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MIICF - Millicom International Cellular SA Accelerates Cable Expansion with Acquisition of Cable Onda in Panama Call

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PRESENTATION

Operator

Hello, everyone, and welcome to today's call to discuss Millicom's acquisition of Cable Onda. This call is being recorded.

For opening remarks, I will hand the call over to Michel Morin, Millicom's Vice President of Investor Relations.

Michel Morin - *Millicom International Cellular S.A. - VP of IR*

Hello, everyone. So before we begin, let me remind you that we will be referring to some presentation slides that are available on our website at www.millicom.com. And in that presentation, I want to make sure you see Slide 2, which is our safe harbor disclosure.

So now let me turn the call over to our CEO, Mauricio Ramos, for his prepared remarks. Mauricio?

Mauricio Ramos Borrero - *Millicom International Cellular S.A. - CEO*

Thanks, Michel. Good morning, everyone. Thanks for joining us on short notice for this call today.

As usual, I am joined today by our CFO, Tim Pennington, whom you all know. We want to take a few minutes of your time today to talk about the acquisition of Cable Onda, which we announced yesterday. As you can imagine, we're very excited about it. In brief, we have acquired 80% of Cable Onda. Cable Onda is the clear #1 leader in the high-speed data, Pay-TV, fixed telephony and B2B segments in Panama, and I will highlight this often as this is strategic to us.

Cable Onda is a great asset, and the acquisition is a perfect fit for Millicom. And it comes at the right time for us to help us speed up our strategic transformation into creating the leading cable operator in the region to further underpin our already strong mobile position there. Timing is indeed important as we have come a long way in the last 3 years to allow us to get to this point today. And let me explain what we mean by that.

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As you know, we have redirected our operational strategic direction by focusing our CapEx dollars on building 4G mobile data networks and on accelerating our cable build-out in Latin America. And we have been doing that as fast and with as much focus as anyone possibly can. We have also redirected our capital allocation away from Africa and into Latin America. And we have streamlined procurement and are driving efficiencies across the organization so that we can further invest into selling and marketing so as to fund our turnaround and drive revamped revenue growth.

As a result of all that, today, our revenue profile has been reconfigured, and it is now very data-centric. Revenue growth is now back and its profile is long-term healthy. We are tapping with speed and with focus into the large opportunity to drive broadband penetration in our markets, both fixed and mobile. That's what we do.

And financially, our EBITDA and operating cash flow margins have expanded consistently every year for the past 3 years. Our equity cash flow has expanded by approximately \$400 million, and it is now very positive. And our balance sheet is in very good shape.

So that is where we are today, with organic growth and strategic focus, with operational execution under control, with a balance sheet

(technical difficulty)

and with potential proceeds from further portfolio rebalancing out of Africa. So while our focus remains completely on organic growth and our equity story is not predicated on M&A, our job is to allocate your capital into the high-return strategic opportunities that we are in a unique position to execute on. So far, we have focused on efficiently allocating capital organically, and we can now, from a position of strength and with clear strategic mindset, add a layer of high-return inorganic capital allocation that enhances our equity solid, call it a new tool in the toolshed, if you will.

And as you can imagine, with everything we do, we have been diligently preparing for this. We have built, over the past year, a clear capital allocation strategy for possible inorganic growth. We have discussed this extensively with our board, and we have shared this with you in the last few calls actually. You may recall that I referred to it as the strategic capital allocation buckets or simply the buckets.

We evaluate and rank every organic capital decision and every inorganic capital decision against our own organic allocation priorities and against the option to buy back our stock. Only once organic priorities have been funded and only when inorganic options surpasses the return on our own stock do we move forward. And that is exactly why Cable Onda fits so well.

Cable Onda is possibly the best quality asset in the region. Let me rephrase that, it is possibly the best quality cable [asset] in the region. And I do not say this lightly as I have been fortunate enough to have been a part of the teams which have built many of the highest quality cable assets in the region. We will give you details of Cable Onda in a minute. But for now note that Cable Onda is the clear market leader in every segment in which it competes in, in Panama. And Panama is probably the most attractive country in the region to invest in, not just with solid economic growth but also with huge upside potential as penetration rates are still relatively low there.

Slide 4 summarizes why Cable Onda is a great fit for Millicom. First, the geographic fit is perfect. You can see on the map on the right that by entering Panama, we complete our geographic footprint in Central America with a portfolio that now stretches from Guatemala in the north to Panama in the south. And we also connect our Central American operations to our leading presence in Colombia. This geographic fit has an important financial profile element to it.

We enter a country that has a stable and dollar economy, has GDP growth and high GDP per capita. And yet, it is a country where there is meaningful upside to penetration of broadband Internet and Pay-TV services. A geographic and asset fit such as this is exactly where we should be reallocating the capital we have been freeing up from our less profitable operations in Africa.

Second, the product fit is also quite unique. As we have sharpened our focus on Latin America, you have seen us accelerate our move to create a leading cable franchise underneath our strong mobile presence. We're quickly becoming a proxy for cable in Latin America. We have built over 3 million homes passed in the last 3 years, and we are now adding more than 1 million homes passed to our cable fiber network every year. The addition of Cable Onda helps us speed up that pace.



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With Cable Onda in the portfolio, more than 40% of our service revenue will come from cable, and almost 2/3 of Millicom will already be subscription-based. We are no longer a prepaid mobile business. This is a data-centric subscription-based business now playing a penetration game, and Cable Onda helps us move further in that direction. And note that the Panama fixed industry structure is actually very healthy with 2 well-funded and very rational industry players.

Cable Onda will also help us strengthen our B2B capabilities across our footprint in the region. Cable Onda is the B2B market leader in Panama by far. And our existing B2B customers, particularly the expanding Multilatinas that we sell and cater to, have historically asked us to service them in Panama. So Cable Onda is the last piece of the puzzle for us in Central America.

And thirdly and lastly, the financial fit is also quite clear. Cable Onda has been growing very fast and very consistently, and it will, therefore, enhance our own growth profile going forward. Said more concisely, Cable Onda is just right for us. It gives us more cable, more subscription, more Latin America with better diversification, faster growth and more dollar revenues.

Now let's go to Slide 5 to look at valuation and some financial considerations. As you have seen in the press release, the purchase price implies a total enterprise value of \$1.46 billion. The valuation multiples work out to about 7.9x EV to EBITDA, and just as importantly, 14.9x EBITDA less CapEx. Both of these multiples are based on our 2019 projection for Cable Onda, which is a steady grower, and they exclude the bulk of the long-term synergies that we expect will begin to kick in, in 2020. These multiples, quite frankly, speak for themselves. We are buying a very high-quality asset at an attractive price, and we'll give you details on how good the asset is in just a few minutes.

In terms of synergies, you will have noticed by now that this is not just a synergy deal but there are meaningful synergies. These synergies will come over time from cross-selling B2B across the footprint, not just Panama as this helps our overall B2B business in the region, and they will also come from streamlining and rationalizing programming agreements. As you realize, we at Millicom are one of the largest cable players in the region, and as a result of that, have meaningful, better programming deals. They will also come from integrating our DTH platforms. We have a regional DTH that will be integrated into the Panama platform; and from leveraging our increased know-how to lower our network maintenance, operational, procurement and build costs.

With regards to deal structure, we are buying 80% and the existing shareholders are keeping 20%. This is an important point. We were very keen on this because this deal structure allows us to enter Panama guided by the premier and most highly reputed group of Panamanian business analysts as our local partners. This derisks the deal and helps give the asset great continuity. I've known all of the shareholders for a long period of time, and I'm happy to count them in as our partners in Panama.

As a result, pro forma for the transaction, our proportionate leverage will increase temporarily to 2.5x on net debt-to-EBITDA basis based on the way we're financing this deal. As Panama is a dollar economy and the EBITDA growth in Cable Onda helps us deliver quickly, we're comfortable with this additional gearing on a temporary basis. We're indeed committing to maintaining a strong balance sheet and our credit ratings, and we have a plan to take our leverage back down towards around 2x.

Now let's go to Slide 7 to look at the Cable Onda asset more closely. There is a lot of information on this slide, but let me keep it simple. Cable Onda is one of the premier cable assets in Latin America. It is right up there with the very best. You can see this reflected in its market leadership in every category: Pay-TV, residential broadband, fixed telephony and B2B.

And for those of you who are cable junkies, like I am, you know that you can tell a great cable asset when you see a great market position, high enabled penetration rates and a low churn rate. And Cable Onda has them all. And you have also heard me say time and time again that, in this business, network leadership drives the long-term health of the financials. Cable Onda has consistently invested in building the leading and most robust fiber cable network in Panama. It is nationwide, 1 gigahertz network, 100% digital and already DOCSIS 3.0.

I'll go to Slide 8 for a peek at Cable Onda's historical financial performance. The charts speak for themselves, and this is a good moment to [congratulate] Nicolás González, the company's CEO and one of its partners; and the strong management team he has put together for a good job at consistently growing the business. I have known Nico for over a decade. I know his strong management team quite well. This team, by the way, will actually help Millicom build further cable capabilities across the region.



Now let's take a quick look at Panama itself on Slide 10 since we're adding a key country to our geographical portfolio. Panama is indeed the last piece of the puzzle, as I said earlier, for us in Central America. Panama is one of the fastest growing economies in the region, and the World Bank projections actually place it as the fastest growing country in the region by far over the next 2 to 3 years. And as you can see on the right, their GDP per capita is already right up there with Chile, amongst the highest in Latin America, well above Mexico and Brazil and more than double that of Colombia.

So we're buying a great asset with leading market shares in a healthy fixed industry structure with 2 rational players and in a fast-growing dollar economy, not a bad deal. On Slide 11, we show you the important upside to penetration rates for Pay-TV and broadband Internet in Panama when compared to Chile, Costa Rica or other key countries in the region.

Before we wrap up and take your questions, let me give you a sense of how Cable Onda will accelerate our own ongoing and past transformation with some pro forma figures in the next slide. Slide 13 shows the impact on our KPIs. Our HFC homes passed will increase by about 8% and our number of connected homes by about 14%. Also, note Cable Onda's ARPU of \$54 and its 51% connection rate. When I personally look at how Cable Onda has grown over the years and where it is today, it actually gives me increased confidence in our long-term plans for cable in our home countries. As I said earlier, we'll quickly be the proxy for cable in Latin America.

Slide 14 shows how our service revenue mix will further move in the right direction with this acquisition. Cable is already 30% of our -- 36% of our revenue, and we will be at 40% with Cable Onda. The subscription-based revenues will increase to 60% of the total. So let's think about that for a minute. Almost 2/3 of our revenue will be coming from people and businesses that we have subscription and billing relationships with. This means much better revenue visibility and predictability.

And again, note that Millicom is no longer a prepaid legacy mobile voice business. Our legacy mobile voice business will now represent only 29% of revenue, and you already know that it's still growing a little bit. And finally, please note that the vast majority of our revenue will come from countries where the currencies is either U.S. dollars or pegged to the U.S. dollar or exhibits very low volatility, as many countries in [Central America].

And finally, on Slide 15, you can see the impact of Cable Onda on some of our financials. Cable Onda is an acquisition of good yet manageable size for us. It adds about 6% to 7% to our revenue and EBITDA. It also diversifies and enhances our growth while adding a manageable amount of additional leverage on to our balance sheet.

So to wrap it up on Slide 16. Cable Onda is a high-quality asset with a robust nationwide fiber cable network and a clear market leader position in Panama. Panama itself is a high-growth dollar economy with relatively low broadband and Pay-TV penetrations rate given its high GDP per capita. The industry structure in Panama for fixed is quite healthy, and we are teaming up with the best possible local partner group to enter this market and derisk our entry into the same.

With that, we're ready for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Julio Arciniegas from RBC.

Julio Arciniegas - RBC Capital Markets, LLC, Research Division - Analyst

So looking at Slide 13, it looks like the connection rate is quite high. So I was wondering, can you give us some color for what are the drivers that basically you could see in Cable Onda? I don't know, looking at this rate of connections that is high, would it be more challenging actually to increase market share? And my second question is also relating to the competitive dynamic in the market. Can you give us some color on what are the other players in fixed doing in terms of investment? Are they investing in fiber, for example?



Mauricio Ramos Borrero - *Millicom International Cellular S.A. - CEO*

Yes. So listen, in terms of the -- why the penetration rates on the network, which I think is what you mean by connection rates, which basically means 50% of customers over the HFC network. The reason for that is these guys know what they are doing. And one of the reasons we've liked this asset, and I'll be frank with you, I've liked this asset for a number of years, these are an investment group that I've known for the last 10, 15 years. Nico and I have co-chaired the Latin American Cable Association, and we've spoken often about the way to drive a good cable business. And they know, as we do, that it comes down to having the best quality network in the country. And that's what they've done. They've driven a 1 gigahertz, completely digital, 2-way, DOCSIS 3.0 network, and they've managed to basically be 1 step ahead always in terms of the competitive nature of the network. Network drives your competitive ability. They have invested heavily in that, and you've seen that in their financials. And they've done a pretty good work with basically providing good customer service and focusing on churn. When you're in cable, when you're in fixed, subscribers don't wake up in the morning to see how they churn away from you. If you give them great quality, great service and a great network, they stay with you. And like every good cable operator, Cable Onda came to the management presentations with churn on Slide #1. And that gives you the complete picture of why they reached this high penetration rates because they have the superior network, bar none, and a clear customer focus. So we're partnering up with them if you will, because we share the same philosophy towards cable, and you know that. That's basically what I've done in the assets that I've managed so far. So that is why this asset is attractive, and that is why the connection rates are this high. Now this is an investment that, for us, is not [predicated] on higher connection rates, very clear on that. And when you're at 51%, you're doing pretty good. This is an investment that is predicated on further penetrating the market, which is the difference. It's not more connections on the network, it's basically adding on the penetration gain. And that is basically what this asset investment is about. It's about the low penetration rates that are part of the Panama structure today. So penetration rates for Pay-TV and broadband, we showed you, are relatively low, quite low when you compare them to countries that have similar high GDP per capita, like Costa Rica and Chile, and you could even throw Puerto Rico in there. So we see a significant upside potential in terms of penetrating broadband and penetrating Pay-TV in Panama on top of the B2B opportunity that I just mentioned. The last part of your question was about dynamics. I think I've already alluded a little bit to the superiority of the Cable Onda network. But I've also mentioned on my prepared remarks that it is noteworthy that the fixed industry, which is the one that's relevant here for this transaction, is a 2-player market. It's a 2-player market that has basically 2 distinguishing factors: one, a competitor that I know very well; and two, therefore, I know their playbook. And most importantly, it's a very rational, industry-savvy competitor. So you have an industry structure that is basically 2 rational players. They know each other very well. And quite frankly, they're both savvy, financially-oriented investors. It's a healthy industry structure for consumers and for investors.

Operator

And moving on, our next question is from Cesar Medina from Morgan Stanley.

Cesar Alejandro Medina - *Morgan Stanley, Research Division - Equity Strategist*

Congratulations on the transaction. I wanted to probe a little bit on the comment that you made at the beginning of the presentation suggesting that M&A, in general, is a new tool on your tool belt. Does that mean that we should expect a difference in the way that you allocate capital going forward between organic and strategic? That will be my question.

Mauricio Ramos Borrero - *Millicom International Cellular S.A. - CEO*

Thank you for that because it actually helps me clarify what that comment was about. That was a backward-looking comment, meaning it was in reference to this transaction. And there's 2 parts to your question that I think I'd like to address. The most important point here is this transaction is not taking away a single dollar from our investment in our organic growth. I was very clear that we would only consider M&A, as we have considered M&A in this circumstance, once we have funded for every single dollar of our organic growth opportunity. I have said it often, but your question allows me to repeat it yet again. We could not spend a single dollar more in building network, both 4G or cable network. We are spending every single dollar that the teams can spend on a yearly basis. The constraint there is not divesting capital away from organic growth or our ability to fund that organic growth, it's simply the ability to build network at a faster rate. Over the last 3 years, just to remind you, we've built over 3 million



homes. We're building 1 million homes on cable a year. That's as fast a build as I can remember, it's certainly the highest growth that I can remember in these countries in this region. And we've built a 4G network from 0% to 60%-plus population coverage. So point number one is not a penny is going into inorganic that would take away from our organic growth opportunity. And number two, equally important, this is a meaningful transaction for us. This is a meaningful transaction that has clear strategic rationale, and I'll speak to that again. But for now, we're focused on integrating this tremendous asset. This is a fantastic asset. And for us, the priority is to great -- integrate with it really, really well. We're focused on making this acquisition continue to grow as nicely as it has up until this point. And note that this is actually a fairly unique situation for us to be in. We're buying an asset that has great strategic fit, at a great valuation, but we're also adding great partners to our names. I've known them really, really well, and they're keen to help us integrate well with the asset. This is unique, and we were keen to help us have their help to do this. We also have a great local management team in Panama, and we know them well. I know them individually quite well for a number of years. We have the ability to execute a very smooth transition. And note as well that the time between signing and closing is unusually short. It's only going to be a few months, which helps reduce risk and minimize possible disruption. We have this unique opportunity to have bought a really good asset and integrate it really, really well. But we're not thinking anything other than making this [transaction] work really, really well for us. So my comment was not meant [to be] anything more than that.

Timothy Lincoln Pennington - *Millicom International Cellular S.A. - Senior EVP & CFO*

If I could add, Mauricio. It's Tim here. Just I don't necessarily view this as a departure from what we've been doing. We've been talking about capital allocation, and we have been investing inorganically in cable build -- cable acquisitions. It's just been the scale has been lower. I mean, we did one in the second quarter where we acquired a business in Guatemala. Clearly, the scale is a lot bigger here. And -- but the reason for it is, is it sort of fills that geographic gap that we've got in our portfolio. This gives us contiguous kind of operations from Guatemala in the north through to Colombia now. And that's why, if you like, we decided this was the time to move on with this particular acquisition. But it falls very much in the same framework as the one Mauricio outlined and the ones we've been following basically since we started this.

Operator

Moving on, we have a question from Kevin Roe from Roe Equity Research.

Kevin Michael Roe - *Roe Equity Research, LLC - Senior Analyst of Telecommunications Services, Cable and Satellite & President*

Mauricio, can you talk a bit about the sale process? Was there a competitive bidding? And maybe for both Mauricio and Tim, it looks like there's significant free cash flow leverage opportunities here. You mentioned some of the big buckets of synergies, maybe some CapEx intensity opportunities. If you could just sort of walk us through how you see free cash flow leverage post the costs to integrate.

Mauricio Ramos Borrero - *Millicom International Cellular S.A. - CEO*

Yes. So I'll talk a little bit about the process and start on the synergies and hand it over to Tim to wrap it up. As with any sale process, we think we have really good intel, but we can't be certain that we have really good intel. But what we can tell you, and some of it were actually rumors that were fairly public about strategics being interested in the asset, and those are natural and obvious. We also saw in the process, based on our intel and what we saw on the ground, a number of financial players interested in the asset. And we were not surprised to see both strategics and financials somewhat interested in the asset. And the number of interested parties was not a surprise to us because, as I said earlier, this is a high-quality asset but not just us but others have coveted, if you will, for a period of time. With regards to the synergies and the free cash flow leverage, I'll make the point that we've given you a clean multiple. We think the valuation and the purchase price that we've been able to negotiate stands on its own merits, and it's, quite frankly, quite attractive to us. But there are synergies, as I alluded before, and those come from programming, international bandwidth, procurement and cost reduction on everything that has to do with network operations, operations themselves and the cost to build. And we'll attain those over time. So we do have scale in Latin America, and as a result of that, we do have synergies even on a country that is new to our portfolio. And on top of that, I've made the point about the B2B element to this. B2B for Cable Onda is quite significant, and it does help us complement our B2B portfolio for our clients in all the other countries as well as offer further [opportunities] for Cable Onda's B2B customers in



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Panama. So that further helps our case, both in terms of synergies and possible cost reductions. This is a well-run business, but it has been a [small] business, so we see opportunity on that front as well. Tim, anything you want to add to that?

Timothy Lincoln Pennington - *Millicom International Cellular S.A. - Senior EVP & CFO*

Yes. I think I would sort of go back to some of the points you've made earlier. When we look at the leverage of this business, I mean, clearly, we've been managing the leverage in the business down over the last couple of years, and we've been very focused on cash flow and cash generation. I think in kind of stretching for this, we've been mindful of the fact that what we're buying is basically a dollarized cable cash flow. It is very stable. It is growing. It's growing very comfortably, very well over the last couple of years, and kind of we can see that it will continue to grow. It will enhance the Millicom sort of growth story. I think if you look at -- we expect Cable Onda to do just under \$100 million of EBITDA minus CapEx in 2019. And when we look at the existing Millicom business, we've guided that CapEx should be around about the same level as last year coming off of this year. So we're not expecting big changes in our CapEx outlook as we go forward. And I think, we understand Cable Onda's CapEx requirements. So if you like, it's a deal that has allowed us to take the leverage up to 2.5x. We can see, through cash flow and/or inorganic disposals, we'll bring that down over time back around to the 2x. And kind of on this basis, the rating agencies have both reaffirmed the BB+ rating that we have. So I think it's a well, well-prepared deal for us and fits the business very well.

Kevin Michael Roe - *Roe Equity Research, LLC - Senior Analyst of Telecommunications Services, Cable and Satellite & President*

That's helpful. And just a quick follow-up question.

Mauricio Ramos Borrero - *Millicom International Cellular S.A. - CEO*

I think, Kevin, you -- Kevin, just one note. I mean, you will see this just from the information we've given you. But once you take a further understanding of the asset, and I alluded to this, this is an asset that has been really well invested in, in terms of the network. So we're buying an asset that has been given proper attention to CapEx and network. That's been important. We're not going in to find an under-invested asset, quite the opposite. It's really well run in terms of CapEx.

Kevin Michael Roe - *Roe Equity Research, LLC - Senior Analyst of Telecommunications Services, Cable and Satellite & President*

Understood. And just a quick follow-up, Mauricio. Do you see mobile opportunity in Panama layered on top of this asset, either MVNO or network-based?

Mauricio Ramos Borrero - *Millicom International Cellular S.A. - CEO*

Listen, everybody knows that Panama is a 4-play market, and that lends itself to those kind of opportunities. But we have to kind of take a pause here and as I said earlier, really focus on integrating this asset really, really well. And we have the opportunity to do that in a quite big manner, as I said earlier. So whereas the opportunity is there, really, we're focused on integrating this fantastic asset, and we have the unique opportunity to do that for the reasons that I also mentioned. But remember, this is cable. You know this very well, Kevin. When you buy into cable, you pick your timing on mobile. You're just standing in the strongest position possible with the best customer base, the best network, and you can just pick your timing and the terms on which you're going to mobile.

Operator

Our next question is from Johanna Ahlqvist from SEB.



Johanna Ahlqvist - SEB, Research Division - Analyst

Just a few on the -- to get to the EPS impact, I guess, what we are missing is the financing part. So if you can give us, I guess it's for you, Tim, any sort of best guess on the interest rate, how much you will have on a local level, so to speak. And then, second question, just a detail on the churn that you present, 1.5%. Is that a monthly, quarterly or yearly figure? And then thirdly, if I may, you mentioned the sort of network quality, and you also touched a bit on CapEx. But on CapEx for this asset standalone, how do you foresee sort of CapEx needs going forward? Is it -- the level that they've had in 2018, is that sort of the best guess going forward as well? What do you expect?

Timothy Lincoln Pennington - Millicom International Cellular S.A. - Senior EVP & CFO

A quick one on the EPS impact then, Johanna, the -- I mean, we're going to fund this with new debt and existing cash resources. As you're aware, we've got quite high sort of cash balances at the moment, and we've been doing some sort of releveraging and restructuring of the balance sheet and plus a new bond which we sort of put out earlier this morning. So I would say it depends on markets and the mix of things, and so it'd be hard to give you a financing charge at this point. It should become clearer over the next, I guess, few days or a week or so.

Johanna Ahlqvist - SEB, Research Division - Analyst

Well, fair enough. And then on the churn and the CapEx?

Mauricio Ramos Borrero - Millicom International Cellular S.A. - CEO

So listen, the churn for this asset is best in class for the region, and I say that having been acquainted with the churn of just about every cable operator in the region. So those monthly rates are best in class for Latin America. And as I said earlier, that's connected to the quality of the network and the focus on the consumer and the product that gets offered. On the network, I said earlier that it's been a business that has had significant amount of investment in the network. As they grow the network to make it nationwide, as they upgraded to 1 gigahertz, 2-way and DOCSIS 3.0. But you shouldn't expect, precisely because of that, because it's been highly invested in and we're buying that historical investment, that those high network investment-to-sales ratios, which are north of 25% historically, will remain at those levels. Going forward, you should expect a cable-like steady CapEx-to-sales ratio, which would be in the around 17% kind of ratio, 15% to 17% long-term. And when you do that math, you see that this asset has an operating cash flow that's pretty, pretty significant. With EBITDA margins north of 40% and CapEx to sales ratio as I've just described, you're looking at a pretty meaningful operating cash flow margin, which is part of the reason why we highlighted the operating cash flow EBITDA minus CapEx multiple to you, because that's part of the acquisition rationale here and I wanted to highlight that for you.

Johanna Ahlqvist - SEB, Research Division - Analyst

Okay. And just the -- so the churn question was basically, if it's sort of monthly, quarterly or yearly figure, the 1.5%. So just so I get the picture right.

Mauricio Ramos Borrero - Millicom International Cellular S.A. - CEO

Yes, those are monthly. I think I said that [in the business MDA].

Operator

We'll take our next question from Sergey Dluzhevskiy from GAMCO Investors.



Sergey Dluzhevskiy - *GAMCO Investors, Inc. - Associate Portfolio Manager*

Mauricio, could you talk a little bit maybe about what Millicom as a larger organization could bring to Panama's market? [Mauricio] said it -- obviously, you said that the investment group, Mauricio has done a good job already, and we see it in the figures. What are some of the things that you think you can bring to the market? Obviously, you're going to continue to grow the asset. But what are some of the things maybe from other markets -- maybe best practices from other markets that you could bring to Panama? And my second question is -- I understand that, obviously, integration of this asset is going to be the primary focus in the near term. But maybe if you could talk a little bit about your M&A philosophy longer term. What are your priorities now that you have a more complete footprint in Central America, a more contiguous footprint? What are some of the priorities longer term?

Mauricio Ramos Borrero - *Millicom International Cellular S.A. - CEO*

Yes, sure. Listen, what we bring to -- in financial terms to this asset -- I won't speak about what we bring obviously to the employee base and to the Panamanian consumer because I don't take your question to be in that regard, but obviously, in that front, we do bring a lot of things to both of those stakeholders. In terms of the investor base and what we bring to the asset, we basically bring quite a bit of scale that would be levered to help us get access to better programming and better programming rates. We're just the large cable operator in the region. The same is true with regards to international bandwidth and access to international bandwidth. But we will [also] be able to connect the Panama fixed network infrastructure, and I'm not talking about the residential base but I'm actually talking that fixed network infrastructure that is nationwide, with a pretty meaningful fixed network infrastructure, our fiber in the rest of Central America. So we will be creating a [terrestrial network] all throughout Central America by connecting our existing terrestrial network with that of Panama. And as a result of that, we will have a very robust, resilient network -- terrestrial fiber network all throughout Central America. So it is not just international bandwidth. And that, as I said, will be a key meaningful differentiating factor for our B2B business. We also bring procurement scale. Panama will be 5%, 7% of our revenue. But we have, over the last 3 years, streamlined our procurement team, and Panama itself will benefit from the ability to tap into a procurement team, that is cable, CPEs, prices, but also delivery times for our procurement. We also have a regional DTH platform. And Cable Onda has a DTH platform that we will be able to integrate into our own. Again, that's access to satellite capacity, but it's also access to better pricing and simply the benefit of being joined and integrated with ours. And in addition to that, we think we bring know-how in operations and know-how in network maintenance, since we're a cable operator throughout the region, that will help streamline the operations. But the reverse is also true, and this is quite unique. There is a significant team there in Cable Onda that Nico has put together that we know quite well, and we think those individuals will help us, given that they've created a great asset in a market that's more advanced than some of the markets we operate in, help us also with knowledge that we can take into the rest of our operations. So if you will, the synergies go the other way as well given that they've been very, very, very focused cable operators. In terms of the buckets and kind of our general view, one super key comment, and I believe we reiterated this, we're focused on how to remain an organic growth story. I cannot reiterate that [enough]. We will continue to devote dollars first to funding our cable growth, our build everywhere else and our 4G and sales and marketing growth because we continue to tap strongly into cable net adds and 4G net adds. We've articulated the buckets to you before. We basically said to you, bucket #1 is the minorities. Bucket #2 is the market consolidation where there are synergies. Bucket #3 is effectively new markets where we see tremendous upside potential in a business product that is growing, like the business product that we want to drive further into our business model, like cable. And bucket 4, we don't speak about because, like a good Harry Potter character, it's just not worth speaking about it because it's transformational. Now as I've said many, many times, that's the buckets, and those buckets are very organized and very methodic. But there is a timing element to the buckets. We don't control the timing of the buckets and opportunities such as this don't come about every year. They come around maybe 5 years, maybe 10 years. And our minorities are not available today, so hence, the strategic rationale for this transaction now. It's an opportunity that fits squarely within our strategy, and it fits squarely within our strategy now. And perhaps it's kind of a good question for us to reiterate how this really fits into our strategic bucket, if you will. And if you think about what underlies those buckets and the strategic direction that we're moving towards and you look at what we've done with this transaction, we're basically adding more cable. That's right down what we're strategically out to do. We're adding more growth, and you've seen us recuperate growth and be focused on adding growth. This [asset fits] there. We're adding more dollars to our mix. We're adding more subscription business to our mix, all of the things we like and we want to do. We're adding a healthy 2-player fixed market with a rational competitor. That's also very, very good. We're buying a highly invested -- CapEx highly invested company with a great network, which is exactly what we do. We're driving synergies, which helps us be focused on our inorganic growth strategy, if you will. And we're adding B2B upside. There is a very, very meaningful, strong strategic rationale which is very aligned with the buckets, as I've said a number of times. Hope that helps you, Sergey. That's the entire full monty.



Operator

We'll move on to Stefan Gauffin from DNB Bank.

Stefan Gauffin - *DNB Markets, Research Division - Analyst*

Yes. Just some clarification on the growth profile of Cable Onda. So on your existing cable operation, it's much about increasing number of homes passed and then try to fill the network in terms of homes connected. So first of all, can you give an estimate on where you would like to take number of homes passed from the current 700,000? And then, obviously, it's pretty hard to increase the penetration of the homes, but -- yes. So in order to sustain this level of growth, so just what type of number of homes are you targeting in the market?

Mauricio Ramos Borrero - *Millicom International Cellular S.A. - CEO*

Yes. So a couple of questions -- a couple of sort of comments there. Panama is a growing economy. Let's start there. It's a growing economy with meaningful household formation historically and going forward and a high GDP growth that is continuously bringing middle class into its consumer market. That's the starting point. And if you add to that the low penetration levels that fixed broadband and Pay-TV have, you see the meaningful upside for growth in terms of increasing simply the penetration of the industry there. And the network that Cable Onda has built, although I call it nationwide, hasn't fully built out the new homes to be generated by household formation and the growing middle class nor every aspect of the Panama region. So there is some upside there. But as more and more consumers come online, then this will be a penetration story with -- on the back of low industry penetrations. That's how you should think of this going forward. And I think the only thing that I'm shying away is giving you very specific growth prospects per country because we don't do that for any of our countries. We have, however, and you've seen that, attempted to give you a view on how we think this asset will grow into 2019.

Timothy Lincoln Pennington - *Millicom International Cellular S.A. - Senior EVP & CFO*

Yes. And just to supplement and just to be clear, Stefan, if you look at Slide 7 in our deck, the total customers are 500,000 there. It does include B2B customers and also, to a lesser extent, DTH customers, just so you can reconcile that. But we can take some of those questions further offline if you'd like.

Operator

Our next question will come from Lena Osterberg from Carnegie.

Lena Osterberg - *Carnegie Investment Bank AB, Research Division - Head of Research of Sweden, Head of Technology Hardware & Equipment and Financial Analyst*

I was just wondering if you could say something about your preference going forward in terms of deleveraging versus dividends. You've been flat on your dividends for several years now. And maybe I was the only one expecting a raise, but I don't think so. So I'm just wondering if we should expect continued flat dividends or you see that, as this business is also strongly cash generative, that you can go ahead and start to increase the dividends in line with your growing cash flows.

Mauricio Ramos Borrero - *Millicom International Cellular S.A. - CEO*

Yes. So on the question around deleveraging here, and I think it's a very good [point] you do highlight, we do have growing cash flows. We are rebalancing our portfolio out of Africa, and we have delevering coming not only from Cable Onda's EBITDA growth but from our own expected growth. Now I don't think this transaction changes our stated leverage policy one bit. We've basically said that, that policy is to be at around 1 to

2x. And as you've seen, as we kind of ran it around 2x. We've also said that when you take it to the 2.5x range for strategic high-return opportunities, just exactly like this one is, and -- that those would be temporary in nature and that we would expect to go back to that 2x level pretty quickly. And I think this is exactly what this transaction looks like. We do expect it to delever us quickly. Our EBITDA, as I said, is expected to grow quickly. The Cable Onda EBITDA is also delevering, and we're allocating out of Africa continuously. So that will all help us bring us back down to right around that 2x. And then once we've accomplished that, we'll be able to figure out what the right shareholder return policy is for us going forward.

Lena Osterberg - *Carnegie Investment Bank AB, Research Division - Head of Research of Sweden, Head of Technology Hardware & Equipment and Financial Analyst*

Okay. So it sounds like I should interpret that you prefer the deleveraging down to 2x first before you raise dividend.

Mauricio Ramos Borrero - *Millicom International Cellular S.A. - CEO*

I think it's the natural cautious thing to do for us.

Operator

(Operator Instructions) Our next question today comes from Bill Miller from Hartwell.

William Christian Miller - *J.M. Hartwell L.P. - Principal and Portfolio Manager*

Great acquisition. If you looked out 3 years, what would you think that the overall -- you've talked about the synergies and all of that, and I think it sounds just marvelous. But if you looked out 3 years, what would you say the overall growth, organic plus this acquisition, would be, say, 3 years from now? Or after '19 and '20 and into '21, what kind of growth are we going to see?

Mauricio Ramos Borrero - *Millicom International Cellular S.A. - CEO*

Yes. Interestingly, Bill, I kind of answered that question almost 3 years ago when I first joined, and I set out there a cash flow profile for what I think Millicom can and will look like and is beginning to look like. And I'll make sure that I put that slide up there on the next earnings call just for the sake of what we said we were going to do and what we were doing. And what I said was that this company will look, and by the way, is beginning to look, like a company that has an operating cash flow that looks significantly like that of a fantastic high-return cable company. And I went out there and said the operating cash flow, EBITDA minus cash flow profile for this company was going to be north of 20%. We're already there on the Latin American basis. Cable Onda helps us get there even further, and it helps us grow our EBITDA with new operating cash flow margins. Our cash flow margins -- operating cash flow margins are already north of 20%, and Cable Onda helps us get increasingly there. So our view from a financial cash flow profile for Millicom is exactly that. It's one of a cable-like operating cash flow growth, operating cash flow margin company that is, on the margin basis, north of 20%, getting closer to 25%, with high growth on the operating cash flow. And then I think I used the words earlier. What we are doing, and this transaction helps us get there, is we're quickly creating what I deem to be the proxy for cable in Latin America. And this transaction is strategically exactly doing that for us.

William Christian Miller - *J.M. Hartwell L.P. - Principal and Portfolio Manager*

That's -- I mean, that's wonderful. But can you put any numbers? Because you've obviously enhanced the quality of your earnings. You've enhanced the profile of your business. And does that make you look out 3 years -- not from when you started, which is obviously wonderful, but 3 years from now, what will it look like, 20%? I don't know -- what -- you're obviously improving the company.



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Timothy Lincoln Pennington - *Millicom International Cellular S.A. - Senior EVP & CFO*

Well, Bill, I mean, we're not in a position to sort of upgrade our guidance on this call. On our Q2 call, we pointed out that our existing business is running at a level that is putting us at the top end of our service revenue guidance. And if you just look at the business that we bought, it's got premium GDP growth, it's got one of the highest GDP per capita. In terms of its penetration, it's underpenetrated. So yes, I mean, the reason we want to buy this business and now buying this business is because we think it will enhance the growth profile that we're already pretty excited about. But as for putting numbers on it on this call, Bill, I'm afraid that's beyond the scope.

William Christian Miller - *J.M. Hartwell L.P. - Principal and Portfolio Manager*

Well, it's wonderful, and I'm glad to hear it.

Mauricio Ramos Borrero - *Millicom International Cellular S.A. - CEO*

I was going to say ...

William Christian Miller - *J.M. Hartwell L.P. - Principal and Portfolio Manager*

Sorry, Mauricio. You cut out on my phone.

Mauricio Ramos Borrero - *Millicom International Cellular S.A. - CEO*

No, no, please go ahead, Bill. I interrupted.

William Christian Miller - *J.M. Hartwell L.P. - Principal and Portfolio Manager*

No, you just cut out. I didn't hear your past remarks, that's all.

Mauricio Ramos Borrero - *Millicom International Cellular S.A. - CEO*

I mean, I think it's a fantastic asset. It's a fantastic acquisition. It gives us growth. It gives us growth on revenue. It gives us growth on EBITDA. It gives us growth on operating cash flow. It enhances our margin, our EBITDA and our operating cash flow margins, and it adds a strategic platform for us. And we could not be more excited about this deal, to be honest with you. It is cable. It is Latin America. It gives us growth. It gives us dollars. It gives us more subscription. It's a healthy 2-player business. It's an asset that's been very well invested. It's got synergies for us. And we're getting it at a pretty darn good price. I could not repeat this more than this. It is a really, really strong acquisition that checks every box on the toolbox, just every box, on valuation, on strategic fit, on financial profile. We're buying into a great country with meaningful synergies, cable growth, dollars, subscription, a healthy 2-player market, a good network, synergies, B2B upsides, strong strategic rationale. We're getting control of the cash flows. It really checks every box. So I think what we're trying to say for everybody here who'll listen is we've acted really, really diligently here. That's the key point. It just checks every box: strategic, financial, cash flow expansion, growth, dollar economy and we're getting a really good price. And I really hope you guys appreciate that. There could have not been a deal that checked more boxes than this one.

Operator

Our next question comes from Mathieu Robilliard from Barclays.



Mathieu Robilliard - Barclays Bank PLC, Research Division - Research Analyst

Congratulations on the deal. I had a few questions, please. If we look at the state of the market, and you highlighted that penetration was extremely low, so late given the GDP per cap, I was wondering, is there any historical or competitive reason that explains that low penetration rate? Is it that some of the competing infrastructures maybe are not that attractive compared to other markets? So that was one question. Also, with regards to competition, is convergence with mobile something that is present or relevant in the market at all? And I had a third question on synergies. I just wanted to make sure I understood the numbers you gave for 2019, which obviously are an estimate. Does that include a little bit of synergies or not at all? And finally, if I may, in terms of the network of Cable Onda, do they have big difference in terms of their vendors, be it for the set-top boxes or other parts of the network, than you guys have on the -- on your remaining or other cable assets?

Mauricio Ramos Borrero - Millicom International Cellular S.A. - CEO

Yes. So I got kind of 4 questions there. So I'm going to try to go through them quickly. On penetration and why they are lower than countries with similar GDP per capita, the reason is time. The reason is just a catch-up that hasn't yet occurred in Panama. You have countries with much higher penetration rates, like Puerto Rico or Chile and to some extent, Costa Rica, but those are countries that have had, particularly Chile and Costa Rica, high GDP growths for much longer periods of time than Panama has had. It is now enjoying high GDP growth and as a result of that, a growing middle class, and it's catching up on the penetration game. So that's a key reason there. Number two, is convergence relevant? It isn't in Panama at this point in time. And this is the strongest, by far, fixed network in Panama, so it is quite clearly very well positioned. When and if the time for convergence happens -- and as I said earlier, we'll pick a time on that because we're in the strongest position with such a fixed network to undertake that. Convergence is a much easier thing to solve for when you are fixed and when you are mobile, so I'm pretty comfortable owning a cable asset with such a strong network in a country like Panama. 2019, we put a tiny little bit of synergies in there, but it's not a meaningful number at all. As I said on my prepared remarks, we expect that the -- attaining the full level of synergies will be something that will happen in the 2020, 2021 when we're able to go through all the buckets of the synergies. And in terms of network providers and vendor providers, as I said earlier, we've been working for a long time with Nico and his team and talking to lot of what the best thing to do is for a cable asset, and this goes back for me 10, 15 years. And yes, most of the vendors are very similar, and some of the network infrastructure, CPE decisions and next-generation TV decisions, we've taken in industry consultations. I'll give you one example. We launched our ONEtv, our next-generation TV set-top box in an alliance with TiVo, and so did Cable Onda a few months after. I hope that gives you a pretty good idea.

Operator

Unfortunately, that is all the time we have available for questions. At this time, I'll turn the call back to Michel Morin for closing remarks.

Michel Morin - Millicom International Cellular S.A. - VP of IR

Thanks, everyone. Thanks for participating. If you have any follow-up calls or questions, please feel free to reach out to us. Thank you.

Operator

And that does conclude our conference today. Thank you for your participation. You may now disconnect.



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