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Serial Growth & Operational Leverage in Consolidating Fragmented Markets

Manual of Ideas Presentation
Keith Smith, CFA
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Sources of Serial Cash Flow Growth

- Higher revenues
  - Increased market demand
  - Increased market share
  - Increased product turns (velocity)

- Higher margins (fixed costs spread across more sales)
  - Economies of scale
  - Economies of scope
  - Economies of turns (velocity)

Sources of Serial High Returns on Invested Capital

- High cash flow return on sales (growth in cash flows)
- Modest investment outlays
  - Service business
  - Leverages off others' infrastructure

Velocity

- Velocity is a multiplicative growth factor
  - If you can sell more products to customers per year than your competitors, then you can spread fixed costs across more sales
  - You can offer savings to customers as customer surplus, achieve higher sales growth, and higher margins all at the same time
  - Becomes sustainable to the extent you can retain existing customers and attract new customers
- Velocity can be measured as product/service turnover and/or recurring revenue/renewal rate

Fragmented Markets

- Long runways associated with consolidation and associated cost economies of scale/scope which can lead to cash flow growth in excess of market growth
- Innovation (internet) has added additional fragmentation of demand between online, offline, and omnichannel
- Where in the consolidation lifecycle is the market?
- Can select best across markets and geographies
- Examples
  - Equipment leasing (Ashtead/URI in US)
  - Automobile distribution (Asbury in US/Motorpoint in UK)
  - IT services/distribution (CDW/Insight Enterprises in US)
  - Connectivity (Consolidated Communications/Frontier in US)
- Examine incumbents adopting the innovation (which enhances growth) and the enhanced growth may not be reflected in the stock price (Asbury/Consolidated)

Categorizations of Consolidators

Buckets of Serial Acquirers

Type	**Roll-up**	**Platform**	**Accumulator**	**Hold Co**
Degree of Integration	High			Low
Attributes	Commodity-like product Scale-driven synergy targets	Product differentiation, clustering of subsidiaries Shared operational excellence programs	Product differentiation, little to no integration Shared operational excellence programs	Portfolio of unrelated businesses Influence only-via board representaiton
Examples	Waste Mgmt, Berry Global, Johnson Service	Danaher, Roper, Interpump, Lifco, Assa Abloy	Constellation Software, Addtech, Judges Scientific, Vitec Software	IAC, Leucadia, Bollore, HAL Holding, Investor AB

Source: Serial Acquirers, January 2020, Scott Management, LLC Web Page

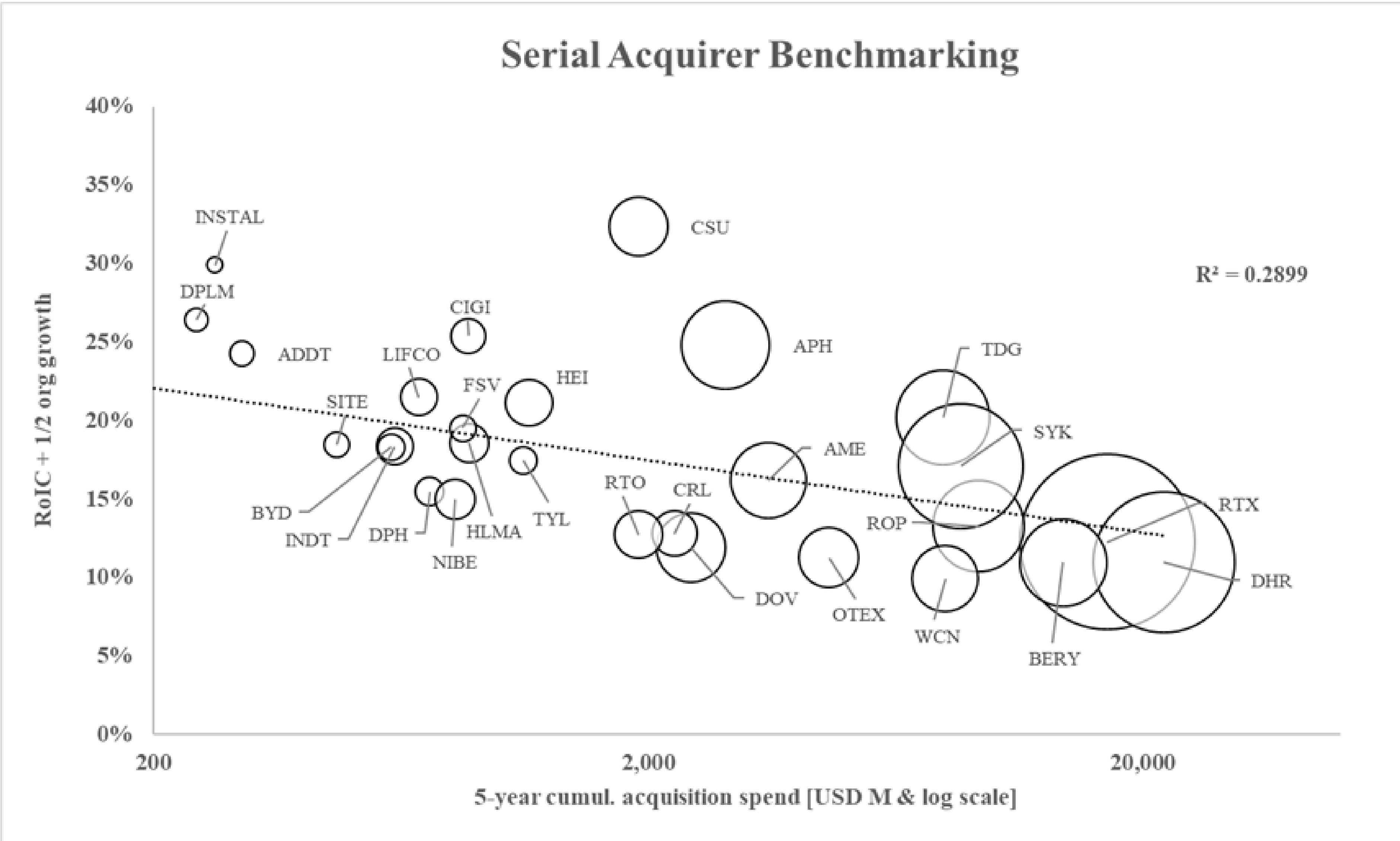
Characteristics of Consolidators

Scaling of Serial Acquirers

	Roll-up	Platform	Accumulator
TAM Constraint			
Resource & Process Constraint			
TAM Definition	Often a single, large industry and/or single country	Multiple industries of larger size, often multi-national	Many small industries, usually multi-national
Opportunities	Relative ease of scaling deal volume in initial TAM = fastest growth for many years	Compromise between Roll-ups' deal volume scaling and Accumulators' TAM expansion = long runway of good growth at good multiples	Relative ease of TAM expansion = multiples stay lower for longest
Risks	Earlier multiple escalation despite deal volume scaling Tough to expand TAM Expensive int'l platform deals Di-worsification via int'l	Overpaying for new platforms HQ unwilling to delegate bolt-on M&A to platforms = harder to scale deal volume = multiple escalation due to shift to large M&A (platform deals)	Harder to scale deal volume = earlier growth slowdown with rising payout ratio or multiple escalation via shift to larger deals
To Monitor	Market share of Top X consolidators Int'l expansion track record and relative quality of int'l opportunity	Track record of opportunistic platform acquisitions Delegation of bolt-on M&A to platform level preferable over heavy centralization	Scaling of M&A resources and processes

Source: Studying Serial Acquirers, Canuck Analysts Substack

Benchmarking of Consolidators



Source: Studying Serial Acquirers, Canuck Analysts Substack

Roll-up Example (Auto Retail/Service)

- Relative velocity and velocity trends as a measure of recurring sales
  - Inventory turns tell you how fast a firm is matching customers to products/services
  - EBITDA margins show profitability of each transaction
  - Inventory turns and EBITA margins relative to peers give insight into relative advantage
- New and Used Sales Return on Equity = Inventory Turns * Margin * Leverage
  - Good portion of leverage from floorplan financing for auto dealers
- Service provides high margin cash flow and customer stickiness
- Fragmented Market (Top 5 firms hold 7.9% of US market)
- Auto Sales/Services Metrics

	Inventory Turns	EBITA Margins	Return on Equity
Asbury	5.07	4.60%	32.90%
AutoNation	4.40	3.70%	15.30%
CarMax	6.56	5.80%	24.90%
Carvana	5.84	-6.90%	Neg
Lithia	3.93	3.90%	20.40%
Group 1	5.13	3.40%	14.30%
Sonic	5.60	3.20%	16.40%

Forward-looking Valuation

- Develop simple DCF model that includes key value drivers
  - Revenue growth buildup
  - NI/FCF margins including any operational leverage
  - NI/FCF multiple based upon Graham Formula and long-term NI/FCF growth rate

- Revenue/NI growth drivers
  - Organic revenue growth (unit and sales/unit growth)
  - M&A revenue growth
  - Operational leverage from growth
  - Debt paydown and buybacks increase equity value

- Support key assumptions via firm history and or supplier growth and competitors

- Example

Asbury					EPS Growth	18%										
	2021	2022	2023	2024	2025	2026	2027	2028	2029		$175.54	3.37	5-yr fwd PE		10% growth PE	
											12.7%	7.85	Earnings/FCF Yield		28.5	
Revs	$9,755	$15,482	$17,406	$21,787	$26,144	$30,066	$34,576	$38,034	$41,837							
		59%	12%	25%	20%	15%	15%	10%	10%			Revenue Drivers				
												SSS growth 4%				
NI	$516	$630	$600	$742	$915	$1,203	$1,383	$1,521	$1,673			Acquisitions - Unit growth 10%				
	5.3%	4.1%	3.4%	3.4%	3.5%	4.0%	4.0%	4.0%	4.0%			Internet (10%)				
EPS	$22.36	$27.30	$26.00	$32.15	$39.65	$52.11	$59.92	$65.92	$72.51				Market Cap	Target Price	$1,485	
		22%	-5%	24%	23%	31%	15%	10%	10%		Shares	23.08	$4,051.46	IRR	53.3%	

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Overview

- Great business model comparable to or better than online players but significantly different valuations
  - Revenue from multiple sources (new, used, service, finance and insurance, parts and online)
  - Larger number of customer interactions versus online only
- Added online-only sales capability in 2020 (Clicklane)
- 20% of gross profits from new cars, 14% from used cars, 43% from service, and 23% from F&I
- 45% of franchises are luxury, 40% import, and 15% domestic mass market
- Low debt and avg 30%+ RoE over the past 10 years

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Profitability & Sales Growth

- Has quad approach to growth: pay down debt, buy new dealerships, internet, and buy back shares
- Dealerships are clustered to take advantage of economies of scale (highest US margins despite not largest in sales)
- Large runway (0.7% market share) with 20%+ EPS growth per year potential
- Online purchase option (Clicklane) provides accelerated growth; new growth with little tangible investment

US Auto Dealer Business

- Key recurring revenue for automobiles
  - Service/aftermarket parts correlate to miles driven versus automobiles on the road
  - Demand will increase with autonomy, electric cars, and car sharing (Uber)
  - Dealers provide service for warranty and leased autos
  - Dealers can be better equipped to service technologically evolving automobiles
- Service demand growing by 3% per year organically; dealer penetration should increase as automobiles incorporate more technology (entertainment/autonomy)
- Key aspects of business
  - Large auto dealer business is a good business (avg. RoEs in mid 20%+ > Cost of Equity)
  - Most of dealer firm's profits come from finance, service, and aftermarket sales
  - Most dealers have vertically integrated into finance, service, and used cars
  - New car sales are lower profit but are financed by floorplan financing
  - Consolidating fragmented market (Top 5 dealers have 8% market share)
- Segmented by quality/price
  - Premium (Audi, Porshe, Bentley, BMW, Land Rover, Jaguar, Lexus, Mercedes Benz, Sprinter, and Volvo)
  - Mass Market (GM, Ford, Chrysler, Honda, Toyota, Subaru, Volkswagen, Mini, Nissan, Kia, Hyundai, and Isuzu)

Growth/Implied Returns

- A Good Growth Record
  - 8% revenue, 13% EBITDA, and 25% EPS growth over past five years
  - 7% revenue, 10% EBITDA, and 23% EPS growth over past 10 years
- Capital Allocation Committee as Part of Board
- Implied Security Returns
  - Debt interest rate at 4.0% yield
  - Common stock trades at 8.6x adjusted earnings
  - Combined earnings yield plus growth of 25%+
  - Equity FCF/bond yield spread is 6.0% (quite high given low-20 earnings growth rate)
  - Implied EV/EBITDA is 10.1x, 8.9x (ex floorplan)
- Growth Challenges
  - Changing service needs/requirements for hybrids/EVs
  - Bilia on front end of EV transition; still generating 27% return on equity

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Management Incentives

- Management Ownership
  - Ownership – 0.8% of shares
  - Equity ownership levels – CEO (5x), other management (3x)
- Incentive Compensation
  - 30% base salary, 70% incentive (cash and stock)
  - Cash incentive based upon EBITDA growth at various levels of US car sales
  - Equity incentives (60% performance, 40% time)
  - Performance based upon relative vs. peers
    - 3-yr EPS Growth, operating margin, same-store parts/service GP growth, same-store used vehicle sales growth
    - Overlay based upon relative shareholder total return
- 1.1% of equity granted each year for stock grants

ASBURY AUTOMOTIVE GROUP Forward-looking Valuation

Asbury					EPS Growth	18%										
	2021	2022	2023	2024	2025	2026	2027	2028	2029		$175.54	3.37	5-yr fwd PE		10% growth PE	
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		22%	-5%	24%	23%	31%	15%	10%	10%		Shares	23.08	$4,051.46	IRR	53.3%	

- Revenue Drivers
  - Same store sales growth (4-5% annually)
  - M&A growth (4-5% annually)
  - Internet growth (10% annually)
  - Competitor (LAD) – Total 31%/yr. (5-yrs) including SSS, M&A, and internet
- Operational leverage
  - Margins tripled with 70% revenue growth
  - Local economy of scale in clusters
  - Operational leverage from growth
  - Competitor (LAD) – Total 34%/yr. (5-yrs) EPS growth

Auto Dealer Firm Valuations

High RoE Car Dealerships											
					EBITA				Absorption	NPS	EBITDA
	Price	Book Value	Earnings	Inv Turns	Margin	RoE	P/E	P/BV	Ratio	Score *	Int Coverage
Asbury Auto	172.02	46.95	22.36	6.40	5.7%	32.8%	7.7	3.66	125%	13	5.50
AutoNation	111.23	38.75	17.46	5.70	4.8%	11.9%	6.4	2.87	134%	11	6.20
Lithia Motors	292.93	110.44	38.33	4.40	5.4%	22.8%	7.6	2.65	124%	-7	10.00
Penske Automotive Group	119.35	41.72	14.96	4.50	3.1%	17.8%	8.0	2.86	102%	-8	6.30
CarMax	130.5	26.27	7.33	5.52	5.2%	18.1%	17.8	4.97	N/A	16	19.60
Bilia	161.6	35.09	9.4	6.00	5.3%	27.5%	17.2	4.61	N/A	N/A	17.50
Motorpoint Group	3.24	0.31	0.19	5.50	1.7%	31.8%	17.1	10.45	N/A	N/A	6.30
China MeiDong	39.39	2.67	0.98	35.10	5.9%	30.1%	40.2	14.75	89%	N/A	10.40
* Source: Customer Guru											

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Valuation/Conclusion

- Current Valuation/Conclusion
  - 7.7x current earnings; 3.4x 2026 earnings
  - Using Graham Formula of fair P/E = 8.5 + 2g
    - 4% organic growth, fair multiple is 16.5x
    - 14% with M&A, fair multiple is 28.5x
    - 24% with M&A plus internet, fair multiple is is 56.5x
- Conclusion
  - Buying growth for more than a reasonable price
  - Best combination of inventory turns and margins in US dealer space
  - Upside from internet growth

Overview

- A legacy telecom provider rolling out a fiber network
  - 780,000 voice, 76,000 video, and 792,000 data subscribers
  - 46,000 fiber miles and 29,000 on-net buildings
  - 270,000 Gig capable passes
  - Fully funded plan is to add an additional 1.6 million Giga connections (1.9 million total)
  - 81% of markets have one competitor, 11% have no competitors, and 8% two competitors
  - 30%-40% penetration rates for Gig capable fiber rolled out to date
  - Develop a high NPS customer experience
  - Recently hired executives from Google Fiber, a high NPS fiber subsidiary

Profitability and Sales Growth

- Growth benchmarks
  - Core business will stabilize by 2031 from 2022 revenue decline due to subsidy loss and declines in video and voice subscribers
  - Fiber overlay will result in revenue increase by 2023/2024 and accelerate revenue growth to 5-6% and EPS growth to 20%+ over the next five to 10 years
  - Given low competition in most markets, 40%+ penetration is a reasonable goal
- Profitability
  - Incremental profitability will be high due to existing core network in place (management has stated long-term EBITDA profitability should approach 50%)
  - Economies of scale will result from focused footprint geographies
  - 17% unlevered IRR unit economics from fiber build-out assuming $60 HSI pricing
  - 5.8% cost of debt creates favorable leveraged growth situation

Broadband Industry Overview

- Fragmented market
  - Includes both cable, traditional telecom, wireless, and overbuilders
  - Local market and associated network effects and local economies of scale applicable
  - More competitive in urban market, less so in suburban and rural markets
  - Local markets can be further consolidated

- Gig speed internet a core infrastructure service required in the internet service economy

- US government to provide $40 billion to states to provide broadband access to underserved communities

- Many privately held overbuilders have been started and are in operation across the country

- 30-40% per year growth in broadband usage expected over the next few year with increasing broadband penetration

Growth/Implied Returns

- Fiber rollout metrics part of management incentives
- Implied Security Returns
  - Debt interest rate at 5.8% yield
  - Common stock trades at 8.8x adjusted earnings
  - Combined earnings yield plus growth of 25%+
  - Equity FCF/Bond yield spread is 5.0% (quite high given low-20 EPS growth rate)
  - Implied EV/EBITDA is 6.0x
- Growth Challenges
  - Final penetration rates and speed of penetration
  - Price competition from incumbents

Management Incentives

- Management Ownership
  - Ownership – 1.3% of shares
  - Equity ownership levels – CEO (5x), other management (3x)
- Incentive Compensation
  - 20% base salary, 80% incentive (cash and stock)
  - Cash incentive based upon adjusted EBITDA, revenue FttP penetration rate, FttP passings, and other operating goals
  - Equity incentives (50% performance, 50% time)
  - Performance based upon relative vs. peers
    - Adjusted EBITDA, revenue FttP penetration rate, FttP passings, and other operating goals
    - Overlay based upon three-year relative shareholder total return
- 1.3% of equity granted each year for stock grants

Consolidated® communications

Forward-looking Valuation

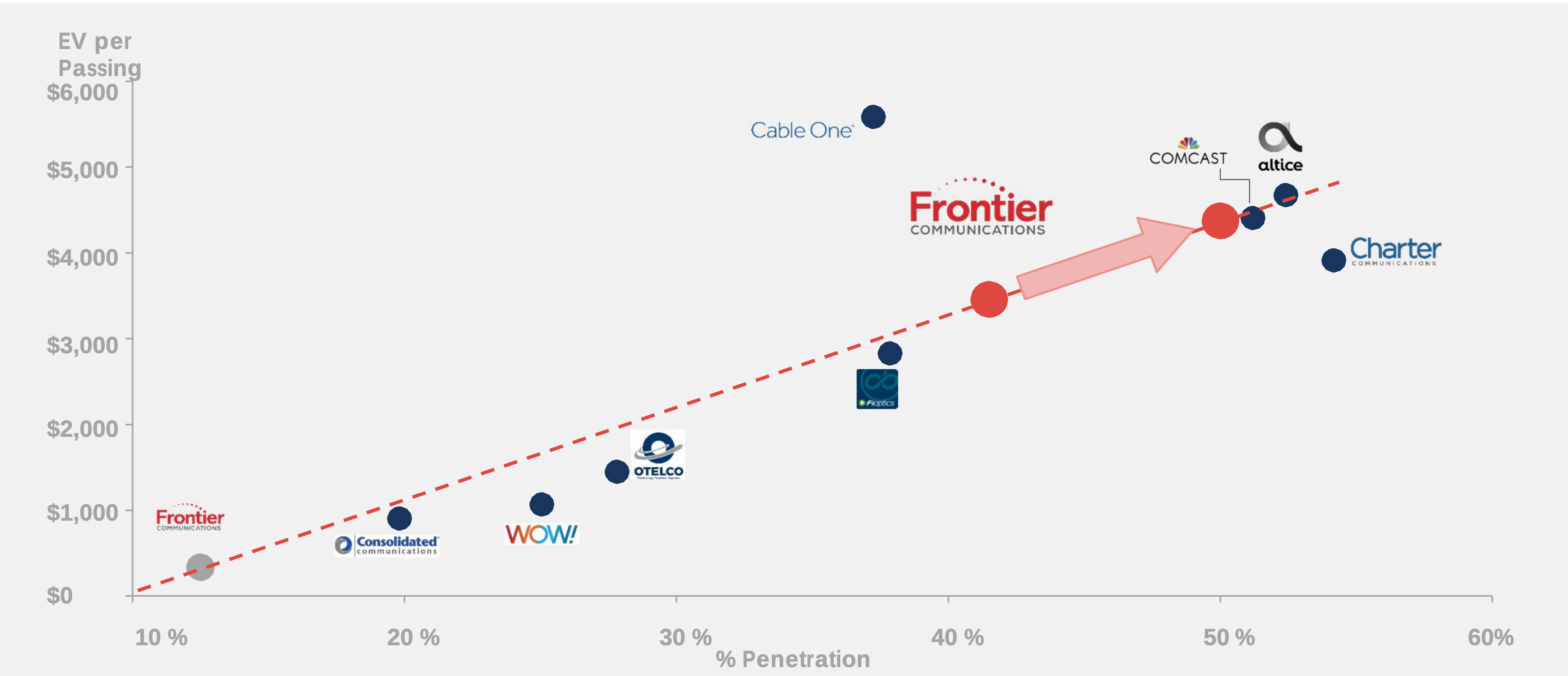
CNSL					5-yr EPS Growth	23%									
	2021	2022	2023	2024	2025	2026	2027	2028	2029		$ 7.56	3.1763339	5-yr fwd PE		10% growth PE
											11.4%	8.77642	Earnings/FCF Yield		20.5
Revs	$1,291	$1,297	$1,376	$1,475	$1,584	$1,665	$1,721	$1,755	$1,774						
		0%	6%	7%	7%	5%	3%	2%	1%			Build up revenue & NI numbers			
NI	$95	$97	$122	$164	$215	$262	$325	$348	$368						
Margin	7.3%	7.5%	8.8%	11.1%	13.6%	15.7%	18.9%	19.8%	20.7%						
EPS	$0.86	$0.88	$1.11	$1.49	$1.95	$2.38	$2.95	$3.16	$3.34		Shares	110	$ 831.60		
		2%	26%	35%	31%	22%	24%	7%	6%						

- Revenue Drivers
  - Combination of core revenue decline (stabilizing) and fiber rollout (growth)
  - Management provided core revenue assumptions by line item
  - Fiber rollout over five years with penetration increasing from 10% to 40%+
  - Assuming CNLS average broadband revenue of $56/sub/mo. increasing 2%/year

- Operational leverage
  - Fiber rollout will utilize existing fiber infrastructure
  - Connection cost will be $350/pass and $400 for user equipment
  - Operational leverage from existing infrastructure should allow 50% LT EBIDA margins
  - Debt paydown will also drive EPS growth

Valuation of Fiber Networks

The **BaseFiber Network**: valuation



Note: : Metrics calculated using publicly available data for Altice USA, Cable One, Charter, Cincinnati Bell Fioptics, Comcast (excluding NBCUniversal and Sky), Consolidated, Otelco, and WOW. Passingsand penetration data as of Q4 2020. Enterprise value data as of Mar-2021. Frontier Fiber at 41.5% broadband penetration implies ~$3,500 EV per passing. Frontier Copper at 12.5% broadband penetration implies ~$300 EV per passing.

Source: Frontier Investor Presentation, April 30, 2021, pg.12

SM Telecom Fiber Firm Valuations

Comparable SM Telecos	Price	2021 EPS/FCF	2026 EPS/FCF	5-yr Growth	2021 PE	2026 PE	Equity	Net Debt	EV	2021 EBITDA	2026 EBITDA	5-yr Growth	EV/ EBITDA	EV/ EBITDA
LICT	$25,081.00	$1,522.65	$2,427.59	9.8%	16.47	10.33	469.49	16.00	485.49	61.40	84.06	6.5%	7.91	5.78
Nuvera	$22.14	$1.94	$2.36	4.0%	11.43	9.37	115.35	54.00	169.35	28.66	32.59	2.6%	5.91	5.20
Cincinnati Bell	$15.50	$0.45	$1.75	31.2%	34.44	8.86	789.11	2163.00	2952.11	427.00			6.91	
OTELCO	$11.74	$1.83			6.42		40.15	63.00	103.15	21.00			4.91	
Alaska Communications	$3.31	$0.26			12.88		179.07	234.00	413.07	64.00			6.45	
WideOpenWest	$21.51	$0.60	$1.00	10.8%	35.85	21.51	1867.07	2286.00	4153.07	408.25	468.75	2.8%	10.17	8.86
CNSL	$7.82	$0.86	$2.38	22.5%	9.08	3.29	860.20	2208.00	3068.20	508.9	782.42	9.0%	6.03	3.92
Frontier Communications	$28.87	$1.78	$2.00	2.4%	16.20	14.40	7055.83	6012.00	13067.83	2529.544	3060.86	3.9%	5.17	4.27
Millicom	$29.05	$4.65	$8.19	12.0%	6.24	3.55	2942.77	5607.00	8549.77	1773	2443.00	6.6%	4.82	3.50
Small Italian Telecos														
Intred	€ 19.85	€ 0.46	€ 1.26	22.2%	43.10	15.80	€ 314.62	-€ 2.10	€ 312.52	€ 16.60	€ 33.32	15.0%	18.83	9.38
Unidata	€ 54.20	€ 2.01	€ 4.96	19.8%	26.99	10.92	€ 132.25	-€ 6.00	€ 126.25	€ 11.50	€ 23.96	15.8%	10.98	5.27
Planetel	€ 9.90	€ 0.21	€ 1.44	46.6%	46.67	6.89	€ 65.34	€ 1.10	€ 66.44	€ 3.80	€ 10.40	22.3%	17.48	6.39

	EBITDA Margin	FA Turns	Book Value	Return on Equity	Debt/ MVIC	Debt/ EBITDA
LICT	45%	1.21	$9,335.56	16.3%	3%	0.26
Nuvera	44%	0.92	$16.85	11.5%	32%	1.88
Cincinnati Bell	27%	0.89	N/A	N/A	73%	5.07
OTELCO	32%	1.04	$7.38	24.8%	61%	3.00
Alaska Communications	27%	0.51	$3.07	8.4%	57%	3.66
WideOpenWest	38%	1.03	N/A	N/A	55%	5.60
CNSL	39%	0.71	$6.32	13.6%	72%	4.34
Frontier Communications	39%	0.62	$17.38	10.3%	46%	2.38
Millicom	39%	1.24	$20.34	22.9%	66%	3.16
Small Italian Telecos						
Intred	40%	1.63	€ 2.03	22.7%	-1%	-0.13
Unidata	38%	1.04	€ 8.78	53.2%	-5%	-0.52
Planetel	17%	1.22	€ 2.72	17.4%	2%	0.29

Valuation/Conclusion

- Current valuation
  - 9.1 P/E (11% earnings yield)
  - Using Graham Formula of fair P/E = 8.5 + 2g
    - With 7% LT growth, fair multiple is 22.5x
    - With 20% 5-yr growth, fair multiple is 48.5x
- Buying leveraged US play focused on fiber rollout theme
- Growth beyond projections from further consolidation/M&A
- Other privately held fiber rollout firms have been purchased for 20x EBITDA
- "In-process" fiber rollout firm Cincinnati Bell (50% homes passed) was purchased for 7x EBITDA in 2021

Overview

- A growing Latin American broadband/mobile infrastructure provider
  - 4.7m broadband and 43.1m mobile subscribers
  - 9 countries in Central and Latin America
  - Number 1 or 2 in mobile and broadband in 8 of 9 markets
  - Broadband rollout funded by cash flow from operations
  - Opportunistic purchasing of connectivity firms
  - 4 markets (67% of EBITDA) have one competitor and 5 markets have two competitors
  - 39% average broadband penetration rates increasing by 1.4% since year-end 2020 (US typical of 50%+)
  - Developing a high NPS management incentivized customer experience
  - Top-level and local management teams have equity incentives
  - One of Latin America's largest mobile money/transaction platforms (5m users)

Profitability and Sales Growth

- Growth benchmarks
  - 5-yr increase BB homes passed by 50% from 12.4m to 18.6m
  - Given low competition in most markets, 40%+ penetration is a reasonable goal; implies high-single-digit customer growth
  - BB ARPU stabilizing from 2020 decline
  - Mobile subscriber growth in low single digits
  - Low-teens FCF growth before buybacks
- Profitability
  - Incremental profitability will be high due to existing core network in place (management has stated incremental EBITDA profitability should approach 60%)
  - Economies of scale will result from focused footprint geographies
  - 28% unlevered IRR (45% levered equity) unit economics from fiber build-out assuming $30 HSI pricing
  - 5.5% cost of debt creates favorable leveraged growth situation

Broadband Industry Overview

- Fragmented market
  - Includes both cable, traditional telecom, wireless, and overbuilders
  - Local market and associated network effects and local economies of scale applicable
  - More competitive in urban market, less so in suburban and rural markets
  - Local markets can be further consolidated

- Gig speed internet a core infrastructure service required in the internet service economy

- Latin American markets are much more consolidated than US markets with some markets having two primary firms

- Broadband and mobile are essential infrastructure for the 21st Century

- 30-40% per year growth in broadband usage expected over the next few year with increasing broadband penetration

Growth/Implied Returns

- Currency exposure is neutral as WA of currency movements vs. USD since 2003 has been -0.5%/year
- Implied Security Returns
  - Debt interest rate at 5.5% yield
  - Common stock trades at 7.0x proportionate FCF
  - Combined earnings yield plus growth of 25%+
  - Equity FCF/Bond yield spread is 9.0% (quite high given low-teens EPS growth rate)
  - Implied EV/EBITDA is 5.2x
- Growth Challenges
  - Final penetration rates and speed of penetration
  - External shocks to Latin American economies like COVID

Management Incentives

- Management Ownership
  - Ownership – 0.4% of shares
  - Equity ownership levels – CEO (4x), CFO (2x), other management (0.5-1x)
- Incentive Compensation
  - 15-25% base salary, 75-85% incentive (cash and stock)
  - STI (50% cash, 50% shares) based upon service revenue, EBITDA, operational cash flow, NPS and other operating goals
  - LTI incentives (100% performance) – 100% shares
  - Performance based upon service revenue and EBITDA growth goals and TSR relative vs. peers
- 0.7% of equity granted each year for stock grants

Forward-looking Valuation

TIGO																					
										5-yr FCF Growth	11.4%										
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	$29.00	3.808795	5-yr fwd FCF		10% growth PE		
															15.3%	6.537734	Earnings/FCF Yield		32.5		
Revs (Prop)	$4,416	$4,483	$4,522	$5,341	$5,209	$5,468	$5,704	$5,955	$6,222	$6,507	$6,809	$7,132	$7,476	$7,843							
		1.5%	0.9%	18.1%	-2.5%	5.0%	4.3%	4.4%	4.5%	4.6%	4.7%	4.7%	4.8%	4.9%		High-single-digit growth of cable			8.0%	39%	3.09%
																Low-single-digit growth of mobile			2.0%	61%	1.23%
EBITDA	$1,529	$1,569	$1,829	$2,223	$2,128	$2,232	$2,357	$2,490	$2,633	$2,786	$2,950	$3,125	$3,313	$3,515		0.5% Economy of scale growth					4.32%
	34.6%	35.0%	40.4%	41.6%	40.9%	40.8%	41.3%	41.8%	42.3%	42.8%	43.3%	43.8%	44.3%	44.8%							
FCF (Prop)	$571	$667	$612	-$342	$549	$560	$599	$655	$716	$781	$851	$927	$1,009	$1,098	Shares	126.3	$3,662.70				
	12.9%	14.9%	13.5%	-6.4%	10.5%	10.2%	10.5%	11.0%	11.5%	12.0%	12.5%	13.0%	13.5%	14.0%							
FCF/Sh	$4.52	$5.28	$4.84	-$2.71	$4.34	$4.44	$4.74	$5.35	$6.02	$6.77	$7.61	$8.57	$9.64	$10.86							
							6.9%	12.7%	12.6%	12.5%	12.5%	12.5%	12.6%	12.7%							
Revs					Growth																
Mobile					2.0%	$3,354	$3,421	$3,489	$3,559	$3,630	$3,703	$3,777	$3,852	$3,929							
HFC					8.0%	$2,114	$2,283	$2,466	$2,663	$2,876	$3,107	$3,355	$3,623	$3,913							
						$5,468	$5,704	$5,955	$6,222	$6,507	$6,809	$7,132	$7,476	$7,843							
							4.3%	4.4%	4.5%	4.6%	4.7%	4.7%	4.8%	4.9%							
Buyback Model																					
					Shares Outstanding (net buyback)	126.3	126.3	122.6	118.9	115.3	111.8	108.2	104.7	101.1							
25%	FCF Buyback %					0.00	3.74	3.64	3.58	3.55	3.55	3.57	3.60	3.66							
					Assumed Share Price	35	40	45	50	55	60	65	70	75							

- Revenue Drivers
  - High-single-digit broadband growth driven by increased passes (50% in 5 years), higher penetration (to mid 40%) and stable ARPU ($28/mo.)
  - Low-single-digit mobile growth based upon mature market and declining ARPU
  - Increased broadband revenue mix (from 40% to 50% in 8 years)
- Operational leverage
  - Fiber rollout will utilize and extend existing fiber infrastructure
  - Connection cost will be $100/pass and $100 for user equipment
  - Operational leverage from existing infrastructure should allow 50% LT EBIDA margins and 60% incremental EBITDA margins
  - Debt paydown will also drive EPS growth
  - Share buybacks will increase FCF share growth

MILLICOM THE DIGITAL LIFESTYLE tigo Unit Economics (RoIIC)

Fiber rollout unit economics															
Initial Investment*	-160		Revs/Yr	336		Based on current average HIS pricing of $28/mo including modem charges.									
Pass Equipment	100		EBITDA Margin	45%		Steady-state per management									
Connect Equipment	150		Cash Flow	151.2		Revs* EBITDA Margin									
*Connect Equipment times				Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Terminal
40% penetration			Penetration		10%	20%	30%	40%	40%	40%	40%	40%	40%	40%	40%
Price Increase	0%		Net CFs	-160	15.12	30.24	45.36	60.48	60.48	60.48	60.48	60.48	60.48	60.48	151.2
			IRR	25.8%											
Average Cost of Financing	5.5%														
Debt/Equity	2.225798		Unlevered Return			25.82									
MVIC	100.00		Interest			-2.47									
Debt	44.93		Taxes		0.3	-7.01									
Interest Exp	2.471024		Equity Return			16.35									
			RoE			29.7%									

- Millicom generates large free cash flows which can be reinvested into:
  - Buying out JV partners (Guatemala, Honduras, Panama)
  - Invest more in fiber networks (26% unlevered, 30% levered return)
  - Buy back more shares (15% levered return)

- High return on incremental investment in fiber network (key assumptions)
  - Connection cost will be $100/pass and $100 for user equipment
  - Mid 40% (45%) EBITDA margins
  - Higher broadband penetration (to mid 40%)
  - Stable ARPU of $28/mo/customer (current level)
  - Unlevered 28% and 45% levered assuming current capital structure and interest rates

SM Telecom Fiber Firm Valuations

Comparable US Small and Mid-Sized Telcos												
	Price	2021 EPS/FCF	2026 EPS/FCF	5-yr Growth	2021 PE	2026 PE	EV	2021 EBITDA	2026 EBITDA	5-yr Growth	2021 EV/ EBITDA	2026 EV/ EBITDA
LICT	$25,081	$1,523	$2,428	9.8%	16.47	10.33	485.49	61.40	84.06	6.5%	7.91	5.78
Nuvera	$22.14	$1.94	$2.36	4.0%	11.43	9.37	169.35	28.66	32.59	2.6%	5.91	5.20
Cincinnati Bell	$15.50	$0.45	$1.75	31.2%	34.44	8.86	2952.11	427.00			6.91	
OTELCO	$11.74	$1.83			6.42		103.15	21.00			4.91	
Alaska Communications	$3.31	$0.26			12.88		413.07	64.00			6.45	
WideOpenWest	$21.51	$0.60	$1.00	10.8%	35.85	21.51	4153.07	408.25	468.75	2.8%	10.17	8.86
NorthState	$75.75	$7.52			10.07		223.20	27.00			8.27	
CNSL	$7.82	$0.86	$2.38	22.5%	9.08	3.29	3068.20	508.9	782.42	9.0%	6.03	3.92
Frontier Communications	$28.87	$1.78	$2.00	2.4%	16.20	14.40	13067.83	2529.54395	3060.86	3.9%	5.17	4.27
Millicom	$29.05	$4.65	$8.19	12.0%	6.24	3.55	9492.77	2232	2949.76	5.7%	4.25	3.22
Liberty Latin America	$12.33	$1.04			11.84		9201.64	1335.35			6.89	
Small Italian Telecos												
Intred	€ 19.85	€ 0.46	€ 1.26	22.2%	43.10	15.80	€ 312.52	€ 16.60	€ 33.32	15.0%	18.83	9.38
Unidata	€ 54.20	€ 2.01	€ 4.96	19.8%	26.99	10.92	€ 126.25	€ 11.50	€ 23.96	15.8%	10.98	5.27
Planetel	€ 9.90	€ 0.21	€ 1.44	46.6%	46.67	6.89	€ 66.44	€ 3.80	€ 10.40	22.3%	17.48	6.39

	EBITDA Margin	FA Turns	Book Value	Return on Equity	Debt/ MVIC	Debt/ EBITDA
LICT	45%	1.21	$9,335.56	16.3%	3%	0.26
Nuvera	44%	0.92	$16.85	11.5%	32%	1.88
Cincinnati Bell	27%	0.89	N/A	N/A	73%	5.07
OTELCO	32%	1.04	$7.38	24.8%	61%	3.00
Alaska Communications	27%	0.51	$3.07	8.4%	57%	3.66
WideOpenWest	38%	1.03	N/A	N/A	55%	5.60
CNSL	39%	0.71	$6.32	13.6%	72%	4.34
Frontier Communications	39%	0.62	$17.38	10.3%	46%	2.38
Millicom	39%	1.24	$20.34	22.9%	69%	2.93
Liberty Latin America	36%	1.03	$16.07	6.5%	69%	4.75
Small Italian Telecos						
Intred	40%	1.63	€ 2.03	22.7%	-1%	-0.13
Unidata	38%	1.04	€ 8.78	53.2%	-5%	-0.52
Planetel	17%	1.22	€ 2.72	17.4%	2%	0.29

Valuation/Conclusion

- Current valuation
  - 6.5 P/FCF (15% FCF yield)
  - Using Graham Formula of fair P/E = 8.5 + 2g
    - With 4% LT growth, fair multiple is 16.5x
    - With 15% 5-yr growth, fair multiple is 38.5x
- Buying currency neutral Latin American play focused on fiber rollout theme
- Growth beyond projections from further JV buyouts, consolidation/M&A
- Tigo Money is a mobile money/transaction platform with 5 million users and 48 million annual transactions
  - High-end valuation of about $750/user, per recent 2 neobank transactions, implies value of $3.7 billion
  - Low-end valuation $32-$34/Transaction (MoneyGram/Western Union) implies value of $1.6 billion