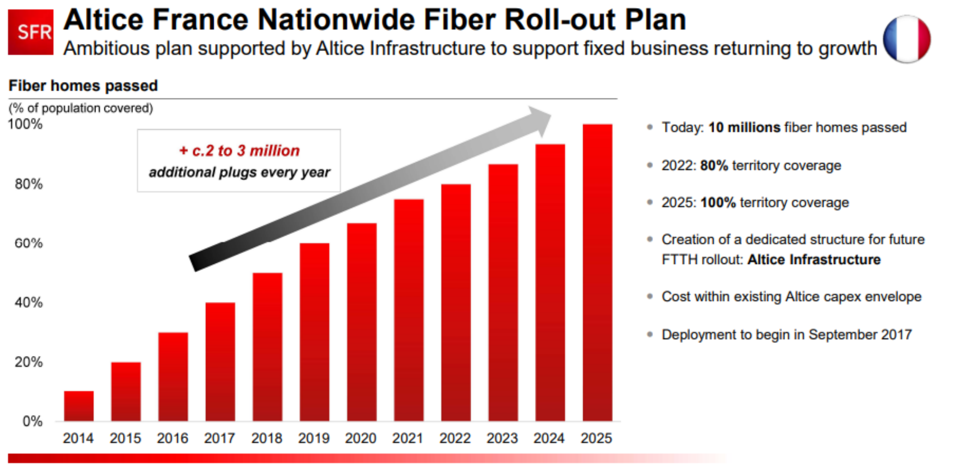
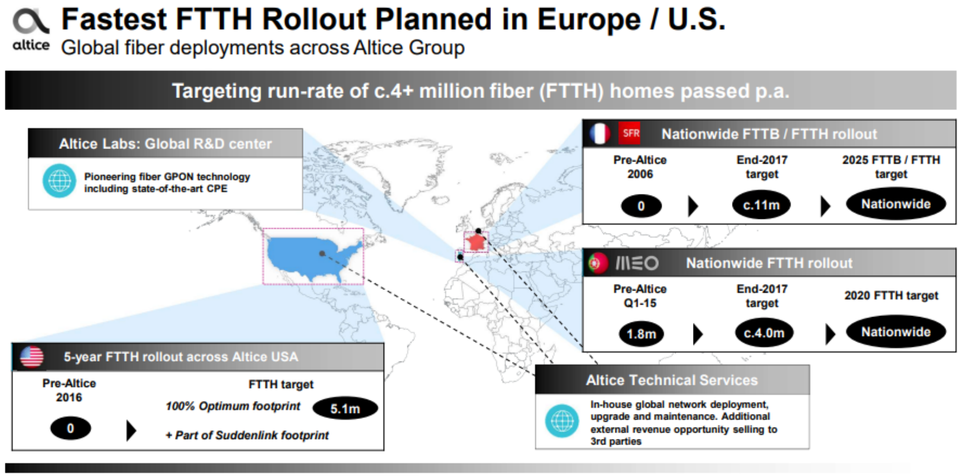
- Altice has a differentiated business model compared to the other cable operators in the U.S.
- CHTR, CMCSA, CABO etc. (other US cable operators) have focused mostly on upgrading their cable plants, splitting nodes, adding fiber at the end, and every 2-3 years upgrading the “DOCSIS” technology in order to get their broadband speeds higher.
- ATUS originally upgraded most of their plant, including all of Optimum (NY tri-state footprint) to DOCSIS 3.1, which was a temporary patch just to keep up with Verizon FiOS competition. After completing this in ~2020, they beginning overlaying FTTH (fiber) over the same passings.
- ATUS is rolling out FTTH following the footsteps of its former parent company, Altice S.A., which, for example, has been rolling out fiber across its other international territories. The difference is that European markets have more concentration in competition, whereas the U.S. is more regional based. Still, ATUS thinks fiber is the way to go over cable DOCSIS / HFC for almost the entire footprint, despite its initial high capital cost.





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