CABLE & WIRELESS COMMUNICATIONS PLC

Business Description:

Cable & Wireless Communications plc (CWC) is a full-service telecommunications company offering mobile services and mobile data, broadband services and fixed line communications services to over 5.6 million residential customers. CWC is headquartered in London, UK, and employs 4,000 people. CWC operates in 17 countries in the Caribbean, Latin America and the Seychelles. Founded in Great Britain in the 1870s, CWC was formed through the demerger of Cable & Wireless plc in 2010. Its former sister company, Cable & Wireless Worldwide, was subsequently bought by Vodafone Group plc in 2012. In 2011, CWC bought 51% of shares in the Bahamas Telecommunications Company and in 2013, completed the sales of its Macau and Islands businesses to focus its business in the Caribbean and Latin America. In 2014, CWC acquired Columbus International Inc. (Columbus), which we believe gives the company access to a premier mobile network, the best fibre network and the best backhaul submarine networks across the Caribbean.

Investment Thesis:

With the acquisition of Columbus, CWC emerges as the preeminent communications provider in its region. It is a transformational deal for the telecommunications industry in the Caribbean and Central and Latin America as it creates a leader in fixed-mobile convergence, with a low cost per gigabit (akin to production cost), owning the premier fixed, mobile and backhaul (wholesale) networks and delivering best-in-class quad play offering (mobile, fixed line, TV and broadband Internet) with leading content on multi-device platforms referenced as **'anything on anything, anytime, anywhere'**.

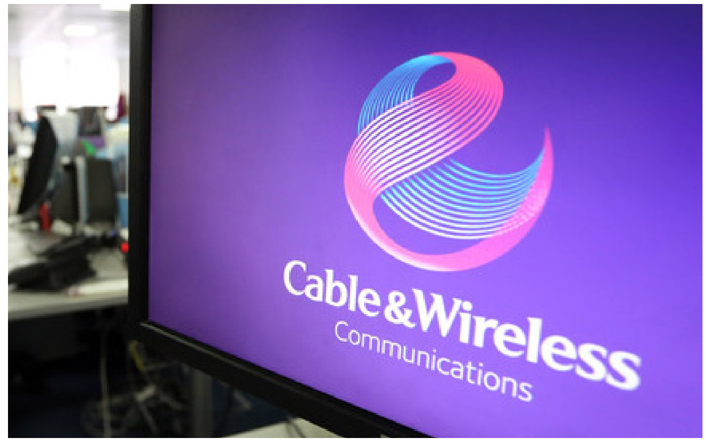
Columbus acquisition provides CWC with:

- **Scale in a growing number of territories.** Adds size in Jamaica, Barbados and SE Caribbean, while adding exposure to Trinidad & Tobago. The acquisition supports CWC's existing geographical expansion in Peru, Costa Rica and El Salvador, while providing entry into new markets, such as Guatemala, Honduras, Dominican Republic, Puerto Rico and Colombia.

- **Scope with a broader product range.** CWC has leadership positions in wireless, fixed line and broadband across the region. The addition of Columbus provides, we believe, an ideal set of complementary assets, strengthening CWC's TV offering and providing access to Columbus' established and fast growing business-to-business (B2B) and business-to-government (B2G) business, all underpinned by the addition of subsea cable networks and their backhaul capabilities.

  - **Cable/Broadband TV.** CWC is currently offering TV product to roughly 72,000 subscribers. This compares to Columbus's technologically superior cable/broadband offering to its 380,000 subscribers through Flow. Flow has been growing organically at a 20% per annum pace, while earning 45% margins.

  - **Business-to-Business.** B2B and B2G segment are key growth areas. The combination of terrestrial and submarine assets supports expansion in Latin America. Columbus B2B and B2G operations has seen strong organic growth, at over 35%, with margins approaching 30% and prospects for mid-40% range as the capacity utilization increases. The multi-national customer base in the region has also been identified as a key growth opportunity.



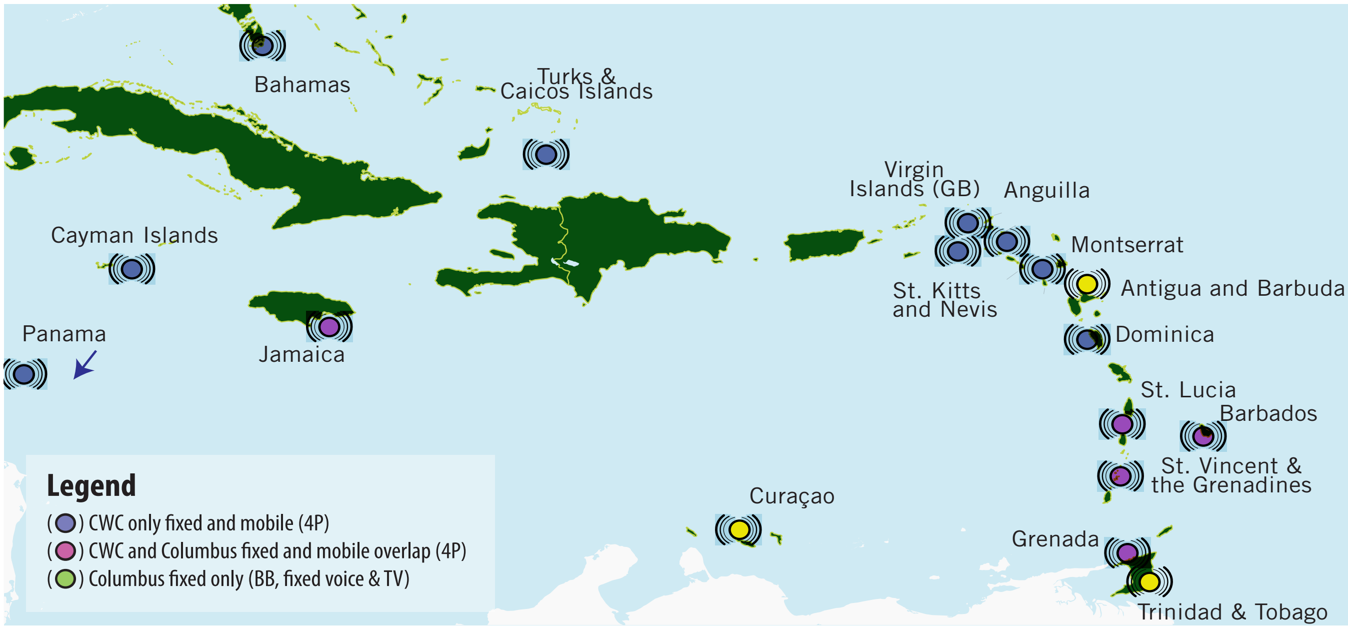
- **Fast deployment of new products to existing CWC markets.** The acquisition of Columbus adds state-of-the-art IPTV (TV over Internet) and broadband technology which could instantly enhance the quality of service to CWC's existing clients. The introduction of additional levels of service and pricing options would multiply CWC top line for the segment. Besides superior engineering and software applications capabilities, which Columbus enjoys, a good TV product also relies on deployment of cable TV head-ends (a distribution node for TV content) which Columbus' existing technology possesses, so allowing deployment of superior TV offerings at a fraction of the cost previously required by CWC. Columbus has built a next generation master head-end in Curacao supporting over 300 channels and advanced features including CloudDVR, VoD and time shift TV.

- **Significant synergy opportunities.** CWC's management estimates the net present value of the synergies at over $700 million. The synergies are expected to consist of $85 million of operating costs savings (some 10% of the combined costs); $145 of capital expenditure savings due to the cancellation of overlapping investment plans; and a yet-to-be-determined revenue enhancing opportunity. Going forward, management is aiming for **mid to high single digit revenue growth and significant EBITDA growth.**

- **Growth momentum on existing Columbus assets.** Columbus has delivered sustained growth and financial performance. Its revenue has grown at an 18% compound annual growth rate (CAGR) from 2011 to 2013. Columbus' EBITDA has grown over the same period of time at a 15% CAGR with its first half 2014 revenues growing at 18%.

Alignment of interests. The terms of the Columbus acquisition include consideration shares which retain the interest of key Columbus shareholders into the enlarged entity. With roughly 20% of the shares, John Risley becomes the single largest shareholder or CWC, while John Malone and Brendan Paddick will hold 13% and 3%, respectively. All three key shareholders will also have Board representation. The consideration is strengthened by a put feature, which allows the new shareholders to sell to the company about a quarter of their respective holdings once a year starting in 2016 at a price which equates the $1.1 billion consideration (roughly £0.46). In other words, the new shareholders retention is insured by a near-cash consideration, while the alignment of interest is ensured by the equity participation. CWC, meanwhile, benefits from the game changing addition of Columbus assets, ensures the alignment of Columbus' key shareholders and, as a worst case scenario, spreads the cash payment of the $1.1 billion consideration over four or more years.

Retail: CWC and Columbus' retail businesses provide significant quad-play growth potential



Columbus cable network is the prized asset of the transaction. The subsea cable stretches 42,000 kilometers and enabled Columbus to expand in adjacent areas of the telecommunications industry. The cable connects 42 countries, is geographically focused around the Caribbean and Central and Latin America. The value of the network is enhanced by a 10 fold increase in pan-regional connectivity in the past five years. Traffic on these networks increased from 75 gigabits in 2005 to 1.4 terabits currently. Margins in the business are over 60% as the network is already in place.

Experienced team. Current leadership team includes Sir Richard Lapthorne, who formerly chaired or held executive positions with McLaren Group, GE Healthcare and British Aerospace; Phil Bentley, who formerly chaired or held executive positions with British Gas, Centrica Plc, Diageo Plc and BP Plc; and R. Perley McBride, former CFO of Leap Wireless International. The team will be strengthened by the addition of key shareholders, with representation on the Board of Directors, including John Risley, the famed Canadian entrepreneur who founded Clearwater Seafoods Inc., Ocean Nutrition Canada and Columbus; John Malone, the legendary cable investor and multi-billionaire best-known for his interests in Liberty Media Corporations and Liberty Global plc; and Brendan Paddick, Columbus' president and CEO since inception.

Industry Growth Drivers/Trends: (Industry: Integrated Telecommunication Services)

Data is King. Convergence of fixed and mobile networks, increasing content consumption and significant traffic growth is driving requirement for high bandwidth fixed line networks and TV capabilities. Internet access traffic has increased 300 fold in less than 10 years and Cisco predicts a four-fold increase in bandwidth demand over the next five years across Latin America.

Fixed Mobile Convergence. While the entry point for data consumption tends to be more and more on the mobile devices, competition for data delivery has been intensifying. Fixed line players have been developing mobile capabilities, while mobile players have been acquiring or building fixed access capabilities, backhaul and subsea networks, as well as TV capabilities.

Underlying economic growth. While growth in the region has been un-even, on balance the Caribbean, but in particular the Central and Latin America are, we believe, on an ascending economic path. Panama has been growing at a break-neck pace of roughly 10% annum over the last two years. Its public budget has risen from $6 billion to $18 billion in just seven years, providing plenty of opportunities for CWC's B2G segment expansion.

Degree of market penetration. While CWC, in particular after the addition of Columbus assets, commands leadership positions in most markets, there is plenty of scope for growth based on the degree of penetration of various offerings. For example, the penetration of CWC's broadband and television services across the countries where it is active is currently only 32% and 28%, respectively. Similarly, the penetration of Columbus' video services, marketed as Flow, is only 50% and 47% in large markets such as Trinidad and Jamaica and a lower 28% and 22% in Barbados and Curacao.

The emergence of content delivery networks (CDN). A content delivery network is a large distributed system of servers deployed in multiple data centers across the Internet. The goal of a CDN is to serve content to end-users with high availability and high performance. Columbus networks division has been a beneficiary of the increased prevalence of CDNs, counting as its clients firms such as Google, Microsoft, Facebook, Yahoo and Akamai.

Competitive Advantages:

- Size: CWC is a market leader in 10 of 15 markets for mobile, 14 of 14 markets for fixed line and 14 of 15 for broadband prior to the acquisition of Columbus, which will further enhance the company's reach and capabilities.
- Network: Columbus has the largest subsea network capacity in the Caribbean, consisting of 64,200 km of fibre deployed, of which 42,000 is subsea.
- Service quality: the acquisition of Columbus has, in CWC's opinion, provided an injection of 'state-of-art TV and broadband technology', enabling the firm to have the premier mobile network, the best fibre network and the best backhaul submarine network across the region.

Competitors:

- Broadband TV: DirecTV, Digicel, Green Dot Ltd.
- Mobile communications and data: Digicel, America Movil.
- Fixed broadband: Digicel, Green Dot Ltd.

Customers:

- CWC serves over 5.6 million residential customers, including 4.1 million for mobile, 400,000 for broadband and 1.1 million for fixed line. In addition, CWC has established a presence in the B2B and B2G segments.
- Columbus is adding 700,000 residential customers, including, including 380,000 clients in cable TV, 63,000 in Internet telephony and 243,000 subscribers of Internet services. In addition, Columbus has 17,000 corporate clients in 16 countries across the region.

Barriers to Entry:

- **Technical Expertise/Competitive bidding/Regulation:** License to operate in either of the four key telecommunications area is subject to regulatory approval and scrutiny and is the result of a competitive bidding process, which emphasizes the operators' technical expertise and market knowledge.
- **Large capital outlays/Economies of scale:** Entry in the telecommunications markets requires significant up-front outlays for laying out the infrastructure (i.e. optical fibre, towers, switches, modems, set-top boxes, etc.). Given physical limitations of the Caribbean markets, real synergies/economies of scale can only be achieved by players operating across the region and which benefit from a common backbone (the undersea cable acquired from Columbus in CWC's case).

Officers and Directors:

- **Leadership team:** Chairman of the Board, Sir Richard Lapthorne, CBE; Chief Executive, Phil Bentley; Chief Financial Officer, R. Perley McBride; Corporate Services Director, Nick Cooper.

Corporate Governance:

- **11 member board** – of which 4 are independent directors, while 3 others are former Columbus shareholders and/or their representatives: John Risley, John Malone and Brendan Paddick.
- Chair of the Nominating Committee, Sir Richard Lapthorne; Chair of the Remuneration Committee, Simon Ball (ex-Finance Director of 3i Group plc), Chair of the Audit Committee, Ian Tyler, CA (ex-CEO of Balfour Beatty).
- With the view to optimize the integration of Columbus businesses and CWC, three integration committees were set-up: the Integration Oversight Committee, whose members are Sir Richard Lapthorne, John Risley, Brendan Paddick and Phil Bentley; the Integration Steering Committee, encompassing the CEO and CWC/Columbus executives; and the Integration Management Office, including the full time executive team.
- CWC's focus on corporate responsibility and sustainability was recognized by FTSE in 2013/14, by naming the company as a continuing member of the FTSE4Good Index.
- CWC's key management personnel remuneration is equivalent to roughly 1.4% of the company's operating income.

Ownership:

- Prior to Columbus' 3 key shareholders owning about 36% of CWC outstanding shares, CWC insiders owned 3% and 70% was owned by institutions, including: Orbis Investment Management Ltd. 16%, Newton Investment Management Ltd. 10%, INVESCO Asset Management Limited 5%, Gabelli Funds, LLC 4%and Legal & General Investment Management Ltd. 3%.

Capital Allocation/Uses:

- CWC issued $1,145 million of new equity to key Columbus shareholders as a result of the Columbus acquisition. At the same time, CWC placed $178 million of new shares, or roughly 10% of the market capitalization with key existing investors, including Orbis, Invesco and the four members of the executive team. Subsequent to the acquisition, CWC is expected to have an equity-capital base of roughly $3.4 billion.
- CWC assumed Columbus' existing net debt of $1,173 million and intends to issue a further $530 million to finance the acquisition. The combined opening net debt is expected to be $2.4 billion, including the existing consolidated net debt of CWC of $464 million.
- The company's leverage, in term of the net debt to EBITDA ratio is likely to be above 3x after the consummation of the deal, however, synergies and business overlap are expected to drive growth in EBITDA and lower capital expenditures, with the net effect of gradually reducing the leverage. The company's long term leverage target is below 2.5x.
- CWC currently has a BB credit rating by the S&P credit agency.
- The company used the proceeds from its divestments program (i.e. Macau and Monaco businesses) to repay some of its debt, including the early redemption of a secured $500 million 2017 bond in February of 2014.
- Prior to the announcement of the Columbus acquisition, CWC had earmarked $250 million increased capital expenditures over 3 years, to a total of $1,050, to capture the growth opportunity offered by mobile data, broadband and TV, by upgrading the wireless networks, deploying fiber connections and improving network reliability. Under the program, known as Project Marlin, CWC planned to undertake only projects with a three year payback or less and an Internal Rate of Return of more than 15%. Subsequent to the Columbus acquisition, the size and the scope of the Project Marlin is likely to be altered.
- CWC is committed to maintaining its existing dividend policy, of paying $0.04/share, which amounts to roughly $100 million cash outflow per annum. The current dividend yields 5.9%.

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Financial Statement Summary (USD MM except per share items which is USD, years ended March 31):

	2010	2011	2012	2013	2014
Income Statement					
Total Revenue	2,346	2,440	2,032	1,942	1,873
EBITDA	1,296	854	602	689	612
Earnings per Share (Diluted)	0.05	0.07	(0.11)	(0.07)	(0.08)
Free Operating Cash Flow per Share	0.14	0.09	0.18	0.18	0.04
Dividend per Share	0.09	0.08	0.08	0.04	0.04
Dividend Payout Ratio (Operating Cash Flow)	62.27%	91.05%	45.46%	22.12%	95.31%
Balance Sheet					
Net Debt	1,235	1,532	1,870	2,152	1,000
Total Equity	414	366	-77	-249	489
Net Debt: Total Equity	298.31%	418.58%	n/a	n/a	204.50%
Cash Flow Statement					
Operating Cash Flow	660	563	725	703	480

Key Ratios and Figures:

	2012	2013	2014
Y/E March 31			
EBITDA Margin	29.63%	35.48%	32.67%
Interest Coverage	4.7x	5.0x	5.3x
Return on Invested Capital	18.4%	17.8%	17.8%
S&P Credit Rating	BB	BB	BB

Key Ratios and Figures (Years ended March 31):

	Revenues (%)		Operating Profit (%)	
	2014	2013	2014	2013
Geographic Mix				
Caribbean	55.8	57.7	49.0	47.3
Panama	31.6	30.2	39.8	41.1
Other & Discontinued	12.7	12.2	11.2	11.5

Post acquisition position

Overlapping markets	Market Position		TV
	Mobile	Fixed	
Jamaica	#2	#1	✓
Barbados	#1	#1	✓
S.E. Caribbean	#1	#1	✓
Non-overlapping markets			
Trinidad & Tobago	#2	#1	✓
N.E. Caribbean	#1	#1	✓
Cayman	#1	#1	✓
Bahamas	#1	#1	✓
Panama	#1	#1	✓
Curacao	n/a	#1	✓

Sourced from Thomson Reuters and Company Reports

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