



# Q3 2017 INTERIM REPORT

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OCTOBER 17, 2017

# DISCLAIMER

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# TABLE OF CONTENT

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## SUMMARY

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### OPERATIONAL UPDATE

- Group footprint expansion
- Com Hem Segment
- Boxer Segment
- TV market overview

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### FINANCIAL PERFORMANCE

- Group financial performance
- Com Hem Segment
- Boxer Segment
- Com Hem Group P&L
- Group cash flow and capital structure

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## SUMMARY AND OUTLOOK

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# SUMMARY

## SUMMARY OF Q3 2017

- Strong growth in revenue (36.0%) and underlying EBITDA (18.8%) with Boxer consolidated. Organic revenue increased by 3.6% and organic underlying EBITDA by 5.3%
- The Group added 100,000 addressable households in the quarter, reaching a total of 2.7m households which represents a 35% footprint expansion since before the expansion program and Boxer acquisition
- Multi-year record volume growth in the Com Hem Segment
  - Unique consumer subscribers rose by 11,000 to a record high 972,000
  - Added 12,000 broadband RGUs in the Com Hem Segment to a record high 736,000 RGUs
  - Strong growth in digital TV RGU's, up 6,000 to 651,000, with a continued growth of 4,000 TiVo customers (penetration rate of 40%)
- Boxer added 5,000 broadband RGUs, churn dropped by 0.6 percentage points to 14.4%. As expected declines in unique customers and total RGUs continued, down 9,000 and 6,000, respectively, in-line with Q2 2017

## SHAREHOLDER REMUNERATION

- Total shareholder remuneration of 600m in Q3 while maintaining net debt to underlying EBITDA stable at 3.7x
- Repurchased 2.1m shares for SEK 241m in Q3, representing 1.1% of the total number of outstanding shares as of September 30
- Currently repurchasing shares for some SEK 70m per month which, along with the cash dividend, could result in total shareholder remuneration of more than SEK 1.5bn in 2017, representing a total yield of 7.7% at October 16 close price
- The Board intends to propose a 50% increase in the cash dividend from SEK 4.00 per share to SEK 6.00 per share in 2018. Alongside the cash dividend we intend to continue to do buybacks of some SEK 40m-50m per month in 2018

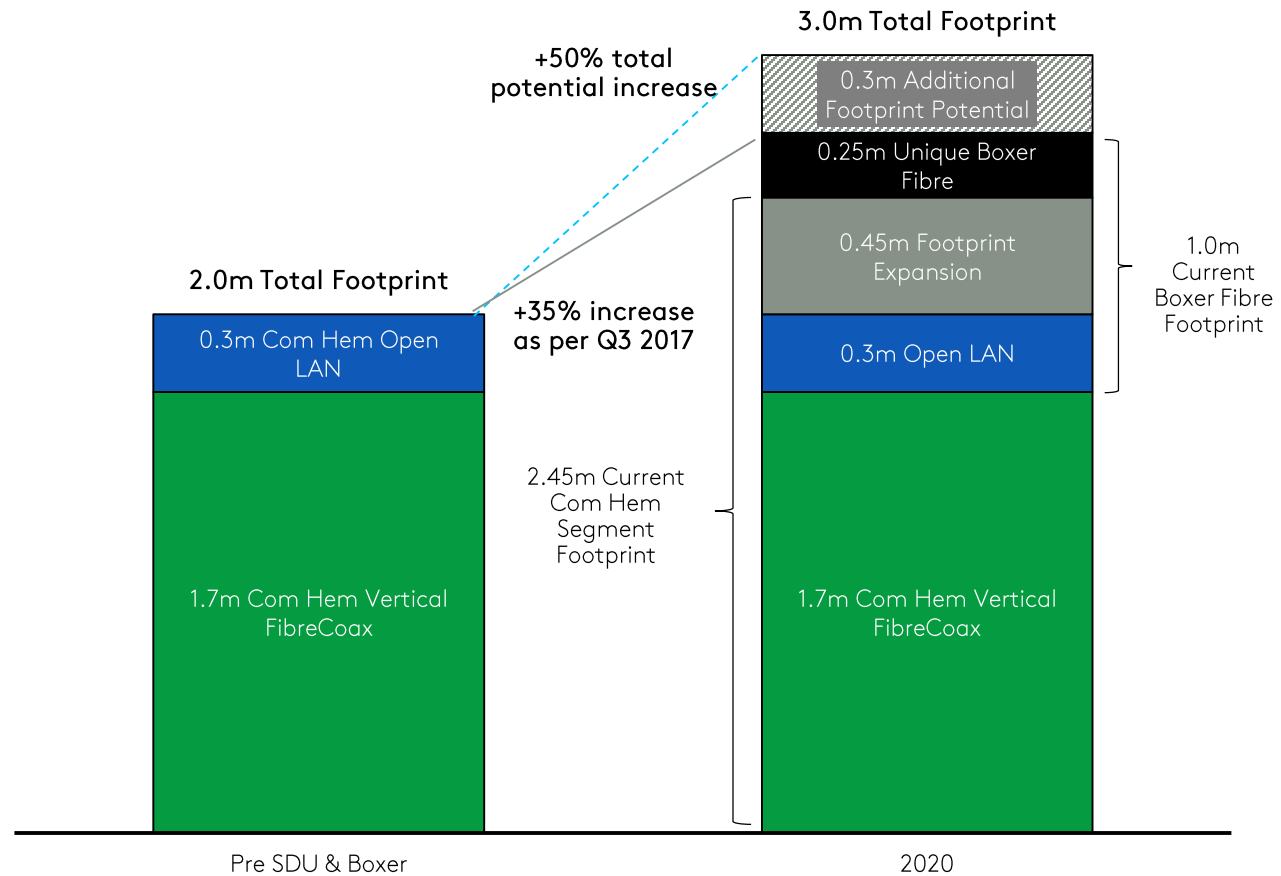


# OPERATIONAL UPDATE

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# NOW REACHING 2.7M ADDRESSABLE HOUSEHOLDS

THE COM HEM GROUP AIMS TO REACH OVER 3.0 MILLION HOUSEHOLDS BY 2020



## MAKING PROGRES TOWARD THE 3.0M TARGET

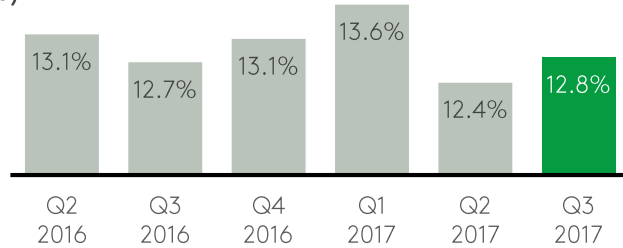
- The Group added some 100,000 addressable households in the quarter, reaching a total of 2.7m households
- Boxer’s fibre footprint now at 1,000,000 addressable households including roughly 250,000 which do not overlap with the Com Hem Segment
- Network build trials are under way and fibre has been deployed in selected areas during the quarter
- Given the potential change in regulation, we need more time to further evaluate whether it is more beneficial to increase focus on our capex light approach of connecting to third party infrastructure, rather than scaling up new build beyond the trial areas
- We are cautiously optimistic that potential changes in the regulatory environment next year could improve both the scope and the economics of the expansion
- We remain confident that we can reach our target of at least 3.0m households by 2020, which constitutes an increase of 50% from before the SDU expansion and the Boxer acquisition

\* Numbers refer to “Addressable Households” which are defined as households connected to our FibreCoax and FibreLAN networks, or third party open networks, or passed by fibre in networks unbundled by the Group.

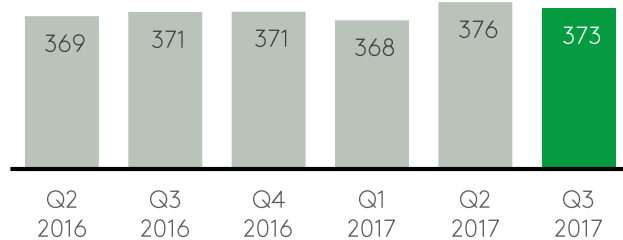
# OPERATIONAL HIGHLIGHTS

## COM HEM SEGMENT – MULTI-YEAR RECORD VOLUME GROWTH

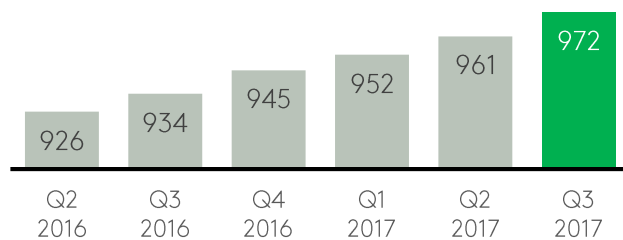
Consumer churn (%)



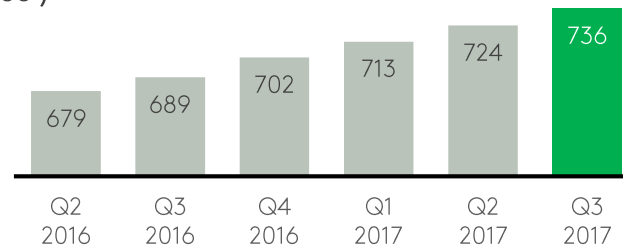
Consumer ARPU (SEK)



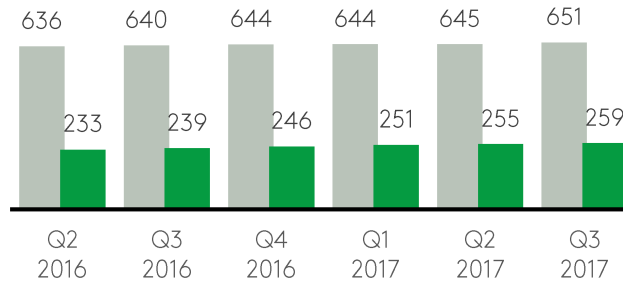
Unique consumer subscribers (000')



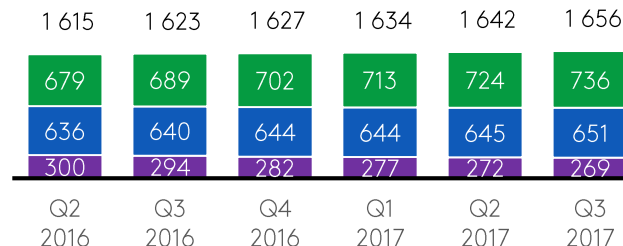
Broadband RGUs (000')



Digital TV and TiVo RGUs (000')



RGUs (000')



■ Fixed telephony ■ Digital TV ■ Broadband

### HIGHEST VOLUME GROWTH IN SEVERAL YEARS

- Unique consumer subscribers grew by 11,000 during the quarter to a record high 972,000
- Total RGUs increased by 14,000 for the quarter to 1,656,000
- Continued strong growth in broadband RGUs, up 12,000 to record high 736,000 RGUs
- Average broadband speed of 140 Mbit/s in the existing customer base
- Digital TV RGUs saw strong growth with 6,000 RGUs added in the quarter, now totaling 651,000
- We added 4,000 TiVo subscribers in the quarter, reaching 40% penetration of the DTV base
- Telephony RGU declined by 3,000, lower than previous periods

### CONSUMER ARPU AND CHURN

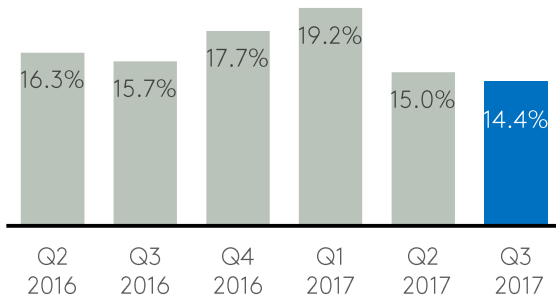
- Consumer ARPU declined by SEK 3 due to high volume intake with introductory discounts
  - TV ARPU dilution due to increased sales efforts of broadband services bundled with lower tier TV packages
- Broadband ARPU is increasing on the back of price adjustments and customer migration into higher speed tiers
- Consumer churn of 12.8% was 0.4 pp. higher than Q2 2017

# OPERATIONAL HIGHLIGHTS

## BOXER SEGMENT – CONTINUED PROGRESS ON BROADBAND SALES



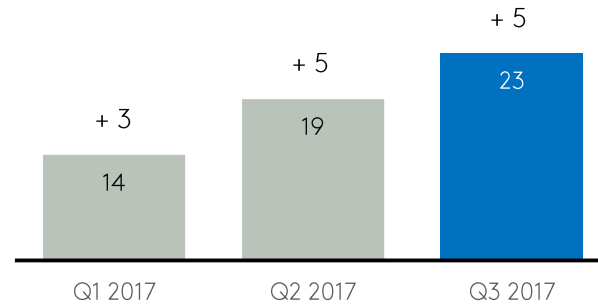
Consumer churn (%)



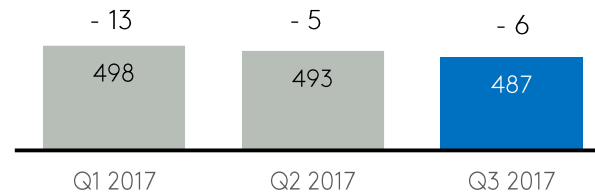
Consumer ARPU (SEK)



Broadband RGUs (000')



Total RGUs (000')



### FURTHER IMPROVEMENT IN BOXER KPIS

- Consumer churn for Boxer dropped by 0.6 percentage points sequentially to 14.4%
  - Expect temporary churn spike in Q4 due to migration of the 700 Mhz band as well as seasonal effects of both competitor fibre rollout and expiration of binding periods across the customer base
- Consumer ARPU remained at SEK 298
- Decline in unique consumers of -9,000, in-line with previous quarter
- Decline in total RGUs of -6,000, in-line with previous quarter
- Broadband sales increased with 5,000 broadband RGUs added in the quarter, in-line with previous quarter
- Boxer's fibre footprint is now at 1,000,000 addressable households including roughly 250,000 which do not overlap with the Com Hem Segment

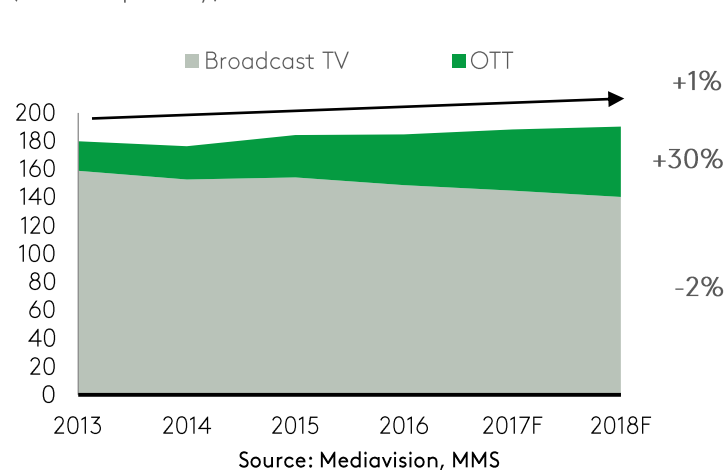
\* From Q1 consumer churn is calculated according to the same method as the Com Hem Segment



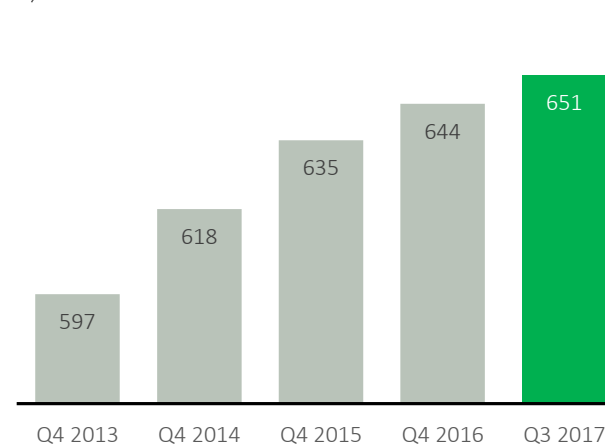
# SHIFTING DYNAMICS IN SWEDISH TV MARKET

## COM HEM CONTINUES TO GROW WHILST TV VIEWING BEHAVIOUR CHANGES

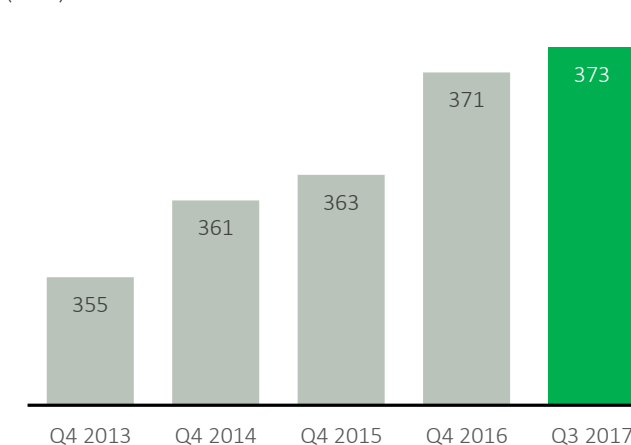
TV viewing in Sweden  
(Minutes per day)



Com Hem Segment DTV subscribers  
(000')



Com Hem Segment consumer ARPU  
(SEK)

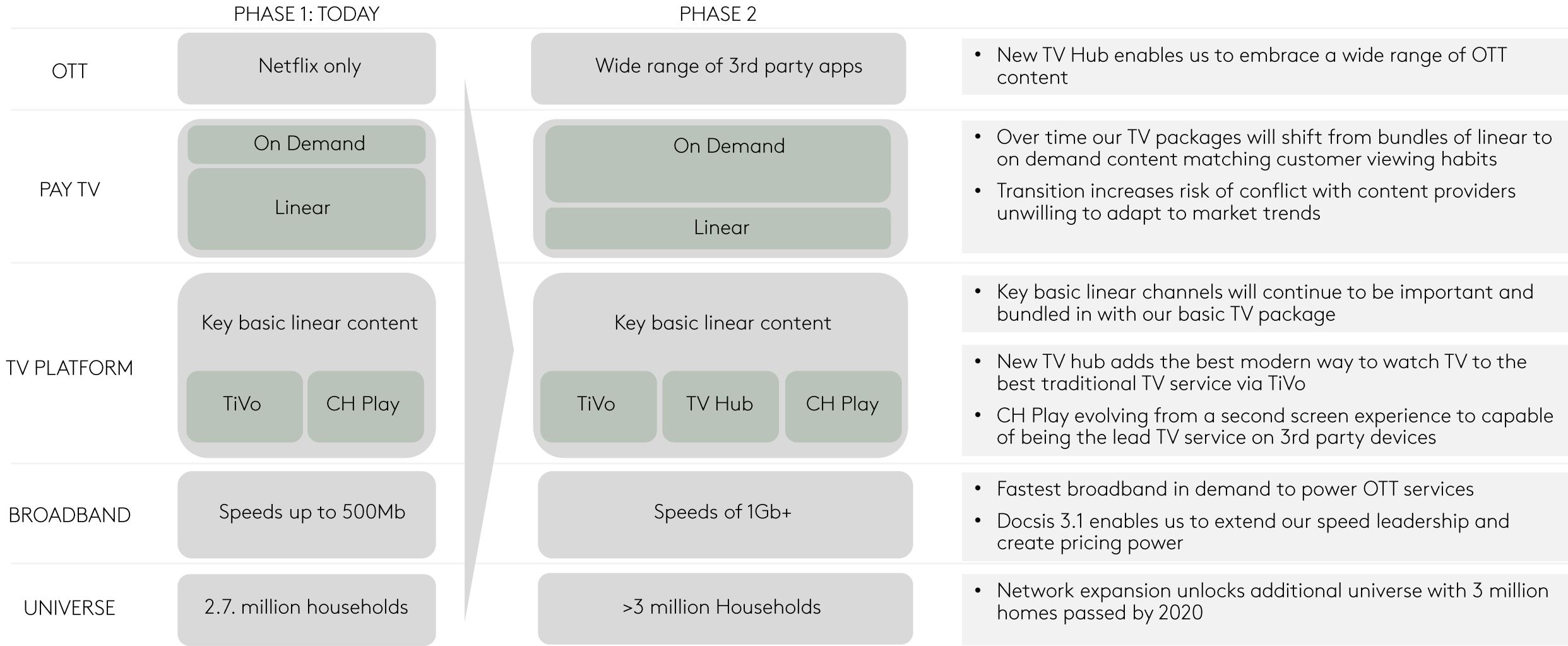


- TV viewing continues to grow in Sweden but the type of viewing is shifting from linear to on demand;
  - Linear viewing slowly declining by 2% per annum, reducing the value of live channels
  - VOD and usage of 3<sup>rd</sup> party streaming services has grown rapidly over time
  - 38% of customers already have an OTT subscription in Com Hem footprint\*

- Com Hem has embraced this shift in the market with TiVo, Com Hem Play and superfast broadband;
  - 40% of customers now have TiVo giving them access to broadcast TV, on demand and Netflix
  - Com Hem Play gives the majority of our customers access to on-demand and TV on the go (84% more content streamed via Com Hem Play in Q3 2017 vs Q3 2016)
  - New ways of consuming TV content increase demand for the fastest and highest quality broadband
- As a result Com Hem has been able to continue to grow digital TV subscribers and consumer ARPU

# COM HEM STRATEGY TO MAINTAIN BROADBAND AND TV LEADERSHIP

SWEDEN'S FASTEST BROADBAND COMBINED WITH A MODERN, ON DEMAND CENTRIC TV SERVICE



# TV STRATEGY ALREADY BEING IMPLEMENTED

NEW TV HUB WILL OFFER THE BEST MODERN WAY TO WATCH TV IN SWEDEN – COMING SOON



- Android based STB developed in partnership with Google and Technicolor
- Shifts our TV offering from a traditional, linear experience to a modern, on demand centric proposition;
  - Fast, modern interface merging linear, on demand and selected OTT Content
  - Access to the full TV app universe of Google Play
  - Content in 4K/HDR quality
  - Voice control simplifying search and navigation by using Google Assistant

PARAMOUNT+ LAUNCHED: HIGH QUALITY ON DEMAND CONTENT ADDED TO OUR GOLD PACKAGE



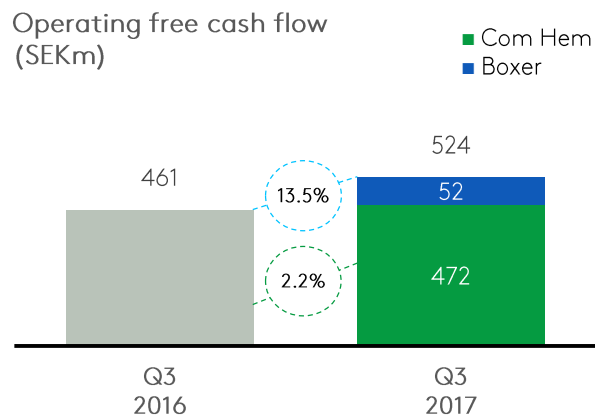
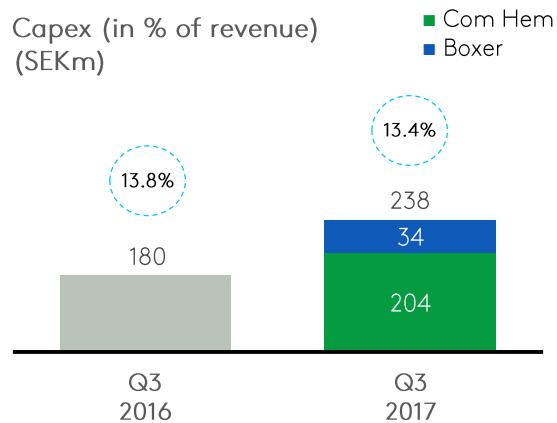
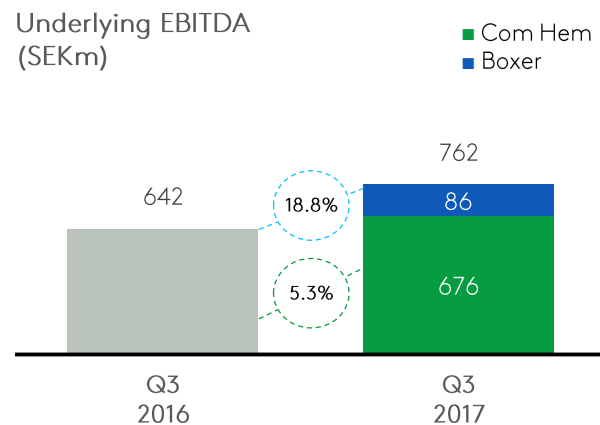
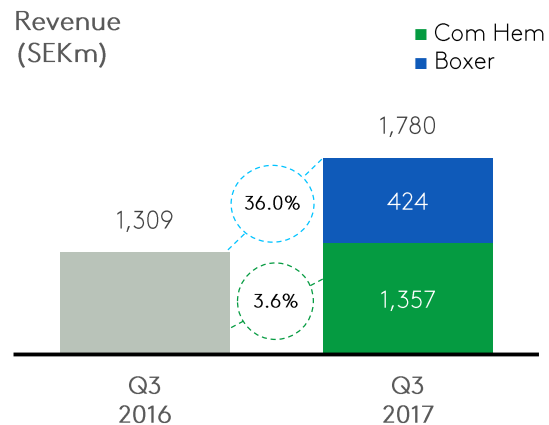
- Paramount+ is a new premium on demand service included at no extra cost in our Gold TV package
  - 10-15 first pay window movies from Paramount Pictures including Allied, XXX: The Return of Xander Cage and Jack Reacher: Never Go Back
  - 25 classic movies including The Godfather franchise
  - 800 episodes of MTV & Comedy Central series including Inside Amy Schumer, Broad City and South Park

# FINANCIAL PERFORMANCE

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# THIRD QUARTER FINANCIAL HIGHLIGHTS

## COM HEM GROUP



## OUTCOME Q3 2017

- Reported revenue for the Group grew by 36% to SEK 1,780m and underlying EBITDA grew by 19% to SEK 762m
- Organic revenue growth of 3.6% (4.0% first nine months) to SEK 1,357m for Com Hem Segment as a result of continued broadband and DTV volume and price growth
- Organic underlying EBITDA growth of 5.3% for the Com Hem Segment (5.4% first nine months)
- The increase in capex compared to Q3 2016 is due to Boxer being included in the Group, a low investment level during 2016 as well as increased focus on network investments and higher sales volumes in 2017
- OFCF growth of 13.5% to SEK 524m. However only modest 2.2% organic growth for Com Hem segment due to low investment level in comparable period

# STABLE OPEX RESULTS IN MARGIN EXPANSION

## COM HEM SEGMENT

(SEKm)	Q3 2017	Q3 2016	Change	9M 2017	9M 2016	Change
Consumer	1,078	1,031	4.5%	3,196	3,048	4.9%
Network operator	209	193	8.7%	618	575	7.4%
B2B	66	77	(15.1%)	210	238	(11.6%)
Other	4	8	(56.7%)	17	24	(28.2%)
<b>Total revenue</b>	<b>1,357</b>	<b>1,309</b>	<b>3.6%</b>	<b>4,042</b>	<b>3,885</b>	<b>4.0%</b>
Production costs	(414)	(389)	6.3%	(1,222)	(1,141)	7.1%
<b>Gross profit</b>	<b>943</b>	<b>920</b>	<b>2.5%</b>	<b>2,819</b>	<b>2,744</b>	<b>2.8%</b>
<i>Gross margin</i>	<i>69.5%</i>	<i>70.3%</i>		<i>69.8%</i>	<i>70.6%</i>	
Operating costs	(267)	(278)	(0.4%)	(897)	(892)	0.5%
<b>Underlying EBITDA</b>	<b>676</b>	<b>642</b>	<b>5.3%</b>	<b>1,953</b>	<b>1,852</b>	<b>5.4%</b>
<i>Underlying EBITDA margin</i>	<i>49.8%</i>	<i>49.0%</i>		<i>48.3%</i>	<i>47.7%</i>	
<b>Capex</b>						
Network related	(84)	(50)	69.9%	(269)	(176)	53.0%
CPEs and capitalized sales commissions	(74)	(79)	(6.0%)	(255)	(248)	3.0%
Product & IT development	(44)	(45)	(1.7%)	(158)	(146)	8.1%
Other capex	(1)	(7)	(79.7%)	(15)	(18)	(15.6%)
<b>Total capex</b>	<b>(204)</b>	<b>(180)</b>	<b>13.3%</b>	<b>(697)</b>	<b>(587)</b>	<b>18.6%</b>
<b>Operating free cash flow</b>	<b>472</b>	<b>461</b>	<b>2.2%</b>	<b>1,256</b>	<b>1,264</b>	<b>(0.7%)</b>

## OUTCOME Q3 2017

- 4.5% growth in consumer revenue driven by strong growth in broadband and DTV RGUs, improved broadband tier mix as well as price
- Increase in network operator revenue of 8.7% as a result of network expansion market (connection fees and communication operator revenue) fully offsetting decrease in landlord revenue caused by price pressure
- B2B revenue decline of SEK 11m caused by continued decline in lower margin OffNet legacy business not being fully offset against OnNet high margin revenue growth. OnNet revenue grew by 14.9% YoY and now represents 45% of B2B revenue
- Expansion in third party infrastructure puts slight pressure on gross margin, fully compensated by stable operating costs leading to improved underlying EBITDA margin of 49.8%
- Higher capex compared to Q3 2016 due to low investment level in comparable period, higher sales volumes, and increased focus on network related investments in 2017
- Network related investments includes new build trials in SDU market of SEK 9m in Q3 (SEK 22m first nine months out of expected total of up to SEK 50m in FY 2017)
- All time high OFCF of SEK 472m in the quarter, modest 2.2% YoY growth due to low investment level in comparable period

# ON TRACK TO DELIVER AT LEAST SEK 300M UNDERLYING EBITDA FY2017

## BOXER SEGMENT



(SEKm)	Q3 2017	Q2 2017	Change	9M 2017
Revenue	424	430	(1.5%)	1,290
Production costs	(267)	(275)	(2.9%)	(817)
Gross profit	156	155	0.9%	473
Gross margin	36.9%	36.0%		36.7%
Operating costs*	(70)	(73)	(20.5%)	(221)
Underlying EBITDA	86	82	5.4%	252
Underlying EBITDA margin	20.4%	19.2%		19.5%
<b>Capex</b>				
CPEs and sales costs	(21)	(34)	37.2%	(91)
Integration Boxer	(13)	(12)	(11.8%)	(31)
Total capex	(34)	(45)	24.5%	(122)
Operating free cash flow	52	37	40.8%	130

## OUTCOME Q3 2017

- Pressure on Boxer revenue and subscriber base continued, growth within fibre based services is not fully offsetting DTT revenue decline
- Temporarily lower costs resulted in higher underlying EBITDA of SEK 86m in Q3.
- Q4 underlying EBITDA will be negatively affected by costs associated to completing the migration from the 700 Mhz band
- Capex of SEK 34m in Q3 including SEK 13m relating to system integration (SEK 31m first nine months out of expected total of app. SEK 50m for FY 2017)
- Boxer is expected to add at least SEK 300m to the Com Hem Group's underlying EBITDA in 2017 and generate an operating free cash flow of approximately SEK 200m (excl. integration related capex)

\* Excluding items affecting comparability, write-downs and depreciation and amortization

# CONSOLIDATED PROFIT AND LOSS STATEMENT

## COM HEM GROUP

(MSEK)	Q3 2017	Q3 2016	Change	9M 2017	9M 2016	Change
Revenue	1,780	1,309	36.0%	5,331	3,885	37.2%
Production costs	(681)	(389)		(2,039)	(1,141)	
Gross profit	1,099	920	19.5%	3,292	2,744	20.0%
Gross margin	61.7%	70.3%		61.7%	70.6%	
Operating costs*	(337)	(278)		(1,088)	(892)	
Underlying EBITDA	762	642	18.8%	2,204	1,852	19.0%
Underlying EBITDA margin	42.8%	49.0%		41.3%	47.7%	
One-off items**	(15)	(13)		(43)	(34)	
EBITDA	747	629	18.8%	2,161	1,818	18.9%
Depreciation and amortization	(492)	(402)		(1,452)	(1,194)	
EBIT	255	227	12.2%	709	624	13.7%
Net financial expenses	(81)	(89)		(239)	(256)	
Taxes	(39)	(32)		(104)	(84)	
Net result for the period	136	106	27.7%	366	283	29.0%

## OUTCOME Q3 2017

- Revenue growth of 36% translating into EBITDA growth of 19% when consolidating Boxer's lower margin business
- Increase in depreciation and amortization when consolidating Boxer. Increase also explained by slightly higher customer acquisition and product & IT development in previous quarters. EBIT still growing by 12%
- Net financial expenses lowered by SEK 8m in spite of higher debt balance following Boxer acquisition
- No taxes paid in the quarter. Remaining tax losses of SEK 0.6bn at the end of the quarter
- Net result growing by 28%

\* Items affecting comparability, Operating currency loss/gains and write downs excluded from Operating costs



# CASH FLOW AND CAPITAL STRUCTURE

## COM HEM GROUP

(SEKm)	Q3 2017	Q3 2016	Change	9M 2017	9M 2016	Change
Underlying EBITDA	762	642	18.8%	2,204	1,852	19.0%
Capex	(238)	(180)	32.3%	(819)	(588)	39.4%
<b>Operating free cash flow</b>	<b>524</b>	<b>461</b>	<b>13.5%</b>	<b>1,385</b>	<b>1,264</b>	<b>9.6%</b>
Change in net working capital	162	2	n/m	(8)	(64)	(87.5%)
Taxes paid	-	-	n/a	(31)	-	n/a
Interest on Loans and Notes	(36)	(53)	(32.6%)	(181)	(108)	67.4%
<b>Equity free cash flow*</b>	<b>650</b>	<b>410</b>	<b>58.6%</b>	<b>1,165</b>	<b>1,092</b>	<b>6.7%</b>
<i>EFCF per share</i>	<i>3.6 SEK</i>	<i>2.2 SEK</i>	<i>66.7%</i>	<i>6.5 SEK</i>	<i>5.7 SEK</i>	<i>12.9%</i>
Dividend	(359)	-	n/a	(725)	(289)	150.6%
Share buy-backs	(249)	(288)	(13.4%)	(659)	(641)	2.8%
<b>Total shareholder remuneration</b>	<b>(608)</b>	<b>(288)</b>	<b>111.2%</b>	<b>(1,384)</b>	<b>(931)</b>	<b>48.8%</b>
Change in Loans and Notes	46	993	(95.4%)	288	880	(67.3%)
Repurchase of warrants	-	-	n/a	(94)	-	n/a
Other items	(19)	(1,388)	(98.6%)	(80)	(1,424)	(94.4%)
<b>Net cash generated/used</b>	<b>69</b>	<b>(273.2)</b>	<b>n/m</b>	<b>(105)</b>	<b>(382)</b>	<b>(72.5%)</b>
Cash balance EoP	364	361	0.9%	364	361	0.9%
Cash and unutilized bank facilities	1,464	2,161		1,464	2,161	
Net Debt	10,719	10,292		10,719	10,292	
Leverage (Net debt/Underlying EBITDA LTM)	3.7x	3.7x		3.7x	3.7x	

\* Underlying EBITDA less capex, interest, taxes and change in net working capital

## OUTCOME Q3 2017

- Underlying EBITDA growth of 19% partly offset by higher investments, leading to 14% growth in operating free cash flow
- Equity free cash flow (EFCF) growing by 59% for the quarter, explained by OFCF growth and positive change in net working capital
- EFCF per share of SEK 6.50 for the first nine months, up 14% year-on-year
- Second part of dividend (SEK 2.00 per share) was paid end of September
- Repurchased 1.1% of outstanding shares for SEK 241m in the quarter
- Total shareholder remuneration of SEK 1,384m in first nine months compared to SEK 931m in same period 2016 (up 49%)
- Leverage stable at 3.7x net debt/underlying EBITDA LTM, well within our target range of 3.5-4.0x
- Well capitalised with close to SEK 1.5bn in cash and unutilised credit facilities at the end of September

# SUMMARY AND OUTLOOK

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# ON TRACK TO DELIVER ON FULL YEAR FINANCIAL GUIDANCE

COM HEM GROUP

## GUIDANCE

### 1 UNDERLYING EBITDA ON TRACK TO DELIVER FULL YEAR GUIDANCE

- In 2017 we aim to deliver mid-single digit underlying EBITDA growth for the Com Hem Segment and Boxer is expected to add at least SEK 300m of underlying EBITDA to the Group

### 2 UPDATED CAPEX GUIDANCE FOR 2017

- We expect capex to be in the range of SEK 1,000-1,100m annually including Boxer. For 2017, we will also incur some SEK 50m in capex for system integration of Boxer and up to SEK 50m for new build trials

### 3 INTEREST EXPENSES STABLE AT LOW LEVELS

- Blended interest rate at 2.5% implies interest expense below SEK 300m for 2017

### 4 NO TAXES TO BE PAID UNTIL MID-2018

- Outstanding NOL approx. SEK 0.6bn per September 30, 2017

### ATTRACTIVE YIELD

Cash dividend of SEK 4.00/share and SEK 70m/month of buybacks would lead to total shareholder remuneration of over SEK 1.5bn, representing a total yield of 7.7% at October 16 close price

## OUTCOME 9M 2017

Underlying EBITDA grew by 5.4% to SEK 1,953m for the Com Hem Segment and Boxer delivered SEK 252m

Regular Group capex of SEK 766m in 9M17 plus additional SEK 31m for Boxer system integration and SEK 22m for new build trials

Blended interest rate at 2.5% in 9M17, down from 2.9% in same period last year following refinancing in 2016

SEK 34m paid for Boxer in 9M17 relating to 2016 profit

Total shareholder remuneration of 1,384m in 9M17 (SEK 725m cash dividend and SEK 659m in buybacks) while maintaining net debt to underlying EBITDA LTM stable at 3.7x

# LOOKING FORWARD

## OUTLOOK

- Build further customer satisfaction in the Com Hem Segment to grow volumes and increase pricing power
- Enhance our market leading TV-proposition with more on-demand content, integrate more OTT providers into our platform through Com Hem Play and our next generation box – the TV Hub
- DOCSIS 3.1 development under way with rollout expected within the next year to significantly increase speed and capacity
- Operational focus at Boxer to continue the positive momentum and increase broadband sales while decreasing DTT churn
- Evaluation of new build project while keeping an eye on the regulatory environment which could boost the footprint expansion scope and economics
- Continue progress toward the footprint expansion target of 3.0m addressable households
- Prepare the company to operate in a converged market
- The Board has resolved to initiate a further share buyback program for a total amount of up to SEK 300m until March 20, 2018
- The Board intends to propose a 50% increase in the cash dividend from SEK 4.00 per share to SEK 6.00 per share to be paid out semi-annually in March and September, 2018. Alongside the cash dividend we intend to continue to do buybacks of some SEK 40m-50m per month in 2018



COM HEM  
I VARJE VRÅ

Bredband med testvinnande räckvidd.  
199 kr/mån.

Beställ på [comhem.se](http://comhem.se) eller 90222

COM HEM  
STARKARE UPPLEVELSER

Det skickande testresultat Externs jämförde i november 2016 vid rulle, Wi-Fi Hub C1, med bredbandsbägaren och Telia bärbara rullare. Testet skedde om till rullare för bäst räckvidd jämfört med de andra testade rullarna. Testningen gör till rullare högst bredbandsnärhet över Wi-Fi. Engagemang gäller nya bredbandsunder 1,6 m 2014-2017. Bredband 200 Mbit/s mån. 12 månader. Jämför 200 Mbit/s. Priset enligt standard 199 kr och typiskt tillkommer 19 kr. 12 månaders betaltjänst. Totalt betalt 31 198 kr.

# Q&A

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