SSE TEACHING CASE **AUTHORS:**
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EXITING COM HEM

It was Tuesday, 19 July 2011, and the Nordic M&A team at Deutsche Bank in London was hard at work. The team, lead by Helena Svancar, had for the last two months been running a dual-track sales process for Com Hem AB, the leading Swedish cable company. In a dual- track process, both a sale and an IPO was explored concurrently, in order to maximize the price for the company. The sellers were two of the largest U.S. private equity funds, Carlyle Group and Providence Equity Partners, who had acquired Com Hem in December 2005 from EQT in a secondary buyout, and were now eager to exit their investment. Initially the sales process had gone well, with considerable interest from a number of private equity bidders in the first-round auction. Hence, the Deutsche Bank team had prepared themselves for a sale to a financial sponsor, which in this case would be the third time Com Hem went through an LBO. In contrast, the IPO route had seemed more unlikely. Over the summer, however, debt markets had been shaken by the accelerating Eurozone crisis, and banks seemed increasingly unwilling to lend to LBO transactions. Because of this, two of the private equity fund bidders had decided to pull out of the auction only days before second-round bids were due. Now, the Deutsche Bank team worried that the auction would not be very competitive enough. Should the call the auction off, and pursue the IPO alternative instead?

Com Hem AB

Com Hem was founded in 1983 as Televerket Kabel-TV, as a division of the Swedish government-owned telecom monopoly Televerket. In 1993, Televerket was privatized and renamed Telia AB. After privatization, Televerket Kabel-TV remained as part of Telia and was successively renamed Svenska Kabel-TV AB, Telia InfoMedia TeleVision AB, and finally became Com Hem AB in 1999 (a play with the Swedish phrase "Kom hem" = Come Home). As Telia merged with the Finnish telecom company Sonera in 2003, Telia was forced to divest Com Hem for anti-trust reasons, and ended up selling the company to the Swedish private equity firm EQT. In 2006, Com Hem was acquired by its current owners, the US private equity companies Carlyle Group and Providence Equity Partners.

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In the late 1990's, Com Hem grew to become Sweden's largest cable-TV provider. More so, Com Hem expanded into other areas. Digital TV was introduced in 1997. A broadband service that uses the company's proprietary cable network was launched in 1999. In 2004 IP telephony was introduced and the company thus became Sweden's first nationwide "triple play" operator. By 2011 the company had around 700 employees with offices in Stockholm, Göteborg, Malmö, Västerås and Härnösand. 2010 the company generated SEK 4.3 billion (€470 million) in revenues and SEK 1.7 billion in EBITDA. See **Exhibit 1** for a business snapshot of Com Hem.

Triple-play Strategies

In telecommunications, triple play service is a marketing term for the provisioning of two bandwidth-intensive services, high-speed Internet access and television, and a less bandwidth-demanding (but more latency-sensitive) service, telephone, over a single broadband connection.

Around the year 2000, cable TV companies were in a technical position to start offering triple play over one physical medium to a large number of their customers, as their networks already have sufficient bandwidth to carry hundreds of video channels. Originally, cable's main competition for television came from satellites, which cannot compete for voice and interactive broadband due to the latency imposed by physical laws on a geosynchronous satellite - sometimes up to one full second of delay between speaking and being heard. Cable's main competition for voice and Internet access instead came from traditional telecom providers, but they could not yet compete for television in most markets because their DSL networks generally could not provide enough bandwidth.

As an interim marketing move while they installed fiber closer to the customer, telecom providers did co-promotion deals with satellite TV providers to sell television, telephone, and Internet access services bundled for billing purposes although the services provided through a satellite link and the services provided through a phone line were not technically related. (This was a major reason why Televerket/Telia started their cable TV network in the first place.) Eventually, the telecom providers developed sufficient broadband fiber capacity to offer TV within these networks, enabling them to compete more effectively with Cable TV providers. Telecom companies that owned wireless phone services would also include those as part of such billing-only bundles, while most cable companies did not own wireless networks.

Triple play had recently led to the term "quadruple play" where wireless communications would be introduced as another medium to deliver video, Internet access, and voice telephone service. Advances in “third-generation” mobile cellular standards (such as 3G, 4G, and UMTS), allowed the telecom operators to enter into quadruple play and gain competitive advantage against other providers.

By 2011, other advanced technologies such as WiMax or 802.16 had emerged, which allowed new market entrants outside of the traditional telecom companies to achieve triple play. Many speculated that this would mean serious, new competition for established providers of bundled telecommunications services.

The Swedish Telecom Market

Sweden is Europe’s tenth-largest country in Western Europe in terms of its population, which is concentrated in the southwest part of the country and around the capital, Stockholm. Like the other Nordic countries, Sweden is quite affluent and has a high level of GDP per capita.

The country's GDP achieved an annual nominal growth rate of 4.6%, on average, in the period 2004–2008. However, the economy fell into recession in 2009, when GDP contracted by –3.7%. Sweden emerged from recession in the first quarter of 2010. The country was ranked the fourth in The Global Competitiveness Report 2009–2010 published by the World Economic Forum.

The main players in the Swedish telecom market were the incumbent, TeliaSonera (fixed and mobile operator), Tele2 (mobile operator, local loop unbundler and fixed voice service provider), Telenor (Norwegian incumbent, mobile and broadband operator), Hi3G (3G mobile operator), Com Hem, TDC (Danish incumbent and Swedish business services provider), Net1 (network operator utilizing the older CDMA 450MHz standard, targeting rural and coastal areas), and numerous local municipality and utility company fiber network operators.

Around 2010, there were a number of trends in the Swedish telecom market:

- ***Customers migrating from fixed to mobile-only telephone services:*** Although for many years the low cost of Swedish fixed-voice communications sheltered Sweden from significant fixed–mobile substitution, the rapidly falling mobile premium were finally leading to significant numbers of customers to migrate from fixed to mobile networks for both calls and lines.
- ***Rapid growth in the mobile broadband market:*** Sweden was an early leader in mobile broadband adoption and this service continued to grow rapidly. While heavily promoted as a complementary service by incumbent TeliaSonera, during 2009 fixed broadband adoption stalled while mobile broadband grew rapidly suggesting an increasingly substitutive effect.
- ***Rollout of new LTE (or "4G") networks:*** TeliaSonera launched the world's first LTE network in Stockholm in December 2009. During 2010, other operators were rolling out LTE networks with Tele2 and Telenor operating a shared network through their joint venture Net4Mobility. As these networks launch and coverage would increase, mobile broadband was expected to increasingly compete with fixed broadband.
- ***Fixed broadband had become ubiquitous and affordable:*** DSL services were available widely and Sweden was a leader in optical fiber deployment. In addition to substitutive mobile broadband take-up, there were signs of migration within fixed broadband from lower-speed DSL services to higher-speed fiber services for customers with high bandwidth requirements. The government's national broadband strategy had set targets of 40% of Swedish households being able to access at least 100Mbit/s by 2015 and 90% by 2020, to be supported by legislation in 2010.

The Swedish TV Distribution Market

Com Hem dominated the cable television market with 1.76 million subscribers at the end of 2009, including more than 575,000 households with a subscription to one of its digital pay- TV packages. Com Hem faced a number of competitors in channel distribution including the Swedish groups MTG, TeliaSonera and Teracom (Boxer), as well as the Norwegian Telenor group.

Two satellite packages were in competition in the market: Canal Digital (Telenor) and Viasat (MTG), who each have more than 300,000 subscribers in Sweden. The Telia platform (TeliaSonera) dominated the IPTV market with 418,000 subscribers on 30 June 2010. Thanks to its rapidly growing number of subscribers, Telia was now the third largest pay-TV operator behind Com Hem and Boxer. Although Boxer announced that it would be dropping out of the IPTV market in 2010 in order to concentrate on digital terrestrial television, numerous other operators are active in the IPTV market, such as Fast TV or B2 bredband (Telenor).

Since its launch in 1997, the Swedish DTT platform had been operated by the company Boxer, a subsidiary of Teracom, which controlled the digital terrestrial network. Long a symbol of the dynamism of the digital transition in Sweden (the analogue switch-off began in 2007), Boxer did, however, in 2009 face a drop in its number of subscribers, which fell to 533,000 in December 2009.

Three mobile telephony operators offered 3G television services: TeliaSonera, Tele2 and Hi3G. In September 2010, a report by the audience measuring body, MMS, documented a growing audience for mobile television in Sweden.

Com Hem under EQT

On May 28, 2002, a merger was proposed between Telia, a Swedish telecommunications and cable television operator and the largest service provider in Scandinavia, and Sonera, Finland's largest mobile telephony operator and provider of national and international long distance services as well as local loop and cable TV infrastructure. Given the dominant position of both companies in their home market, the proposed merger raised both vertical and horizontal competition issues with the regulator.

As a result, the European Commission forced Telia and Sonera to undertake a number of measures in order to approve the merger, including the divestment of Com Hem.

On April 23, 2003, EQT Northern Europe (a fund managed by EQT Partners) signed an agreement to acquire Com Hem AB from TeliaSonera for reportedly SEK 2.15 billion. In connection with the acquisition the company received a bank loan facility of SEK 1 billion to help finance the acquisition as well as future investment. At the time of EQT's acquisition, Com Hem generated an EBITDA of SEK 53 million on net sales of SEK 1,071 million in 2002.

Com Hem had not been considered a core asset of Telia's, and in fact the broadband services of Com Hem competed with Telia's own fiber network. EQT saw large opportunities to increase efficiency, invest in the company and improve its offerings. They also invited management, including CEO Gunnar Asp, to invest in the company. EQT appointed Bengt Halse, Chief Executive Officer of Saab, to chair Com Hem's board.

Under EQT's ownership, Com Hem underwent extensive programs of transformation and investment, which increased company's growth and profitability. In the first few weeks after acquiring Com Hem, EQT was able to increase EBITDA by more than SEK 100 million by renegotiating contracts with suppliers. Another early change was extending the opening hours of customer service to nighttime (before it had only been available between 9am and 5pm). Almost SEK 1 billion was invested in infrastructure for broadband and telephony offerings. The measures included investments in technology, improvements of customer service, and a broadening of offerings, which now included both cable-TV, broadband, as well as telephony services. In July 2005 Com Hem also acquired the regional cable company Visit, based in Linköping, Sweden.

The measures led to a significant growth of the company. In parallel with revenue growth exceeding 20% annually over the next three years, Com Hem's EBITDA increased from SEK 53 million in 2002 to more than SEK 700 million for 2005. By 2005, Com Hem was the leading triple play provider in Sweden with about 1,430,000 households as customers; including 210,000 digital TV customers, 207,000 broadband customers and 70,000 telephony customers.

Com Hem's customers now had access to high-quality broadband Internet services, the market's broadest offering of TV channels and cost-effective telephony services.
In December 2005, EQT exited Com Hem in a secondary buyout to two U.S. private equity firms, Carlyle Group and Providence Partners. In connection with this sale, Thomas von Koch, the EQT Senior Partner responsible for the deal, said: "Through a change program encompassing customer-, cost- and efficiency-, and organization-related initiatives, Com Hem has evolved into Sweden's leading triple-play operator. The company's steadily improving financial performance can directly be attributed to the successful implementation of this program."

Com Hem under Carlyle and Providence

Carlyle Group and Providence Equity entered into an agreement to buy Com Hem AB from EQT Partners for approximately SEK 10.5 billion on December 5, 2005. According to online business news site N24, the CEO Gunnar Asp's equity stake was valued at over SEK 300 million.

For the year ended December 31, 2004, Com Hem AB had reported revenues of SEK 1,579 million. The acquirers stated that Com Hem AB's existing management team would remain and its current business plan would continue unchanged. Carlyle used their 2003 fund, Carlyle European Capital Partners II (a USD 2.2 billion fund) for the acquisition. Providence had recently raised a new fund Providence Equity Partners V (a USD 4.25 billion fund) in 2004.[1]

Apart from being two of the world's largest and best-known international private equity houses, both Providence and Carlyle had considerable experience in telecom investments, both in U.S. and Europe. They had also been very active in the Nordic telecom market in recent years. Providence had been an early investor in the Swedish independent broadband provider Song Networks (formerly Tele1 Europe), which was acquired by Danish telecom TDC in 2004. Around the time of the Com Hem acquisition, Providence was also participating in a syndicate (together with KKR, Permira and Blackstone) bidding for the Danish telecom company TDC, and subsequently acquired the company for DKK 69.3 billion (€12 billion) in January 2006. Carlyle on the other hand had been an investor in another Swedish broadband provider, Bredbandsbolaget, which had been sold to Norwegian telecom Telenor in May 2005 for SEK 6 billion.

Commenting on the acquisition, Com Hem's CEO Gunnar Asp said:

"We highly appreciate the Carlyle Group and Providence Equity Partners as new owners of Com Hem. They are both leading enterprises in their field on a European basis, have an excellent history of investing in our industry and have declared that they intend to support the current strategy. We look forward to capitalize on our attractive future growth opportunities."

In connection with the Com Hem deal, Carlyle and Providence also acquired UPC Sweden, another Swedish cable television distributor, for SEK 3.3 billion and merged it with Com Hem. UPC was the second largest cable network in Sweden, and had originally been formed by three non-profit real estate companies in 1985 as Stjärn-TV. It was later sold to Singapore Telecom International, who passed it on to EQT Scandinavia, who in turn sold it to United Pan-Europe Communications in 1999 and changed the company name to UPC Sweden. In April 2006, Liberty Global Europe (formerly UPC) decided to sell many of their assets, including UPC Sweden and UPC Norway. The Swedish part was sold to Carlyle Group and Providence Equity

[1] Public records do not disclose exactly which fund Providence used for the acquisition of Com Hem.

Partners and merged with Com Hem. The UPC brand was replaced by the Com Hem brand in November and the cable network was technically integrated on April 2007.

Despite continued growth, Com Hem were experiencing problems with customer satisfaction. According to Svenskt Kvalitetsindex, an independent customer survey company, Com Hem was ranked as the TV brand with the least satisfied customers in Sweden in 2007, 2008 and 2009. In 2008, Gunnar Asp was replaced as CEO with Tomas Franzén, who then the CEO of Swedish Yellow Pages company Eniro. Before Eniro, Franzén had been the CEO of another Providence portfolio company, Song Networks, which had been sold to Danish telecom company TDC in 2004. At the time he had also been a board member of Com Hem since 2005.

Between 2006 and 2011 Com Hem invested nearly SEK 4 billion (including another SEK 600 million equity infusion by Carlyle and Providence in 2009), which was used for upgrading the network and developing new services such as TV-On-Demand and broadband up to 200 Mbit/s. By 2011 the company had around 700 employees with offices in Stockholm, Göteborg, Malmö, Västerås and Härnösand. In fiscal year 2010, the company generated SEK 4.3 billion (€470 million) in revenues and SEK 1.7 billion in EBITDA. See **Exhibit 2** for Com Hem's recent financials.

In 2011, Benoit Colas, Managing Director of Carlyle Europe Partners, said:

"Com Hem has proved to be an excellent investment for Carlyle and Providence, having delivered strong growth and robust performance even through challenging economic times. We congratulate Tomas Franzén and his team for their extraordinary achievements during our partnership."

Karim Tabet, a Managing Director at Providence, said,

"We are proud of the role we and our partners have played in Com Hem's growth and development. Over the last five and a half years, the company has invested in its network, its customer service and launched a number of advanced services to put it at the forefront of cable operators worldwide."

The dual-track sales process

In May 2011, Providence and Carlyle approached the two investment banks Deutsche Bank and Morgan Stanley to help them with a sale of the company. To sell Com Hem, the owners wanted to run the process as a so-called dual-track procedure, which simultaneously explored a sale of the company in an auction as well as floating the company in a potential public offering.

This method of conducting an auction or other sale process concurrently with filing for an IPO had become increasingly popular in recent years, especially among private equity owners. Although the dual-track process was more complicated and expensive that simply running a stand-alone auction or IPO procedure, it was considered to have several advantages, including possibly higher valuations and increased flexibility. See **Exhibit 3** for a summary of the dual track process.

Compared to an IPO, a dual track process could reduce the exposure to market volatility. Favorable market conditions at the launch of an IPO roadshow can change suddenly and adversely impact the IPO's pricing. In addition, the multi-month review process conducted by the regulator (SEC in the U.S., FSA in the U.K.) and the stock exchange adds an additional element of unpredictability. By pursuing a dual-track process, companies can mitigate some of the uncertainty in the capital markets by giving themselves the option of exiting through a sale.

Compared to an auction, the dual track process could create additional bargaining power towards potential acquirers. At a minimum, a dual-track IPO process would lend a degree of urgency to the acquisition process. Strategic acquirers often viewed their window of opportunity as closing when a potential target commences an IPO process since the company may not be for sale following its IPO. Even if it would still be possible to acquire the company during the IPO process, the terms (particularly the price) were likely to be less favorable. Companies going public were likely to include more stringent market checks on their pricing than they would in a private company sale process. As a result, buyers may be more inclined to act in the face of a credible possibility of an IPO, and thus, the perceived leverage of a dual-track process can result in a higher sale price and target-friendly deal terms.

The negative with a dual-track process was that it was more complicated, and as a result demanded more management time and effort. Most importantly, it was more expensive in terms of fees. In a typical European IPO, the underwriter fees were on average 4% of the issue size (although in the U.S. they were typically 7%).[2] In an auction, the investment bank running the process would usually charge around 1-2% of the total sale price of the company depending on the expected size of the transaction. In a dual track process, additional fees would be incurred above and beyond the regular IPO or acquisition fees, due to the fact that both processes were run simultaneously.

Selling Com Hem

When the dual-track process for Com Hem started in May, the prospects for a successful exit were looking bright. One reason for this optimism was the recent successful sale of the German cable company Kabel Baden-Wuerttemberg GmbH & Co (KBW), announced in March 2011. Deutsche Bank had led a dual-track sales process for KBW on behalf of its owner EQT, and ended up selling KBW to Liberty Global for €3.16 billion, a multiple of approximately 8.1 times of forecast 2011 EBITDA. See **Exhibit 4** for a summary of the KBW transaction. The Deutsche Bank team was particularly happy with this process given the fact that it coincided with considerable turmoil in equity markets, due to political unrest in North Africa and the earthquake in Japan on March 10. Despite this, the auction had gone well, partly thanks to debt markets holding up relatively well during this turbulent period, which enabled bidders to finance their bids for the company. See **Exhibit 5** for data on recent transactions in the cable industry.

By the time the Com Hem process was initiated in May stock markets had stabilized, so the prospects for a successful IPO also looked quite bright. On May 19, for example, the Swiss commodities trading company Glencore was taken public in a record-large €7 billion IPO. A week later the Russian computer company Yandex went public in a €1 billion IPO, which was priced well above its indicative price range, and increased by 55% in the first day of trading. See **Exhibit 6** for recent stock market performance, **Exhibit 7** for statistics on recent European IPOs, and **Exhibits 8, 9 and 10** for current trading valuations and forecasts for publicly traded cable company peers.

Consequently, the sale of Com Hem initially attracted considerable interest from a number of potential buyers. When the first round of bidding was completed in May, several promising bids were received, including three private equity bids: one from the US firm CVC Capital

[2] See Abrahamson, Jenkinson, and Jones (2011), "Why don't U.S. issuers demand European fees for IPO's?", forthcoming, *Journal of Finance*.

Partners, one from the UK firm BC Partners, and a third bid from a syndicate consisting of UK's Cinven and Scandinavian PE fund Nordic Capital. These bidders were included in the group that were allowed to get to do more detailed due diligence on Com Hem in order to prepare a final bid for the company. The deadline for second-round bids was set to Thursday July 14.

Between May and July, however, the Eurozone crisis reached a new level. It became clear to the market that Greece was insolvent and would eventually have to default on their government debt. At the same time, there were few signs that the EU had any political solution to this problem. Fears were building that Greece may have to leave the Euro, and countries like Spain, Portugal, Italy, and even France were seeing the interest rates on their government debt surge.

These developments affected the financial situation of many European banks, which were known to have large amounts European government debt on their balance sheets. Given the anticipated credit losses on this debt, many banks were rumored to be in urgent need of recapitalization. As a result, European banks generally became very reluctant to lend to highly levered transactions. Scandinavian banks were in comparably better shape, however, due to the relative strength of their economies and the fact that they had very low credit exposure to the PIIGS countries. Hence, Scandinavian banks were still active making leveraged loans. Still, larger debt deals were hard to do even in Scandinavia, since these would have to be syndicated with other European banks. In addition, it seemed unlikely that any deal would be able to obtain more than 4 times current EBITDA in debt, and sponsors would probably have to put in 45-50% of equity. This was far from the kind of leverage that LBOs could get in the heyday of the credit boom in 2006-2007, when it was not uncommon to see deals done at D/EBITDA-levels of 7-8 times and D/EV-levels of 75-80%. See **Exhibit 11** for leverage levels in telecom LBOs over the last few years and **Exhibit 12** for recent LBO transactions.

As the July 14 deadline for the second-round bidding approached, the Deutsche Bank team received news that CVC Capital Partners and Nordic Capital would withdraw from the process. This was unfortunate news, since this would leave just BC Partners and Cinven remaining in the auction. In addition, Cinven had been planning a joint bid with Nordic Capital, and their ability to bid was now put into question. The point when the sellers would have to make up their minds was quickly approaching. Would the auction be competitive enough to be able to secure a good price for Com Hem? Or should they call off the auction and instead opt for an initial public offering after the summer? Or should they call the exit off?

Obviously this would depend on what Carlyle and Providence thought would be a good price for the company. There was a lot of speculation about the value the owners put on the business. Earlier in the year Swedish private equity company EQT had announced the sale of German cable operator Kabel Baden-Wuerttemberg GmbH & Co. KG to Liberty Global for EUR3.16 billion, representing an Ebitda multiple of 8.1 on forecast 2011 earnings. A similar multiple on last year's Ebitda would value Com Hem at around SEK15 billion ($2.39 billion).

Helena Svancar and her team pondered their options. What should they recommend to Carlyle and Providence? Should they call off the auction and pursue the IPO?

Exhibit 1: Com Hem snapshot

1 Leading TV and broadband operator

- **1.8 million** customer base
- **Only Swedish** operator with subs/revenue **growth** for DTV, broadband and telephony in each of **last 3 years**
- **77% DTV** and **43% BB** market share in universe

2 Leading infrastructure

- **Homogeneous 862 MHz** network
- **100% DOCSIS 3.0** *(200 Mbit/s)* and **VOD enabled**
- **Deep fibre reach**

3 Leading growth and cash generation

- 2010 Revenues of **SEK4.3bn** *(6% yoy growth)*
- 2010 EBITDA of **SEK1.7bn** *(40% margin)*
- 2010 OpFCF of **SEK1.3bn** *(30% margin)*

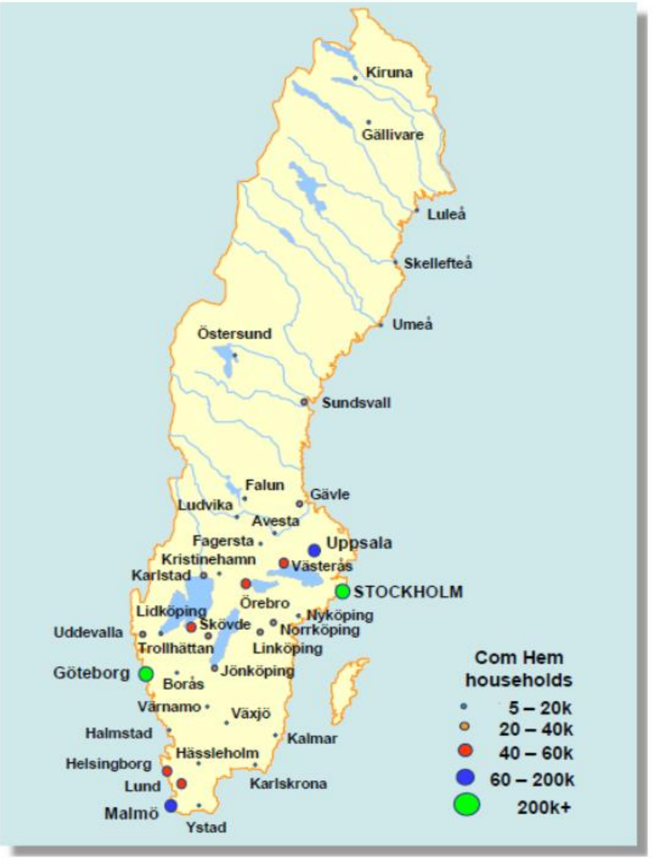

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Exhibit 2: Com Hem key financials

(SEKm)	2007	2008	2009	2010
Income statement				
Sales	2,726.3	3,601.1	4,086.9	4,317.4
Growth (%)		*32.1%*	*13.5%*	*5.6%*
EBITDA	1,040.6	1,467.5	1,603.5	1,733.3
Margin (%)	*38.2%*	*40.8%*	*39.2%*	*40.1%*
EBIT	581.0	738.4	763.9	859.1
Margin (%)	*21.3%*	*20.5%*	*18.7%*	*19.9%*
ETR[(a)]	28.1%	27.3%	26.9%	30.4%
Cash flow statement				
Depreciation	459.6	729.1	839.6	874.2
% of sales	*16.9%*	*20.2%*	*20.5%*	*20.2%*
Capex	(718.1)	(844.0)	(785.4)	(445.7)
% of sales	*(26.3)%*	*(23.4)%*	*(19.2)%*	*(10.3)%*
Balance sheet				
Net working capital	(152.2)	(246.4)	(181.8)	(318.7)
% of sales	*(5.6)%*	*(6.8)%*	*(4.4)%*	*(7.4)%*
Net debt	1,289.7	1,396.2	944.4	511.9

(a): Effective Tax Rate
Source: Company information

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Exhibit 3: Illustrative sale process overview

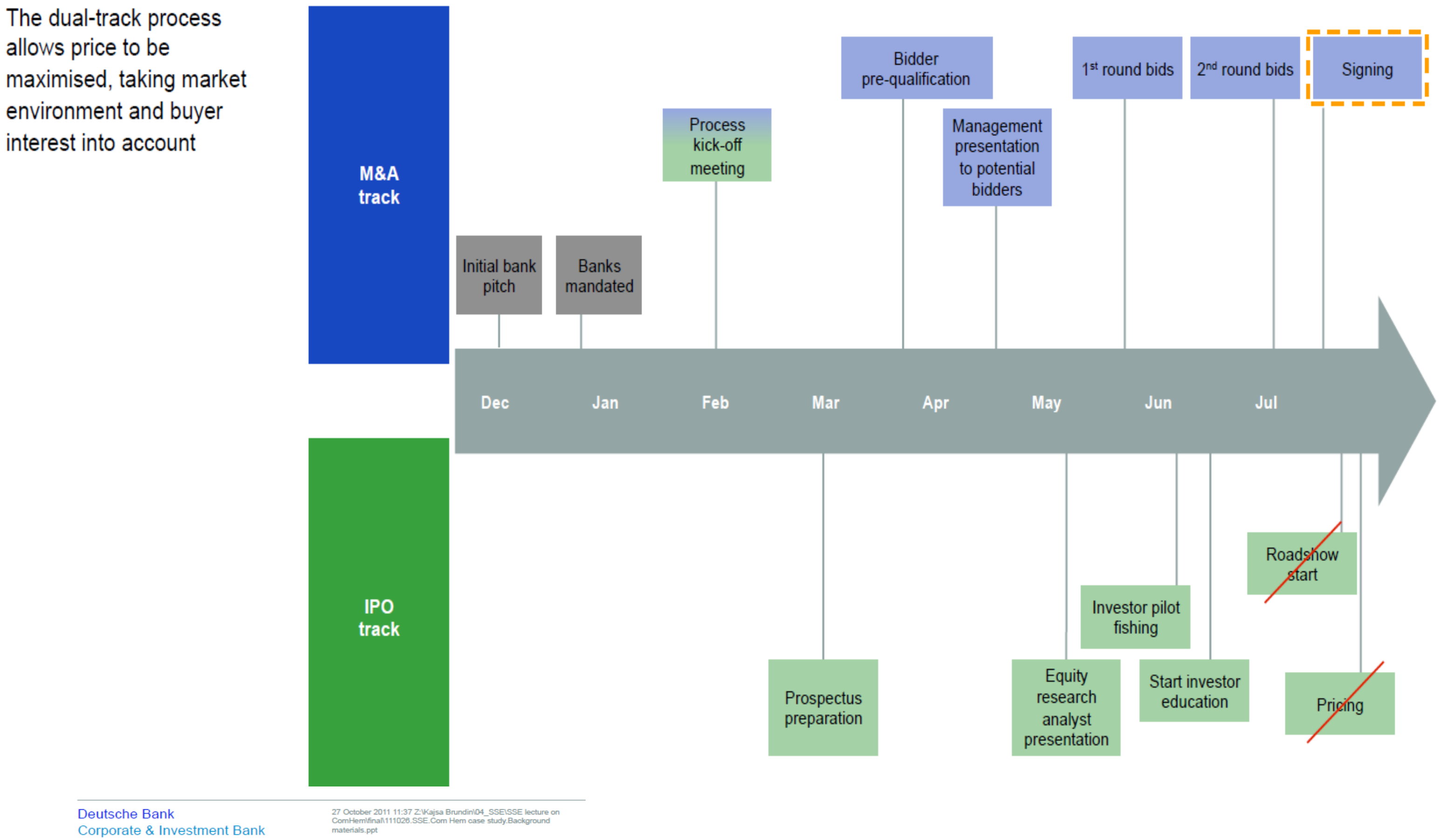

Exhibit 4: EQT's sale of KBW to Liberty Global for €3.16bn [1]

EQT has sold KBW for €3.16bn representing a NTM EV/EBITDA multiple of 8.9x, well above both recent precedent transactions and the trading multiple of KBW's closest peer, KDG

The Deutsche Bank team acted as advisor on the sale to Liberty Global and as joint global coordinator on the IPO track

The deal involves both a recap with portable financing and a unique regulatory "backstop" feature

Transaction overview

- On 21 March 2011, Liberty Global announced the acquisition of KBW from EQT for an EV of €3.16bn
- Transaction structured as a €1.0bn dividend recap with €2.25bn in portable financing followed by a sale contingent on regulatory approval but fully backstopped in the event regulatory approval is not forthcoming
- EQT ran a dual track process with a view to maximizing pricing tension and proceeds
- The transaction is expected to close in H2 2011
- The deal represents the first step towards the long sought-after German L3 cable consolidation

Company overview

- With ~3.7m homes passed and 2.4m unique subs, KBW is the third largest German L3 cable operator
- KBW operates in Baden-Württemberg, one of the most prosperous regions in Germany
- Key investment highlights include:
  - Leading growth among European cable operators (15% and 24% 2007-2010 revenue and EBITDA CAGR respectively)
  - High cash generation and fast deleveraging profile
  - Significant upside from broadband and Pay-TV cross-selling and up-selling

Key transaction metrics[2] *(€m)*

		LGI/ UM	KDG trading
Debt recapitalisation	**2,250**		
Debt / 2011E EBITDA (post synergies)	*5.8x*		
Equity	910		
% Equity	*29%*		
Enterprise Value	**3,160**		
2011E EBITDA (pre-synergies)	353		
Estimated synergies	*37*		
2011E EBITDA (post-synergies)	390		
EV / EBITDA 2011E (pre-synergies)	**8.9x**	**8.0x**	**7.4x**
EV / EBITDA 2011E (post-synergies)	**8.1x**		

(1) Enterprise value
(2) Multiples based on research analysts consensus

Comment

*"**Liberty Global [...] is willing to dig deep into its pockets** for KBW. The **price represents** a purchase price multiple of about **8.1 times** [...] **EBITDA**, in 2011, **adjusted for synergies.**"*

Dow Jones Newswires, 22 Mar 2011

*"We view the acquisition positively given [...] **Liberty Global acquires one of the fastest growing Cable companies** with substantial upside **in one of the best Cable markets** in the world"*

BofA Merrill Lynch, 21 Mar 2011

*"At more than €3 billion, **Liberty Global would be paying** what some bankers and others watching the auction regard as **a full price**"*

Europe Technology, 18 Mar 2011

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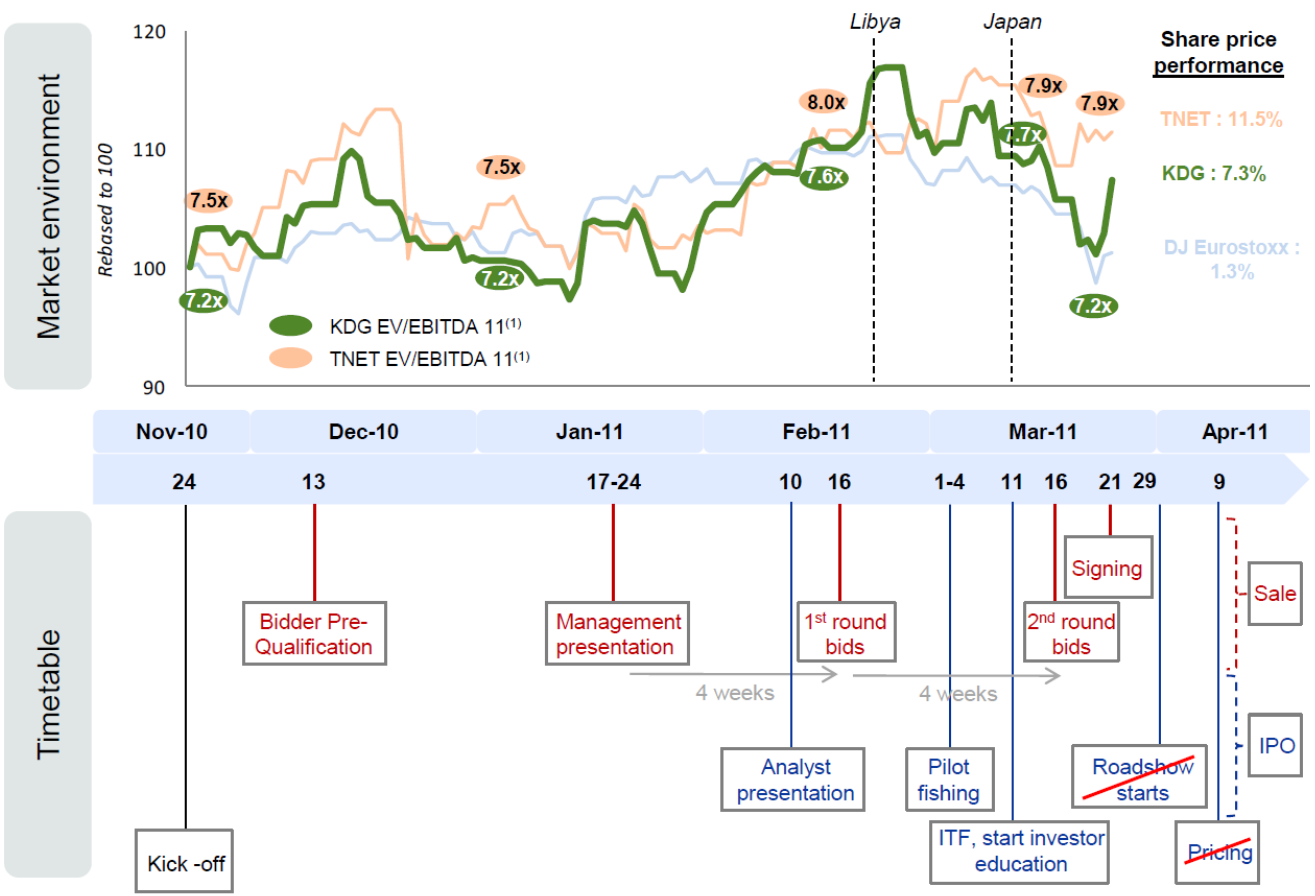
The dual track process allowed price to be maximized, notwithstanding a challenging market environment

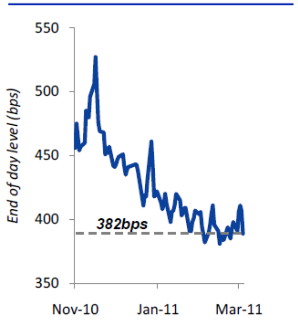
The IPO track developed very positively with strong investor interest, but was ultimately affected by the worsening of equity markets stemming from the events in Libya and Japan

However, the sub-investment grade debt markets proved relatively immune



(1) Dynamic multiples, research analysts consensus

iTraxx Crossover index(2)



(2) iTraxx Crossover index composed of 50 sub-investment grade credits

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Exhibit 5: Comparable precedent transactions (cable companies)

Target	Acquiror	Announcement date	Deal value (€m)	Stake acq	Transaction EV	EV/EBITDA CY	EV/EBITDA LTM	EV/OpFCF CY	EV/OpFCF LTM
Kabel BW	Liberty Global	21-Mar-11	3,160	100%	3,160	8.9x	na	na	na
Aster	Liberty Global	6-Dec-10	607	100%	607	na	na	na	na
Multiregion	MTS	16-Jul-10	170	100%	170	na	na	na	na
Stofa	Ratos	8-Jul-10	146	100%	146	na	na	na	na
Welho	DNA	31-May-10	200	100%	200	na	na	na	na
R Cable	CVC Capital Partners	13-Apr-10	236	35%	675	7.2x	na	na	na
J:COM	KDDI	25-Jan-10	2,846	38%	8,496	7.5x	7.5x	21.0x	21.0x
Unitymedia	Liberty Global	13-Nov-09	3,545	100%	3,545	8.0x	8.2x	na	21.7x
Interkabel	Telenet	28-Jun-08	353	100%	353	8.3x	na	na	na
Numericable	Carlyle	21-Dec-07	2,275	35%	6,500	12.7x	12.8x	21.7x	22.1x
INDI	Telenet	7-Dec-07	170	100%	170	8.0x	na	na	na
GET Norway	Quadrangle & GS Partners	20-Nov-07	745	100%	745	12.9x	na	na	na
Orion Cable (part)	KDG	20-Sep-07	585	100%	585	10.0x	na	na	na
Melita Cable	GMT	1-Jul-07	167	100%	167	10.0x	na	na	na
Primacom	Orion	7-Jul-07	178	75%	568	11.3x	10.9x	na	na
UPC Belgium	Telenet	30-Nov-06	187	100%	187	10.0x	na	na	na
Essent	Cinven/Warburg Pincus	3-Aug-06	2,600	100%	2,600	11.0x	11.3x	na	na
Casema	Cinven/Warburg Pincus	14-Jul-06	2,100	100%	2,100	11.4x	12.3x	na	na
Cabovisao	Cogeco	2-Jun-06	465	100%	465	na	12.6x	na	na
Kabel BW	EQT	27-Apr-06	1,300	100%	1,300	9.9x	10.4x	15.5x	19.9x
UPC Sweden	Carlyle/Providence	3-Apr-06	349	100%	349	8.0x	9.0x	na	na
UPC France	Cinven/Altice	23-Mar-06	1,250	100%	1,250	13.3x	15.6x	na	na
UPC Norway	Candover	19-Dec-05	450	100%	450	10.6x	10.6x	na	10.6x
Aster City	Mid Europa Partners	14-Dec-05	412	100%	412	10.3x	na	na	na
KDG	Providence	12-Dec-05	2,029	63%	3,200	8.0x	8.0x	11.6x	11.5x
com hem	Carlyle/Providence	2-Dec-05	1,103	100%	1,103	15.4x	15.6x	nm	nm
Astral Telecom	Liberty Global	14-Oct-05	351	100%	351	7.9x	na	na	na
Multikabel	Warburg Pincus	6-Oct-05	515	100%	515	8.8x	9.1x	13.1x	13.8x
Telewest	NTL	3-Oct-05	7,426	100%	7,426	8.5x	8.7x	13.8x	21.6x
Cablecom	Liberty Global	30-Sep-05	2,819	100%	2,819	12.5x	10.4x	nm	28.0x
Auna TLC	Ono/Financial Sponsors	29-Jul-05	2,250	100%	2,250	12.1x	na	12.1x	na
NTL Ireland	MS Irish Cable Holdings	9-May-05	325	100%	325	8.3x	7.4x	nm	nm
ish	iesy/Apollo	11-Mar-05	1,540	100%	1,540	7.6x	na	9.3x	na
				Average		**10.0x**	**10.6x**	**14.8x**	**18.9x**
				Median		**10.0x**	**10.4x**	**13.5x**	**21.0x**

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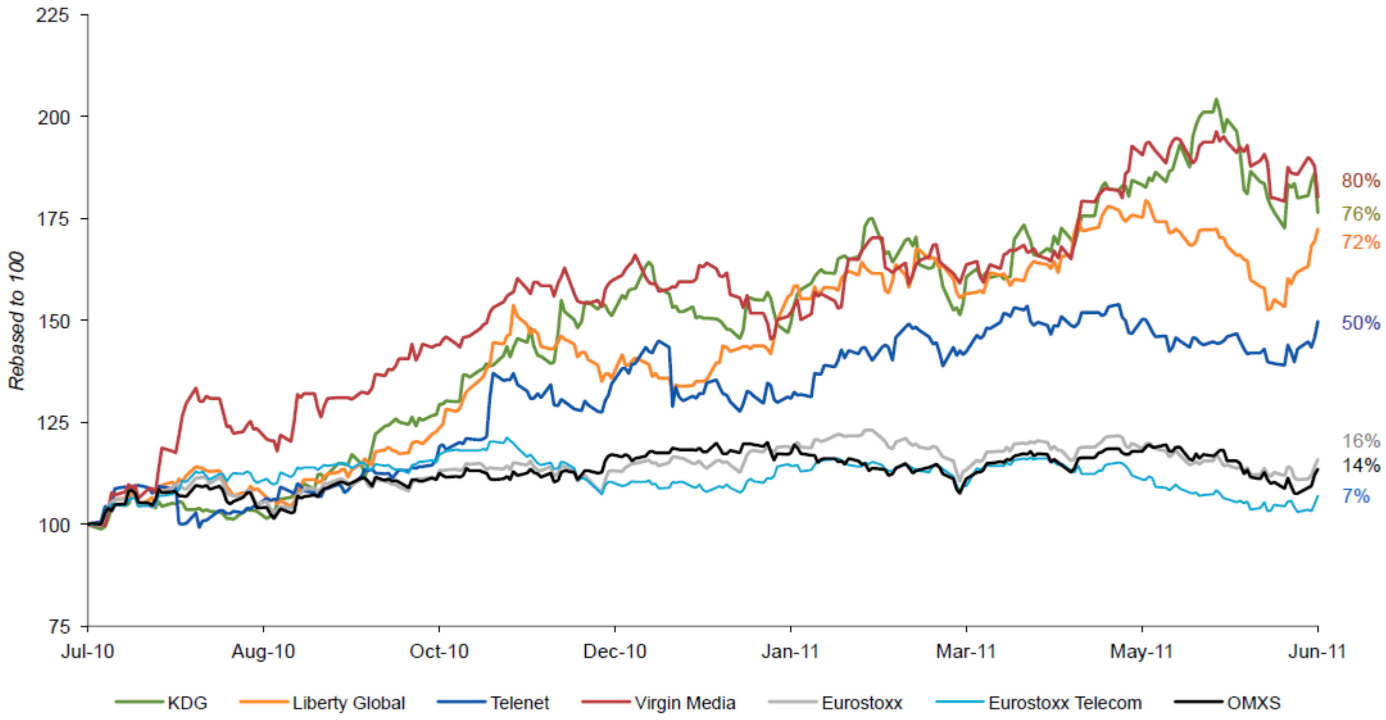
Exhibit 6: Equity market performance

Share price performance LTM June 2011



Source: Datastream

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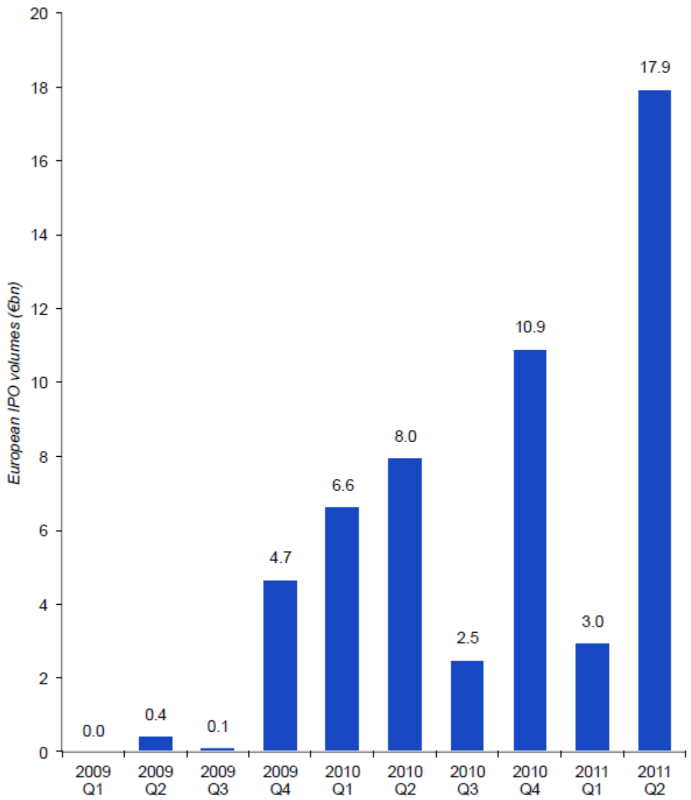
Exhibit 7: IPO market update (as of June 2011)

European IPO market development



Source: Dealogic

Recently priced European IPOs

Date	Issuer	Country	Sector	Size (€m)	% of free float post-IPO	Price range	IPO price	Performance 1-day	Performance 1-week	Performance to date
24-Jun	globalports	Russia	Transportation	371	23%	14.7 – 16.1	15.0	8.0%	–	9.3%
23-Jun	Salvatore Ferragamo (a)	Italy	Consumer products	345	23%	8.0 – 10.5	9.0	–	–	–
17-Jun	PRADA	Italy	Textile	1,498	17%	36.5 – 48.0	39.5	0.3%	–	6.3%
17-Jun	VALLARES (b)	UK	Finance	1,484	na	10.0 – 10.0	10.0	(1.0)%	(0.2)%	0.7%
23-May	Yandex	Russia	Computers	1,014	18%	20.0 – 22.0	25.0	55.4%	37.8%	30.0%
19-May	GLENCORE	Switzerland	Mining	7,088	17%	5.2 – 5.5	5.3	0.1%	(1.5)%	(10.2)%
18-Apr	Nomos Bank	Russia	Finance	498	22%	16.0 – 18.5	17.5	0.6%	0.6%	0.0%
15-Apr	Etalon Group	Russia	Real Estate	397	28%	7.0 – 9.0	7.0	(5.0)%	(3.7)%	(4.3)%
13-Apr	GSW	Germany	Real Estate	468	60%	19.0 – 23.0	19.0	13.2%	14.2%	5.6%
8-Apr	Ros Agro	Russia	Food & Beverage	263	50%	14.5 – 18.3	15.0	4.3%	3.3%	(6.7)%
7-Apr	AMAG	Austria	Metal & Steel	366	44%	19.0 – 24.0	19.0	(5.9)%	(8.4)%	(15.4)%

Note: Transactions >€250m. As of 30 June 2011
(a) As of 30 June 2011, Salvatore Ferragamo has not yet commenced trading
(b) Vallares is a permanent capital deal
Source: Dealogic, Datastream

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Exhibit 8: Comparable trading valuations

Cable trading multiples[a]	Enter-prise Value[b]	EV[b] /EBITDA		EV[b]/ OpFCF		EV[b]/ LFCF[c]		Net debt / EBITDA	Net debt / Market cap	Dividend yield		CAGR 11E – 13E			Beta[d]	
		2011E	2012E	2011E	2012E	2011E	2012E			2011E	2012E	Sales	EBITDA	OpFCF	Raw	Adjusted
European Cable																
KDG	€7,162	9.2x	8.4x	16.9x	14.6x	19.5x	14.8x	3.9x	0.8x	0.0%	2.8%	5.7%	8.1%	14.3%	0.61	0.74
Liberty Global	€23,886	7.3x	6.8x	12.8x	11.0x	17.6x	12.0x	4.3x	1.5x	0.0%	0.0%	5.2%	7.0%	13.8%	1.08	1.05
Telenet	€5,868	8.2x	7.7x	14.0x	12.3x	15.0x	13.0x	4.0x	0.7x	13.7%	13.9%	5.2%	5.8%	10.9%	0.32	0.55
Virgin Media	€13,201	7.4x	6.9x	12.5x	11.5x	12.3x	9.9x	3.5x	1.0x	0.5%	0.5%	3.5%	5.2%	7.2%	1.23	1.15
European Cable Mean		**8.0 x**	**7.5 x**	**14.1 x**	**12.4 x**	**16.1 x**	**12.4 x**	**3.9 x**	**1.0 x**	**3.6%**	**4.3%**	**4.9%**	**6.5%**	**11.6%**	**0.81**	**0.87**
European Cable Median		**7.8 x**	**7.3 x**	**13.4 x**	**11.9 x**	**16.3 x**	**12.5 x**	**4.0 x**	**0.9 x**	**0.3%**	**1.7%**	**5.2%**	**6.4%**	**12.4%**	**0.85**	**0.90**
US Cable																
Comcast	€57,958	5.6x	5.4x	8.2x	7.6x	11.6x	11.6x	3.5x	0.8x	1.7%	1.9%	3.9%	3.7%	5.5%	1.04	1.03
Time Warner Cable	€31,002	6.3x	6.0x	10.5x	9.6x	10.4x	12.2x	3.4x	0.9x	2.3%	2.4%	3.7%	4.5%	8.0%	1.18	1.12
Cablevision	€13,479	8.2x	7.9x	11.7x	11.0x	9.5x	11.7x	4.2x	1.0x	1.4%	1.3%	na	na	na	0.79	0.86
US Cable Mean		**6.7x**	**6.4x**	**10.1x**	**9.4x**	**10.5x**	**11.8x**	**3.7x**	**0.9x**	**1.8%**	**1.9%**	**3.8%**	**4.1%**	**6.8%**	**1.01**	**1.00**
US Cable Median		**6.3x**	**6.0x**	**10.5x**	**9.6x**	**10.4x**	**11.7x**	**3.5x**	**0.9x**	**1.7%**	**1.9%**	**3.8%**	**4.1%**	**6.8%**	**1.04**	**1.03**

(a) Adjusted to account for capitalisation of sales commissions and sales subsidies
(b) Enterprise Value= Equity Value + Net Debt (Book value as last reported adjusted for announced cash effects post reporting date) + Market Value of Minority Interests - Market Value of Associates
(c) FCFE = EBITDA – Capex – Change in Net Working Capital – Cash Taxes
(d) Raw Beta defined as LTM historical linear beta (Bloomberg). Adjusted Beta defined as 0.67xRaw Beta + 0.33x1

Source: Company information, Bloomberg, Capital IQ

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Exhibit 9: Peer forecast: KDH

Figure 16: Expectations for KDH financial performance (EURm, 31 Mar year end)

	FY09/10	FY10/11	FY11/12E	FY12/13E	FY13/14E	FY14/15E
TV subscription	994	988	1,000	1,024	1,048	1,072
Carriage fees and other	129	145	147	148	150	152
Total Television Revenues	1,123	1,133	1,147	1,172	1,198	1,224
Internet and phone	378	466	555	657	755	853
Total Revenues	1,502	1,599	1,702	1,829	1,954	2,076
% growth	9.6%	6.5%	6.5%	7.5%	6.8%	6.3%
Adjusted EBITDA	659	729	800	884	970	1,072
% margin	43.9%	45.6%	47.0%	48.3%	49.7%	51.6%
Non cash MEP expense	-16	-17	-17	-17	-17	-17
Restructuring	1	-15	0	0	0	0
D&A	-450	-490	-474	-458	-478	-491
EBIT	195	207	309	408	475	563
Interest	-214	-264	-188	-186	-195	-198
PBT	-20	-57	121	223	280	365
Tax	-26	12	-37	-33	-50	-91
Minorities	-1	0	0	0	0	0
Net Income	-47	-45	84	189	229	274
DPS	0	0	2.00	2.50	3.00	3.50
Equity FCF	137	203	213	337	411	493
Net Debt	2,865	2,747	2,524	2,367	2,181	1,958
Net Debt:EBITDA	4.3x	3.8x	3.2x	2.7x	2.2x	1.8x
Capex	-327	-345	-360	-358	-344	-319
% sales	21.8%	21.6%	21.1%	19.6%	17.6%	15.4%
OpFCF	332	384	441	526	626	752
% sales	22.1%	24.0%	25.9%	28.8%	32.1%	36.2%

Source: Deutsche Bank

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Exhibit 10: Peer forecast: Telenet

Figure 9: Summary of updated financials for Telenet (EURm)

(Euro millions)	**2010**	**1Q11**	**2Q11E**	**3Q11E**	**4Q11E**	**2011E**	**2012E**	**2013E**	**2014E**	**2015E**
Basic cable TV	325	80	80	81	79	319	317	314	313	315
Premium cable TV	151	43	44	46	48	182	214	248	277	301
Distributors/other (incl. handset sales)	56	12	13	12	12	50	49	48	47	46
Residential broadband	427	109	112	114	117	453	485	517	548	570
Residential telephony (incl. mobile)	256	66	67	70	73	276	306	338	370	403
Business services (Telenet Solutions)	85	22	23	22	25	92	95	98	101	104
Total revenues	**1,299**	**332**	**339**	**346**	**355**	**1,372**	**1,465**	**1,563**	**1,655**	**1,737**
% growth yoy	*8.5%*	*4.6%*	*5.6%*	*5.5%*	*6.8%*	*5.6%*	*6.7%*	*6.7%*	*5.9%*	*4.9%*
Network operating and service costs	(378)	(92)	(96)	(98)	(101)	(386)	(412)	(440)	(466)	(489)
Payroll & Employee Benefit Costs	(134)	(37)	(36)	(35)	(37)	(144)	(148)	(153)	(157)	(162)
Advertising, sales and marketing	(69)	(13)	(15)	(17)	(18)	(63)	(73)	(78)	(83)	(87)
Other costs	(49)	(15)	(15)	(16)	(16)	(62)	(59)	(63)	(66)	(69)
TNET Adjusted EBITDA (reported)	**669**	**174**	**177**	**181**	**183**	**716**	**772**	**829**	**883**	**930**
Reported EBITDA margin	51.5%	52.5%	52.3%	52.4%	51.7%	52.2%	52.7%	53.1%	53.4%	53.5%
% growth yoy	*10.0%*	*7.0%*	*6.5%*	*3.1%*	*12.4%*	*7.2%*	*7.8%*	*7.4%*	*6.5%*	*5.3%*
Total D&A	(314)	(81)	(80)	(79)	(115)	(355)	(353)	(352)	(321)	(319)
Operating profit (EBIT)	345	87	96	101	67	350	414	473	559	608
% growth yoy	15.4%	2.6%	10.9%	4.2%	-12.9%	1.7%	18.1%	14.3%	18.2%	8.8%
Net Interest expense	(151)	(45)	(46)	(45)	(48)	(183)	(201)	(211)	(221)	(236)
Net gain/(loss) on derivative instruments	(39)	37	20	15	15	87	0	0	0	0
Profit before taxes	146	73	70	72	34	249	212	262	338	373
Income tax (expense)/benefit	(57)	(30)	(23)	(23)	(11)	(81)	(69)	(85)	(110)	(121)
Net income	**89**	**43**	**48**	**48**	**23**	**161**	**143**	**177**	**228**	**251**
EPS - fully diluted (EUR/share)	0.79	0.37	0.40	0.41	0.19	1.36	1.21	1.49	1.92	2.12
DPS (EUR/share)	**2.23**	**0.00**	**4.50**	**0.00**	**0.00**	**4.50**	**4.58**	**4.61**	**4.14**	**4.24**
Net debt	2,238	2,179	2,118	2,698	2,659	2,659	2,906	3,107	3,316	3,497
Net debt/EBITDA(LTM)	3.3x	3.2x	3.1x	3.9x	3.7x	3.7x	3.8x	3.7x	3.8x	3.8x
Capex (incl. STB) (*)	316	57	61	64	102	284	287	286	282	263
Capex:sales ratio	*24.4%*	*17.1%*	*18.0%*	*18.4%*	*28.8%*	*20.7%*	*19.6%*	*18.3%*	*17.0%*	*15.1%*
FCF	**258**	**87**	**61**	**43**	**39**	**229**	**233**	**283**	**242**	**285**

Source: Deutsche Bank, Company data – (*) excluding football rights and mobile spectrum

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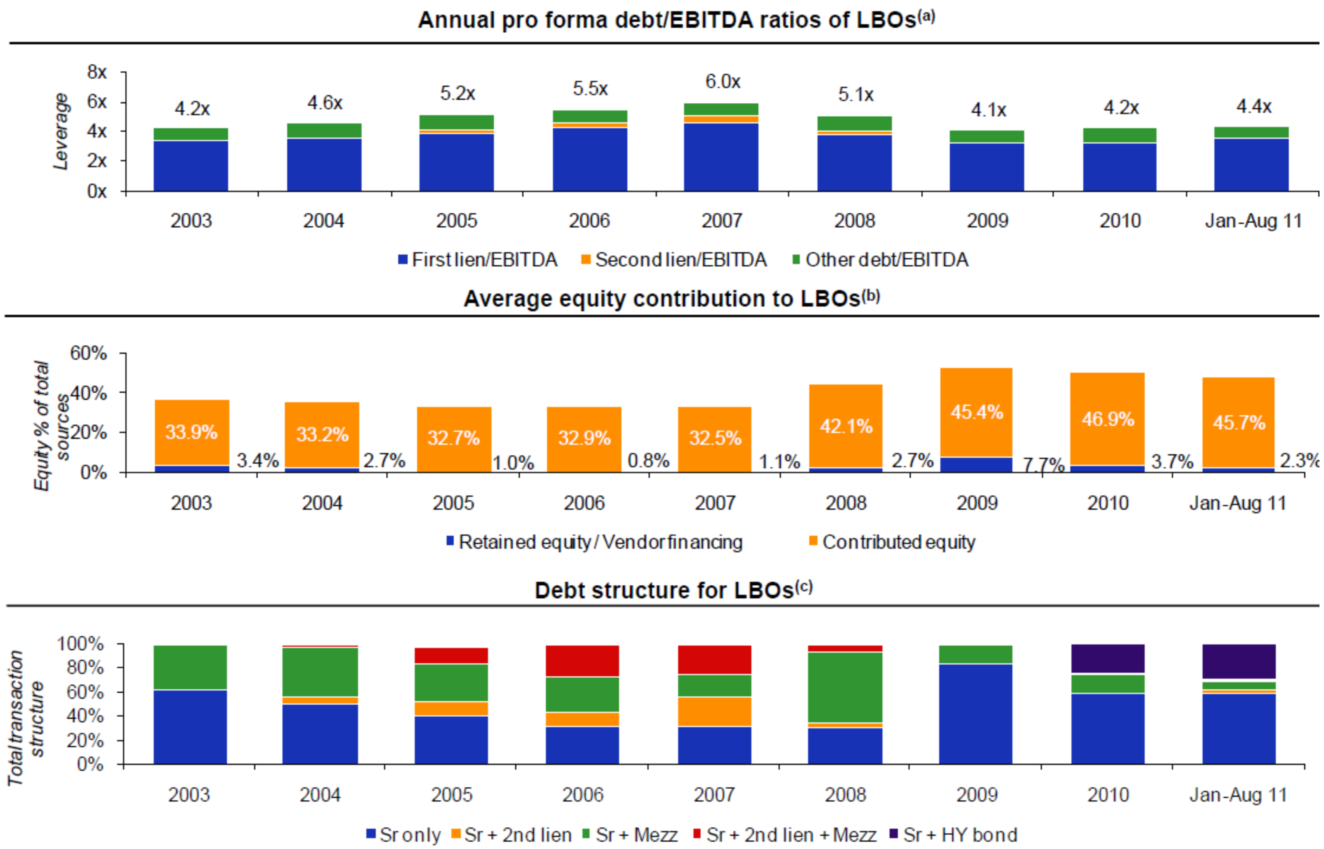
Exhibit 11: LBO financing trends



(a) Excludes broadcasting, cable and telecom loans prior to 2002
(b) Equity includes shareholder loans, common equity and pref stock streamed to the operating company as common equity as well as vendor note proceeds. Includes only transactions for which sources/uses were made available
(c) Chart represents the percentage of deals which have senior facilities only, vs. senior first lien and second lien, etc based upon transaction count

Source: S&P LCD

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Exhibit 12: Selected LBOs H1 2011

	Jack Wolfskin	Polkomtel S.A.	RAC	Spie	Delachaux	Evonik
Borrower	Jack Wolfskin	Polkomtel	RAC	Spie	Delachaux	Evonik Carbon Black
Sponsor	Blackstone	na	Carlyle	CD&R	CVC	Rhone Capital and Triton
Industry	Retail	Telecom	Services	Industrials	Industrials	Chemicals
Date	Jul-11	Jul-11	Jul-11	Jun-11	Jun-11	Jun-11
Size	€500m	PLN14.3bn (c.€3.6bn)	£620m	€1,710m	€565m	€600m
Leverage	4.4x	4.3x	5.7x	5.5x	3.7x	3.5x
Equity	na	c.25%	c.50%	40%	c.45%	38%
Facilities/margins	RCF: €80m, 6yr, 450bps TLB: €350m, 7yr, 500bps 2nd lien: €70m, 7.5yr, 950bps	RCF: PLN600m, 6yr, 375bps TLA: PLN3,400m, 6yr, 375bps TLB: PLN3,591m, 6.5yr, 450bps HY bond bridges: PLN5,344m PIK bridge: PLN906m	TLB: £520m, 475bps	RCF/Cap: €300m, 6yr, 375bps TLA: €200m, 6yr, 375bps TLB1: €585m, 7yr, 475bps TLB2: €250m, 7yr 425bps HY bond bridge: €375m	RCF €100m, 6yr, 400bps TLA: €70m, 6yr, 400bps TLB1: €340m, 7yr, 425bps TLB2: €55m, 7yr 425bps	Sr sec notes: €355m, 7yr, 10.0% Sr sec notes: US$350m, 7yr, 9.625%

	versatel	cbp	FONCIA	GRUPPOCOIN	KabelBW	phones 4u
Borrower	Versatel	Compagnie Europeene de Prevoyance	Foncia	Gruppo Coin	KBW	Phones 4U
Sponsor	KKR	JC Flowers	Bridgepoint/Eurazeo	BC Partners	na	BC Partners
Industry	Cable	Insurance	Services	Retail	Cable	Retail
Date	Jun-11	Jun-11	Jun-11	Jun-11	Mar-11	Mar-11
Size	€465m	€545m	€485m	€985m	€2,250m	£555
Leverage	2.5x	5.0x	4.9x	na	7.1x	3.7x
Equity	na	na	61%	na	29%	£200m
Facilities/margins	RCF €70m, 6yr, 400bps TLA: €45m, 6yr, 400bps TLB: €350m, 7yr, 450bps	RCF: €40m, 6yr, 400bps TLA: €130m, 6yr, 400bps TLB: €375m, 7yr, 450bps	RCF/Cap: €90m, 6yr, 400bps TLA: €95m, 6yr, 400bps TLB: €300m, 7yr, 450bps	RCF/Cap: €220m, 6yr, 450bps TLA: €290m, 6yr, 450bps TLB: €225m, 7yr, 500bps	Sr sec notes: US$500m/€800m, 8yr, 7.5% Sr sec FRN: €420m, 7yr, E +425bps Sr notes: €680m, 10yr, 9.5%	RCF: £125m Sr sec notes: £430m, 7yr, 9.50%

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Exhibit 13: Risk free rates

Government bond yields

	3 months	1 year	5 years	10 years	30 years
Sweden	1.8%	na	2.6%	2.9%	3.3%
Germany	1.0%	1.4%	2.3%	3.0%	3.8%
US	0.0%	0.2%	1.8%	3.2%	4.4%

Source: Bloomberg as of 30 June 2011

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