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NON-RATING ACTION COMMENTARY

Proposed Liberty Global Telenet Bid Unlikely to Lead to Ratings Pressure

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Fitch Ratings-London-28 March 2023: Fitch Ratings says the intention by Liberty Global plc (LG) to launch an offer for 100% of the shares of Telenet Group Holding NV would not put pressure on Telenet's rating, despite the possibility of a rise in financial leverage if the offer is successful. Fitch rates Telenet at 'BB-' with Stable Outlook.

Our view reflects the fact that Telenet has good leverage headroom in our rating forecast, and full ownership by LG may imply a willingness to increase leverage at the Belgium operator. However, financial discipline at both Telenet and LG make it unlikely either would be willing to push leverage above Telenet's 5x downgrade threshold.

LG owns roughly 59.2% of Telenet's shares and has announced its intention to make a voluntary and conditional offer for 100% of its shares. Outline terms of the offer imply a cash payment of EUR931 million. Funding of any offer is not entirely clear, although LG has said this will be raised at Liberty Global Belgium Holding level. This suggests it will not use cash on Telenet's balance sheet, which was EUR1.1 billion at December 2022. Telenet in any event faces a EUR2 billion fibre investment over the next five to six years and we expect management to prioritise conserving liquidity for this purpose.

Current leverage headroom at Telenet is tangible. Management has been consistent in managing company-defined net debt to EBITDA towards the midpoint of a 3.5x-4.5x band. Under the existing ownership structure our rating forecast for Fitch-defined net debt-to-EBITDA remains 3.7x-3.8x. Rating upside could exist but not imminently due to the uncertainty around the eventual ownership and funding structure of a netco.

LG meanwhile tends to manage EBITDA net leverage close to the threshold of 5x, resulting in leverage at its individual cable assets also towards this level. We could envisage a similar approach being taken at Telenet if the offer were to proceed. Management at both Telenet and LG have a strong record of financial discipline and we would not expect that to change even were leverage in a wholly LG-owned Telenet to rise. A preliminary assessment of Telenet's leverage would not take its Fitch-defined EBITDA net leverage close to its downgrade threshold of 5x were a transaction entirely funded with cash or debt at the opco level.

Fitch views Telenet's announced netco plans as a key pillar in consolidating its network position and advantage, providing flexibility to fund fibre efficiently. A potential LG offer does not in our view make a netco either more or less likely. The possibility of a Telenet minority-owned netco was already embedded in our thinking, with management signalling the need for separate leverage policies for a netco and serveco if ownership of the netco were to fall to a minority stake – see also Fitch's Telenet rating report dated 17 January 2023 at www.fitchratings.com.

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