ONDRA

Project Obelix

DPCF’s Independent Financial Expert Report

Methodological response

April 2021

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DPCF's analysis relies on significant adjustments both from a reference data perspective and methodology chosen, which reflect only downwards valuation impact; in addition, DPCF has chosen not to analyze the potential monetization from tower assets based on discussion with management

1 Business plan	• **Ondra has reviewed the report prepared by DPCF and agrees on the following elements of DPCF's valuation approach:** (i) DCF as a primary valuation method and (ii) Peers set retained for the comparable company analysis ("CCA"). • **DPCF has also chosen to reconstruct a post-IFRS 16 business plan which, though not in line with current market valuation methodologies, should in any case be neutral in terms of Equity value.** • **Ondra notes that Management business plan (until 2024) is more ambitious than consensus, but ALL adjustments made by DPCF have a negative impact on OBEL's valuation (both at business plan and equity bridge levels).**
2 DCF	• **Ondra has taken the Management Business Plan provided and used this data as a basis in Ondra's valuation approach.** • This DCF analysis provides **results broadly in line with Ondra's initial view**, the main differences residing in **the impact of a perpetual spectrum cost in the Terminal Value** (which we consider grossly erroneous, as explained later)**, the Mobile Vikings contract loss** (not considered by Ondra as announced after the takeover announcement, and because the deal is still pending Competition Authority approval, i.e. highly uncertain), **Orange brand fee reintegration into EBITDA** and **terminal growth assumption.** • **In addition, the EV to EqV bridge includes the unrealized liability of €279m** from the **estimated spectrum acquisition cost** (€300m discounted at 5.4% WACC). • Considering these adjustments, **OBEL "as-is" DCF valuation (i.e. without valuing towers) increases to up to €42 Equity value per share**
3 Peer multiples	• **Ondra has taken into account DPCF reference data for OBEL, DPCF's peer set and retained median multiples.** • It is worth noting that this analysis (in terms of Trading comps approach) gives **results broadly in line with Ondra's initial view**, the main differences residing in the **Mobile Vikings contract loss, brand fee reintegration into EBITDA** and **the run-rate positive impact on EBITDA & Capex of the RAN-sharing agreement** (not achieved in 2021-2022). • **In addition, the EV to EqV bridge includes the unrealized liability of €279m** corresponding to the **estimated spectrum acquisition cost** (€300m discounted at 5.4% WACC). • Considering these adjustments**, OBEL "as-is" trading comps valuation (i.e. without valuing towers) increases to €30-38 Equity value per share**

4 Transaction multiples	• **Ondra acknowledges that DPCF has decided to exclude the transaction comparable analysis ("CTA") from its main valuation methodologies.**
	• **Ondra believes that the Transaction multiples analysis is a relevant valuation methodology, which would yield a €36-41 Equity value per share "as-is" (i.e. without valuing towers)** based on DPCF's set of comparable transactions[1]
	  ◦ Even though OSA already controls OBEL (53% stake), there would be value for OSA to buy-out minority shareholders who have negative control over the company
	  ◦ Ondra acknowledges that no "control premium" is needed, but supports the idea that a takeover premium shall be reflected in the offer price (as evidenced by DPCF in Appendix F of their report): transactions retained appear comparable to the OBEL/OSA deal, and pre-IFRS 16 accounting should not impact Equity value

5 Towers	• **Ondra notes that DPCF does not ascribe value to OBEL's towers as it is not in Management's strategic roadmap to sell them**
	• **However, Ondra believes that should some of these towers be contributed to TOTEM in the future, minority shareholders should be provided with an analysis of the theoretical potential uplift in share price**
	  ◦ Ondra acknowledges the arguments provided by Management in DPCF's report to consider towers as strategic assets, the Belgian regulatory regime and their unwillingness to sell them.
	  ◦ However, a partial monetization of these towers may be presented in the near future and therefore minority shareholders should be presented with an analysis of the theoretical value creation.

Sources: DPCF analysis, Ondra analysis
Note: (1) As indicated in Appendix F of DPCF Independent Financial Expert Report

1 2021-2024E Management business plan retained by DPCF is more ambitious than the adjusted consensus used by Ondra

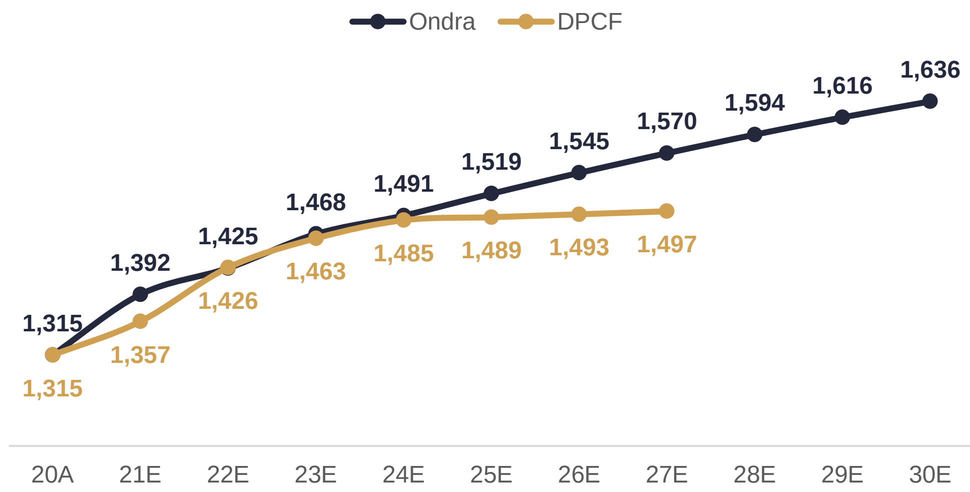
	MANAGEMENT / DPCF BP	ONDRA'S METHODOLOGICAL COMMENT
Growth trajectory 2021-2024E	• **3.1% revenue CAGR 2020A-2024E**, despite Mobile Vikings contract loss (€18.9m p.a.) • **2024E EBITDAaL of €391m** (excl. Mobile Vikings contract) **5.7% above Consensus** (adjusted for brand fee - €17m)	• **Ondra notes that Management business plan (to which investors did not have access before) is more ambitious than consensus, both in terms of revenues and EBITDA**
Capex 2021-2024E	• **Higher level of Capex on the Management forecast horizon** (€857m cumulated 21-24E vs. consensus at €838m)	• **Management Capex forecast is in line with Consensus in 2021 and 2024, but diverges in 2022 and 2023** • According to Management, **analysts may have underestimated the set-up cost of the RAN sharing agreement**, **IT transformation** investments and **network densification due to 5G roll-out**
Growth trajectory 2024-2027E	• **Massive growth slowdown in the extrapolation horizon, with growth of 0.25% only** (in line with PGR) • **Margin rate of 29.1% assumed flat**	• Such long-term growth rate does **not appear consistent with the ambitious 2021-2024E trajectory** • **It does not factor in the potential of OBEL**: only player with room for market share gain in fixed services and the likely ARPU growth following the end of the wholesale cable access regulation process
Capex 2024-2027E	• In spite of low growth forecast, **Capex sharply increase from 12.7% in 24E to 14.4% in 27E and 15% in Terminal Value**	• Capex deemed related to the potential FTTH deployment • **However, these growing investments do not translate into revenues growth (cf. above), nor EBITDA margin improvement related to the migration of customers to OBEL's own infrastructure**
Net Working Capital	• Management forecasts NWC increase, i.e. cash consumption from change in NWC	• **Counter intuitive assumption as OBEL operate in a negative NWC business** • **Growth shall rather translate in positive cash contribution from change in NWC**

Sources: DPCF analysis, Ondra analysis
Note: (1) IMF as of October 2020

1

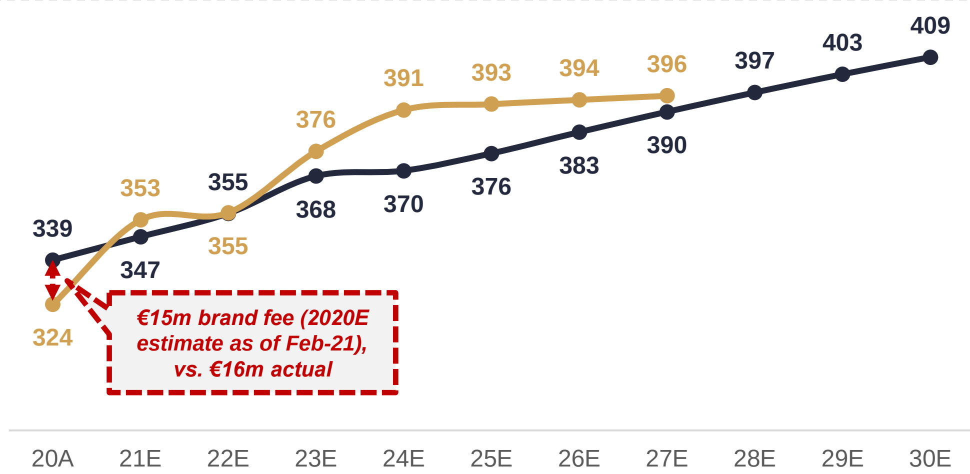
Business plan does not materially differ on comparable P&L items…

Revenues (€m)



- **Similar trend in revenues until 2024, diverging beyond due to differences in extrapolation assumptions**
- **<u>Ondra:</u> Consensus of 12 brokers** until 2022 and 2 until 2025; **extrapolations until 2030** (linear ramp-down towards 1.25% PGR)
- **<u>DPCF:</u>** Based on **bottom-up from Management** including latest 2021 Budget and updated Business Plan until 2024; **extrapolations until 2027 only** (0.25% YoY growth in line with PGR)

EBITDAaL (€m)



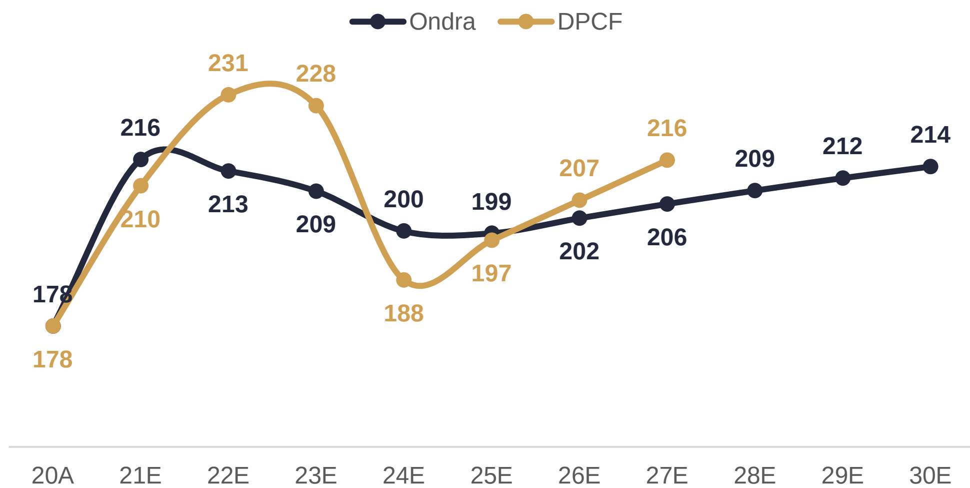
- **EBITDAaL (pre-IFRS 16) from Management** (adjusted negatively for Mobile Vikings from 2022E) **is more aggressive than brokers' consensus** (adjusted positively for brand fee)
- **DPCF trajectory after 2024 flattish due to extrapolation assumptions** (constant margin at 0.25% revenue growth from 2024)

Sources: DPCF analysis, Ondra analysis

1

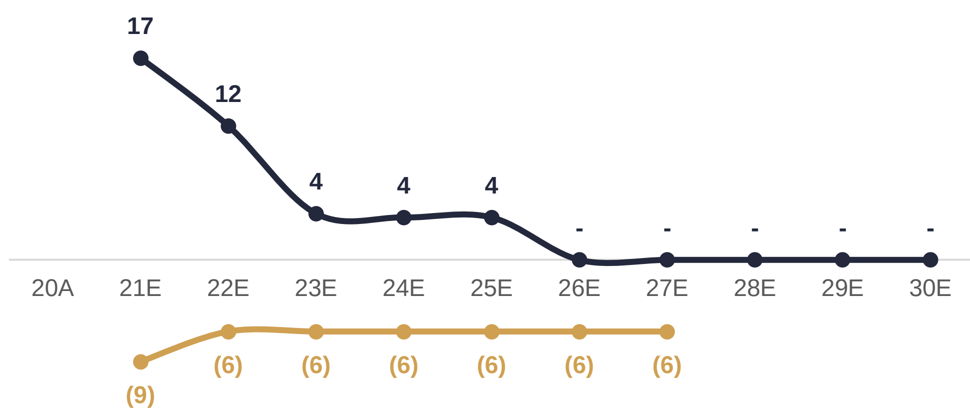
… but comparable cash-flow items are more controversial

eCapex (€m)



- **Brokers' consensus** (9 brokers until 2022, and 2 until 2025) **is roughly in line with Management forecast, except in 2022 and 2023**
- **According to Management, this is due to…:**
  - Set-up cost of the RAN sharing agreement
  - IT transformation
  - Network densification due to 5G roll-out
- **… that brokers may underestimate**
- **High Capex level beyond 2024 not justified by long-term growth trajectory**

Cash contribution from change in NWC (€m)



- **Whereas brokers expect positive cash contribution from change in NWC, Management believes that it represents a negative cash impact**
- **Since OBEL operates in a NWC negative business, one would rather expect growth to positively contribute to cash flow**

Sources: DPCF analysis, Ondra analysis

1

However, all adjustments made by DPCF to OBEL's business plan and EV-EqV bridge have negative impact on value

	DPCF'S ADJUSTMENT	ONDRA'S METHODOLOGICAL COMMENT
Perpetual spectrum cost in DCF terminal value	• **€36m cash-flow deduction** in the DCF Terminal Value • Corresponding to the **cost of new spectrum (€288m)** paid **every 8 years** – amount and frequency per Management estimates	• Such payment would imply that a **perpetual cost** (without identified revenues / EBITDA benefits) **is required to run the business, which seems a relevant approach** • However, **historically, spectrum auctions occur only every 14-15 years in Belgium**[(1)], and their amount is **€120-150m** per operator (3G in 2001 and 4G in 2013) • The **2021/2022 5G license and spectrum** will be granted for a **period of 20 years** • **As DPCF's Terminal Value is set after 2027, i.e. only 5-6 years after the 2021/2022 auction, their analysis overestimates the spectrum cash-out** • Moreover, following 5G, there is no breakthrough technology to come in a foreseeable future
Spectrum liability in bridge related to 2021/2022 auction	• **Liability of €279m** added to Adjusted Financial Debt • Corresponding to the NPV of a €300m cash-out (at 5.4% WACC) related to the spectrum auction to occur in 2021/2022 in Belgium	• **Broker reports made available to Ondra show that most analysts do not consider the spectrum liability in their valuation** • **Analysts do no forecast revenues and/or EBITDA benefits of spectrum auctions** (i.e. no growth or margin improvement related to new licenses) • **It is not possible to isolate the 5G benefits in Management's business plan** used as basis for DPCF's valuation going forward: 3.0% CAGR 2021E-2024E, 0.25% YoY growth onwards, no margin ramp-up until 2024E • The full crystallization of the €279m liability is likely to be spread over a certain period of time and is likely **not to be fully paid upfront** (spectrum paid over the period in Belgium), resulting in a much **lower NPV**
Brand fees	• **Brand fee cost taken into account in EBITDA**: according to Management, it will still be paid post-transaction	• **Brand fee excluded to analyze the company as a standalone business** • **The brand fee has value to OSA as it is currently supported at 47% by OBEL minority shareholders**
Mobile Vikings contract loss	• **EBITDA loss of €18.9m taken into account** (100% margin on revenues per 2021E budget) **from 2022E onwards** due to the loss of the Mobile Vikings partnership	• Acquisition by Proximus announced on 14-Dec-2020, i.e. **after OBEL's takeover announcement**; debatable whether or not the EBITDA adjustment shall be included in the offer price • The deal has not closed yet **(still pending approval from the Belgian Competition Authority, therefore highly uncertain)**
PGR	• **0.25%** as the **median of benchmarked PGRs retained by equity analysts** for OBEL	• **Such PGR is significantly below forecasted inflation for Belgium** (1.25% on average between 2020-2024[(2)]), **and implies negative growth in real terms** • This does **not appear consistent with OBEL's growth profile per Management business plan**, considering that OBEL is the **only player with room to increase market share in fixed services**, and the likely ARPU growth trend expected from the end of the wholesale cable access regulation process

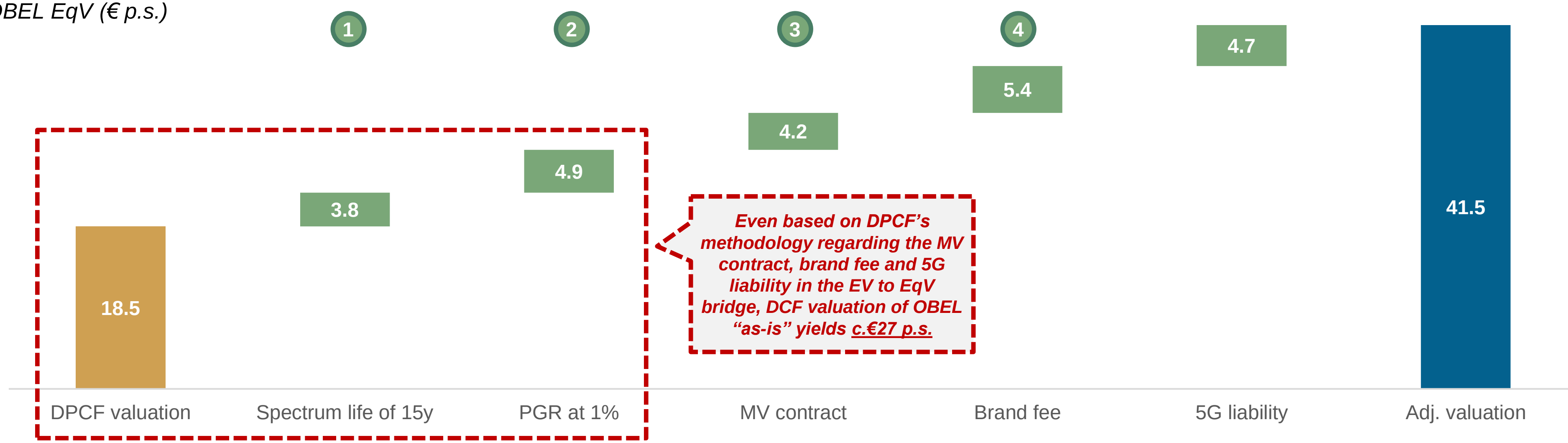
Sources: DPCF analysis, Ondra analysis
Note: (1) Small licenses (e.g. 800, 900 and 1,800 MHz) have 7-8 years duration, while the largest (e.g. 3G, LTE, 5G) are granted for 15-20 years, (2) IMF as of October 2020

2 Readjusted OBEL DCF valuation (based on Management business plan) increases to up to €42 per share

“As-is”

DCF’S ADJUSTMENTS REVERSAL (AT CONSTANT WACC[1])

OBEL EqV (€ p.s.)



Based on DPCF methodology

5.4% WACC[1]
0.25% PGR
Spectrum cost in TV cash-flow
Spectrum debt-like item in bridge

1. **Readjustment to assume 15 years between each spectrum renewal in terminal value in line with historical**: DPCF’s assumption of 8 years seems too conservative as (i) there will not be any breakthrough technology by then, (ii) it occurs only 5-6 years after the 2021/2022 spectrum auction as the terminal value is calculated after 2027
2. **PGR increased to 1%**, more consistent with long-term inflation forecast for Belgium *(DPCF’s 0.25% PGR implies negative growth in real terms)*
3. **Reintegration of the Mobile Vikings contract (€18.9m EBITDA p.a. from 2022)** as the deal with Proximus has not closed yet (pending approval of the Belgian Competition Authority)
4. **Brand fee added back to EBITDA (€17-19m p.a.)** as it represents value for OSA, which is currently supported by minority shareholders

Spectrum debt-like item in bridge

One-off cash-out (likely to be paid over time), lacking information on related revenues / EBITDA benefits in the business plan:
- No margin ramp-up until 2024E
- No growth from 2025E

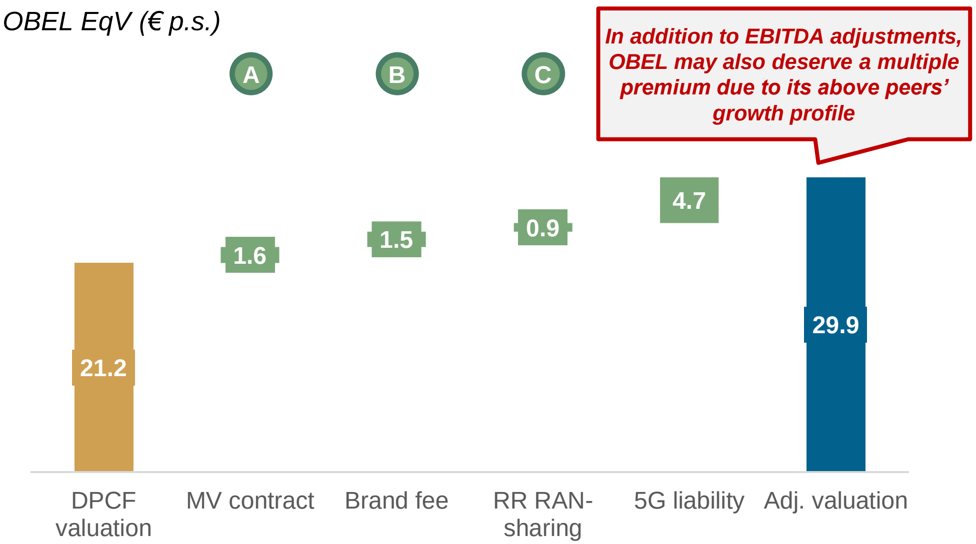
Sources: DPCF analysis, Ondra analysis
Note: (1) Post-IFRS 16, per DPCF analysis

3

Readjusted OBEL trading comps valuation (based on DPCF's metrics and peers set) increases to <u>€30-38 per share</u>

"As-is"

TRADING COMPS ADJUSTMENTS REVERSAL: <u>EBITDA 2022E</u>



<u>Based on DPCF methodology</u>

Peer set of **15 companies**[1]

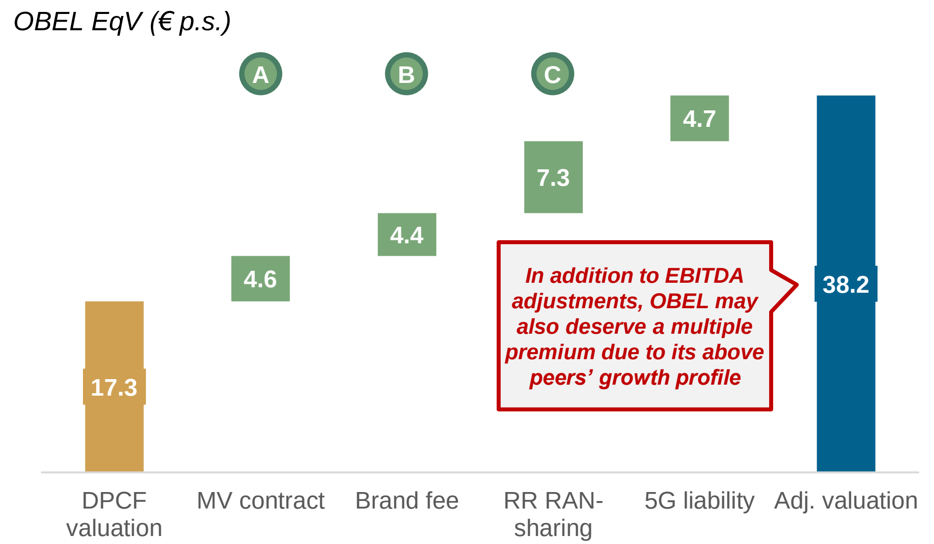
Based on **EBITDA 2022 median** multiple of **5.2x**[1]

<u>Reversal of EBITDA adjustments</u>

- A MV/Proximus deal not closed: **€18.9m** added back to EBITDA
- B **€17.9m** brand fee added back to EBITDA (value for OSA)
- C **€10m** run-rate Opex gain from PROX RAN-sharing agreement[2]

<u>Spectrum debt-like item in bridge</u>

TRADING COMPS ADJUSTMENTS REVERSAL: <u>EBITDA – CAPEX 2022E</u>



<u>Based on DPCF methodology</u>

Peer set of **15 companies**[1]

Based on **EBITDA-Capex 2022 median** multiple of **14.5x**[1]

<u>Reversal of EBITDA-Capex adjustments</u>

- A MV/Proximus deal not closed: **€18.9m** added back to EBITDA
- B **€17.9m** brand fee added back to EBITDA (value for OSA)
- C **€30m** run-rate Opex & Capex gain from PROX RAN-sharing agreement[2]

<u>Spectrum debt-like item in bridge</u>

Sources: DPCF analysis, Ondra analysis

Note: (1) Post-IFRS 16, per DPCF analysis, (2) €300m gains over 10 years as per July 2019 press release – split Opex/Capex based on Ondra assumption in line with Management quote at FY2019 earnings call

4 Based on DPCF’s comparable transaction analysis (excluded from main valuation methodology), OBEL could be worth €36-41 per share

“As-is”

DPCF EXCLUDES THE “CTA” METHOD…

- **DPCF does not retain the comparable transaction method (“CTA”) due to:**

(i) “a very limited group of comparable transactions”

(ii) “most transaction multiples are not directly applicable to OBEL as they can be influenced by (…) control premium, recent financial performance/current growth profile of the acquired company, business characteristics, potential synergies, structuring of the transaction price, time of the transaction”

(iii) Multiple calculation on a pre-IFRS 16 basis because most transactions occurred before 2019

… BUT ONDRA BELIEVES THAT IT IS RELEVANT

- **Ondra acknowledges that OSA already controls OBEL because of the 53% stake it already owns**
- **However, there is value for OSA in buying out minority shareholders who have negative control over OBEL, and this shall be reflected in the offer price, as demonstrated by DPCF’s analysis**
- **Transaction multiples presented by DPCF appear relevant to the OSA/OBEL deal**

(i) 5 transactions is deemed sufficient to use the sample as valuation reference

(ii) Transactions appear comparable in terms of business characteristics and are not affected by “control premium” nor synergies (minority deals)

(iii) Pre-IFRS accounting standard shall not affect Equity Value

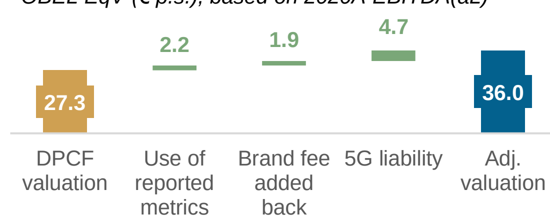
OVERVIEW OF SELECTED TRANSACTIONS (DPCF ANALYSIS)

Announc. Date	Bidder	Pre-transaction stake	Target	Target country	Acquired stake	Target description	LTM EBITDA[1] (€m)	LTM Capex[1] (€m)	EV (€m)	EV/ EBITDA[1]	EV/ (EBITDA – Capex)[1]
Sep-20	Next Private (Patrick Drahi)	77.6%	altice		22.4%	Convergent player in telecom, content, media, entertainment & advertising	6,440[2]	2,413[2]	38,207[3]	6.2x	16.4x
Jul-18	CK HUTCHISON	50.0%	WINDTRE		50.0%	Telecom operator recognised as the largest mobile operator in Italy	2,140	1,249	14,906	7.0x	16.7x
Sep-16	altice	77.7%	SFR		5.2%	Telecom company focusing on mobile services	3,784	2,565	32,249[4]	8.5x	16.5x
Mar-16	freenet	0.0%	Sunrise		23.8%	Telecom company offering mobile, internet, TV and landline services	572	252	4,577	8.0x	14.3x
Apr-14	américa movil	23.7%	A1 Telekom Austria Group		44.8%	Provider of digital services and communications solutions in Central and Eastern Europe	1,270	1,730	7,035	5.5x	n.m.
Median pre-IFRS 16 multiple										7.0x	16.5x
Actual KPI Orange Belgium 2020A (€m)										305	127
Pre-IFRS 16 Enterprise Value (€m)										2,132	2,093
Pre-IFRS 16 Adjusted Net Financial Debt (€m)										(496)	(496)
Equity Value (€m)										1,636	1,597
Number of shares outstanding (m)										59.9	59.9
Equity Value per Share (€)										27.3	26.6
Range on retained multiple +5%										*29.1*	*28.4*
Range on retained multiple -5%										*25.5*	*24.9*

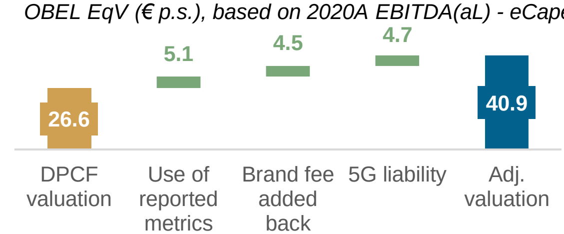
EBITDAaL 2020A: €323.5m
EBITDAaL – eCapex 2020A: €145.8m
Brand fee not added back: €16.3m in 20A

Of which (€279m) Spectrum liability

OBEL EqV (€ p.s.), based on 2020A EBITDA(aL)



OBEL EqV (€ p.s.), based on 2020A EBITDA(aL) - eCapex



Sources: DPCF analysis, Ondra analysis
Note: The EV is calculated for 100.0% of the company and if the financial data is denominated in a currency other than the €, the EV and financial metrics are converted to € on the basis of the exchange rates prevailing on the date of the announcement of the acquisition, (1) On a pre-IFRS 16 basis; (2) FY 2019 figures due to unavailability of quarterly figures on lease-related expenses, (3) Based on a revised offer price of €5.35 per share, (4) Based on a revised offer price of €34.5 per share

5 No value ascribed to OBEL towers by DPCF because “mobile telecom towers (…) will not be sold”– but it does not mean they do not have value for OSA

A

OSA Tower strategy: integrate tower assets into captive TowerCo

orange TOTEM

- Mobile telecom towers are of **strategic importance to OSA**
- As such, the company **does not intend to sell them to 3rd parties**
- However, it is currently **setting up TOTEM, a captive European TowerCo ambitioning to create value by (i) capitalizing on its passive mobile infrastructure assets** and **(ii) delivering organic and inorganic growth**
- **Operations to start in France (17k sites) and Spain (8k sites), before pursuing (in)organic growth opportunities to become a leader in the European market**
- **Flexibility of the new entity’s capital structure to support growth strategy**: either by issuing new shares or debt financing

B

Management stated that there is no plan to integrate OBEL towers into TOTEM

- Due to **reasons specific to the Belgian regulatory environment**: legal obligation for operators to share their towers at a regulated rate; towers are already shared to a large extent, and there would be less upside for colocation and margin improvement
- Due to the **ongoing implementation of the RAN sharing agreement** signed in 2019 with Proximus

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- Post-transaction, **OBEL (and eventually PROX) may contribute assets to TOTEM** as part of the Group’s strategy to optimize infrastructure
- Cash compensation could be used to finance **5G expansion**, **FTTH deployment** and eventually the **acquisition of VOO**
- Even if OSA does not intend to sell towers or give up control of TOTEM, **it may sell minority stakes or launch a partial IPO of the entity**
- Such deal would be **valued at TowerCo multiples**, i.e**. significantly above operators’**, and **unlock meaningful value to OSA and its shareholders**
- Consequently, **Ondra believes that despite current strategy from OSA and OBEL, value of Tower assets should be exteriorized, and minority shareholders should benefit from this value creation potential**

Sources: DPCF analysis, Ondra analysis

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Appendix

Telecom public bid premium analysis implies a €23.3 Equity value per share for OBEL (vs. €20.3 presented by DPCF)

DCF'S ANALYSIS DOES NOT INCLUDE THE FINAL OFFER PRICE OF PATRICK DRAHI FOR ALTICE

Announcement Date	Target	Bidder	Premium (in %)		
			Last closing pre-announcement	1 month average	3 months average
08-Oct-20	Talk Talk Telecom[1]	Tosca Fund AM	16.4%	24.0%	26.2%
11-Sep-20	Altice	Patrick Drahi	23.8%	7.7%	9.4%
12-Nov-19	Iliad[2]	Iliad	26.2%	30.9%	35.8%
		1st quartile	*24.4%*	*13.5%*	*16.0%*
		Median	**25.0%**	**19.3%**	**22.6%**
		Average	**25.0%**	**19.3%**	**22.6%**
		3rd quartile	*25.6%*	*25.1%*	*29.2%*
Share price Orange Belgium			*16.2*	*15.7*	*14.8*
Implied Orange Belgium share price		*1st quartile*	*20.2*	*17.8*	*17.1*
		Median	*20.3*	*18.7*	*18.1*
		3rd quartile	*20.4*	*19.6*	*19.1*

Based on <u>initial</u> offer price of <u>€4.11</u> per share (11-Sep-2020)

ONCE CORRECTED, IMPLIED OBEL EQUITY VALUE PER SHARE AMOUNTS €23.3, I.E. ABOVE THE OFFER PRICE OF €22.0

08-Oct-20	Talk Talk Telecom[1]	Tosca Fund AM	16.4%	24.0%	26.2%
11-Sep-20	Altice	Patrick Drahi	61.2%	40.2%	42.4%
12-Nov-19	Iliad[2]	Iliad	26.2%	30.9%	35.8%
		Median	43.7%	35.5%	39.1%
Share price OBEL			*16.2*	*15.7*	*14.8*
Implied OBEL share price		*Median*	*23.3*	*21.3*	*20.6*

Based on <u>revised</u> offer price of <u>€5.35</u> per share (16-Dec-2020) and unaffected reference share prices

Sources: DPCF analysis, Ondra analysis
Note: (1) Pending and not taken into account to calculate premiums; (2) Transaction relates to a 19.7% share buyback (supported by Iliad's controlling shareholder)