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TNET.BR - Q4 2018 Telenet Group Holding NV Earnings Call

EVENT DATE/TIME: FEBRUARY 14, 2019 / 12:30PM GMT

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to Full Year 2018 Telenet Group Holdings NV Earnings Release. (Operator Instructions) I must also advise you the meeting is being recorded today, on Thursday February 14, 2019. And your hosts today are Rob Goyens; John Porter and Erik Van Enden. Please go ahead.

Rob Goyens - *Telenet Group Holding NV - VP of Treasury, IR & Structured Finance*

Good afternoon, everyone, my name is Rob Goyens, Head of Treasury and Investor Relations at Telenet. I would like to welcome all of you to our Q4 earnings webcast and conference call. I hope you have been able to have a look at this morning's earnings release. The release and the presentation for this call can be found in the results section of our investor website. We'll start today with the presentation of the main strategic and operational highlights by John Porter, our CEO. Next, our CFO, Erik Van Enden, will guide you through our quarterly operational and financial results while also detailing our 2019 financial outlook. As a reminder, certain statements in this earnings presentation are forward-looking statements. These may include statements regarding the intent, belief or current expectations associated with the evolution of a number of variables that may influence the future growth of our business. For more details on these factors, we refer you to the safe harbor disclaimer at the beginning of our presentation. So John, the floor is yours.

John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

Thanks for that, Rob. Hi, everybody, it's John here. Let's first go through the key highlights of 2018. 2018 was yet another year where we successfully crossed a whole set of important milestones. First, we achieved our full year 2018 guidance on all metrics. We recorded broadly stable revenue growth and achieved a solid 8.4% increase in our rebased adjusted EBITDA. Our CapEx was slightly below 26% of revenue as 2018 represented the peak year in terms of investment. And we outperformed the top end of our adjusted free cash flow guidance. We already indicated at our Capital Markets Day in December that we were fully on track to tick all the boxes of our ambitious 2015 through '18 plan and I'm proud to confirm we did that effectively. Our rebased adjusted EBITDA CAGR over the 2015 to '18 period reached 6.2%, which is around the midpoint of what we guided for back in February 2016 during our previous capital markets day. As you can see, 2018 was the best-performing year of that 3-year cycle.

Beginning December last year, we extensively elaborated on the cornerstones of our strategy for the next 3 years, focusing on 4 pillars. one, to lead via superior connectivity and platforms; two, accelerate growth in the business market; three, leverage our strong brands and amazing customer experience; and four, transform to digital first underpinned by simplification. All of this should translate into sustainable, profitable growth over the ensuing period underpinned by an attractive shareholder remuneration policy.

As Erik will further explain when discussing our 2019 outlook, we are facing certain challenges and headwinds in 2019. 2019 will thus be a transition year as we explained during our Capital Markets Day. Both our top line and adjusted EBITDA performance in 2019 will be impacted by the loss of MEDIALAAN's MVNO contract and continued regulatory headwinds as well as having fully achieved the BASE related synergies by end 2018 and higher commercial costs to reignite and invest in growth for 2020 and 2021 and beyond. Excluding the lower contribution from our MVNO business, both our revenue and adjusted EBITDA performance would have been broadly stable in 2019 on a rebased basis. Our all-in-one converged WIGO bundles continue to be successful against a competitive market backdrop, reaching around 400,000 subscribers at the end of 2018. This represents an accelerated net inflow of almost 22,000 WIGO subscribers in the quarter on the back of our improved product lineup. Overall, our operational performance in the fourth quarter was again skewed by the migration of SFR customers in our Brussels footprint, resulting in sustained higher churn rates. We expect to see this trend improve in the course of Q1 2019 as sales have improved significantly, driven by the temporary Brussels promotion we launched in the beginning of November last year and as we reduce our installation backlog in the region.

Excluding the impact of the SFR customer migration, net subscriber trends slightly improved on our Telenet products in the fourth quarter thanks to the attractive fixed term end of year promotions. In mobile, we observed the same competitive intensity resulting in 8,500 net postpaid subscribers in the quarter, and reflecting a cleanup of 11,000 inactive pay-as-you-go SIMs as well. As I already mentioned at the end of last year, we are fully stepping up our commercial initiatives and you recently saw the first examples of that. We introduced a new Kong unlimited offer in early '19 and also launched a similar unlimited data proposition on the BASE brand. We also boosted mobile data allowances for our converged WIGO offers in December of last year. I'm pleased that our massive network investments are paying off and ensure the highest quality standard for which the Telenet brand is known. This was recently confirmed by Testing Corp's latest network quality survey. And regarding the possible delay of spectrum auction, there's no need to panic whatsoever as 5G investments are already ongoing and not linked to the auction. There are no 5G capable devices today. And the current telecom law allows for usage of temporary 5G spectrum. Decoupling of 2G, 3G, 4G auction and the 5G spectrum auction could be a possible solution.

In 2018, we further strengthened our leading position as a preferred provider of first class high-quality premium entertainment enabled by the most intuitive user interface ever. We enriched our portfolio thanks to our exclusive partnership with HBO, now including all top series and secured rights for the U.K. Premier League for another 3 years. With the upcoming launch of our brand-new set-top box, we are fully ready to harvest the next growth cycle. Our Play and Play More premium entertainment subscriber base showed accelerated growth in the quarter to over 434,000 RGU's, up 9% year-on-year. And lastly, we opened a second VR gaming venue, the Park in Kent, underpinning our strong ambition to innovate also in entertainment. Our company is in the full process of transforming to digital first based on 3 pillars. First, simplification in customer interaction; second, simplification of our IT; third, simplifying the way we work. This will lead to a 15% OpEx savings by 2021 in IT and residential customer operations. While we intend to reinvest part of the net savings into our business, it remains an important EBITDA growth lever going forward. Finally, we just launched this Tuesday our brand-new YUGO offer. With YUGO, Telenet is responding to the needs of millennials and digital-savvy people. The YUGO app aggregates all relevant content and is the starting point for a brand-new TV experience, including the possibility to cast onto the big screen with 1 click via Google Chromecast or Apple TV. Our YUGO product includes superior unlimited fixed connectivity and a mobile data allowance of 20 gigabytes to be distributed over 1 or 2 SIM cards. And with this I'll hand over to Erik for an update on our financial results and our 2019 and medium-term outlook.

Erik Van den Enden - *Telenet Group Holding NV - CFO*

Thanks, John, and welcome, everyone to our fourth quarter 2018 earnings call. Looking back at our financial performance, I'm particularly pleased that we managed to translate a broadly stable rebased top line into robust rebased adjusted EBITDA growth, and we were able to deliver on all metrics of our 2018 financial outlook. As you know, 2018 was the last year of our current 3-year cycle and we ended that cycle clearly on a high note with 8% rebased year-on-year EBITDA growth for the full year and a quite impressive 11% growth for the last quarter. Looking at top line, for the full year, we generated revenue of just over EUR 2.5 billion representing a modest decline of less than 1% on the rebased basis. The contraction in our revenue was driven by a variety of elements, such as nearly EUR 17 million lower handset sales; secondly, continued competitive and regulatory headwinds; and thirdly, lower usage related revenue following the success of our flat fee bundles. These headwinds were largely offset by a substantially larger contribution from our regulated and commercial wholesale business, the favorable impact of the July 2018 price adjustments and the continued growth in the small business segment.

In Q4 2018, our revenue was EUR 642 million, which was modestly down versus Q4 of last year on a rebased basis. Excluding nearly EUR 8 million lower handset related revenue in the quarter, our overall rebased revenue would have reached an inflection point in the fourth quarter and would have turned positive. As in the previous quarter the trend in our rebased cable subscription revenue continued to improve, which was amongst other factors due to the aforementioned price adjustments.

Turning to our operating expenses now. For the full year 2018, our operating expenses decreased 9% on a rebased basis, with nearly all of our cost buckets showing a downward trend versus last year. Through the accelerated onboarding of our [full inverno] customers to our own mobile network and our continued focus on tight cost control, we were able to record a 13% decline in our direct costs on a rebased basis and a 9% decrease in our other indirect costs on a rebased basis in 2018. In terms of EBITDA, through the accelerated onboarding of our full inverno customers to our own mobile network and our continued focus on tight cost control, we delivered over 8% rebased adjusted EBITDA growth for the full year to just over EUR 1.3 billion. Our underlying adjusted EBITDA margin expanded by 440 basis points on a rebased basis to just over 52%. Thanks to the strong financial performance in 2018, we were also able to deliver against our ambitious 2015 - 2018 plan with rebased adjusted EBITDA CAGR of just over 6%, which is around the midpoint of what we guided for back in April 2016 during our previous Capital Markets Day.

In Q4, our adjusted EBITDA was EUR 333 million, which was up double digits or 11% versus last year, and with that, clearly we ended 2018 on a high note. Let's now zoom in on our accrued capital expenditures. Excluding the recognition of the 2G mobile spectrum license, which we successfully extended in the third quarter of this year, our accrued capital expenditures were EUR 654 million for the full year, representing around 26% of our revenue for the full year. As you can see on the right-hand side, around 68% of our total CapEx in '18 was scalable and subscriber related, with the vast majority of our investments geared towards further modernization of both our fixed and mobile infrastructure. With 2018 having been the peak year in our investment cycle, we envision a much lower accrued CapEx to revenue ratio of around 20% going forward as we mentioned during our December Capital Markets Day. For good order, this excludes the recognition of football broadcasting rights and mobile spectrum licenses as well as the impact of IFRS 16 on our future accrued capital expenditures.

For the full year 2018, the sum of our adjusted EBITDA and accrued capital expenditures excluding the recognition of football broadcasting rights and mobile spectrum licenses, yielded an operating free cash flow of EUR 670 million. Compared to 2017, our operating free cash flow improved 15% and was mainly driven by the aforementioned increase in our adjusted EBITDA. For the full year, we generated adjusted free cash flow of around EUR 422 million, which came in at the top end of our EUR 400 million to EUR 420 million guidance. In addition to the robust adjusted EBITDA performance, the strong progress versus last year was driven by a EUR 94 million increase in our vendor financing program, lower cash interest expenses resulting from the 2017 refinancing and finally, lower cash taxes versus last year. Our proven ability to convert a broadly stable top line into a robust operating free cash flow and adjusted free cash flow further underpins our equity yield story. We continue to enjoy a solid and healthy financial profile characterized by strong liquidity and a well spread debt maturity profile. Excluding the short-term debt commitments under our vendor financing program, we face no debt amortizations prior to August 2026, with a weighted average maturity of over 8.5 years and weighted average cost of debt of around 3.7% at the end of December. Including the available cash on our balance sheet, we also had full access to EUR 531 million liquidity at year end. At the December 2018 Capital Markets Day we reconfirmed our leverage framework maintained at 3.5x to 4.5x net total debt to consolidated annualized EBITDA. In absence of any material acquisitions and/or significant changes in our business or regulatory environment, we do intend to stay around a 4.0x midpoint to an attractive and sustainable level of shareholder disbursements.

At the end of 2018, our net total leverage ratio reached 4.1x versus 3.6x at the end of September 2018. The anticipated step-up was fully attributable to the extraordinary dividend that we paid to our shareholders in early October 2018. On a pro forma basis, reflecting the impact of the new IFRS 16 lease accounting standards, which is applicable as of early January 2019, our net total leverage would have remained broadly unchanged at 4.1x. Before opening up for our Q&A, I would like to take you through our 2019 financial outlook.

At our Capital Markets Day in December last year, we presented our ambition to deliver sustainable profitable growth over the next 3 years. Over the 2018 to 2021 period, we target a rebased operating free cash flow CAGR of 6.5% to 8%. This excludes the recognition of football broadcasting rights and mobile spectrum licenses and also excludes the impact of IFRS 16 on our accrued capital expenditures. As you have seen from our 2019 outlook this morning, we're off to a strong start given the 16% to 18% rebased growth we are projecting for 2019, driven by substantially lower accrued capital expenditure from 2018's investment peak. Having delivered robust financial growth in 2018 on the back of the accelerated MVNO related synergies and tight cost control, we are facing certain challenges and headwinds in 2019. These include firstly the full achievement of BASE related synergies by the end of 2018; secondly, the loss of the MEDIALAAN MVNO contract; thirdly, continued regulatory headwinds; and finally, higher commercial cost to reignite growth in 2020 and 2021. As a result of these headwinds, we anticipate revenue to decline around minus 2.5% year-on-year and adjusted EBITDA to decline by minus 1% to minus 2% year-on-year on a rebased basis. Excluding the lower contribution from our MVNO business, both our revenue and adjusted EBITDA performance would have been broadly stable in 2019 on a rebased basis. We expect to achieve robust operating free cash flow growth of 16% to 18% in 2019 driven by substantially lower accrued capital expenditures, excluding the recognition of football rights and mobile spectrum licenses and also excluding the impact of IFRS 16.

Finally, we see adjusted free cash flow between EUR 380 million and EUR 400 million for 2019. Excluding the positive EUR 94 million contribution from vendor financing to our 2018 adjusted free cash flow, the midpoint of our 2019 guidance would indicate a solid 19% increase for 2019. In 2018, we consistently delivered on our anticipated shareholder remuneration timeline. At the end of June last year, we started a EUR 300 million share buyback. At the end of December, we had repurchased just over 4.4 million shares under this program for nearly EUR 200 million. We remain fully committed to execute the remainder of this program by the end of June 2019 at the latest and we will seek shareholder approval at the end of April for a new 5-year authorization to be able to repurchase up to 20% of our outstanding shares. In October last year, we paid a EUR 600 million gross extraordinary dividend to our shareholders. As a result, our net total leverage ratio reached 4.1x at the end of December subject to compliance with our objective to remain around the 4.0x midpoint of our net total leverage framework, and excluding any material acquisitions and/or significant changes in our business or regulatory environment, we consider to pay an intermediate dividend in the fourth quarter of this year, subject to both board and shareholders' approval. With that, I want to thank you for your attention and hand over to the operator for our Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And your first question is from the line of Emmanuel Carlier from Kempen.

Emmanuel Carlier - *Kempen & Co. N.V., Research Division - Research Analyst*

Three questions from my side. So you guide for flattish sales and EBITDA in 2019 if we exclude MEDIALAAN. Could you explain how you expect to move back to sales and EBITDA growth as of 2020? Secondly, a question on the free cash flow, so on the one hand you guide for 16% to 18% operational free cash flow, on the other hand you guide for free cash flow of EUR 380 million to EUR 400 million. Could you help us a little bit in what is in between? The main reason why I am asking that is that I have the impression that it probably includes a working capital outflow of something like EUR 20 million which will most likely not recur as of 2020 and as well I think it assumes a quite high level of cash taxes, which also might be rather top-ish versus 2020 and beyond. And then the final question I have is on VOO and Vodafone WIGO. So where would you expect most synergies, from a combination with VOO or a combination with Vodafone WIGO? Thank you.

John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

Okay, thanks, Emmanuel. It's hard to get very granular on the first question without either having a one hour to 2 hour conversation or to give you a few too many forward-looking statements. So I can say generally, I think, on a year-on-year comparison that we feel very confident in the underlying growth of our core business. We have a, as I indicated toward the end of last year, we have a much more robust roadmap in terms of product innovation, product launches, this year than we did last year, because last year we were fully embedded in upgrading our CRM platform and essentially had frozen our IT for over a year. We also sort of, as we indicated in the introduction, are at the end of the -- or at the beginning of the turnaround in SFR, we're at the end of migration period so we'll see those numbers flesh out, and through the rest of this year we expect to see much more robust performance from the Brussels region. We also are banking on B2B as an additional growth lever with the addition of NEXTEL. We're certainly seeing a range of increased traction in the SME and in the LE space, but also have very strong ambition in Soho, in Brussels where we have 44% market share in -- under our fixed footprint in Flanders, but virtually nonexistent in Brussels. So tremendous amount of upside there. So look, there is a range of things, I'll leave it to say, we're pretty confident that we have the plans in place to achieve growth in 2020 and '21. So we have guided to stable revenue through the 3-year period and obviously, this is -- this year's an inflection point. So we've got pretty good track record at hitting our guidance. So if you do the math you can -- it means that we need to grow in '20 and '21 and we believe we have the plans in place to do so, so.

Emmanuel Carlier - *Kempen & Co. N.V., Research Division - Research Analyst*

Would you expect -- John, if I may interrupt one second, would you expect also improving stable RGUs trend in Q3 and Q4, because it has been quite weak in the last [2] quarters, I think everyone can see why it should improve with an improved lineup and also with the SFR migration, but obviously (inaudible) will come in with a broadband-only product in Q3.

John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

I think we're confident that the operating KPI performance was hit reasonably hard by the SFR issue, but also the launch of unlimited in the second half of the year. We now have unlimited products on a standalone basis, in our WIGO bundle and of course in YUGO as well. So we feel that, that impact of that's pretty neutralized. We also, obviously we're not going to stand still over the next 10 months of the year without offering what we think are compelling solutions in what is certainly a competitive market. But year-on-year, we think we're soaking up much of the headwinds towards -- in the second half of last year and we can clearly see that some of those challenges are remediating and we have some interesting strategies to get back to topline growth. The other thing is that we are in a -- Erik has mentioned the handset issue on the topline. That's been a significant trend not just with Telenet but across the board. Handset, this is not a strong handset market and because it does not contribute to OCF at all, we don't pursue the handset strategy as aggressively as some other markets and taking that away, of course, even in the fourth quarter we would've seen revenue grow year-on-year. So that is starting to run its course as well. So can I hand it over to Erik for the second question?

Erik Van den Enden - *Telenet Group Holding NV - CFO*

Yes. Emmanuel, on your question on the translation from OFCF into free cash flow. So first of all as you know, I mean, OFCF is going to grow quite a bit and it's going to -- it's expected to grow between 16% and 18%. Whereas the free cash flow is going to evolve from EUR 422 million to somewhere between EUR 380 million and EUR 400 million. So the first thing I would say is that the big difference or the big effect year-on-year is the contribution from vendor financing. As you know, the number this year, the EUR 422 million includes a big contribution from the increasing vendor financing so that's EUR 94 million. As we already announced at the Capital Markets Day, for next year we intend to keep that broadly flat. So again, that is not going to be a big driver anymore and if you take that effect out, you see that our free cash flow is going to be growing with very similar relative numbers as the OFCF. So in other terms, if you take out vendor financing, our free cash flow is going to grow very much in line with OFCF. In between as always you have a couple of moves ups and downs. You are right about the working capital effect in between those 2 lines, working capital is not going to help us in 2019 for the very technical reason that we are decreasing CapEx quite a bit year-on-year, and of course, as a result of that the payables will also go down year-on-year, but, again, almost one-to-one translation from OFCF to free cash flow if you take out vendor financing.

Emmanuel Carlier - *Kempen & Co. N.V., Research Division - Research Analyst*

Could you quantify the working capital effect and the cash taxes for 2019 please?

Erik Van den Enden - *Telenet Group Holding NV - CFO*

Again, all-in-all it's going to be more or less a wash, right? So I don't think we're going to be disclosing every single line of the budget but I think here the translation at the end of the day from OFCF into free cash flow I think is important.

John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

And on the -- any synergies, I mean, both of those hypothetical transactions would be material, and I said before nothing succeeds like buying the cable company next door. So clearly there would be some good opportunities there. I think we've demonstrated through the acquisition of BASE Company in 2015 that on the back of muted revenue growth that we can deliver very significant operating cash flow results. On a rebased basis, we have added over EUR 200 million on an inorganic basis, double that over that period of time. So these are -- these would be hypothetically significant transactions and something that of course, we've said we're open to and if anything gets any traction, we will start to do the work. So we have not, we can't really say anything more than that and if something starts to eventuate then we'll communicate it.

Operator

Your next question is from the line of Roshan Ranjit of Deutsche Bank.

Roshan Vijay Ranjit - *Deutsche Bank AG, Research Division - Research Analyst*

Three questions for me please. Firstly, just on the CapEx and specifically within the SFR BeLux region, as you continue to commercialize that region are you seeing that you may have to push a bit harder on the network investments there given the, I think you referred to it before, poor state of the network when you acquired it? The reason I ask is that, again not significant, but CapEx came in slightly higher this quarter versus consensus, so I'm just wondering maybe you're having to put a little bit more into that? And secondly, you were able to quantify the impact from MEDIALAAN given you said guidance would be flat this year. Are you able to put a bit of color around a potential positive or any positives from the VOO mobile contract movement across to turn that and when that would start? And finally, just again back to SFR, John, you mentioned a bigger push and better strategy at the CMD. Should we expect better KPIs through Q1? Or is this more a Q2 type turnaround?

John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

The network in Brussels is substantial. Oh sorry, regarding -- I was on mute. Regarding SFR CapEx, the modernization is substantially complete in Q4 and we were pushing hard to get that done. I don't know if that had an impact on Q4 expectations or not but it's -- we really have that substantially behind us and most of the CapEx going forward in SFR will be success related, so whether it's B2B or B2C, so we don't expect any spikes there. On -- continuing sort of on SFR, I mean, I will say, as I think I said in the introduction, that the impact on our operational KPIs is substantially behind us. There are some dribs and drabs coming through in the first six weeks of Q1, but basically it's substantially behind us and the way we look at the SFR territory is they're -- it's been essentially -- like I said, it's between 300,000 to 350,000 homes passed that we acquired. Significantly less than 100,000 of them are already customers. You could argue that Coditel and subsequently SFR was probably not targeting the normal profile of a Telenet customer. So we have churned out some customers that didn't want to come over with us for one reason or another. We do though -- are having some significant success in winning market share from non-Coditel customer base. So we're starting to see a real shift there, a real change and I would say we would be optimistic to certainly going for breakeven to positive situation certainly well for this first half of the year in the Brussels territory.

So we're pretty optimistic, our campaign is working well, we built up a significant backlog at the end of last year with over 3,000 installs in backlog going into the Christmas period, so -- which we're catching up on now, so that's going to have a positive impact on the KPIs as well. We really, for any number of reasons, Chinese walls and confidentiality and everything else, really can't break down the profile of our wholesale business. We're -- we can't give you any more detail on MEDIALAAN. On VOO, I mean, we're delighted to be their MVNO partner. They, with Jos Donvil leading that company they have aggressive positioning on mobile and expect them to continue with that, it's obviously public knowledge, they have a good fixed mobile conversion product in the market which they launched midway through last year. And so that's a very -- a positive relationship for us, but unfortunately I can't break down the individual profiles of our wholesale customers.

Operator

And your next question does come from the line of Paul Sidney from Crédit Suisse.

Paul Sidney - *Crédit Suisse AG, Research Division - Research Analyst*

I had 3 questions as well please. Hopefully they are very straightforward. First question's on the 2019 guidance. I was wondering, does your revenue and EBITDA guidance assume any increase in your consumer pricing over 2019? Second question more sort of big picture on the Belgian market and Belgian market growth, do you think over the next few years the overall Belgian market can grow on an underlying basis ex regulation? We heard Orange Belgium say yesterday that they expect relatively stable pricing in mobile. We've seen their modest price increases in [wire line] so just wondering if you think the overall Belgian telco market can grow over the next few years? And just lastly a quick one on 2020, given what you said on 2019 free cash flow and the components, do you expect free cash flow -- adjusted free cash flow to grow 2020 on '19?

John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

Yes, I mean, I can't give you any specific guidance on consumer pricing, it is something that we look at on an ongoing basis, I mean, obviously, history is a decent guide there. We -- but we also, with our continued push to fix mobile convergent products, expect for customers to opt in and take more services from us. So you could see in the results that we had continued movement into WIGO. We had continued customers opting in to premium video product. We have, I think modest, but good expectations for their YUGO product. So the real driver for continuing for ARPU growth in addition to any possible price adjustments is customers opting in for new, better, differentiated services. I would point out also that we now have a new fixed network, with capacity up to 1 gig. We've been experimenting with speeds, different speeds where customers can boost their speeds up to 400 megabits per second in their fixed network for an additional EUR 10, EUR 15 a month? I'm sorry, I can't remember. EUR 15 a month. So we continue to improve customer experience and customers are opting in and that's what's helping us keep, keeping ARPU ticking up in the right direction. I mean, the Belgian market overall there's a lot of pluses and minuses, clearly there's some pressure on traditional products like fixed voice, but there are also a lot of new products coming along that customers will continue once again and continue to opt in on. We -- there are -- one of the strategies that some mobile operators use, of course, is to go to an unlimited price point that pulls customers up from lower level services in ARPU and that is a trigger we haven't really necessarily pulled yet.

So there are a lot of things that we think we can do to continue to grow our share of the market, whether the market overall will grow or not is really a function of what the individual operators do to continue to innovate and offer more services. What I will say is, I like our position, because we're the best fixed network, we're the best wireless network, we're innovating around content and we're committed to a content strategy and we continue to lead the market in fixed mobile, which is clearly a sustainable consumer trend. But the market overall, I think what I've seen in -- recently is that the B2B market is -- in connectivity is reasonably flat. The ICT market overall is growing very nicely and that's why we acquired NEXTEL, to really get more exposure to that market. But it's going to be a function for us of expanding even our business model. As we've tipped, we have a lot of activity around smart home solutions, IoT, The Park, which we're looking at a potential scale up of The Park, which we'll be making a call on that over the summer and yes, are these big sort of home runs? In isolation they're not, but the next big thing could be lurking out there. So I think part of the way to continue to grow the market is to expand the definition of the market and that's the most important thing and that's what we're doing. And last question on 2020?

Erik Van den Enden - *Telenet Group Holding NV - CFO*

OpEx, also on the free cash flow.

Paul Sidney - *Crédit Suisse AG, Research Division - Research Analyst*

Just a simple question: free cash flow, do you expect growth?

Erik Van den Enden - *Telenet Group Holding NV - CFO*

Yes. So first of all we did say as part of our 2-year guidance that not only OFCF will grow but definitely also free cash flow. So yes, I can confirm that for 2020 we do expect the cash flow to continue to grow. I think there are a couple of elements of that as part of the overall guidance that EBITDA will grow, we also expect that to start happening as of 2020. So that is going to help. Secondly, we just talked about, in the question of Emmanuel, we talked about that working capital direct with the reduction of CapEx that is also something that, of course, will feed into 2020 as you know the CapEx profile becomes more stable. And I guess the third element, again, Emmanuel also asked about the cash taxes. It is true that for 2019 due to timing effects they are a little bit higher than what we see in 2020. So if you take these 3 elements together as part of our broader plan, free cash flow is expected to grow in 2020 versus 2019.

Operator

Your next question is from the line of Michael Bishop from Goldman Sachs.

Michael Bishop - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Just a couple of questions from me. Firstly, on the YUGO tariffs, which look to us really compelling for the segment that you identified, which is cord cutters. I just had two questions around that. Firstly, you mentioned that the addressable market was now big enough to launch the offer. So could you give us a bit more insight on how big you think it is? And secondly, if we were to think about potentially any switching from customers from the WIGO tariff to the YUGO tariff, clearly you then have the saving of not offering a set-top box and providing less content, for example. So I was just wondering whether you would give us any big picture thoughts on what the relative difference in contribution to EBITDA or cash flow would be if you start to see customers opting from WIGO to YUGO. And then just thirdly, if you're getting the 20% approval for the buyback in April, and you finish the rest of the buyback in the first half as you previously stated, should we continue to expect a sort of similar run rate of buybacks? Or would there be a pause and then maybe you start again as you [degear away from 4] times?

John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

Yes, I'm going to answer the first question about the potential of the YUGO market and then hand it over to Erik. The YUGO market is continuing to evolve. There is clearly, we've had the sort of generational shift that everybody is fully aware of, of the sort of digital natives, but what we're seeing in our more current research is that untethering from the set-top box is starting to permeate across our customer base from an age and demographic standpoint. It's still not a particularly high number so I wouldn't be expecting huge migration. The benefits of WIGO in particular should minimize down -- it's not even downgrading, it's sort of sidegrading, and I'll let Erik get into the numbers in a second, but we have identified that about a quarter of the market we would put into what we call -- we would say digital natives or we call them smarties, because they're customers who want to construct their own version of a bundle. So in this case, we've identified what we think is the largest segment of that quadrant and that is customers who think of mobile first and not set-top box first. And so I think it'll be an interesting experiment to see. I think the most exciting thing is something obviously you guys haven't seen, but is the whole user interface, which draws in and integrates a 360-degree experience for viewers as they look at programming and products they can interface with, digital sites and adjacent products. So I think it's going to grow but it's going to go slow, but stay tuned. We are starting to segment our customer base more and more all the time and in the same way that YUGO is appealing to a small but devoted segment, we will have other products as time goes on that will address other emerging segments. So that's very important. In terms of the economics, it's -- it is -- are reasonably neutral if the customer goes between WIGO and YUGO on an operating cash flow basis, but as you pointed out, saving the set-top box and some other CapEx makes it probably even better if they [go up to] YUGO, so. Do you have anything to add on that, Erik?

Erik Van den Enden - *Telenet Group Holding NV - CFO*

Especially on an OFCF level I think to John's point, it is fairly similar. On a EBITDA level it's probably slightly less contributing in the sense that as you will have seen, YUGO includes Play and Play is a part of our business that has a lower margin than the true connectivity. So again on an EBITDA level a little bit less but also not dramatic and then compensated at the OFCF level because of lower CapEx, so I think broadly similar. And then maybe also the question about...

Michael Bishop - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

Can I just jump in there because I guess the other positive trend we've seen after 1 or 2 years, where you didn't have a huge amount of growth, is in the Play More bundles. And so just to get again a sense of the economics of the Play More or I guess premium content more broadly. Is it a case of, as you sell more, then that has a increasing drop-through, because from memory you are paying lump-sum content deals rather than on a per subscriber basis generally?

John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

Yes, we do have a fair bit of fixed cost in Play and certainly even more so in Play More. I think what we're trying to do is get Play to a point where it's kind of like, you want fries with that, sort of everybody takes it because it's that compelling and certainly we've seen that since we've relaunched Play, that it's gone very well with the HBO component. We have every single asset from HBO in Play now. So all 8 seasons of Game of Thrones and everything else they've ever run since the beginning of time. So it is pretty compelling. And we do sort of assume to close on it with new customers so the more we can get in there, the better. There are some variable costs, but they're not a major component of it. The other good news is that, we haven't really seen any downspin from Play More, because the Play More customers are sort of premium entertainment omnivores. I have said before that there is a high correlation with Netflix and Play More customers. I think we now believe it's in excess of 70% of our Play More customers are also Netflix customers and growing. So that group looks pretty stable and then it's really about growing Play with that customer base. So yes, we hope that we can keep it going.

Erik Van den Enden - *Telenet Group Holding NV - CFO*

And Michael, on your question on the buybacks, so first of all, we're still executing as we speak and so we're 2/3 through the current program. So we have bought back around EUR 200 million, there's EUR 100 million to ago. And then indeed in April we will ask the board and the shareholders to approve that new program. Of course, we will first have to see whether it gets approved or not. But I think very much within the frame of what we announced in December, is really to have flexibility in our shareholder remuneration program in the sense that as long as we stay around 4x by the end of the year. We continue to plan for a payout of between 50% and 70% of free cash flow in dividends and then the rest of that can be a combination of either deleveraging, either further dividends and if the board and the General Assembly approves, that could indeed also be a share buyback at the time, but again, I think first things first, let's first ask the boards of the shareholders for their approval and then of course, given the circumstances, we'll make that choice what to do with the remaining portion of the free cash flow.

Operator

Your next question is from the line of David Vagman of ING.

David Vagman - *ING Groep N.V., Research Division - Research Analyst*

I've got 3 questions. So maybe to come back on competition. Do you expect competition to intensify over the course of 2019 or basically stay at the same level? What should we expect, more marketing, more promotional activity? That's my first question. Then second question, what is basically your latest understanding of the wholesale cable cost model and its potential impact? And then my third question would be your plan in Wallonia. I know the situation is not super clear, but if you could give us a bit your thought on what you might be doing there.

John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

Okay. Let's see, competition, yes, I think competition is going to intensify from us. So I can only say what I know is going to happen is that we're cranking up few notches here this year. I think, certainly, everybody is interested in hanging out to see what happens on the broadband, standalone broadband access regime. I think that -- I don't think that's going to really change the dynamics too significantly myself. We have had a broadband standalone product in the market for quite some time, at EUR 27 and change, and the sub count on that has been quite stable. We are not going to sort of just sit around and let our pockets get picked on that front. So we have some plans in regard to it to continue to be aggressive in the market. I think -- I don't know, Ann, you want to answer the more detailed question around cost plus? Ann Caluwaerts who runs our Public Affairs and Political and Regulatory will answer that question.

Ann Caluwaerts - *Telenet Group Holding NV - Chief Corporate Affairs & Senior VP of Corporate Affairs*

So on the cost model the BIPT is developing. There's currently consultation going on. We are -- we hope the bidder comes tomorrow. That's actually the deadline for the first round of consultation that will affect the model. And then we expect the second consultation to follow to set the actual prices. And there's been in -- a proposal set forth by the BIPT when they started the consultation on 17 year-offs for broadband standalone and 18 year-offs for the bundle broadband plus TV. And we will be giving our comments on that because we are concerned, if you look at that pricing, that the differentiation between additional services on top of the native broadband is very low, EUR 1 for TV is very low and in that sense we will be submitting our responses and hope to have a constructive dialogue with the regulators so that investments in speed, investments in higher volume can be differentiated and can be stimulated, but we expect to have an outcome of that in the mid of 2019.

John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

And sorry, the third question, can you repeat that one?

David Vagman - *ING Groep N.V., Research Division - Research Analyst*

Yes, yes, sure. So it was on Wallonia. Where was your thinking on the move or using the VOO network or going for VOO. And what you see politically or what might be coming in 2019?

John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

Okay, thanks. I think our view on is pretty much stable from where it was through the end of last year which is that we remain interested to expand our footprint if possible. In a similar way that we have in Brussels and SFR, we've certainly learned lot there in terms of our ability to deliver compelling products in the South of the country and I think we're a lot better for that. The issue is just that there is no process or transaction contemplated on that end. Today, we do have an interesting period with the election coming up and I think the Wallonian government is going to start to have a position on that pretty soon which should emerge in the next few months. That being said, if there is never any potential for transaction, be it a partnership or otherwise, we have to consider our options in the South of the country and technology is sort of moving along and creating optionality. So whether it's 5G, whether it's other mobile fixed substitution products or whatever, we feel that given the penetration of mobile subs that we still have in the South and the fact that there is 3 converged operators down there, that we really need to get down there with some sort of convergent solution in the next year or 2, but I wouldn't expect a lot of transaction, a lot of things happening this year, but I think the fog will lift this year and we'll have a pretty good idea what we need to do.

Operator

Your next question is from the line of Matthijs Van (sic) [Van Leijenhorst].

Matthijs Van Leijenhorst - *Kepler Cheuvreux, Research Division - Analyst*

I just had a follow-up on [toon]. I'm just wondering, you're positioning yourself as quite an attractive new play but on the other hand you would like to do this acquisition in the south of Belgium. But why don't you just stick to Flemish, that's my main question, because if I look at the SFR acquisition, you've done quite a massive impairment so there's -- in my view there's clearly a risk of overpaying. So therefore why don't you stick to Flemish and do sort of wholesale agreements in Wallonia? Why shouldn't that be the way going forward?

John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

I think the first thing to point out is that the impairment relates to Luxembourg, which is a very tightly held market and it's a standalone asset from our standpoint, one that we weren't that excited about in the first place. But I think sort of the counterargument is that through the acquisition of BASE, we've generated over EUR 200 million of synergies and we feel quite strongly that we've demonstrated a capability of creating a lot of value out of a transaction, even in a situation where the revenue of the target has actually been going backwards. We have still created an enormous amount of value. I think, look, it's really up to us not to do a stupid deal, so I think we pay what we think it's worth and if somebody thinks it's worth more then they can buy it. I'm sure that we're not the only one who would be interested in acquiring it. I'm sure we're not the only one who thinks that we can -- there's a lot more things that we can do by bringing some of our capital capacity and capabilities to the South of the country. But we do, we are, I think we have demonstrated a lot of capabilities both in terms of capital. We have a lot more capital than any other prospective acquirer. We have a much better track record in terms of innovation and new services. We operate our business at a quite an attractive margin compared to our competitors. So I think if anybody's going to buy it, we're probably the best ones to do it, but that being said, if somebody else wants to pay more, that's fine. So and then we still have the option of overbuilding, of mobile fixed substitution, et cetera. So look, we keep all the options in the air. We just need to be disciplined in our approach and it is -- as I think we were on the BASE transaction. So I don't know, that's... does that answer your question?

Matthijs Van Leijenhorst - *Kepler Cheuvreux, Research Division - Analyst*

As a follow up I believe 2 years ago you mentioned in the newspaper VOO could be worth up to EUR 1.3 billion or so. Do you still stick to this valuation and also looking at the migration issue, is that as required or have things changed in that respect?

John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

There's a lot of different tactics at work there. We are obviously trying to get people's attention. We don't -- they don't report publicly. So we don't actually know what they're worth, but I think it's, given the total homes passed down there and the total potential to generate a return on our investment, we feel reasonably confident at those numbers, but yes, the world has changed in the last 2 years, and multiples have contracted in our sector. So we take that all into consideration. I think it's a clean sheet of paper at this point. That thing -- that proposal was rejected 2 years ago, so we start again.

Operator

Your next question is from the line of Ruben Devos of KBC.

Ruben Devos - *KBC Securities NV, Research Division - Equity Analyst*

Yesterday we've seen the announcement of [Seika] who is to participate in the 5G spectrum auction. I was curious to hear your thoughts on how that would possibly affect the conditions of the auction and possibly the allocation of spectrum? Seika also said it saw some specific B2B use cases for 5G. So just wondering in your roadmap for 5G, are there use cases you have already identified and just in general what sort of opportunities you see for 5G deployment? And then secondly, just following up on the 5G auction and the potential delay until late 2020. You have mentioned that a possible solution might be a decoupling between the renewal of existing licenses and the 5G auction. Would it be possible to elaborate a bit on that, please, and maybe give a sense of whether that option has been gaining support lately?

John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

Sure. On the [Seika] announcement, it's consistent with what we always believed about 5G, as kind of very targeted use cases start to emerge that there would be sort of fringe players who would be looking to leverage the technology in very specific areas, whether it be industrial areas or any specific geographical area or something like that. But additionally they said, they don't want to build network and they don't have any network and they don't have any backhaul and they don't want to spend a lot of money. So everybody wants a free ride on the next big thing. So we'll see what kind of consortium they put together but in the same way there are plenty of fringe players around the fixed world with Eurofibre and these kind of things. I don't see it as significant play in an area where we're going to be contending. I think the whole business model for 5G is a long way from getting solved. I think I've said this before, that the cautionary tale is around 4G, which our industry spent billions and billions rolling out in a market that was contracting, overregulated, overfragmented, and the only ones that made money were the hardware manufacturers, and Google, Apple, Amazon and Netflix. So if we have that repeat with 5G, we're pretty screwed. So I'm definitely in favor of a go slow approach to 5G. I haven't seen a lot of overly compelling use cases that would make me want to spend a lot of money today to chase. Obviously we've got to stay reasonably pari passu with our competitors, but we are -- don't feel that the spectrum auction itself is the critical path to getting 5G up and running and generating a return on capital. It's much more business use cases, it’s much more really getting the technology bedded down, there are a lot of other things that need to happen. I mean, you can look at IoT, which people have been talking about for 5 years, it's still very primitive in terms of the amount of revenue it's generating, it's still -- basically if you peek under the covers of IoT in Belgium, it's still sort of machine-to-machine applications, there's not a lot of revenue in it at all. So it's not particularly exciting. As far as the auction is concerned, the decoupling is -- I think there's been some scare tactics that some people have used in the market to say, oh you know if we push this auction back, Belgium is going to be behind on 5G, well, let's just say look let's just have the 5G auction now, why not, if you are worried about that. I don't think they need to worry about it, I think -- I don't know, has anybody picked up the banner of having a separate 5G auction?

Ann Caluwaerts - *Telenet Group Holding NV - Chief Corporate Affairs & Senior VP of Corporate Affairs*

No, I think there's a number of possibilities but the spectrum is delayed with 5G. One is as John said which is holding the auction only on the 5G spectrum, not on the full bulk of the 2G, 3G, 4G. And the other, in the telecom law there's an option also to grab temporary licenses and which I think certainly for the short term would be sufficient to start if you could have test licenses and you can even have temporary licenses, which you can start to bid on commercial basis. So I think there are multiple options to solve this issue, but as John said it's not on a critical path. There's a lot of other stuff that needs to be done first.

Operator

Your next question is from the line of Stefaan Genoe of Degroof Petercam.

Stefaan Genoe - *Banque Degroof Petercam S.A., Research Division - Head of Equity Research*

Yes, two questions. First, you mentioned that in the call SFR was not the typical [permanent] client and you've also had a typical Brussels welcome offer. How do you, in this offer could you indicate what the average clients are targeting and taking as a product and related to that can you indicate us a bit the average ARPU related in Brussels and in the SFR region related to your entire footprint and how you see this evolve? And then secondly, with all the rumors about the convergent offer and the commercial efforts about the convergent offer of Orange Belgium in the market and then Scarlet with Proximus. Have you seen accelerated downtrading by clients in the course of the year from higher ARPU bundles to lower ARPU bundles? And how do you see this evolving in 2019? And do you have an increasing [proactive recourse] to reduce -- to support customers in a move to a lower ARPU product?

John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

Well, let me answer the second question first. I think you will see in -- our ARPU has been increasing. So you can see the move to -- so it's gone from 54.70% to 55.90% -- 2%. So that we have not really seen big migrations to -- down to 1P or 2P tiers. In fact, quite the opposite. We can see that WIGO grew significantly in the last quarter, also that our premium TV offer has had good growth in the last quarter as well. So our ARPU is increasing, which is pretty gratifying, on fixed. The -- as I said before, we do have 1P offers, we have a lot of customers with one product, taking one product from us and we're very grateful for that. Those customer bases have been fairly stable and where the real sort of action is in terms of competition is in the 2P space. And products like YUGO go right to competing in the 2P where people are much more focused on their mobile phones and a really healthy broadband offer. I think you can see with YUGO, you have a really strong mobile offer with up to 2 SIMs unlimited and then you have -- you also have a very strong broadband offer with 20 gigs and your video that you use over the YUGO services is non-rated. So essentially that's a virtually unlimited data offer. So that's where the competitive action is and we will be doing everything we can to make sure we either retain our customers in that zone or we move them up into a more robust bundle.

On Brussels, it's really too early to say in terms of where Brussels will be in relation to our footprint overall because we have some strong offers out there, we have some discounted offers out there, but we do, we will do everything we can to retain those customers when the discount period is over and that will be a time in which we will have a better idea. Takeup has been not just in the SFR footprint for our Boost campaign, but across also the old UPC footprint as well. So we're done with UPC but that's the part of Brussels that Telenet had before we acquired SFR. Sales have been very good, very strong and continue to be and I think we will have a better idea by the middle of the year just how it will shake out. I don't think you'll see ARPU being significantly different, I mean, if it was just the SFR area, yes, it might be a few Euros less, but I think overall in Brussels, Brussels is a reasonably -- is a pretty decent market and we expect it to be about the same as Flanders.

Operator

Your next question is from the line of Steve Malcolm of Redburn.

Stephen Paul Malcolm - *Redburn (Europe) Limited, Research Division - Research Analyst*

I'll go for 3 if that's okay. First of all, just on your share compensation cost, you've sort of grown to a 100 basis point growth from shifting cash to stock in the last 3 years. Can you just give us a sense of how much more you've got to go on that, whether you've sort of maxed out in what you can pay people in terms of stock for the time being. Secondly, on your tax position, you've done a bit of fiscal deck chair moving, I guess, over the last couple of months. Can you just give us an update on how that might impact your longer-term tax position and your ability to maybe structure deals that will help you to shield tax going forward, I mean, or should we just pencil in round about EUR 100 million - EUR 110 million of tax subject to your profitability over the next 3 or 4 years. And then finally just on your free cash flow definition, I mean, it looks like you sort of had your free cash flow definition foisted upon you by Liberty a little bit and you're trying to, having to explain if you back out vendor financing, yadda yadda ya. Is it worth just moving to a simpler free cash flow definition that allows you to track the progress that you're making on your free cash flow a little bit better?

Rob Goyens - *Telenet Group Holding NV - VP of Treasury, IR & Structured Finance*

Yes, Steve, Rob here. So maybe I'll take your last question on free cash flow reporting and then the way we go about it. So I think first of all in all transparency I think it's as we're benefiting from vendor financing in the overall free cash flow as we move out the payments over 360 days, I think it's also fair that we fully account for that impact in our free cash flow, also meaning that we correct our cash investing activities as if by the payment would have normal, but also to capture fully the repayment, and as Erik mentioned before as the way you look at the EUR 422 million of free cash flow that we generated in the full year 2018, around EUR 94 million of that was the net positive impact from vendor financing. So if you were to exclude that and if you look at 2019 as a guidance framework, you would get close to 30% uplift in terms of overall growth on the free cash flow side.

John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

Yes, because vendor financing is stable year to year.

Rob Goyens - *Telenet Group Holding NV - VP of Treasury, IR & Structured Finance*

Yes. That's right.

Stephen Paul Malcolm - *Redburn (Europe) Limited, Research Division - Research Analyst*

No, I understand that, but vendor financing is just not paying people for a year. It's not -- there's no great magic to it, right?

John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

Yes, but everything that increases is coming from operating free cash flow.

Rob Goyens - *Telenet Group Holding NV - VP of Treasury, IR & Structured Finance*

What we try to do is, if you do the program I think it's quite logical that you could see the definition if we just try to give maximum transparency so you can make any adjustments to the numbers that you think are -- that have to made or not. But we just try to be transparent on that, and then you can adjust as you see fit.

Stephen Paul Malcolm - *Redburn (Europe) Limited, Research Division - Research Analyst*

Understood. I can do the math, I just thought it might be -- a definition [actually stand] seems it might be a little bit simpler for everyone, but I understand.

John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

Tax position?

Erik Van den Enden - *Telenet Group Holding NV - CFO*

Yes on the tax side. So add to this point already because the question has already been asked at the call. So we do see a lower cash tax in 2020 and 2021, so after the somewhat higher cash tax in 2019, which is part of our adjusted free cash flow guidance. So taking around EUR 130 million as a kind of reference ballpark number for those years would seem a good estimate. Of course we're also now coming on the period where due to the synergies that we've captured and you've seen the EBITDA growth numbers, of course, the underlying profitability is quite strong of the business overall and so there's no magic to it in a sense. So we have entered into a cash tax paying position a few years ago and we will continue to be in a cash tax paying position excluding any potential M&A movements for the foreseeable future, so that's where the... we do see cash taxes coming in for the next 2 years. And then I think the first question you had, Steve, related to the share-based compensation in the disclosure notes which actually is the IFRS impact or the IFRS recognition of stock-based compensation which is actually based off a Black and Scholes (sic) [Black-Scholes] valuation model. I think there typically the remuneration committee within the board of course takes a close look at the overall executive compensation to make sure that is of course, an attractive package within the industry and to also make sure that management is highly incentivized also with share compensation over long-term deliverables. And of course there the operating free cash flow is the key metric to look at, as we also mentioned during the Capital Markets Day. So that is all very coherent with that overall strategy.

Stephen Paul Malcolm - *Redburn (Europe) Limited, Research Division - Research Analyst*

Okay. Although just to be clear, couple of things, first of all it's EUR 130 million of cash tax in 2020 and 2021, right?

Erik Van den Enden - *Telenet Group Holding NV - CFO*

Yes.

Stephen Paul Malcolm - *Redburn (Europe) Limited, Research Division - Research Analyst*

And just on that final point, your cash compensation to senior management, the sort of cash-equity split, hasn't really changed. The reason the share-based compensation has gone up is that you've hit your OFCF growth targets and therefore the [L sits] related to that are paying out more stock than you'd maybe anticipated a year or 2 ago.

Erik Van den Enden - *Telenet Group Holding NV - CFO*

Yes, there is also the impact of recognizing new plans that are basically issued. Because as you can see in the annual report, we have annual grants that are being done. And so there is a -- at that point there is a valuation assessment that is being done and taken below EBITDA to the share-based compensation.

Stephen Paul Malcolm - *Redburn (Europe) Limited, Research Division - Research Analyst*

The cash component hasn't changed?

Erik Van den Enden - *Telenet Group Holding NV - CFO*

No, no, no.

Operator

Your next question is from the line of James Ratzer of New Street Research.

James Edmund Ratzer - *New Street Research LLP - Europe Team Head & Analyst*

Two questions please. The first one I was wondering if we could just go back to the issue around the SFR churn. Can you help just to quantify this a bit more for us please? I think in Q3 you had said that kind of 7.5% of the 10,000 broadband subscriber losses were driven by SFR churn. Is that still a similar issue in Q4? And just to quantify it for us in Q1, can you tell us how many customers you still actually have left to migrate over so we can just quantify what the risk is for this quarter. And then the second question is regarding your cash return plans for this year. You mentioned you are targeting 50% to 70% payout of free cash flow. It strikes me on the numbers you're doing if you pay that out of your dividend at the end of this year, your leverage is going to be increasing kind of well above 4.2x. How much flexibility do you have around the 4x? Should we be expecting that actually the interim dividend you pay at the end of this year might be only, say, around EUR 100 million or so just to keep the leverage flat over the year?

John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

So on the SFR churn, the loss of RGUs in the SFR area was reasonably consistent between Q3 and Q4 and it's, as you point out it was about 7,500 broadband customers. Overall, the churn has essentially, it is petering out now. So at the same time the connect rate for new customers is increasing. So the net effect in the SFR area will be significantly improved in Q1 and non-existent in Q2. So it's pretty much run its course. All-in-all, it was not a terrific outcome but we turned the log over and there's a lot of creatures crawled out. So it was not -- there were a lot of issues associated with the network, associated with particularly the last mile, in apartments, associated with that data, associated with marginal customers, et cetera, et cetera. But we worked through that and it's pretty much run its course. The retention rate in SFR though is still probably 70% of the customers, but we'll have to see where it comes out in the end. But I wouldn't -- you'll see a far better picture in Q1. And then on free cash flow...

James Edmund Ratzer - *New Street Research LLP - Europe Team Head & Analyst*

Will there be a scenario where by Q2 we're back to actually seeing broadband internet KPIs going back into a small positive territory as we saw at the end of 2017 beginning of 2018?

John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

Very strong possibility of that, yes. That's clearly what we're -- I mean, look, if you take SFR out of the equation, we would have had broadband internet net adds in the second half of the year. So things underneath the historical Telenet Flanders footprint are reasonably stable '17 to '18 and with the exception of SFR, like I said, even in the second half of the year, we would've had broadband net adds.

Erik Van den Enden - *Telenet Group Holding NV - CFO*

That is also an improving trend, so if you back out SFR there is already a slight improving trend between the third quarter and the fourth quarter but that's something that we see continue, at least in the beginning of 2019. So to your point, positive broadband net adds is definitely something we're working every day for. Maybe the last question on the -- there was I think a question on the dividend payout or the possible dividend payout?

James Edmund Ratzer - *New Street Research LLP - Europe Team Head & Analyst*

Yes.

Erik Van den Enden - *Telenet Group Holding NV - CFO*

So first of all, it is very important to note that we do not plan to pay out the full dividend by the end of the year. So it's going to be an intermediate dividend, that means we'll pay a portion of the dividend at the end of Q4 '19 and then the remainder will come in the first half of 2020. So that's the first point to make in terms of the flexibility we have around the leverage, we said that we want to stay around 4.0x. Of course there's some flexibility around that metric. At the same time, and that we also put very clearly we're not going to significantly lever up in order to kind of max out on that intermediate dividend. So that's a little bit how you should think about it.

James Edmund Ratzer - *New Street Research LLP - Europe Team Head & Analyst*

Okay, so -- but a number around EUR 100 million maybe, to be paid by the end of this year wouldn't be too far off the mark, would it?

Erik Van den Enden - *Telenet Group Holding NV - CFO*

I mean, again, that is going to come on the back of -- at the end of the year, but you can definitely count with a portion of the full dividend.

Operator

Your next question is from the line of Emmanuel Carlier of Kempen.

Emmanuel Carlier - *Kempen & Co. N.V., Research Division - Research Analyst*

Just two quick followup questions, one on the cable regulation. Are you pushing at the regulator for wholesale prices depending on data consumption, because it looks a more fair way to regulate the business, I think? Then secondly, on business, I think business sales were down something like 3%. Could you explain how you expect that business line to evolve, because you're targeting for business growth. I know that it includes some -- that it is reflected in some other lines, but maybe you could also guide a bit on that line?

John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

Sure, on the first question, absolutely. We think that it's absolutely imperative that there be some tiering relating to speed and capacity, because obviously, it directly relates to the amount of CapEx that we have to spend to accommodate that in the network. So if somebody is just getting a flat rate for unlimited speeds, whether they're selling 30 megabits per second or 300 or a gig, that is grossly unfair and we are going to pursue every avenue to try to correct that, so. On the second question, Erik?

Erik Van den Enden - *Telenet Group Holding NV - CFO*

The second question, digital business services is supposed to be down 3% year-over-year but remember that this is excluding business services that we offer on coax products, right? So if you think about the whole B2B business, so including the server business where indeed a lot of the products are actually coax-based, that is a much more benign evolution and that's a good base to start from. Exactly as we said before Soho and coax business product is exactly where we're very strong and the SME business and the large enterprise business is exactly where we think there's more for us to be done and that's also why we acquired NEXTEL, to be able to offer a one-stop shop solution and option of both IT services and activity services separately.

Emmanuel Carlier - *Kempen & Co. N.V., Research Division - Research Analyst*

Would you expect the business sales line to improve in terms of growth rate?

John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

Absolutely.

Emmanuel Carlier - *Kempen & Co. N.V., Research Division - Research Analyst*

Excluding coax?

John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

Excluding coax? Yes, because NEXTEL is certainly going to contribute in the LE sector, because they have very specific applications in the health and educational verticals and in security and in a number of other areas. So that is our goal, but historically our biggest growth sector has been by leveraging our fixed assets, and obviously that has the biggest marginal contribution and it has the biggest OFCF contribution because we don't have to build fiber or put in equipment like IP switches and things around the edge, but that's why NEXTEL has been operating at like a 15% to 20% margin and our B2B business operates at a north of 50% margin. So that's the difference, but the top line we expect that segment to grow.

Emmanuel Carlier - *Kempen & Co. N.V., Research Division - Research Analyst*

And on the tiering on speed and capacity, is that something that could already be taken into account when the regulator will set the wholesale rate around mid-2019, or is that something you are pushing for and that you believe that could pop up in the coming years?

John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

Well, it is taken into account in the interim pricing.

Emmanuel Carlier - *Kempen & Co. N.V., Research Division - Research Analyst*

Mainly the speed, but not capacity I think, or did I miss that?

John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

Well, no, capacity exists today. I think the question is, is how compliant people are being with the capacity issue. For example, we have a fair user policy. It needs to be complied with, otherwise people can run ISP out of their living room. So there is a lot of technical aspects to this, like I said, I'll go back and say that the fundamental premise is that we need to spend CapEx to deliver speed and capacity and therefore as people move up the value chain we think the wholesale regime needs to accommodate that.

Operator

As there are no further questions, let me hand back to Rob Goyens for some closing remarks.

Rob Goyens - *Telenet Group Holding NV - VP of Treasury, IR & Structured Finance*

Okay, thank you, operator. And thanks, everyone, for having attended today's conference call. Both Erik and I will be available at standby to address any further questions you may have after this call. And we look forward to seeing you during one of our upcoming road shows or conferences. And an updated calendar can be found on our Investor Relations website. And with that, we can conclude today's conference call. Bye for now.

John C. Porter - *Telenet Group Holding NV - CEO, MD & Director*

Bye.

Operator

That concludes the meeting today. Thank you for participating. You may disconnect.