Company Name: Telenet
Company Ticker: TNET BB
Date: 2023-02-16
Event Description: Y 2022 Earnings Call

Market Cap: 1692.8610427665599
Current PX: 15.100000381469727
YTD Change($): -0.68
YTD Change(%): -4.309

Bloomberg Estimates - EPS
Current Quarter: 0.673
Current Year: 2.961
Bloomberg Estimates - Sales
Current Quarter: 667.75
Current Year: 2683.867

Y 2022 Earnings Call

Company Participants

- Rob Goyens, Vice President Treasury & Investor Relations
- John Porter, Chief Executive Officer
- Erik Van den Enden, Chief Financial Officer

Other Participants

- Roshan Ranjit, Analyst
- Joshua Mills, Analyst
- James Ratzer, Analyst
- Yemi Falana, Analyst
- Konrad Zomer, Analyst

Presentation

Operator

Hello, and welcome to the Full Year Results 2022 Telenet Investor Call. My name is Jess, and I'll be your coordinator for today's event. For the duration of the call, your lines will be on listen-only. However, there will be the opportunity to ask questions. (Operator Instructions)

On the call today, we have John Porter, CEO; Erik Van den Enden, CFO; and Rob Goyens, VP, Treasury and Investor Relations.

And I will now hand over to Rob Goyens to begin today's call. Thank you.

Rob Goyens, Vice President Treasury & Investor Relations

Thanks, operator; and welcome, everyone, to our fourth quarter earnings webcast and conference call. As always, all earnings materials, including this presentation, can be found in the Results section of our Investor website. And, after this call, we will also provide the replay and transcript for those that may have missed this call.

Before we start, however, I would like to remind you that certain statements in this earnings presentation are forward-looking statements. More information on these statements can be found in the Safe Harbor disclaimer at the beginning of the presentation.

Also note that we've put out rebased full-year 2022 number this morning alongside our reports full-year results. And this is in order to reflect the impact of both the Eltrona and Caviar acquisitions, but also the sale of our mobile tower infrastructure in June last year. Our 2023 guidance that we will present is based off these rebased numbers, so please take a moment to familiarize yourself with these numbers. For more information, I refer you to the Toolkit on our Investor Relations website.

Let me now quickly introduce today's speakers to you. As always, we will start with our CEO, John Porter. John will provide some insights on the quarter and elaborate on some of the strategic initiatives we have taken recently that will set us up for sustainable, profitable growth in 2023 and beyond. Next, our CFO, Erik Van den Enden, will walk you through our operational and financial highlights. And, afterwards, we will open it up for Q&A. And we invite you to

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limit yourself to two questions each.

With that, let me now hand over to John for the presentation. John, the floor is yours.

John Porter, Chief Executive Officer

Thanks, Rob, and good afternoon or morning to all of you. I appreciate you all taking the time today to join this call. I'm very pleased with our achievements over the past year. I'll let Erik guide you through our financial results later on, but as you see here, we again nicely ticked all of our financial objectives for the past year, despite inflationary headwinds mainly on our energy and staff related expenses.

We managed to grow our topline for the second consecutive year or for the third time in a row, if you exclude our other revenues, which were heavily impacted by the global COVID pandemic in 2020. As a reminder, our other revenues include categories like interconnect, our media franchise, our regulated and commercial wholesale businesses, as well as low margin hardware sales. And as Erik will explain later on, we are well set up to grow our topline again in 2023.

Our operations proved resilient, despite an intensely competitive environment. Our relentless focus on our fixed mobile convergence strategy maintained its momentum. We added nearly 74,000 net FMC customers in 2022, of which 19,000 were added in Q4 and reaching an FMC customer base of over 823,000. As a consequence, our mobile postpaid subscriber base increased. With just over 45,000 net organic subscriber additions in 2022 to almost 2.7 million.

We also further expanded our broadband customer base on the back of our successful FMC offers and leading network position offering data download speeds of 1 gigabit per second across our entire footprint. Our net adds performance was adversely impacted by a cleanup of 4,000 TADAAM customers in the second half of the year.

We also managed to slightly grow the fixed ARPU per customer relationship, which was up 1% for the full year and 2% in the fourth quarter. And I'm also proud of the fact that we were recently recognized for the best nationwide mobile coverage by the independent consumer organization, Testaankoop, and that we achieved the highest mobile data download speed based on BIPT drive tests in September and October of last year.

We have delivered on our guidance, while at the same time laying the foundations for future growth. In June last year, we successfully closed the sale of our mobile tower infrastructure business to DigitalBridge for a total consideration of EUR745 million, equivalent to a multiple of 25 times EV to EBITDAaL. We will reinvest those proceeds and the upgrade of our fixed network to fiber as mentioned at previous occasions.

In July, last year, we announced the long awaited NetCo transaction with Fluvius, which is pending EC regulatory approval, expected by summer. I believe NetCo is uniquely positioned, given its market leading network penetration of approximately 60% with at least two strong tenants being Telenet and Orange Belgium.

Just a few weeks ago, we signed two commercial agreements with Orange, providing access to each other's fixed network over a 15-year period and which are subject to Orange Belgium closing the VOO transaction. For us, this now provides a clear path to Wallonia. The fact that Orange will use our FTTH network in the future will greatly strengthen NetCo's attractiveness to additional strategic and/or financial partners.

On the customer front, we made substantial progress in the upgrade of our IT stack and digital CRM platform, allowing us to accelerate on the journey to customer centricity. We also expanded our activities both in media with the step-up acquisition of Caviar and connectivity with the acquisition of the remaining stake in the Luxembourg based cable operator, Eltrona. Both growing companies will contribute for the full 12 months to our financial results in 2023.

Last month, we signed two important commercial agreements with Orange Belgium, providing access to each other's fixed network for a 15-year period. Both agreements are conditional upon the acquisition of VOO by Orange Belgium, which is pending EC regulatory approval. Through the agreements, we now have a clear path to wholesale access in the South of Belgium, complementing our existing fixed footprint in Flanders, parts of Brussels and the boot of Hainaut in Wallonia, in addition to our nationwide mobile network coverage. This will enable us to grow into a nationwide FMC player and provide more choice for our customers.

Our commercial and go-to-market strategy (Technical Difficulty) thanks to our asset-light approach to the South, we will materially enhance our growth profile at profitable margins.

I am equally excited about the extended partnership with Orange Belgium in our footprint, which covers both our current HFC and future Fiber-to-the-Home network. We welcome Orange Belgium as a wholesale customer on our future FTTH network, further increasing our network penetration and improving the return on investment and long-term profitability of our recently announced fiber investments.

On the next slide, you get a sense of the opportunity at hand as we're talking about a 1.8 million homes passed region that is fully adjacent to our fixed network and covered only by our nationwide mobile network today, which is well supported by our retail operations. For many years, the Walloon residential telco market has been dominated by the incumbent operator, as you can see on the market share stats on the right. As I just mentioned, we have high ambitions for this market, targeting a regional off footprint fixed market share of around 10%. This will materially enhance our growth profile, and therefore we see Wallonia as an attractive avenue of incremental growth for our company.

This challenger position in Wallonia goes hand in hand with our incumbent market position in Flanders, as you can see here on the slide. We will therefore become a nationwide FMC operator with a multi-brand strategy, providing more choice for our customers (Technical Difficulty) approval, which we expect by summer.

Here you can see some of the key attributes of our future NetCo, in which we will hold a 67% stake. Combining Telenet's and Fluvius's current HFC networks in the whole of Flanders and two-thirds of Brussels, NetCo will provide network access on a non-discriminatory basis to all operators in the market. This not just includes Telenet, but also Orange Belgium, who has agreed to become a tenant on our future fiber network.

As a result, our market leading network penetration of close to 60% is well covered, while it also improves the returns on our recently announced fiber investments. As a reminder, NetCo intends to spend up to EUR2 billion to reach 78% Fiber-to-the-Home coverage by 2038 and around 70% by the end of this decade. We believe there is upside to the plan as we look for synergies and partners.

Our NetCo plan is fully funded using the proceeds from our tower sale. Therefore, we are not dependent on external financing. Having just signed up Orange Belgium as a wholesale customer for the next 15 years, we not only improve the ROI on our fiber investments but also strengthen NetCo's attractiveness to strategic and/or financial partners. This optionality for a partial NetCo sale in the future could provide scope for incremental shareholder returns, as I mentioned during our CMD.

I'm also proud of the external recognition we've received for our efforts on the ESG front. Sustainability has been long time rooted in our DNA and we have been a front-runner in helping to close the digital divide in our market amongst others.

For the 12th consecutive year, we maintained our seat in both the Dow Jones Sustainability Europe and World Indices and reconfirmed our Platinum rating in the annual EcoVadis assessment. And just recently we were also admitted to the Bloomberg Gender Equality Index as well as the newly created BEL ESG index from Euronext in Belgium, which was launched yesterday.

This brings me to my last slide, which summarizes the value creation levers we have across both of our infrastructure business as well as our consumer, B2B and entertainment activities. It is our long-term ambition to drive both revenue and adjusted EBITDA growth across all of our assets. We also expect a substantially reduced capital intensity post the fiber build at the end of this decade and then more moderate CapEx to sales ratio for the Telenet business overall. This should reignite future adjusted free cash flow growth and lead to an upgraded shareholder remuneration policy from 2030 onwards, as communicated before.

With that, let me now hand it over to Erik, who will elaborate on our operational and financial results.

Erik Van den Enden, Chief Financial Officer

Thanks, John; and welcome, everyone, to this call. Thanks to the relentless focus on our fixed mobile convergence strategy, we maintained our positive commercial momentum within the fourth quarter, adding 19,000 new FMC subscribers and reaching a customer base of over 823,000 customers.

Our mobile postpaid subscriber base increased with just over 10,000 net adds to reach almost 2.7 million customers. We also further expanded our broad-based customer base on the back of our successful FMC offers and our leading network position, offering data download speeds of 1 gigabit per second across our entire footprint.

In terms of broadband, we added 1,700 net adds within the quarter, despite the cleanup of 2,000 TADAAM customers as was the case in the third quarter.

With respect to our monthly fixed ARPU per customer, we reached just over EUR60 per customer, which was up nearly 2% year-on-year, driven by the price increase that we did in the middle of June. Thanks to the strong financial performance in the last quarter of the year, we were able to deliver on our full year guidance. Our rebased revenue, taking into account changes due to the Caviar acquisition in October of last year, was up nearly 2% and ended up just over 1% for the full year, in line with our outlook.

And thanks to our smart pricing strategy, we managed to fully absorb the impact of higher inflation on both our staff related expenses and our costs related to outsourced label and professional services, as well as a 70% increase in our energy spend following higher energy prices from the war in Ukraine. As a result, our full year rebased adjusted EBITDA was almost up 1% and 5% within the last quarter.

Let's now zoom in on our topline performance. Our full year rebased revenue increased 1.3% to reach EUR2.6 billion, achieving our guidance of approximately 1% which we set in the beginning of last year. Our subscription revenue, which represents the sum of our cable and mobile subscription revenue, was up a similar 1% compared to 2021 on both reported and rebased basis. Around 74% of our revenue was generated from monthly recurring subscriptions and roughly 60% of our revenue benefited from the rate adjustments that we implemented in the middle of last year.

Growth in our broadband and mobile telephony revenue of 3% and 6% more than offset the declines in our fixed-line telephony and video revenue. The improvement in our revenue growth trend, which started in the third quarter, continued going towards the year-end. In Q4, our operations yielded almost EUR713 million of revenue. This represents a 7% year-on-year increase as a result of the Caviar acquisition. Excluding this impact, our rebased revenue growth came in at nearly 2%.

As already mentioned in previous earnings calls, our cost base was negatively impacted by the impact of both higher energy costs and overall inflation on our staff related expenses. On a rebased basis, our operating expenses were up 2% versus last year. And except for our direct costs, all cost buckets showed an upward trend.

Our total energy costs increased by EUR21 million in 2022 to reach EUR51 million as a result of the globally higher energy prices. 90% of our expected energy consumption for 2023 is now covered by fixed price agreements as we benefited from the downward trends in the market in Q4 to increase the hedge proportion from approximately 45% at the time of our Capital Markets Day to 90% now.

Staff related expenses for the full year were up 6% versus last year. This reflects the effect of the 3.6% mandatory wage indexation at the beginning of 2022 and also a higher average headcount. For next year, we expect our staff related expenses to be materially impacted by the 11% mandatory wage indexation as of the beginning of this year, which is fully embedded in our full year outlook.

On a rebased basis, our operating expenses in the fourth quarter of 2022 modestly decreased by 1%, driven by lower network operating expenses and overall tight cost control.

Turning to the next slide. Our adjusted EBITDA for the full year increased 0.7% year-on-year and includes EUR2.6 million of so-called costs to capture to prepare the go-live of our NetCo partnership with Fluvius. As you may remind, these costs have been excluded from our 2022 guidance and, with that, we have delivered on our outlook of around 1%.

Within the fourth quarter specifically, adjusted EBITDA was up nearly 5% year-on-year as a result of the price adjustment and continued tight cost control.

In June of last year, we concluded the sale of our mobile tower business to DigitalBridge. At that moment, we entered into a 15-year master lease agreement and, in the meantime, we have started to make lease related tower payments to DigitalBridge. Following this transaction, we have started to include adjusted EBITDA after lease costs or adjusted EBITDAaL as a key financial metric, which includes depreciation expenses and interest expenses on leases. And, as of this year, we will transition to adjusted EBITDAaL as our key guidance metric as opposed to adjusted EBITDA previously.

On a rebased basis, our adjusted EBITDAaL for the year was up 1% compared to 2021. And, again, within the fourth quarter, we delivered strong performance with an increase of 5% versus the fourth quarter of last year.

Let's now have a look at our CapEx. Our accrued capital expenditures were EUR656 million for the full year, excluding the recognition of certain football broadcasting rights, mobile spectrum licenses and certain lease related capital additions as per our guidance. Our CapEx was equivalent to approximately 25% of the revenue recorded over the periods.

The 21% increase in CapEx versus last year was due to higher network-related investments in 5G and technical fiber related investments on the one hand and set-top box and modem swap programs, in addition to the continued rollout of our in-home connectivity devices at the other hand. Approximately, 62% over full-year CapEx was scalable and/or subscriber growth related as you can see in the pie charts on the slide.

We achieved an adjusted EBITDA, less property and equipment additions previously referred to as operational free cash flow, of almost EUR718 million in 2022. The 13% year-on-year decrease was mainly driven by higher accrued capital expenditures. In the fourth quarter, specifically, adjusted EBITDA, less property and equipment additions, was EUR148 million, representing an 18% year-on-year decrease.

We generated EUR409 million of adjusted free cash flow in 2022 compared to EUR405 million last year. This achievement was in line with our full year guidance of stable adjusted free cash flow. Our adjusted free cash flow reflected nearly EUR9 million higher direct acquisition costs, offsetting EUR9 million lower cash taxes paid within the year, while our vendor financing program remained stable compared to last year. We also enjoyed strong cash flow generation within the fourth quarter, which was up 14% year-on-year to reach EUR118 million.

Telenet continues to benefit from a strong debt maturity profile. We face no debt maturities prior to March 2028. The average time to maturity of our debt is 5.5 years, and the average weighted cost of our debt is 3.2%. Moreover, our interest rate exposure is fully hedged. Including full access to a revolving credit facility was EUR555 million, our total liquidity now exceeds EUR1.6 billion given the robust cash balance of just over EUR1 billion at the end of the year. And given the increase in short-term interest rates, our cash has also started to yield positive returns.

Following the tower disposal and the move to adjusted EBITDAaL, we have changed the way we are calculating our net total leverage. Net total leverage is now calculated using net debt excluding leases, divided by the last two quarters' annualized adjusted EBITDAaL. On this metric, our net total leverage as at the end of the year reached 3.4 times. The modest improvement quarter-on-quarter was driven by the growth in our cash balance and EBITDA growth in the fourth quarter. Under the previous net total leverage definition, using net debt including leases divided by the last two quarters' annualized adjusted EBITDA, our net total leverage was 3.9 times at the end of the year.

Looking ahead into 2023, we continue to face headwinds on the cost side, especially when it comes to energy and staff related expenses. With respect to energy, our expected spend for 2023 is now 90% hedged at a cost of around EUR200 per megawatt hour. In terms of staff related expenses, as you know, an 11% mandatory wage increase has been implemented in January of this year. This will have a negative effect on our cost base and adjusted EBITDA of around EUR30 million. We are though well positioned to mitigate these cost headwinds by several measures, including tight cost control, the upside from digital efficiencies and applying smart pricing strategy. As such, we target a broadly stable adjusted EBITDA and adjusted EBITDAaL for the full year.

This brings me to the rest of our full year outlook. Following the recent closing of the Caviar and Eltrona acquisitions, and the sale of our mobile towers in June of last year, we have rebased our full year 2022 results, as Rob mentioned earlier. Our ambitions for 2023 have been set against that rebased basis.

Heading into 2023, we will tightly monitor our cost base in light of the 11% mandatory wage indexation and in light of the impact of higher energy costs on our overall expenses. We intend to absorb these inflationary pressures to continued digital savings, tight cost control and targeted rate increases to offset the aforementioned impacts. With that, we expect a topline growth between 1% and 2% for 2023 on a rebased basis, while we target broadly stable rebased adjusted EBITDAaL over the same periods, which would be similar for adjusted EBITDA.

For 2023, and excluding the effects of the NetCo transaction, we expect our CapEx to revenue ratio to be around 26% as we continue to see higher spending on amongst others, the 5G rollouts, opportunistic standalone fiber deployments and trench sharing opportunities, and certain investments in IT and product developments to prepare for the market entry into Wallonia in 2024, following the commercial wholesale agreement with Orange Belgium.

This translates into lower adjusted free cash flow as compared to last year. For 2023, we target an adjusted free cash flow of around EUR250 million. With that, our dividend floor of EUR1 per share or EUR108.6 million in aggregates remains well covered.

In July 2022, as part of the announcement of the NetCo transaction, which is pending regulatory approval, the Board of Directors decided to reset the company's shareholder remuneration policy in order to maintain a consolidated net total leverage of around 4.0 times throughout the CapEx intense fiber build periods. The Board decided upon an annual dividend floor of EUR1 per share to be paid annually in early May following shareholder approval at the statutory AGM in April.

After the network build period, CapEx intensity is expected to materially decrease and return to more normalized historical levels, leading to substantial adjusted free cash flow growth and providing scope for significantly higher shareholder disbursements. At that point in time, the shareholder remuneration plan will be reevaluated by the Board.

The Board has now decided to propose to the Annual General Shareholders' meeting in April to approve the payment of a gross dividend of EUR1 per share, which amounts to EUR108.6 million in total. The proposed dividend will be paid using existing cash and cash equivalents and is in line with the company's dividend floor. If approved by the shareholders, the dividend will be paid in early May.

This brings us at the end of the management presentation. Let me now hand back to the operator to moderate the Q&A session.

Questions And Answers

Operator

(Operator Instructions) And the first question comes from the line of Roshan Ranjit from Deutsche Bank. Please go ahead.

Roshan Ranjit, Analyst

Great. Afternoon, everyone. Thank you for the questions. First question is around CapEx. And if I look at your guidance for this year, I think it implies EUR740 million CapEx at the midpoint. I think you've previously or a couple of weeks ago you highlighted around EUR20 million to EUR30 million of investments in Wallonia, and looking at where you ended 2022, that suggests kind of around EUR50 million -- EUR60 million for the RAN and strategic fiber investments. So the question is, is that -- what was the equivalent number for that in 2022? And are we now kind of finishing that 5G RAN investment, because I think you previously said that was a two to three-year investment period?

And, secondly, just back to the operational side, you saw a strong pickup in residential broadband adds and that's despite the 2,000 TADAAM cleanup, what has driven that? Because volumes have been fairly limited this year, so is this something which you've seen a pickup as a result of some promotions or more receptiveness to your products. Any details there? And whether we should expect that to continue into 2023? Thank you.

John Porter, Chief Executive Officer

I'll do the second question as Erik organize his thoughts on the CapEx version. Yeah, on the broadband pickup, two factors in Q4. One is that we did have a very successful campaign there. The other operators and ourselves run -- usually run hardware campaign leading up to Christmas and then for a few weeks after. You never know exactly what the right mix of strategies are going to be, but in our case, I think, we've made a lot of good decisions around that and we're pretty happy with the performance of the campaign.

But I will also say that, as the year progressed, we had assumed maybe a little bit more churn due to more preponderance of fiber and more competitive offers in the fiber areas and we didn't see that lift in churn. We saw churn stable to down across the business. In fact, voluntary churn. In other words, churn is not related to moving out of the area for financial non-pace is it really at all-time lows. So the offers that we have in the market or CVP is around 1 gig and our FMC are really proving to be quite resilient in the market, so churn was definitely below our expectations in Q4, and acquisition was slightly higher. So, Erik.

Erik Van den Enden, Chief Financial Officer

Yes. Awesome. So on the CapEx, and, first of all, I would say that our overall CapEx envelope is slightly increasing. We ended this year at 24.6%. We are targeting at around 26% of sales for next year and also sales is, of course, slightly higher, so that probably gives us around EUR35 million to EUR40 million nominal CapEx into 2023.

So, specifically, to the -- to infrastructure investments or network investments with 5G and with the technical fiber investments, both are planned to go up. So, when you look at 5G, it is a multiyear program. And so, practically, that means that -- while the spend this year will go by and large EUR30 million, but the peak will actually come in 2024, but then it goes down quite rapidly. So, it's another two years of investments on the 5G side and then reducing strongly.

On the fiber side, so there we are also planning an acceleration versus last year. As we have discussed in previous earnings calls, one of the main activities that we're doing there is a so-called trench sharing, where we grasp the opportunity whenever somebody in Flanders or Brussels open up the curbstone that we also join that opportunity and put our infrastructure there. So that activity, together with other fiber activities, is expected to go up and we are compensating part of that increase with the reductions in the other parts of our CapEx spend. Especially on the IT side, we have stopped again for a couple of years now about the fact that we are upgrading our CRM stack and there has been a program that I think has been going on for more or less four years, but where we are now really in the last phase.

Last year, we already migrated our base customers towards the new system and we are also now in the process to migrate the Telenet customers. That process is ongoing, not yet fully deployed, but the intensity of that program and therefore the associated capital will go down and that is how we come to the overall equation. So, stepping up 5G and fiber investments offsetting by -- in part the IT investments.

Roshan Ranjit, Analyst

Okay. Thank you.

John Porter, Chief Executive Officer

Okay.

Operator

The next question comes from the line of Joshua Mills from BNP Paribas Exane. Please go ahead.

Joshua Mills, Analyst

Hi, guys. A couple of questions from my side. The first would just be a bit more color around your thoughts around the back book price increases and what you could do this year. I mean, we saw some quite aggressive price hikes in Orange Belgium and last week they said that that hasn't necessarily impacted them negatively on the churn side. So, I guess, twofold question. One, do you think you can go for more of a price rise this year than previously? And then, secondly, how do you feel about bringing the timeline of that price increase forward or maybe even introducing multiple price rises during 2023 as some of your competitors do? And so that would be the first question.

And then, secondly, just on the proposed new deal, I'd be interested to know if there's any change to your current wholesale terms offered to Orange Belgium as part of that, given its reciprocal agreements? And then I'd like to hear your thoughts on how you arrive at the 10% target, which you're looking for in Wallonia and the different puts and takes around that, where you can be more successful, where you might see challenges? Thanks.

John Porter, Chief Executive Officer

Okay. Let me take a shot at that, Josh. On the price increase sort of fronts, we're always doing -- we don't just sort of pick a number out of the year, there's a lot of things that go into deciding what our smart fresh strategy is going to be. We've been working very hard on really understanding the market, where the point of diminishing returns, because it's really all about the net impact. If you overreach and a bunch of customers call you up, and they're frustrated, and they want to know how they can save money, there's a lot of ways in a multi-product environment where they can then save their costs than you really have it move forward.

So, we have done a lot of research already and we think we have a pretty good idea of where that point of diminishing returns is. Quite clearly, I don't think any subscription-based supplier is going to be able to get through 2023 without doing the best they can on smart pricing, because of embedded cost impacts, particularly in our case from labor indexation and energy, but other things -- other inflation related things as well.

So, I'm not a fan of multiple rate increases, I think, our experience and my experience in four decades of doing this is that, once is enough and we will justify it to our customers through our communication strategy and by continuing to improve their experience. So that it shouldn't be overly disruptive, but it's more a case of, if you overreach customers, it's not that they're going to go and go to a different operator or anything, it's just that they're going to shave their cost to a tolerable level.

So, we think we know where that level is. We think we know what the impact of having something less than a 12-month cycle is. We have done that in the past. I can't say whether we will do that this year or not without forecasting what the Board will be saying about it and they haven't said anything about it yet. But -- so, that's kind of as transparent as I can be about pricing strategies.

And on the wholesale arrangements with VOO access and the Orange agreement, that's a confidential agreement, which we really can't comment on. I can't comment on what we think about the market and how we feel like we can have an impact there. Generically, without giving you specific details of our go-to-market strategy, which will come to live in second half of the year, obviously, as we work towards launching. But the 10% is clearly -- we have the example of Orange's entry into that market. I think, fundamentally, the way -- what's happened there is that you're going to hypothetically from three to two, and I think probably from a regulatory standpoint that's not very attractive.

So, they are quite keen to have another operator replace the positioning of Orange in the market and we know that over seven years that they've gotten to high single digits or maybe even to 10% and we don't see any reason why with the amount of assets that we have at our disposal, the experience that we have building value in in-home connectivity, entertainment, et cetera, which is clearly the USP of Telenet in our current footprint, while we can't bring some of those things to bear and potentially achieve at least the numbers of Orange over the medium term.

So, we have -- there is a track record of being in that segment, in the market, in the South of the country. We also have two-thirds of Brussels right now and the one-third that we will be accessing the VOO network on is quite a -- I don't know how to say this without being derogatory, but it's quite an affluent segment of Brussels. So I respect our brands will do well there.

So, we also have -- we'll also -- when we do launch, we'll hit the ground running, because we have a network of retail, we have -- with our BASE shops, we also have quite a bit of experience transactionally in the Brussels market. So, we're not going from a standing start. So that's another reason why we have quite a bit of confidence in our ability to grow market share in the South.

I mean, we know a lot about the VOO network, obviously, because we were competing to acquire it, and it's not a bad network. There are parts of it where 1 gig is possible, but there are other parts of it that need to be upgraded and we have a lot of confidence that as Orange invest capital in that network or should they choose to build fiber aggressively that will also be a real benefit to us to improve the penetration following their capital investment, capital allocation around the market. Okay?

Joshua Mills, Analyst

Okay, great. Thanks very much.

Operator

The next question comes from the line of James Ratzer from New Street Research. Please go ahead.

James Ratzer, Analyst

Yes. Good afternoon, John and Erik. Thank you. I have two questions, please. So the first one is just really just to get your latest thinking on the next steps around the NetCo. I mean, as you're waiting for the EC approval, are you at this stage also running a simultaneous process to look at a stake sale or does that only come once the approval has been given? And can you give any indication at this stage on what your target ownership of that asset might be?

And, at this stage, you also said your guidance doesn't include the impact of the NetCo formation, but on one of your earlier answers you were talking about stepping up fiber spend within your current CapEx estimate. So just it would be great to understand if, let's say, the Netco had been up and running from the 1st of January, what would be the impact on the guidance that you gave?

If I thought kind of separate question just on the revenue growth, just intrigued why overall it isn't a little bolder on pricing, you did around 1% last year and the guidance for this year is 1%, but yet the kind of delayed impact of inflation is going to be felt much more in your cost base this year. So I'm just intrigued why you didn't feel more confident about, let's say, pushing the revenue growth for this year a little higher to offset some of those inflationary drags? Thank you.

John Porter, Chief Executive Officer

For the first part of your first question, I'll answer, because it's quite simple. We can't -- due to gun jumping, we can't actually be acting on behalf of the venture, the hypothetical venture at this point. So we can't say -- we can't run a process, we can't really talk about, we can't really give any direction to where the hypothetical venture that would involve another party would do. So we can't really comment on that. So the answer to your question is, once the venture is formed and as -- subsequent to regulatory approval, then we will, with our partners, give consideration to what the capital strategy is for the company.

The next question on the fiber is, I think, we've said -- what we've said is that, yes, we've been spending and, I think, Erik alluded to the numbers also in his presentation, on trench synergies and pushing some Fiber-to-the-Home, as you know, we already have fiber pretty deep in the network, so we have several, sort of, operational deployments that are kind of in a beta phase, right now, across our network, but we -- with or without this joint venture, fiber is very much a part of our strategy. So, we'll -- we are stepping up the -- those activities, so the trench synergies, but also in fact building fiber to the premise on facade infrastructure, but also aerial and starting to flex our muscles on that should the venture ultimately come to fruition, which we're very, very confident that it will, then these assets will roll into the venture. Now the differential in CapEx between what we're doing on behalf of Telenet, which is certainly more than what we did last year and what we would do if a venture came to fruition, I don't know what we can say about that.

Erik Van den Enden, Chief Financial Officer

Yeah. Maybe just to clarify, so the guidances we have issued is assuming that the NetCo will go live in the middle of the year. So, there has been an assumption made on that one. Obviously, there are important changes in the sense that the capital leases and their impacting all [ph] way and of course the ownership NetCo will also have the two-thirds for Telenet and one-thirds of Fluvius. So those changes have been taken into account in this part of the guidance as it stands.

John Porter, Chief Executive Officer

I think, on the revenue side, I mean, our guidance is upgraded versus last year. You're right. We did 3.9% increase in -- during the last year.

Rob Goyens, Vice President Treasury & Investor Relations

4.7%

John Porter, Chief Executive Officer

Oh, sorry. 3.9% was inflation. 4.7% increase and that's starting to roll through in the revenue. There are offsets, there are headwinds in video, although they are substantially lower than what you see in the Anglo-Saxon markets, but we do -- we are losing digital TV subs and you have customers on the back of these rate increases, as I alluded to before, that they, you could say, are rightsizing their packages and so you also have, of course, fixed voice, which is sort of dropping substantially and you have usage which has basically faded away in the era of unlimited offers, which, to some extent, we've done it on purpose to ourselves with the launch of the one -- in one of our products. So, there are several distinct headwinds in our portfolio, but there are also results that offset, to some degree, the upside of the rate increase.

At the same time, we're looking at adjacent and core adjacent and core services such as TADAAM, such as Safespot, such as Streamz, things that are also people opt in for that move the needle in a positive direction. So there's lot of puts and takes. It's not just like a fixed price and then we do a rate increase and see where we go, but -- so there are lots of puts and takes in the portfolio.

The one thing we want is, P times Q will be taken ahead and we will have more customers and we want to have those customers -- all the customers paying us a little bit more, because they choose to, and not because we jam too higher rate increases there [ph]. So (Technical Difficulty)

James Ratzer, Analyst

Okay. That's really very helpful. (Technical Difficulty) One very (Technical Difficulty) NetCo going live in the middle of the year, does that mean that the EBITDAaL guidance you've given is stable and includes six months of lease (Technical Difficulty) coming to the guidance which would be about a EUR25 million uplift?

Erik Van den Enden, Chief Financial Officer

Yes, that's correct. So, we are assuming that the lease is there for six months and that it will not be there for another six months.

James Ratzer, Analyst

Got it. Thank you very much.

Operator

The next question comes from the line of Alim Elias (sic - Yemi Falana) from Goldman Sachs. Please go ahead.

Yemi Falana, Analyst

Good afternoon, everyone. You've actually got Yemi Falana from Goldman, but thanks for taking my question. Firstly, on pricing, not to labor the point, but we've seen strong drop through of pricing in the face of net 5% price adjustment this year, you've talked about churn remaining stable to slightly down. So, is it fair to say you're expecting similar pricing drop through this year or should that moderate slightly?

And, secondly, just on the volume side, when I think back to your Capital Markets Day, you laid out a fairly confident roadmap in how you're going to grow the customer base leveraging content. Could you maybe talk about kind of when you'd be expecting KPIs to improve? Is that attached to kind of the NetCo starting to build out on the fiber side?

Thirdly, on leasing. Could you just remind us how direct the inflation pass through mechanisms are on your MLA with DigitalBridge?

And then, finally, on CapEx, it would be great if you could break out the contribution of NetCo CapEx within that overall CapEx guidance in the back half of this year? Thank you.

John Porter, Chief Executive Officer

I'll take first two, and Erik can take second two [ph].

Erik Van den Enden, Chief Financial Officer

Yeah.

John Porter, Chief Executive Officer

I mean, the price drop through, I would say, we're cautiously optimistic about. As I mentioned before, we're very confident that we're not going to see a tick up in customers leaving to go to another operator. I mean, all operators and all subscription services, such as energy, natural gas, electricity, other services from government, et cetera, everybody has had their -- raised their prices in the context of the inflationary environment, in the global disruption that we're all experiencing.

So -- but, like I have said, customers will look to optimize their packages and that will have an impact on ARPU in a certain amount of customers. Now, the vast majority of customers will be completely stable, but there will be some that will look for optimization of their packages, which will offset some of the increase.

But, I would say, we've done more work this year to understand that point of diminishing returns than we ever have in the past. We've done a lot of conjoint analysis. We've done a lot of, sort of, testing the waters and so we have really a lot of confidence that we will maximize the price drop through when we do implement the price increase, which will -- isn't too far away.

And on the sort of the strength of the KPIs, look, I think, we have to acknowledge that there is a "fiber threat" and we have to do a lot of work to be resilient against that threat. And although there is no substantial change in the customer experience from a speed and capacity standpoint, whether it's 1 gig HFC or a 1 gig fiber, so it's not an existential threat at this point, it's just -- it can have an impact on our total net adds. But as we gear up and as people know, if they are Telenet customers that Telenet fibers coming in their way that, I think, we can do better and we do have a lot of -- I think, it boils down to our strategy, which is -- which I think is the right strategy.

Networks are not the USP anymore. Networks are getting increasingly commoditized. Anybody with enough money can build fiber, anybody with enough money can build 5G.

So, what we're doing is, yes, we're doing that and we're doing that in a quality way, but we are -- for us, it's all about customer centricity, it's all about the customer journey, it's all about ensuring that if you do want fiber that your ability to transition to fiber with us is there and then it's a very smooth and that in fact the promise of that product is a substantial step forward from -- as to what you would expect.

In-home connectivity is more important to customers than what kind of commodity is in the trench outside their home. So, we're investing very heavily and have been for some time in the in-home connectivity experience. Having an enormous amount of data on our CRM platform real-time about how customers are experiencing our products in the home to ensure that they -- if they need boosters or they need a smart WiFi mesh capabilities that we're delivering that.

So, I think, there's lot of things at play, I think we're doing the right thing by moving to a customer-centric strategy, focusing on digital front door and sophisticated and frictionless customer journeys across all of our business and I think, if we do that, we can grow faster on the back of lower churn and higher sales.

So, you gave me an opportunity to give my customer centricity speech. So, thank you very much. But I think that is probably not the answer you're looking for, but it is, I think, what we're staking our future on.

Erik Van den Enden, Chief Financial Officer

And then maybe the last two questions. The first one was on the agreement with DigitalBridge. I think, we talked about -- in previous earnings calls already about the fact that we have a fixed escalator in these contracts, which was for us a key feature of the transaction and it also means that the escalator is fixed and therefore also kept. We are indeed partially protected from the very high inflation that we're seeing at this very moment.

Secondly, the question about the NetCo CapEx versus what we sometimes call internally ServCo, but I would say the commercial part of the business. So, in the Capital Markets Day last year, we gave indicative splits on a pro forma basis for 2022 and if you start from there without really splitting it out to the detail for 2023, I think, there is a good starting basis as we mentioned in the previous answers. We are stepping up the fiber investments and some of it, of course, you know, we fully control in the sense that if we are doing some targeted Fiber-to-the-Home rollouts as we have been doing for a long time, especially in the B2B area, that we have a defined plan, but at the same time this trench synergy opportunities is something that, in a way, less predictable, because it really depends on the opportunities that arise. And, again, these are opportunities that were introduced by either utility companies or other telecoms companies. So, long story short, we can't give you the exact number, but if you start from the pro forma and you kind of factor in an acceleration on the fiber piece, you will get pretty close.

Operator

The last question comes from the line of Konrad Zomer from ABN AMRO - ODDO BHF. Please go ahead.

Konrad Zomer, Analyst

Hi. Good afternoon. Thanks for taking my question. Given that both Proximus and Orange Belgium already increased their prices fairly recently, is there anything that prevents you from just bringing that price increase forward to say March instead of June, July?

John Porter, Chief Executive Officer

There is not anything that that would prohibit us from doing that. We did that last year by a month, I think, of last year? Yeah. So, it's not unprecedented. But, of course, it's something we have to figure out in the total mix. We also have an IT implementation. We are path breaking it on two platforms right now. So, we have migrated 100% of our base customers and 1 million of our Telenet customers on to our new, sort of, state-of-the-art CRM platform. We've got about another 1 million to go and we need to get everybody on one platform before we can start implementing any changes to the product portfolio. So, there is a few operational issues, but it's not something that we would rule out.

Konrad Zomer, Analyst

Yeah. Given that you sound very confident about the drop through and the fact that churn is unlikely to go up as a result, I mean everybody would understand, and it is -- it will help you a lot in achieving your guidance for 2023.

Erik Van den Enden, Chief Financial Officer

Yeah.

John Porter, Chief Executive Officer

Yeah. We're pretty confident we're going to achieve our guidance in 2023 right now from where we're sitting. So, we have -- we wouldn't be giving it. I've been here 10 years and I haven't missed guidance yet. So, it's not going to be -- this is going to be the first year if that happens. So, yeah, you're right, it is material and tempting. But, like I said, we do have some other drivers to consider.

Konrad Zomer, Analyst

Yeah. Understood. Thank you very much.

John Porter, Chief Executive Officer

Yeah.

Operator

There are no further questions in the queue, so I'll now hand the call back to your host for some closing remarks.

Rob Goyens, Vice President Treasury & Investor Relations

Okay. So, we want to thank everybody in -- participating in this call and for all the interesting questions. As always, you can find all the relevant information on our Investor Relations webpage, including the transcript of this call which will be uploaded pretty soon in one of the coming hours. So, with that, thank you very much for your attention, and have a nice day and evening.

Operator

Thank you for joining today's call. You may now disconnect your lines.

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