Sunrise

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Press Release

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Sunrise to acquire UPC Switzerland for CHF6.3 billion to create a stronger Swiss converged challenger

Transaction highlights

The Transaction creates a stronger and more valuable Sunrise:

- On the back of the announcement of strong Q4 2018 results, Sunrise announces today that it has signed a binding agreement to acquire Swiss cable operator UPC Switzerland, a wholly-owned subsidiary of Liberty Global, for an enterprise value of CHF6.3 billion (the "Transaction")
- Reinforces Sunrise's position as the leading converged challenger with scale across all elements of the 4P bundle. As the #2 player in mobile, TV, fixed broadband and fixed voice, the combined company will have the scale to drive innovation, invest in new services and pursue growth by providing innovative and competitively priced offers. The combined group will be better positioned to drive competition with direct benefits for the Swiss economy and consumers
- Secures access to 2.3 million homes[1] (~60% of total Swiss homes) on own high-quality next generation fixed network infrastructure, with a clear roadmap to speeds of 1Gbps via DOCSIS 3.1 upgrades that will enable up to 10 Gbps over time and drive enhanced customer experience, in particular in regions that are not within the fibre footprint
- Augments differentiated convergent offers for both B2C and B2B customers, building upon the advanced TV offering of UPC Switzerland with enriched user experience and proprietary content as well as leveraging the combined company's enhanced scale in B2B
- Demonstrable value creation from in-market cost and capex synergies, with an annual run-rate of approx. CHF190 million[2] by the third full year post completion, equivalent to a net present value ("NPV") of approx. CHF2.4 billion after integration costs
- Significant potential for further growth through cross-selling opportunities and scale, resulting in revenue synergies with an annual run-rate of approx. CHF45 million by the fourth full year post completion, equivalent to an NPV of approx. CHF0.4 billion after integration costs
- Financially attractive transaction, valuing UPC Switzerland at a multiple of 8.0x 2018A adj. EBITDA and 10.9x 2018A adj. OpFCF after run-rate cost and capex synergies and 9.9x 2018A adj. EBITDA and 16.1x 2018A adj. OpFCF before synergies (all figures are post central opex and capex allocations)[3]. These multiples compare favourably to recent European convergence transactions, even more so when considering Switzerland's relatively lower tax and interest rate levels. The Transaction is accretive to Sunrise's equity free cash flow per share from the first year post completion, adjusted for run-rate cost and capex synergies and integration costs.

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[1] Excluding partner networks

[2] Before integration costs

[3] Includes central opex allocations and central capex allocations (reclassified into opex under Sunrise reporting from capex under Liberty Global reporting)

The returns from the Transaction are expected to exceed the weighted average cost of capital of UPC Switzerland by the third full year from completion

- Sunrise is committed to maintaining a prudent capital structure and retaining its existing progressive dividend policy. The Board of Directors will propose a dividend per share ("DPS") at the annual general meeting ("AGM") for 2018 of CHF4.20 and Sunrise reiterates its annual 2018-2020 DPS growth guidance of 4-6%[4]. Upon meeting its 2019 guidance, Sunrise expects to propose a DPS in the range of CHF4.35-4.45[4]
- As part of the Transaction, Sunrise will acquire a portion of the target group's outstanding debt of approx. CHF3.6 billion. Sunrise will also undertake a rights issue in order to raise approx. CHF4.1 billion to fund the residual cash payment of approx. CHF2.7 billion (subject to a customary closing adjustment mechanism) and repay approx. CHF1.1 billion of certain existing Sunrise debt, resulting in leverage of approx. 3.0x LTM net debt/EBITDA[5], or approx. 2.7x LTM net debt/EBITDA[5] adjusted for run-rate cost synergies
- The Transaction is subject to receipt of regulatory clearance and approval of the rights issue by an extraordinary general meeting ("EGM") of Sunrise; the regulatory approval is expected to be obtained in the second or third quarter of 2019 and the closing of the Transaction is expected to take place during the second half of 2019

Statements from Sunrise's CEO and Chairman

Commenting on the Transaction, Olaf Swantee, CEO of Sunrise said: "Today's announcement is an important milestone for Sunrise, our customers, employees and shareholders. Together with UPC Switzerland, we will create a stronger, truly converged challenger and significant value for our shareholders. We are committed to accelerating innovation and enhancing customers' experience, building on the enlarged scale of the combined business and superior next generation network infrastructure. We have undertaken an extensive due diligence exercise, which gives us a lot of confidence in the deliverability of the synergies. We are excited about the prospects of the combined business."

Peter Kurer, Chairman of the Board of Directors of Sunrise added: "The Board is very pleased with today's announcement that creates a stronger and more valuable Sunrise. We have full confidence in management's ability to integrate UPC Switzerland smoothly and realise the significant synergies from the combination, to continue to deliver strong financial results and reward our shareholders for their support. We look forward to this new chapter in Sunrise's history."

Introduction

Sunrise Communications Group AG ("Sunrise"), one of the leading players in the Swiss telecommunications sector, announces today that it has signed a binding agreement to acquire UPC Switzerland GmbH ("UPC Switzerland"), a wholly-owned subsidiary of Liberty Global plc ("Liberty Global"), for an enterprise value of CHF6.3 billion.

UPC Switzerland is Switzerland's leading cable operator with access to 2.3 million homes[6], serving 1.1 million customers and 2.3 million service subscribers, including 1.1 million video subscribers, 0.7 million broadband internet subscribers, 0.5 million telephony subscribers and 0.1 million mobile subscribers (all as of 31 December 2018). UPC Switzerland owns a future-proof cable network across Switzerland with an extensive fibre backbone and deep HFC residential local loops. For the year ended 31 December 2018, UPC Switzerland generated revenues of CHF1,296 million, adjusted EBITDA of CHF637 million post central opex and capex allocations and adjusted OpFCF of CHF392 million post central opex and capex allocations.

Following the closing of the Transaction, the combined business will continue to be called Sunrise and to be listed on the SIX Swiss Exchange. Sunrise is committed to becoming the best Swiss telecommunications company for its customers, employees and shareholders by setting new benchmarks with the highest digital infrastructure quality, the most innovative products and outstanding services. The new company's aim is to win market share through

[4] Before taking into account the bonus element of the rights issue
[5] Based on Dec-18 net debt (adjusted for spectrum payment) and adj. EBITDA
[6] Excluding partner networks

quality, innovation and competitive pricing. The combined group will be better positioned to drive competition with direct benefits for the Swiss economy and consumers.

Benefits of the Transaction

Reinforces Sunrise's position as the leading converged challenger – UPC Switzerland is an attractive and complementary asset, delivering high-speed broadband and proprietary TV content as well as ownership of a 17,500 km fibre network. The combination of Sunrise and UPC Switzerland will form a fully converged nationwide challenger across all elements of the 4P bundle, including wholesale fibre, cable and mobile. The Transaction will further strengthen Sunrise's position as a strong #2 player in mobile, TV, fixed broadband and fixed voice with 1.8 million mobile post-paid (~24% share), 1.2 million broadband (~30% share) and 1.4 million TV customers (~31% share) (as of 30 September 2018). The enlarged scale of the new company will enable Sunrise to continue its drive for innovation and investment in new services, and pursue growth by providing innovative and competitively priced offers.

Secures superior next generation fixed network infrastructure – Sunrise has repeatedly been recognized as a best-in-class 4G mobile network in Switzerland and recently acquired the strategically important frequencies in the 3.5 MHz band for its "5G for People" strategy. The Transaction further enhances Sunrise's next generation fixed network infrastructure by combining its existing FTTH footprint, covering approx. 30% of homes, with the advanced cable network of UPC Switzerland, covering approx. 60% of homes. It will also enhance a clear roadmap to 1Gbps speeds via DOCSIS 3.1 upgrades that will enable up to 10Gbps over time, providing a superior customer experience. The capacity of the UPC Switzerland network is well dimensioned and can handle higher speeds and volumes with limited incremental investments, which have been factored in. The new company will provide a genuine, fully integrated alternative telecommunications infrastructure for Switzerland.

Augments differentiated convergent offers for both B2C and B2B customers – UPC TV, the industry leading video platform of UPC Switzerland launched in October 2018, offers a series of state-of-the-art features, including a best-in-class TV app, 4K box, voice control and differentiated content (e.g. MySports), which will complement Sunrise's established position in TV. Sunrise customers will benefit from enhanced bundled offers, and UPC Switzerland customers will benefit from improved mobile communication offers including mobile internet and others. At the same time, UPC Switzerland's fixed B2B business (#2 behind Swisscom) will enhance growth and add scale to Sunrise's strongly growing B2B business, with the ability to cross-sell converged mobile and fixed products and deliver an exceptional customer experience across the full product range. Both organizations are committed to superior customer experience and leading digital innovation.

Demonstrable value creation through cost & capex synergies – Sunrise expects to generate substantial in-market cost and capex synergies with an annual run-rate of approx. CHF190 million[7] by the third full year post completion, equivalent to an NPV of approx. CHF2.4 billion after integration costs. The cost and capex savings are underpinned by the high wholesale costs of both businesses i.e. MVNO access costs for UPC Switzerland and fixed access costs for Sunrise. In addition, further savings will come from network integration, the consolidation of IT operations & development, procurement optimization and combined marketing & branding activities. The combined company will further invest in customer services to address the enlarged customer base. Duplicate functions, mainly at managerial level and administrative functions, will be optimized whilst the impact on frontline staff is expected to be moderate in light of the comparatively smaller store footprint of UPC Switzerland. The in-market nature of the Transaction is expected to substantially reduce the execution risks associated with the delivery of synergies.

Significant potential for further growth – Sunrise has a significant opportunity to use its leading brand, extensive distribution network and scale to improve the current negative trajectory of UPC Switzerland by cross-selling fixed broadband and TV offers to existing Sunrise customers. Sunrise also expects to be able to cross-sell its mobile services to UPC Switzerland customers and offer new services, using both companies' products and networks. As a

[7] Before integration costs

result, Sunrise expects revenue synergies with an annual run-rate of approx. CHF45 million by the fourth full year post completion, equivalent to an NPV of approx. CHF0.4 billion after integration costs.

Financially attractive transaction – The Transaction values UPC Switzerland at a multiple of 8.0x 2018A adj. EBITDA and 10.9x 2018A adj. OpFCF after run-rate cost and capex synergies of approx. CHF190 million, and 9.9x 2018A adj. EBITDA of CHF637 million and 16.1x 2018A adj. OpFCF of CHF392 million before synergies (all figures are post central opex and capex allocations)[8]. These multiples compare favourably to recent European convergence transactions, even more so when considering Switzerland's low tax and interest rates. The Transaction is accretive to Sunrise's free cash flow per share from the first year post completion, adjusted for run-rate cost and capex synergies and integration costs. The returns from the Transaction are expected to exceed the weighted average cost of capital of UPC Switzerland by the third full year from completion.

Financing

Sunrise intends to finance the enterprise value of CHF6.3 billion through a combination of newly raised equity capital and the assumption of the target group's outstanding senior notes and senior secured credit facilities. As part of the Transaction, Sunrise will take on all of the target group's then outstanding senior notes and senior secured credit facilities (relating to the outstanding senior secured notes issued by UPCB Finance IV Limited and UPCB Finance VII Limited) for an aggregate principal amount of approx. CHF3.6 billion, resulting in a residual cash payment from Sunrise to Liberty Global of approx. CHF2.7 billion (subject to a customary closing adjustment mechanism).

Sunrise intends to raise approx. CHF4.1 billion of new equity capital in form of a rights issue which has been fully underwritten, subject to a resolution by Sunrise’s general meeting of shareholders, by a banking syndicate led by Deutsche Bank and UBS as Joint Global Coordinators and Joint Bookrunners. The syndicate will also include Morgan Stanley as Joint Bookrunner. The proceeds of the rights issue will be used to: (i) fund the cash payment to Liberty Global of approx. CHF2.7 billion; (ii) as soon as reasonably practicable on or after the completion of the Transaction, fully redeem the CHF200 million 1.5% senior secured notes due 2024 issued by Sunrise and prepay and cancel at least an aggregate principal amount of CHF910 million under Sunrise’s existing term loan facilities; and (iii) pay estimated transaction costs of approx. CHF0.2 billion. Sunrise has secured (subject to satisfying customary conditions precedent) an amendment and extension of up to CHF500 million of its existing term loan facility and CHF200 million of its existing revolving credit facility for a period of 5 years following the completion of the Transaction.

Sunrise intends to seek approval for the rights issue at an EGM and the definite terms of the rights issue are expected to be determined and communicated on or around the date of the EGM.

Including the impact of the rights issue Sunrise expects that the Transaction will result in leverage of approx. 3.0x LTM net debt/EBITDA[9], or approx. 2.7x LTM net debt/EBITDA[9] adjusted for run-rate cost synergies. Sunrise intends to achieve an investment grade rating in the medium-term.

The Board of Directors of Sunrise will propose a dividend per share at the AGM for 2018 of CHF4.20. Post completion of the Transaction, Sunrise is committed to retaining its existing progressive dividend policy with an annual DPS growth guidance of 4-6% for 2018-2020[10]. Upon meeting its 2019 guidance, Sunrise expects to propose a dividend in the range of CHF4.35-4.45 per share[10].

UPC Switzerland outlook

Sunrise expects that the standalone, pre-synergies financial trends of UPC Switzerland will be negative in 2019 and decline by an amount broadly similar to the decline in 2018. Thereafter, Sunrise expects the trajectory of UPC

[8] Includes central opex allocations and central capex allocations (reclassified into opex under Sunrise reporting from capex under Liberty Global reporting)

[9] Based on Dec-18 net debt (adjusted for spectrum payment) and adj. EBITDA

[10] Before taking into account the bonus element of the rights issue

Switzerland to stabilize as operational initiatives, including the new advanced UPC TV video platform and convergent offerings, drive better commercial and financial performance. Capex is expected to increase slightly in 2019 as a result of the start and preparation of the roll-out of DOCSIS 3.1 upgrades and UPC TV.

Transitional services agreement

In conjunction with the Transaction, Sunrise has entered into a transitional services agreement with Liberty Global for a period of up to 4 years post completion of the Transaction, with an option to extend by another 12 months. Liberty Global will provide certain transitional services to Sunrise, principally comprising of IT, TV, entertainment, connectivity and other support services. The total charge to Sunrise for these transitional services will be equivalent to approx. CHF90 million (including fixed and variable components) during the first year following completion of the Transaction. This annual charge has been fully included in the transaction figures set out in this announcement and is expected to reduce over time as the businesses are increasingly integrated into the combined business.

Completion

The completion of the Transaction is subject to receipt of customary regulatory clearances and completion of the rights issue. Sunrise expects to obtain regulatory approval in the second or third quarter of 2019 and to close the transaction in the second half of 2019. Sunrise has agreed to pay a termination fee of CHF50 million which would become payable in case the Transaction is not completed, subject to certain exceptions.

Transaction advisers to Sunrise

Deutsche Bank and UBS are acting as lead financial advisers on the Transaction and as Joint Global Coordinators and Joint Bookrunners on the rights issue. Morgan Stanley is acting as financial adviser, having provided a fairness opinion to the Board of Directors of Sunrise on the financial terms of the Transaction, and as Joint Bookrunner on the rights issue. Lenz & Staehelin is acting as lead legal adviser, Meyerlustenberger Lachenal, Latham & Watkins, Slaughter and May and NautaDutilh are acting as legal advisers. PricewaterhouseCoopers and Deloitte are acting as accounting and tax and structuring advisers, respectively.

Roadshow

Details of the roadshow will be published on the Sunrise website: https://www.sunrise.ch/ir

Key financial metrics (2018)

(CHFm, unless otherwise stated)	**Sunrise**	**UPC Switzerland**	**Combined[1)]**
Revenue	**1,876**	**1,296**	**3,173**
% growth	*1.2%*	*(3.7%)*	*(0.9%)*
Reported EBITDA (Sunrise) / OCF (UPC Switzerland)[2)]	**602**	**732**	**1,335**
EBITDA adjustments[3)]	(1)	(1)	(3)
Central opex allocations[4)]	0	(32)	(32)
Central capex allocations[5)]	0	(62)	(62)
Adj. EBITDA (post central allocations)	**601**	**637**	**1,238**
% margin	*32.0%*	*49.1%*	*39.0%*
Total capex	(303)	(245)	(548)
Capex adjustments[6)]	60	0	60
Recurring capex	**(243)**	**(245)**	**(488)**
Adj. OpFCF	**358**	**392**	**750**
% cash conversion	*59.6%*	*61.6%*	*60.6%*

Note: Sunrise financials audited under IFRS standards; UPC unaudited financials under US GAAP standards
1) Aggregated figures not reflecting an IFRS accounting framework
2) As per LGI reporting
3) As per Sunrise reporting
4) Excluding CHF3m of CEE management recharge adjustment
5) Reclassified into opex under Sunrise reporting from capex under Liberty Global reporting
6) Adjusting for upfront investments in landline access utilities

Implied valuation multiples reconciliation (2018 UPC Switzerland financial metrics)

(CHFm, unless otherwise stated)	**Sunrise reporting**	**Liberty Global reporting**
EV	**6,300**	**6,300**
OCF[1)]	**732**	**732**
Adjustments[2)]	(1)	0
Central opex allocations[3)]	(32)	(32)
Central capex allocations[4)]	(62)	0
Adj. EBITDA (post central allocations)	**637**	**700**
Central capex allocations	0	(62)
Recurring capex	(245)	(245)
Adj. OpFCF	**392**	**394**
EV / Adj. EBITDA	*9.9x*	*9.0x*
EV / Adj. OpFCF	*16.1x*	*16.0x*
EV / Adj. EBITDA (post run-rate synergies)	*8.0x*	*7.4x*
EV / Adj. OpFCF (post run-rate synergies)	*10.9x*	*10.8x*

Note: Sunrise financials audited under IFRS standards; UPC unaudited financials under US GAAP standards
1) As per LGI reporting
2) As per Sunrise reporting
3) Excluding CHF3m of CEE management recharge adjustment
4) Reclassified into opex under Sunrise reporting from capex under Liberty Global reporting

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