

*Telefonica*

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# Combination of Telefonica UK and Virgin Media UK: Creating a leading communications provider in the UK



7<sup>th</sup> May 2020

# Disclaimer

*This document contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. In this context, forward-looking statements often address expected future business and financial performance and financial condition, and often contain words such as “expect,” “anticipate,” “intend,” “plan,” “believe,” “seek,” “see,” “will,” “would,” “may,” “target,” and similar expressions and variations or negatives of these words. These forward-looking statements may include, among other things, statements relating to the outlook in the U.K. of Telefónica, S.A. (“Telefónica”) and Liberty Global plc (“Liberty Global”); operational expectations, including with respect to the development, launch and benefits of products and services of Telefónica and Liberty Global and the launch of 5G speeds; future growth prospects and opportunities, results of operations, uses of cash, share repurchases, tax rates, and other measures that may impact the financial performance of Telefónica and Liberty Global; anticipated benefits and synergies and estimated costs of the proposed transaction; the expected timing of completion of the proposed transaction; and other information and statements that are not historical facts. These forward-looking statements involve certain risks and uncertainties that could cause actual results to differ materially from those expressed or implied by these statements. These risks and uncertainties include events that are outside of the control of Telefónica and Liberty Global, such as: (i) Telefónica, Liberty Global, and our respective operating companies’ ability to meet challenges from competition and to achieve forecasted financial and operating targets; (ii) the effects of changes in laws or regulation; (iii) the effects of the U.K.’s exit from the E.U.; (iv) general economic, legislative, political and regulatory factors, and the impact of weather conditions, natural disasters, or any epidemic, pandemic or disease outbreak (including the novel strain of coronavirus, COVID-19); (v) Telefónica, Liberty Global, and our respective affiliates’ ability to obtain regulatory approvals and satisfy other conditions to the consummation of the proposed transaction; (vi) the proposed transaction may not be completed on anticipated terms and timing or completed at all; (vii) Telefónica, Liberty Global, and our respective affiliates’ ability to successfully integrate the combined businesses and realize anticipated efficiencies and synergies from the proposed transaction; (viii) the outcome of any potential litigation that may be instituted with respect to the proposed transaction; (ix) the potential impact of unforeseen liabilities, future capital expenditures, revenues, expenses, economic performance, indebtedness, financial condition on the future prospects and business of the combined business after the consummation of the proposed transaction; (x) expected financing and recapitalization transactions undertaken in connection with the proposed transaction and risks associated such transactions; (xi) any negative effects of the announcement, pendency or consummation of the proposed transaction; and (xii) management’s response to any of the aforementioned factors.*

*For additional information on identifying factors that may cause actual results to vary materially from those stated in forward-looking statements, please see Telefónica’s and Liberty Global’s respective filings with the U.S. Securities and Exchange Commission (“SEC”), including Liberty Global’s most recently filed Form 10-K and Telefónica’s most recently filed Form 20-F, as well as the documents filed by Telefónica before the different supervisory authorities of the securities markets in which its shares are listed and, in particular, the Spanish National Securities Market Commission. These forward-looking statements speak only as of the date of this release. Telefónica and Liberty Global expressly disclaim any obligation or undertaking to disseminate any updates or revisions taking place after the date hereof to any forward-looking statement contained herein to reflect any change in expectations with regard thereto or any change in events, conditions or circumstances (including changes in the companies’ business and in their business development strategy) on which any such statement is based.*

*This document and any Q&A session which may follow it may contain summarized, non-audited or non-GAAP financial information. The information contained herein and therein should therefore be considered as a whole and in conjunction with all the public information regarding Telefónica and Liberty Global available, including, if any, other documents released by that may contain more detailed information.*

*Neither this document nor the Q&A session nor any of their contents constitute an offer to purchase, sale or exchange any security, a solicitation of any offer to purchase, sale or exchange any security, or a recommendation or advice regarding any security.*

## *Additional Information*

*In connection with the proposed transaction, Liberty Global shall file in due course with the SEC a Current Report on Form 8-K that includes the Contribution Agreement entered into by Liberty Global and Telefónica in connection with the proposed transaction. Investors and security holders of Liberty Global are urged to read the Current Report on Form 8-K and the Contribution Agreement filed with the SEC carefully and in their entirety because they contain important information about the proposed transaction and related matters.*

# Transaction Summary

## Key Terms

- Telefónica and Liberty Global have agreed to combine their telecom assets in the UK (Telefónica UK and Virgin Media UK)
  - 50/50 JV creates UK leading convergent player with complementary strengths in mobile, broadband, video and B2B
  - Stronger, larger, more diversified; combined £11.0bn revenues, £3.6bn<sup>(1)</sup> OIBDA and £1.5bn OpCF<sup>(2)</sup> (pre-synergies)
  - Telefonica UK valued at 7.8x OIBDA 2019; Virgin Media UK at 9.3x
  - Enterprise Value of the combined entity at c.£38bn, including synergies. £12.7bn EV for TUK, £18.7bn for VMED UK
  - Pro forma combined entity will have 46.5m<sup>(3)</sup> accesses, of which, 32.6m correspond to mobile, 5.3m to broadband, 4.9m to fixed voice and 3.7m to Pay-TV
- Liberty Global will make a cash payment to Telefónica of £2.5bn to equalize ownership in the JV
- New joint venture will target leverage of 4.0-5.0x OIBDA
  - Telefónica expected to receive £5.5-5.8bn of proceeds in total from the transaction (post dividend recap)

## Value-creation Rationale

- Complementary fit creates leading UK integrated player, significant cross-selling opportunities for B2B, B2C and wholesale
  - Convergent capabilities' platform with best-in-class infrastructure and a technological advantage over peers
- Transaction to unlock significant value, with synergies of c.£6.25bn NPV (after integration costs)
  - Sizeable and highly visible synergies and efficiencies run-rate of c.£540m
- Transaction to create significant value for Telefónica shareholders
  - FCF accretive<sup>(4)</sup> for Telefonica from year 1 and expected to reduce Telefónica's net debt by between £5.5-5.8bn<sup>(5)</sup>
  - Credit positive; improves competitive positioning and business sustainability

## Expected Key Dates

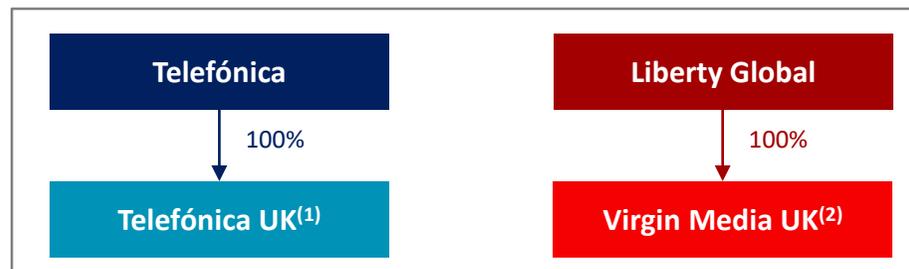
- Transaction is subject to satisfactory approvals from relevant authorities and expected to close in mid-2021

# Transaction Structure and Key Terms

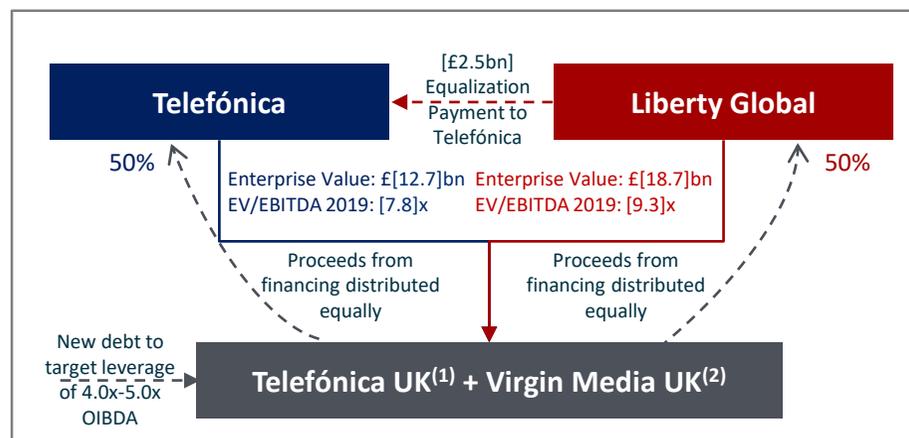
## Key Terms

- Based on the enterprise value of each business, and after deducting Virgin Media UK's £11.3bn net debt, Liberty Global will make a cash payment to Telefónica of £2.5bn to equalize JV ownership
  - Telefónica UK contributed to the JV on a debt and cash free basis
  - Virgin Media's Irish business to be carved-out ahead of completion
  - Telefonica to contribute its 50% stake in CTIL
- The JV will target a leverage ratio of 4.0-5.0x OIBDA
  - JV expected to raise new debt to reach its target leverage ratio; proceeds to be distributed equally between Telefónica and Liberty Global
  - The deal will not trigger a change of control under Virgin Media's existing third party debt
- Following completion of the transaction, neither Telefónica nor Liberty Global will consolidate the JV
- Equal governance rights in line with 50-50 shareholding
- Telefónica and Liberty Global have agreed to provide a suite of services to the JV post completion

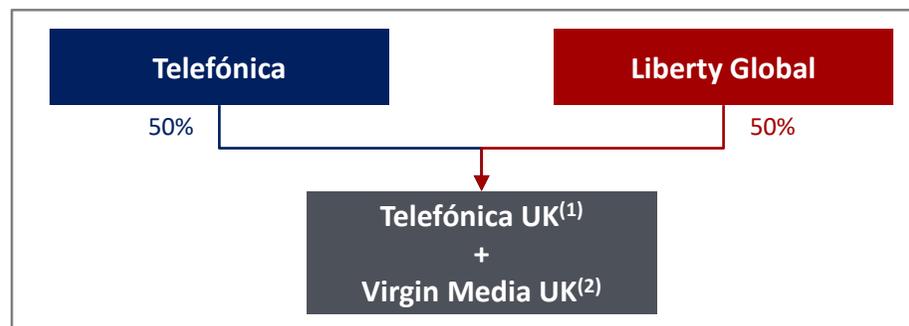
## Pre-Transaction Structure



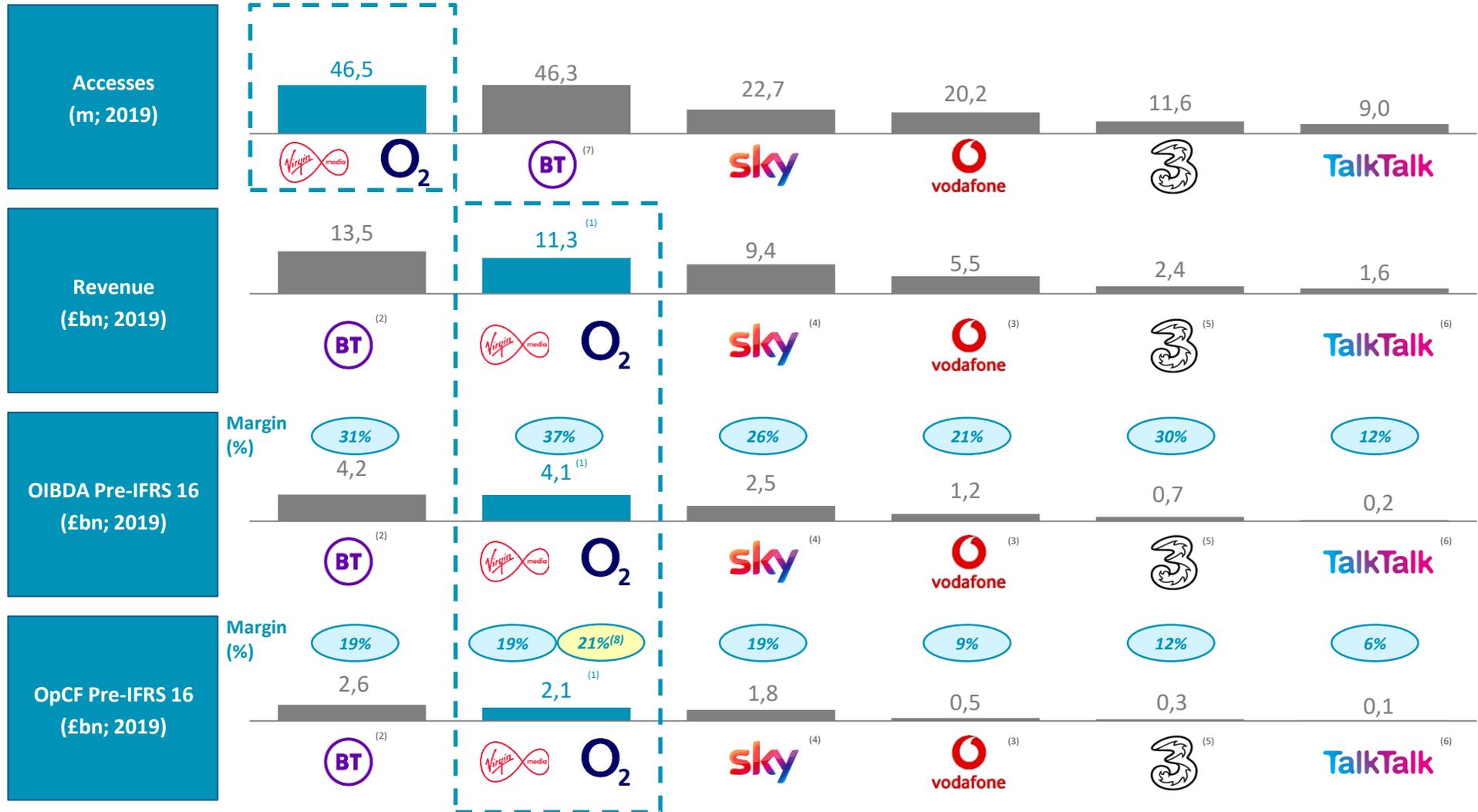
## Intermediate Structure



## Structure at Closing

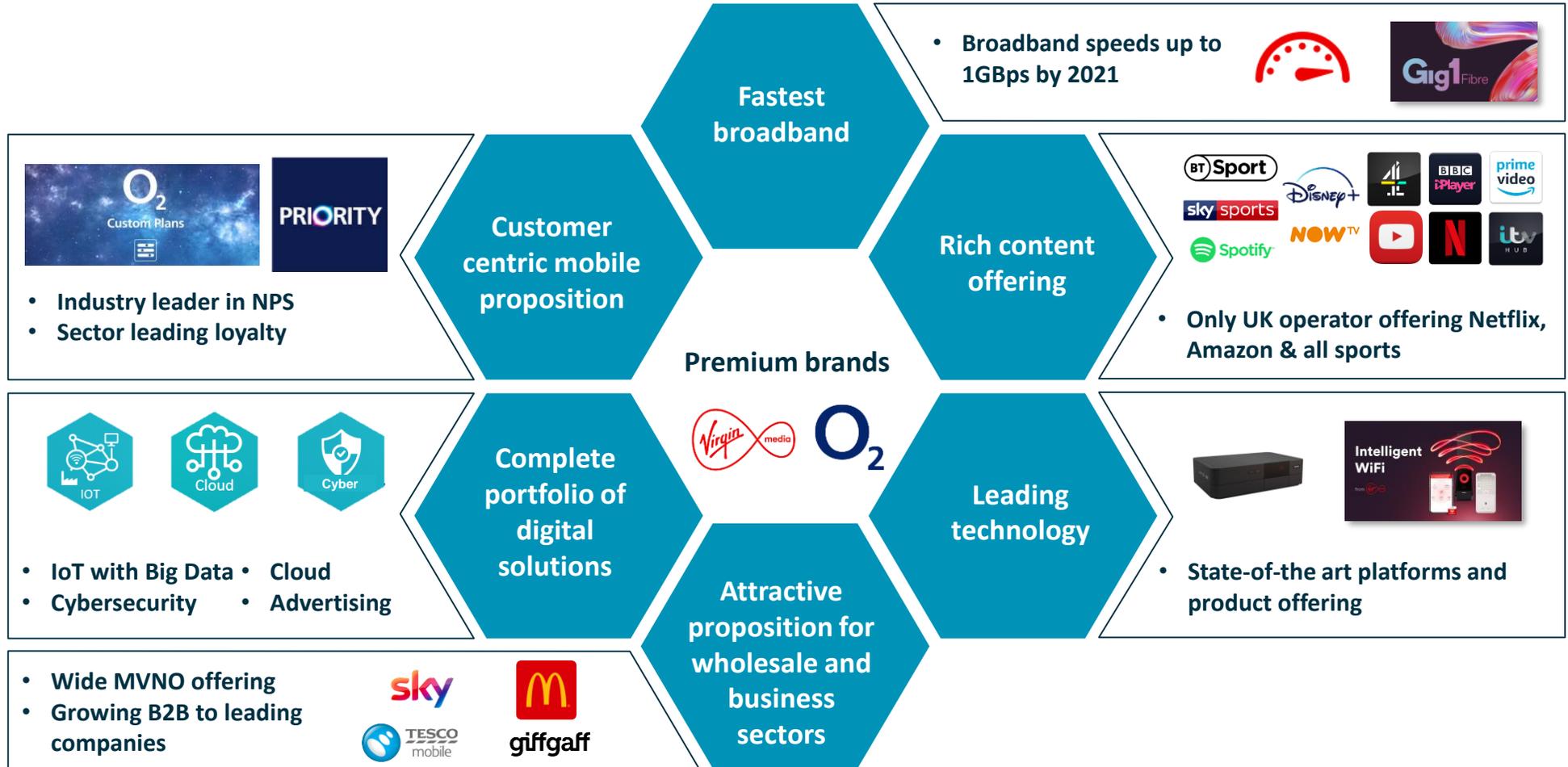


# Stronger, larger and more sustainable player



EUR/GBP converted at 0.877; HK/GBP converted at 0.100; USD/GBP converted at 0.808. Source: Companies Information, Analysys Mason, Ampere Analysis, GlobalCom. Excluding M2M subscribers and including MVNO subscribers. (1) Pro-forma of run-rate synergies; (2) Financials for BT are LTM Dec-19A, excluding Global Services and Openreach; (3) Financials for Vodafone are LTM Dec-19A (Vodafone reports regional results half-yearly); (4) Sky UK financials based on 2019E broker estimates; (5) 3 UK financials are 2019A (reported in December 2019); (6) Talk Talk financials are 2019A statutory results (reported in March 2019); (7) Excluding Virgin Media MVNO subscribers; (8) Excluding Project Lightning.

# Compelling and differentiated value proposition



# National Connectivity Champion

*Telefonica UK network: Highly competitive and cost-effective 5G ready mobile infrastructure*



- **99% population 4G coverage** and consistently recognized as **most reliable** and **best coverage network**



- Access to the **largest tower portfolio** in the UK with **15k sites** through its 50% stake in CTIL



- **Successful long term relationship with Vodafone** extended to 5G & Industry-led single rural network progressing



- **O2 5G already live in 30 places** and will reach 50 towns and cities by summer 2020



- Strong holding of <1GHz frequency, **resulting in best indoor coverage**; ongoing network optimization with spectrum refarming

*Virgin Media UK network: High performance & Ultrafast Today and Future proof for tomorrow*



- **100% of VMED UK homes DOCSIS 3.1** hardware ready and **100% 1Gbps coverage in 2021**



- **15 million homes passed** of which 14.3 million are HFC and 0.7 million are FTTP/RFOG



- Access network **c.100% ducted in owned ducts**, 0% aerial, creating flexibility in upgrade path to future coaxial or fibre



- **8m km of fibre strands** of which the access network is 7.3m km

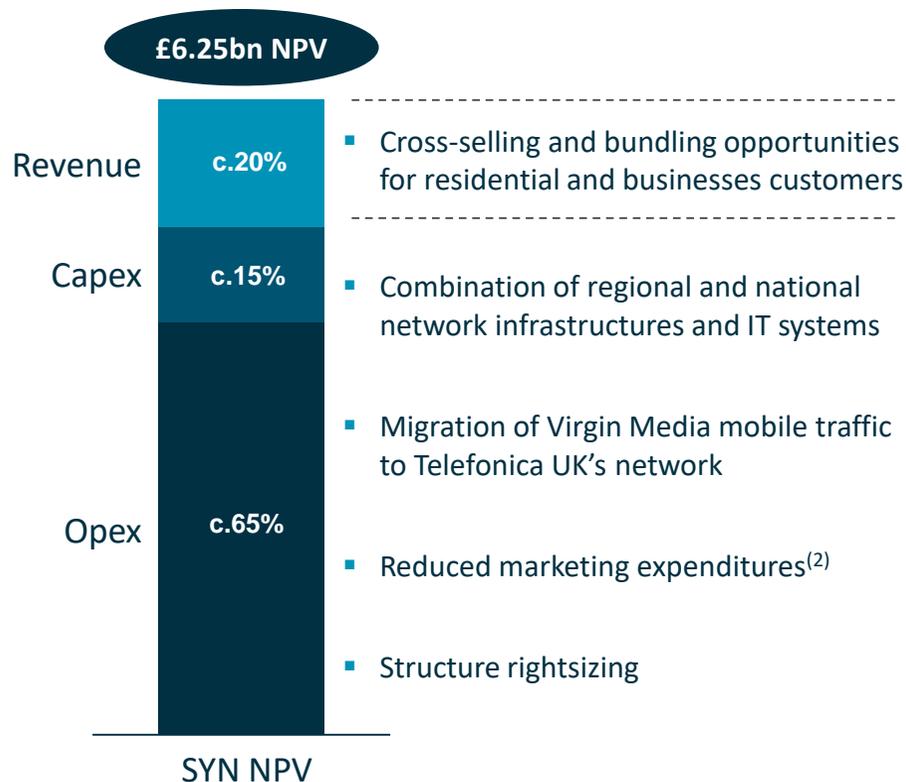


- Analogue TV and FM over cable radio services decommission complete

- ✓ *Unique infrastructure in UK to seize new opportunities arising from Fixed-Mobile convergence*
- ✓ *No network monetization to date – retains ownership of its mobile and fixed infrastructure*
- ✓ *Clear market leader in UBB (FTTP, HFC)*

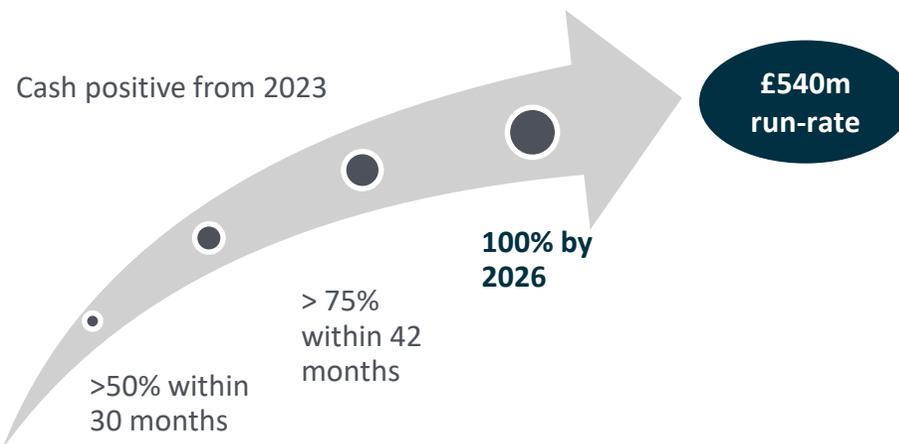
# Identified synergies of c.£6.25bn NPV, with c.80% of full potential related to cost and capex synergies

## Identified synergies of c.£6.25bn<sup>(1)</sup>



- c.80% of full potential related to cost and capex synergies
- Financial / fiscal synergies not considered

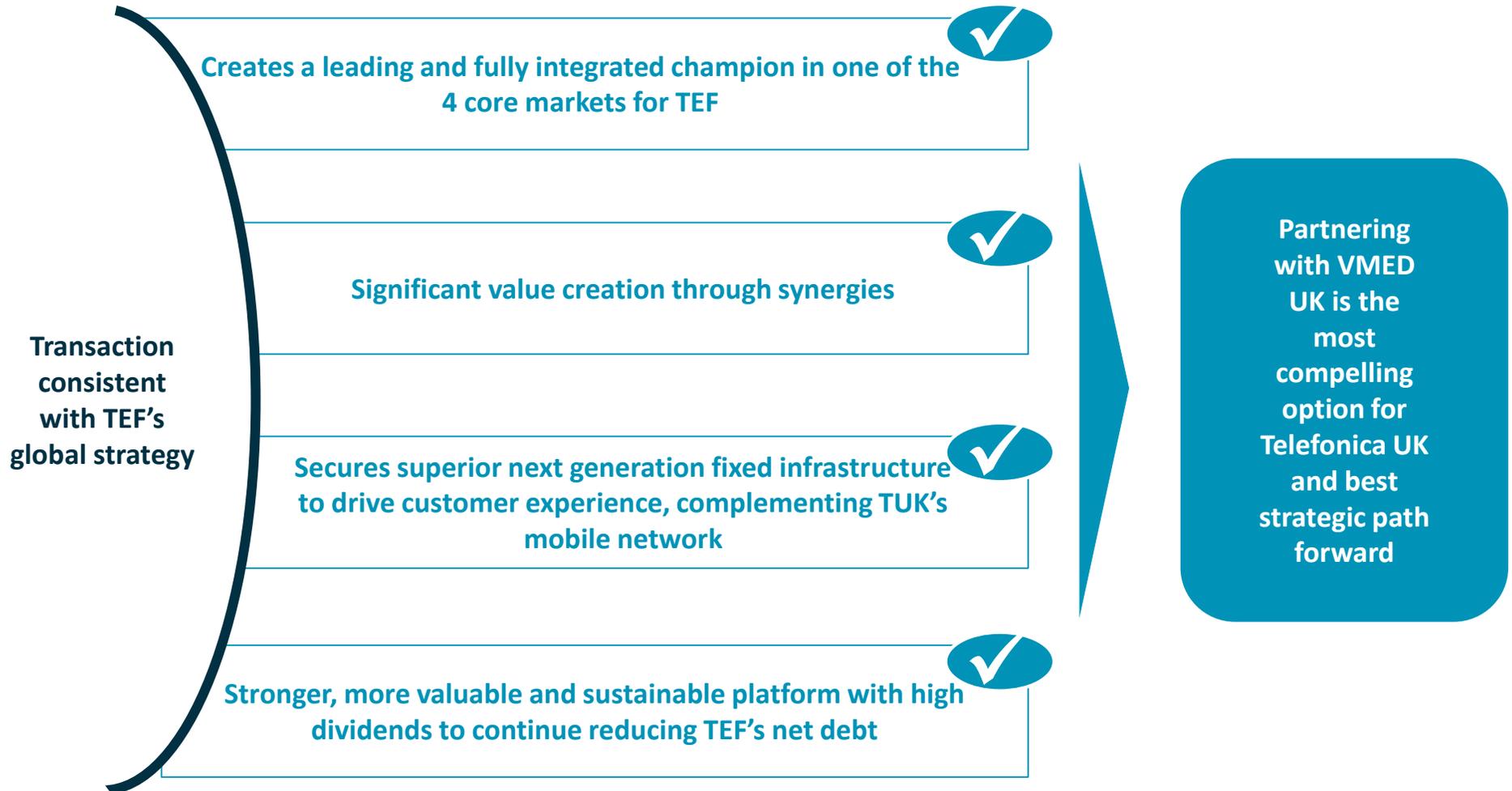
## Run-rate operating and revenue synergies of c.£540m



## Proven track record delivering synergies

- Both parties have **completed several acquisitions over the last years with substantial value creation achieved through synergies**
- **Extensive experience** with respect to **building business cases, leading integration phases and realizing identified synergies**
- **Proven track-record of achieving and exceeding initial targets**

# Transaction fully consistent with TEF's strategy



# Governance, Exit and timetable

## Governance / Shareholders Agreement

- The JV Board of Directors will consist of eight members, four from each of Liberty Global and Telefonica
- Certain matters will require unanimous approval of both companies' representatives
- The position of Chairman of the JV will be held for alternating 24 month periods by a Telefónica or Liberty Global appointed director. The Chairman has no casting vote
- Key management positions will be announced prior to completion of the transaction

## Exit

- 3 year lock-up
- Each shareholder has the right to initiate an Initial Public Offering of the JV after the third anniversary of closing, with the opportunity for the other shareholder to sell shares in the IPO on a pro-rata basis
- The parties have agreed restrictions on other transfers of interests in the JV until the fifth anniversary of closing
  - After the fifth anniversary, each shareholder will be able to initiate a sale of the entire JV to a third party, subject to a right of first offer in favour of the other shareholder

## Expected Transaction Timetable <sup>(1)</sup>

- Transaction notifiable to the European Commission (EC)
- The transaction may be referred back and require clearance by the Competition and Markets Authority (CMA)
- If approved at **Phase 1, closing** would take place in **Q4 2020 - Q3 2021**
- If approved at **Phase 2, closing** would take place in **Q2 2021 - Q1 2022**

# Closing Remarks

- Creating a **leading integrated player with significant cross-selling opportunities in the second largest European market, improving market positioning**, group profile and **business sustainability**
- Combining Telefonica UK's **leading mobile operations** and Virgin Media UK's **extensive broadband network** to benefit consumers, businesses and the public sector through investment to accelerate digital infrastructure deployment and improving customer experience
- Significant **value creation**: total cost, capex and revenue synergies with an estimated **NPV of c.£6.25bn** (after integration costs), additional financial / fiscal synergies not considered
- **M&A processes in 2 (UK and Brazil) out of 4 core markets**, progressing on the New Telefonica strategy
- Substantial value creation for Telefónica shareholders
  - **Stronger converged** challenger in the UK market, leading in customers and profitability
  - Improving **growth profile and market positioning**
  - **FCF accretive**<sup>(1)</sup> from the outset
  - Transaction expected to reduce Telefonica's **net debt** by between £5.5-5.8bn<sup>(2)</sup>
  - **Credit positive** improving competitive positioning and long term business sustainability

*Telefónica*

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