Company Name: Millicom
Company Ticker: MIICF US
Date: 2018-07-20
Event Description: Q2 2018 Earnings Call

Market Cap: 6,415.68
Current PX: 63.06
YTD Change($): -4.35
YTD Change(%): -6.453

Bloomberg Estimates - EPS
Current Quarter: 0.450
Current Year: 1.811
Bloomberg Estimates - Sales
Current Quarter: 1541.000
Current Year: 6204.077

Q2 2018 Earnings Call

Company Participants

- Michel Morin
- Mauricio Ramos
- Timothy Lincoln Pennington

Other Participants

- Allan C. Nichols
- Julio Arciniegas
- Kevin Michael Roe
- Lena Österberg
- Johanna Ahlqvist
- Mathieu Robilliard
- Soomit K. Datta
- Ernesto Gonzalez
- Peter Kurt Nielsen
- Javier Zorrilla

MANAGEMENT DISCUSSION SECTION

Operator

Good morning and good afternoon, ladies and gentlemen, and welcome to the Millicom Financial Results Conference Call. Today's presentation will be hosted by Chief Executive Officer, Mauricio Ramos; and Tim Pennington, Chief Financial Officer. Following the formal presentation by Millicom's management, an interactive Q&A session will be available.

I would now like to hand the call over to Michel Morin, Millicom's Head of Investor Relations. Please go ahead.

Michel Morin

Thank you and hello, everyone. Welcome to our second quarter 2018 results conference call. Before we begin, please make sure to review the Safe Harbor disclosure on slide number 2 of the presentation which is available on our website.

Now let me hand the call over to Mauricio Ramos, our CEO, for his remarks.

Mauricio Ramos

Thank you, Michel, and good day, everyone, and welcome to our second quarter call. As always, I'm here today with Tim Pennington, our CFO. Once again, we had a very, very strong quarter, and let me walk you proudly through the highlights on slide 4. Latam service revenue growth continue to accelerate and hit 5.5%. As you will see in a few minutes, growth was positive in all three business units and mobile growth is back above 2% growth. Home, our residential cable business, performed exceptionally well with growth reaching almost 13%. This is our strongest quarter in more than two years thanks in large part to an improvement in Colombia. Our margins continue to expand and we are delivering double-digit free cash flow growth year-to-date. And finally, we're also formally announcing today that we plan to list our common shares in the U.S. next year.

Now let's go over the details beginning on slide 5. This chart speaks for itself. And as you can see, our Latam service revenue grew 5.5% this quarter. This is our strongest quarter since 2015. And our performance was solid with growth trending higher in most of our largest markets as you can see on slide 6. Performance was indeed very impressive in Bolivia with growth reaching almost 16%. Our Home business there is doing exceptionally well with revenues up almost 90%, and this of course is not happening by chance.

It is a direct result of the investment decisions that we took more than two years ago. Since then, we have built a 4G network and we have doubled the size of our cable HFC network. And the penetration rate on the homes that we have built is better than we expected, and ARPU is holding up as well. As we have set out to do, we are providing a high quality broadband and entertainment product to a growing middle class, and we're finding that there is indeed significant pent up for our services.

Elsewhere in the region, in Paraguay and Guatemala, we continue to generate very strong growth on the back of course on the investments that we have been making there in the past couple of years. And the key positive quarter was Colombia where growth reached 5.8%, and we will give you more color on Colombia in a minute.

In Honduras, growth is also re-emerging. It's still below our goals. And a year ago, we made the required operation and leadership changes to accelerate execution of our strategy, and we are already beginning to see some early signs that the changes we made are indeed working. We added a record 182,000 4G users in Q2 and homes connected are growing as well over the last 12 months.

In El Salvador, we have been facing operational challenges and a tougher market environment, and we acknowledge that we got some work to do there. But we have already taken the necessary steps to put us back on track. And as you can expect, we're confident that our playbook will play there equally as well as it has played out elsewhere. So, with this one exception, we're seeing solid growth across all of our largest Latin American markets.

That's the view by country. Now let's look at our three business lines on slide 7. In a nutshell, all three main business lines had positive growth in Q2. B2C Mobile continued to improve rapidly, Home had an exceptional quarter, and B2B continue to deliver mid-single-digit growth. Let's go one by one beginning on slide 8. On Mobile, we continue to build our 4G network which now covers 60% of the population in our markets. As you know, we have built this network in just the last three years. We added over 400,000 4G users in the quarter and 3.2 million in the last 12 months. We're on track to meet our target of 3 million 4G net adds in 2018 and to end the year with about 10 million 4G users. Immigration to 4G is driving traffic growth which we are monetizing. Mobile data revenue continues to grow double digits for us and now accounts for half of our total mobile service revenue.

Meanwhile, revenue from our legacy mobile voice and SMS businesses declined only 8%; that's about half the rate of decline a year ago. And 4G adoption is having an increasingly visible impact on ARPU which grew 1% in the quarter, the first positive ARPU growth number in many years. All of this is producing better mobile revenue growth of 2% for Latin America, and Bolivia grew more than 6% on Mobile. Guatemala was up more than 4% and Colombia is back on positive territory as well. The Mobile performance in Bolivia is what's lagging because this is a country where we are further along in deploying 4G with penetration now reaching 40% of our customer base and driving ARPUs up is providing us with revenue growth.

B2B currently represents about 18% of our Latam service revenue on slide 9. You have heard me say before that B2B represents a very important long-term growth opportunity for us, both because we're underweight in this business line and because we're building a large fixed network that allows us to sell a converged B2B offering to large, medium, and small businesses. B2B revenue does bounce back around a bit from quarter-to-quarter due to the timing and size of certain large contracts. But the key point is that we're now generating a healthy underlying mid to high-single revenue growth rate in B2B. And note that we now have about 0.25 million SMB customers which generate about 40% of our B2B revenue. This is a stable, recurring, and growing revenue base.

Continuing to deploy our HFC networks, we will have a stronger and larger infrastructure to gain share from the incumbent copper networks. Note that today we are over 110,000 kilometers of fiber deployed. And to further support our push into the B2B space, we have been building Tier 3 data centers across the region and investing in highly specialized B2B sales and marketing capabilities. Over the last two years alone, we have launched new data centers, Tier 3 data centers, in Bolivia, Paraguay, and Colombia, and we're also enhancing our data center capability across Central America. This allows us to push deeper into value-added solutions such as cloud and security services. Almost 20% of our B2B revenues already come from solutions, a segment that is growing double digits.

Now let's take a closer look at our Home business on slide 10. Our residential cable business is now showing its true potential with growth accelerating to almost 13%. This is because we are investing heavily in cable and also the reason why we have been investing heavily in cable. In Q2, we continue to build our cable network at neck-breaking speeds. We added a record 390,000 HFC cable homes passed during the quarter to the network, and we have now added 631,000 homes passed year-to-date to the network. So we're on track once again to beat our target of 1 million net additions to the network for the year. Note that, for the past three years, we have built over 3.2 million cable HFC homes. I cannot think of anyone else in Latam deploying as much cable as we are.

And the truly exciting news is that we're filling this network with customers at an equally fast clip as you can see on the right on this page. Take a look at our HFC homes connected. We have added a record 231,000 new homes connected year-to-date. About 50,000 came from a small cable acquisition in Guatemala and about 180,000 organic net adds during the first half. In terms of organic subscriber growth, we're well ahead of where we were last year and we're ahead of where we were the year before that. This is why we're raising our full year target and now expect to add at least 400,000 new homes connected this year.

I also want to draw your attention to our penetration rates. When we started to build aggressively, penetration came down just as you would expect we would. But now our net customer additions are high enough for us to sustain and actually increase a little bit our network penetration rates while we continue to build over 1 million homes a year; that's not bad at all. But the build is on track, the net adds are a bit ahead of target, and network penetration rates are very positive. And most importantly, we're doing this while also picking up some ARPU which grew more than 4% in dollar terms and about 2% in constant currency in Q2.

We have told you this before, but it is worth repeating that every year we take prices up and we get some more customers to upgrade their service. This creates an umbrella under which we can target new customers at a lower price point so that we can penetrate new segments of the population with sustained ARPU across our entire customer base; this is cable 101 pricing. Q2 quite simply demonstrates the potential of our cable business. These net upgrades and the sustained ARPU and penetration trends we saw in Q2 are consistent with our long-term plans to create an exceptional cable business underneath our Mobile business, and they underpin our target of getting to 15 million homes passed in the medium-term.

Now let's look at how these KPIs translate into revenue growth on slide 11. As I said a few minutes ago, all three of our business units grew in Q2. But if you zoom in on our Home, our residential cable business, you will see that it accounted for half of the growth this quarter. Let me just spend a second on that. Home is already almost 25% of our service revenue today but it is already generating 50% of our growth. This is important because Home, our residential cable business, is revenue that is subscription-based, which means that our growth is becoming more and more sustainable and predictable and happening on an incremental revenue stream with great return on capital and meaningful strategic sense to support both our B2B and our Mobile businesses into the future.

Let me take another minute to talk about our Home business in Colombia on slide 12 because the Q2 results mark the inflection point that we have been anticipating in these market. As you know, we have been investing heavily to upgrade our copper network and to migrate our remaining copper customers to HFC. In the past, a large portion of our investment was going towards these upgrades and the copper subscriber attrition, or copper cutters as I have called them, have been larger than our cable HFC net adds. But now our investment dollars are increasingly going towards expanding our network. Take a look at the chart on the left. In dark blue you see that HFC net adds are accelerating quickly. In light blue you can see that churn on the copper network has been decreasing, which reflects the fact that we're nearing the end of our upgrade program on the network. The light blue shows the net effect of these two trends. Simply said, we're now in net positive growth territory in terms of total homes connected in Colombia. Or said even more simply, our subscriber base in Home in Colombia is now growing.

On the right hand chart you see this inflection point even a bit more clearly. Total homes connected grew 1.5% in Q2. A year ago homes connected were shrinking almost 2%, and a couple of years ago they were actually shrinking 4% or 5%. As you can imagine, it is a lot easier to grow revenue when your customer base is growing than when it is shrinking. So we are today in a much stronger position to deliver consistent revenue growth from our Home business in Colombia. All in all, cable is beginning to show its long-term potential to take us further along this transformation journey that we started three years ago.

Finally, and before handing off the call to Tim, let's take a look at free cash flow on slide 13. Three years ago we said that we'd be extremely focused on cash flows and presented to you our target cash flow model. Over the past two years we have significantly reduced our corporate costs, we have divested our least profitable operations in Africa, and we have implemented Project Heat to become more efficient throughout the organization. These savings have been reinvested into our 4G and HFC networks in Latin America and into sales and marketing to drive growth. We're starting to see these investments pay off in the form of faster growth, improved capital efficiency, higher returns on capital, and ultimately much healthier free cash flow generation and growth. The chart on this page tells the story on its own. Equity free cash flow is up almost 16% in the first half, so there's much to be pleased about in these results.

But please make no mistake; we're happy and we're pleased. We're proud but we're not done. We understand there's still a ton of work for us to do. We've been diligently and consistently taking cost out of the business, and Tim will talk more about that, and we continue to do so adamantly through constant operational transformation and by digitizing the business. For now, we have chosen to reinvest those cost reductions into sales and marketing and into network expansion in order to capture the meaningful subscriber and revenue growth that we're now beginning to see. And we're aiming to come out of this revenue reconfiguration with sustainable top line growth and a leaner organization. We know that we're delaying EBITDA growth and operating leverage, but we also know that this is the right decision to create long-term shareholder value.

With that, let me pass it over to Tim to get over the financials.

Timothy Lincoln Pennington

Thank you, Mauricio. So let me start by setting out the key financial highlights on slide 15. So we have momentum; it's in network roll out, in 4G net ads, in homes connected, et cetera, and this is filtering through to our financials. We are managing growth in a balanced way. We're investing in sales and marketing, spending more on our networks, and yet we're doing this whilst managing profitability tightly. And it's not just EBITDA; operating profits, pre-tax profits, and net income are all up this quarter, and this is flowing through to the cash flow. Operating cash flow and equity free cash flow are both meaningfully up on last year. And we have been actively managing the balance sheet. We've been selling underperforming businesses in Africa, taking advantage of cheaper financing, selling towers to free up capital. In short, our balance sheet is in good shape.

Let me turn now to the key financial metrics for the group on slide 16. So you've heard all about the revenue growth in Latam. We've also returned to better growth in Tanzania. This translated into group service revenue 5.3% up, and this compares to 3.6% in the last quarter and a 1.4% decline a year ago. And this is flowing through to EBITDA which was up 4.6% and to OCF which was up 13.8%.

Turning to Latam on slide 17. In sharp contrast to the volatility elsewhere in the region, the macro is pretty stable. So our currencies have proved resilient and the Colombian presidential [ph] elections (00:16:52) have no visible impact on our market. Indeed, the country's consumer confidence index turned positive in Q2. And turning to revenue. Whilst it's true that growth was flattened by non-recurring B2B revenue from Colombia, even excluding growth was 4.6% producing our sixth consecutive quarterly improvement. And EBITDA is following revenue; that was up 4.4%. It's a big improvement from Q1 but it's still a little below our expectations principally due to an additional $6 million bad debt charge in El Salvador. This dampened our margin progression by around 40 basis points. Finally, OCF on the second quarter was up 7.2%.

Okay. Let me take a closer look at group EBITDA on slide 18. Compared to the same quarter last year, group EBITDA is $551 million and grew by 5.2%. Of that, 4.6% was organic and the balance mostly IFRS 15 impacts. FX had a negligible impact this quarter. As you can see from the slide, the pickup was almost entirely from the Latam operations, and in particular the return to EBITDA growth in Colombia. We'll dig deeper to this on the next slide on slide 19.

So Colombia has had its strongest quarter for many quarters. Our EBITDA grew by nearly 7%. It was flattened by the election contracts. But make no mistake; the momentum is there. No one-offs in Bolivia. It grew a very impressive 17.5%, and all of that is organic. And Guatemala and Paraguay both powered ahead in Q2. Perhaps Paraguay had a slightly slower revenue growth but we see good operating leverage resulting in over 8% EBITDA growth in Q2. Now Honduras and El Salvador proved a little weaker. Honduras is lagging some of the other markets in its transition to data, so we're investing to improve growth and this is causing a drag on margins. El Salvador is perhaps the only market where we did not make the progress we planned for. The operational challenges took their toll which lead to some customer reductions and an extra bad debt charge. And in fact, this accounted for pretty much all of the fall from $38 million in Q2 last year to $32 million in Q2 this year.

Let me look at the costs now in more detail on slide 20. On the left hand side we show the operating costs for the quarter, and this excludes the positive IFRS 15 impact. So OpEx was up 3.3% underlying. The majority of the cost increase came from increased sales and marketing activity which Mauricio has talked about. It has driven strong customer additions. In addition, we saw G&A increased by 2.4%, and about a third of this is due to FX and the rest are costs associated with the network expansion. We feel that the efficiency focus we have will continue to drive margin, looking to grow the business without growing the cost base. And as the right hand side of this slide demonstrates, the trailing 12 months margin which is a key KPI for us is up 370 basis points since we started this journey.

On slide 21, on the P&L, a few items to flag. Firstly, net finance charges were $13 million lower. This reflected refinancing activity undertaken last year. Losses from associates were up but this includes a non-cash closing adjustment in respect of Ghana, and minority interests were a little higher on profits in Colombia. However, I think the big point of note on this slide is that in addition to EBITDA, operating profit is up 30%, pre-tax profit is up over 100%, and there's a big positive swing in net income.

Turning now to slide 22 and this is the cash flow for the first half of the year. Cash flow from operations was up 5.3%. That's higher EBITDA and lower cash used in CapEx and working capital. Some timing benefits here, but I'm really happy to see that we're finding a way to expand our network at record speeds, add homes connected, grow our subscription base revenue streams, all within very tight cash management. And look further down, looking at the fixed charges, whilst taxes were $28 million higher, which is largely timing differences from audit settlements, it was fully offset by the fall in the net financing charges. And that left us with equity free cash flow up 15.7% to $149 million in H1 2018.

Turning now to the capital structure on slide 23; net debt reduced in the quarter by $90 million. That is thanks to the strong cash generation plus sale proceeds from the Senegal [indiscernible] (00:21:41) tower sales. Leverage ended the quarter at 1.8 times on a fully consolidated basis and 1.95 times on a proportionate basis. The balance sheet is in good shape. Nearly three-quarters of the debt sits on local balance sheets. More than 40% is in local currency. 70% of our interest bill is fixed, which is important in a rising interest rate environment. And 60% of our debt is not due for over five years.

So finally for me on slide 24, we're tracking well against the 2018 outlook. We have exceeded the HFC homes connected target for two quarters now, and so we're upgrading that target from 300,000 to 400,000. In Mobile, we'll add 3 million new 4G subscribers this year, and these two metrics are what is driving the higher service revenue growth. So we expect Latam service revenue growth to be at the top end of our 2% to 4% range, whilst EBITDA continues to track nicely.

With that, let me turn it back to Mauricio.

Mauricio Ramos

Thank you, Tim. And before we take your questions, let me summarize the key highlights of the quarter. In brief, our strategy is working. We're pleased and we continue to drive strong operational momentum across all lines of business. 4G is clearly driving better Mobile trends. And Home now generates half our growth, demonstrating its true long-term potential. Growth is accelerating with strong performance across most markets and across all business lines. We had a really solid first half and our outlook for the year, as Tim has just indicated, has improved.

Margins and free cash flow continue to trend higher and our balance sheet is solid. We've been able to accomplish all of these while nurturing our entrepreneurial corporate culture and taking care of our people. One of the most rewarding aspects of being CEO of this beautiful company is to see how proud our team is to work here. I am pleased to report that, once again, for the second year in a row, our Tigo operations ranked among the top 25 multinational companies to work for in Latin America in the 2018 Great Place to Work Survey. And finally, as you saw in our earnings release, we're announcing that our board has approved our plans to list our shares in the U.S. next year. We will, of course, maintain our existing listing in Sweden.

And we're now ready for your questions.

Q&A

Operator

Thank you. [Operator Instructions] We will now take our first question from Allan Nicolas (sic) [Allan Nichols] from Morningstar. Please go ahead.

<Q - Allan C. Nichols>: Thank you. Yes, I was wondering about more cable consolidation opportunities. You made the acquisition of Cable DX in Guatemala. How many other opportunities like that exist? Thank you.

<A - Mauricio Ramos>: So Cable DX is a small tuck-in acquisition that we've undertaken in Guatemala. It added about 50,000 cable subscribers as I alluded to and about $1 million of revenue give or take for the quarter. Of those, you may have seen that we did one in Paraguay about 12 months ago and we've done a couple of other small across the region. Just like any cable operation that I've known pretty much throughout the world, there are a number of these small cable tuck-ins that a cable operator, a [ph] niche (00:25:53) network, starts bringing into the fold on a continuous basis. Some of them are big enough that we may highlight them a little bit. Others are just small and happen almost every now and again, and you may have seen that there's a couple of them going on in Costa Rica.

The point I'm making here, just about every cable network that I'm aware of has been built this way. And for us, given that we have this pretty big and meaningful, probably the largest build program in the region, some of these become a build versus buy acquisition for us – a build versus buy decision. We'll either build a network or we'll buy the existing [ph] operations (00:26:35). So, in a sense, they help us get to our build target by expediting the market entry by buying rather than building, and that's the rationale of these specific cable tuck-ins.

<Q - Allan C. Nichols>: Great. Thank you.

Operator

We will now take our next question from Julio Arciniegas from RBC Capital. Please go ahead.

<Q - Julio Arciniegas>: Hi, Mauricio, Tim. Congratulations for the results. So, my first question is related to Colombia. In Colombia, we see that growth is being driven by fixed services. Is this performance in fixed driven by higher speed uptake or is just that the broadband market is growing independently of that technology? And my second question is regarding FTTH strategy. Has the company evaluated deploying FTTH instead of cable? We're seeing some cable players in the regions that, basically, they are starting to do the new deployments with FTTH. And finally, relating to the target of 4G target for the year. The company has 1 million 4G net adds in the first half. It's targeting 3 million. How the company is going to accelerate the 4G uptake in the second half of the year? Thank you.

<A - Mauricio Ramos>: Yeah. Thank you, Julio. Those are great questions. On Colombia, in general, the fixed growth there I've already made the key points on our Home business there. Before I answer specifically on the fixed growth and where that is coming from, bear in mind that in Colombia our business is pretty balanced; about a third B2B, a third Home, and about a third is the Mobile business. It's about a third, a third, a third. The key point about our growth in Colombia is not only that it's a balanced portfolio but all three lines of businesses are back on growth. That's really key to what's happening in Colombia, albeit Mobile delivery more moderate in its growth but both B2B and Home are growing quite healthily.

Particularly with regards to Home and the growth behind Home, it's actually both; it's both volume and ARPU-driven, and that's a nice combination that you want to have in a subscription cable business. The volume growth is driven by just the momentum, the amount of HFC build that we've been doing over the last few years there and the fact that we've reached net adds momentum because of the investment that we made in sales and marketing. But secondly, because the copper addition is less and less and less, the copper attrition I should say. And that's largely because we rebuilt the network, maintenance is better, product is better, and bundling and cross-selling is working really well.

In the meantime, the ARPU element of the equation has also been kicking in. This year we took early on about a 3%, very moderate, price increase across the customer base. We have been increasing speeds in Colombia as we build and upgrade the network to an HFC network. And as you've seen, we've also launched next-generation TV, our cool and sleek platform, in Colombia. So it's really a combination of volume, ARPU, and a lot of operational focus that's driving the fixed growth in Colombia. And needless to say, it is only working because there is an opportunity in Colombia to drive broadband and pay TV penetration in a market that is still only 40% to 50% penetrated. So we're hitting nicely, operationally against a market opportunity and against capital that we've deployed to build a network there.

The second question, listen, what can I tell you? The FTTH versus cable technology is a question that we re-evaluate literally just about every quarter, and this is something that every cable operator in the U.S., across the globe, and all technology providers are re-evaluating. We still come out as of today we're thinking that HFC architecture is the best and most cost-efficient architecture for us to continue deploying because it's modular and because it's cost-effective for us. Key point; it is not that we re-evaluate this on a quarterly basis and that the economics really work for us on HFC as opposed to fiber today. The key point is that even in more developed markets where HFC technology continues to be deployed, 1 gigahertz, deep fiber, DOCSIS 3.1 which are much higher speeds, cable continues to be very resilient and the choice of many cable operators. In our market we're still at pretty low broadband speeds and pretty low network utilization. As a result, cable for us has a long, long runway in terms of the technology of choice and the most cost-efficient one.

And lastly on the 4G point, I'll hand it over to Tim.

<A - Timothy Lincoln Pennington>: Yeah. Look, I mean 4G is back ended always. I mean, yes, we did 1 million in the first half. If you look at Q4 last year, we did I think from memory about 1.3-ish million net additions in 4G, so it will be back ended. It was last year. We're pretty confident that the 3 million target is going to be okay. I just want to add one point on the cable side. I mean one of the good things that the businesses have, actually almost consistently, is very good sales in the Home business.

We've maintained a very high consistent level of sales. Where we've been struggling is in terms of churn that's being higher, and that is entirely within our [ph] gift (00:32:53), our management. And I think as we are getting kind of improving the processes there, that is why we're seeing there's more sustainable net adds on the Home side which is why we're convinced we've past the inflection point and we've got some more momentum into the future.

<Q - Julio Arciniegas>: Okay. Thank you. Thank you very much for the answer.

Operator

Thank you. We will now take our next question from Kevin Roe from Roe Equity Research. Please go ahead.

<Q - Kevin Michael Roe>: Thank you. Mauricio, you mentioned in your comments the new Colombian government. Can you update us on your relationship with the government and expectations for further telecom regulatory reform that could benefit Millicom?

<A - Mauricio Ramos>: Yeah. Listen, I think the first comment is, Kevin – and it's very good question – it's very early days for us to really know what exact position may be taken by the government in any of the key specific points. But on top of that, what I can tell you is that what we're seeing is, and from our own point of view, is that having gotten through this election a lot of the uncertainty about the future of Colombia has indeed been eliminated not just in our mind but in the minds of many others. This new government and everything they have been saying in terms of sending all the right messages at a big picture level is sending all the right messages and providing with a lot of investment confidence on our end and, from what we hear, many others. And Tim alluded to renewed consumer confidence in the market which is the telling sign. It's visible across the industry and I think you begin to see it also through our P&L.

There's a number of meaningful key items regulatorily in Colombia. There's obviously the pending review of dominance by the larger player in the market. There's the pending auction of the 700 megahertz that we deem as something that we strongly support. We do need to correct the handicap that we have had historically and that we've alluded to before. We are the only operator that historically has had no low frequency spectrum. And this is a tremendous opportunity for that handicap and that disadvantage that we historically had to be corrected. And I think if those two things, a more competitive environment in the sense of a more balanced player environment and correcting for our handicap, provide us with a pretty optimistic view that things could get better on the regulatory front in Colombia.

<Q - Kevin Michael Roe>: That's helpful, thank you. And one follow-up on El Salvador. You mentioned that you've already taken the necessary steps to help stabilize and turn around that business. Can you give us a sense of what steps were taken and what we should think about the ramp of stabilization and recovery? And any update on the potential for end market consolidation in El Salvador would be helpful. Thanks, Mauricio.

<A - Mauricio Ramos>: Yeah. So backwards because it's easier. No updates on potential market consolidation in El Salvador; there's just no update there. And listen, El Salvador, the reason we feel quite confident that we can affect the turnaround like we've done everywhere else is because, yes, in some macro and country turmoil, no doubt about that and some meaningful regulatory headwinds in the past that we've discussed on this call. But that being said, we actually don't want to make any excuses about this. This is largely self-inflicted pain and just bad operational execution. We know we dropped the ball there and the mistakes that we made there are mistakes that are operationally possible to correct. And we've had our squad of executives over there reviewing the steps to correct. They need largely to do with operational blocking and tackling. And we've not only put a correction plan in place; we've also, as of last week, have a new management team in place in El Salvador. And as you know, with new leadership and a good plan in place, the playbook that we've executed elsewhere we're confident will play out in El Salvador just like it has before.

<A - Mauricio Ramos>: Understood. Thank you.

Operator

We will now take our next question from Lena Österberg from Carnegie. Please go ahead.

<Q - Lena Österberg>: Good afternoon. I'll switch to Africa. There's been no questions from Africa. A little bit on Tanzania, if you could just update us on the legal process, what's going on? And then also on the merger process in Ghana, maybe a little bit on how margin is progressing and synergy extraction. And then also on Colombia, if you could maybe give us roughly what you think the EBITDA impact was in Q1 and Q2 from the government election contract. So we know this will not continue into Q3 and Q4. How much [ph] of a (00:38:37) positive contribution this was?

<A - Mauricio Ramos>: All right. So I'll start with Colombia and then I'll hand it over to Tim to talk a little bit about Tanzania and also complement on Colombia. I think we gave you the very specific impact of the B2B contract, government contract for the elections on revenue. We don't go all the way down to EBITDA. It was just simply not a disclosure that we provide. But perhaps the way to give you confidence is that, yes, it was meaningful in Q1 and Q2, this B2B contract. And yes, that specific contract will not be there in Q3 or Q4. But we do have a meaningful and growing B2B operation in Colombia and attaining these kind of contracts. Although they may not happen every quarter, it's part of what we do. And there are other similar contracts in the future in Colombia. They may not be of big size but it's part of what we do.

<A - Timothy Lincoln Pennington>: And just on the first question, the Tanzania legal case, I believe there's no update on that. It's working its way through the legal system. We believe it's moving and we've got every confidence in the judicial system that it will get resolved. And then on Ghana, the integration actually is going very well. There's been a lot of activity there principally in merging the two businesses together, getting a single distribution platforms [indiscernible] (00:40:17) platform, single network platform. A bit too early to give any more detail on this one, but it is moving very, very, very quickly for us.

<A - Mauricio Ramos>: And Lena, while we are in Africa as it indeed it's a topic that hasn't come up for a long time for all the good right reasons, Africa is very nicely equity free cash flow-positive as you've seen and we have promised for a long time. And you can remain assured that we remain very active strategically there. We know that we can redeploy the capital when the moment is right.

<Q - Lena Österberg>: Okay. Thank you.

Operator

We will take our next question from Johanna Ahlqvist from SEB. Please go ahead.

<Q - Johanna Ahlqvist>: Yes, thank you. Let me see what questions have not been taken. Yes, if you can comment on El Salvador to start with on should we expect more bad debt in El Salvador or is it more sort of a top line issue in this transition that you're going through. And also, if you can comment anything, if we should expect – do you see that there are more sort of tower leases to be made except for the ones you already signed? Thank you.

<A - Timothy Lincoln Pennington>: I think in terms of El Salvador, as Mauricio has just explained we're turning the business around. I can't rule out any more bad debt but it's a combination of issues. That said, it's relatively small; whilst the impact was noticeable, it wasn't impactful relatively to our business and we're very confident that this business will get back on track.

<A - Mauricio Ramos>: I think the template is Honduras, Johanna. I think where you see that we've implemented all the required changes. And although it's behind the other market, it's coming along on line with the same level of trend that you've seen everywhere. My expectation is that that's what you'll see in El Salvador. It's just coming right behind.

<A - Timothy Lincoln Pennington>: And then on towers, I mean, we've done the towers in Paraguay, Colombia, and El Salvador. We can't do a tower deal every quarter, so we're busy sort of working our way through those deals. There's a bit of disclosure if you dig into the financial statements, the IAS 34 statements, I guess, in note 4 or 5.

<Q - Johanna Ahlqvist>: Perfect. Thank you. And just one more if I may. I know a previous question was related to that you see some competitors building sort of fiber instead of HFC, and you still regard sort of HFC as the best and most cost-efficient way to sort of approach this market. But you've foreseen a case where competition go for sort of fiber rollout and that you sort of end up in a less favorable position in that case. How is the sort of competitors acting in those markets right now on that front? Thank you.

<A - Mauricio Ramos>: So, I have to be very honest with you. The amount of fiber that we see deployed in our market is de minimis. I would...

<A - Timothy Lincoln Pennington>: However it throughputs about 10 megs per second, isn't it at the moment?

<A - Mauricio Ramos>: Correct. So the fiber in our market is almost – I almost hesitate to say, Johanna, negligible. Now, there is some fiber deployments limited that typically go to the business park areas, and they tend to cater to the large customers. We do a lot of those ourselves. So I'm referring to cable architecture to the residential and to the small offices and home offices. And given where broadband speeds are in our markets, average is 10 megs at best case. Cable technology can compete against fiber any way, all the way up to 1 or 2 gigahertz.

So we are so far behind in the need for fiber to the residential areas in our markets that, for the time being and as far as I can see, the return on capital, the efficiency of our spend is much better served by us deploying a very modular, very cost-effective technology like HFC. Mind you, we're deploying 1 gigahertz two-way ready, DOCSIS 3.0 ready, with state-of-the-art Wi-Fi routers to the home in our markets. This is the same technology and the same CPE that's being deployed in the U.S.

<A - Timothy Lincoln Pennington>: And as these questions come up a couple of times, I mean, I don't want you to think that we've got religion on this thing. We have basically deployed the right technology at the right time based on the financial terms [ph] that are around (00:45:24).

<A - Mauricio Ramos>: Yeah.

<Q - Johanna Ahlqvist>: Thank you very much.

Operator

We will take our next question from Mathieu Robilliard from Barclays. Please go ahead.

<Q - Mathieu Robilliard>: Yes. Good afternoon. Thank you. I have two questions, please. First, with regards to B2B where, as you highlighted, you've delivered good growth, I was wondering if you could tell us a little bit if this is a market that is generally growing in the region or is it you taking market share, and typically, who are your main competitors? I don't know if it makes sense to answer that on a global basis or maybe focus on the main geographies. Little bit of color on that segment would be great. And then second on Colombia, as you highlighted, Mobile is also doing better and that's despite [indiscernible] (00:46:17) that you've mentioned. And I wanted to understand a little bit what was behind that better performance really on an absolute basis but also relative to some of your peers and how sustainable that was. Thank you.

<A - Mauricio Ramos>: Listen, on B2B, B2B is both a business segment that as a whole is growing and also one in which we think we are underweight given how large our mobile footprint is in every market and how much cable footprint we're building in every market. So it's a combination of both market growth and the fact that we're building networks and have a meaningful mobile presence. Within B2B, all segments are growing. Corporations are growing, multinationals are growing and, in particularly, the SMB business is growing. As you may recall from my remarks, SMB is about 40% of our business and it is growing quite significantly because middle and home businesses are growing in these markets, but also because we're building a ton of network that also, although, it's meant to be for residential purposes, passes small businesses and small home offices that we can cater too as part of our B2B offering.

And the second part or the last part of this element is that given our large B2B presence in Colombia and the fact that Central America caters to Colombia as a destination market for a lot of the Multilatinas, we're uniquely positioned to provide an offering for those Multilatinas as they demand B2B services throughout a footprint that is very close to our footprint. And the large business segment that is really growing is the solutions segment, and that's where we've been deploying data centers and solution-based technology so that we can grow into more value-added solution services like cloud security. That's the long and short of the B2B answer.

And listen, on Colombia, I think the better way to answer that question is to perhaps provide a little bit of historical context here. And you may have, Mathieu, heard me talk about it before. If you go back two years ago, the mobile industry as a whole in Colombia was decreasing double digits, almost 15% a couple of years ago. It was just an unsustainable dynamic and was enhanced or further made difficult because of the devaluation back a couple of years ago.

About a year ago, it started to stabilize as market players became a little bit more rational and started realizing that the 4G upside opportunity was not being monetized by anyone because of these low prices on mobile data. And if you fast forward to today, whereas it still remains pretty competitive and growth is not stellar, at least there is some growth.

So you see a trend here of a mobile sector in Colombia that it is slowly recomposing itself and slowly beginning to grow. And you can see, because you can pull information from our competitors, some of whom have already reported, that growth is back on mobile. And you can do your own analysis and you'll pretty soon see that where we're stacking up pretty well. We're holding our own on all segments in Colombia.

<Q - Mathieu Robilliard>: Thank you. You're even doing better than you peers which is great.

<A - Mauricio Ramos>: That's not for me. You can do the math. And thank you for saying that. That's not for me to brag about.

<Q - Mathieu Robilliard>: Thank you.

Operator

We will take our next question from Soomit Datta from New Street Research. Please go ahead.

<Q - Soomit K. Datta>: Hi. A couple of questions, please. On Colombia, away from the immediate operationals, there's been some speculation about financial problems at EPM and some speculation you might be able to buy in the minorities there. Can you give a little update as to how you see that situation please?

<A - Mauricio Ramos>: Yeah.

<Q - Soomit K. Datta>: And then secondly on Paraguay. I guess it's not new that there's competition in the market. But could you maybe give a little bit more color as to how the competition is playing out? Is there any sign that maybe it's coming to an end, which of the players are being aggressive? Any sort of slightly deep level of commentary would be super helpful. Thank you.

<A - Mauricio Ramos>: Sure. So listen. With regards to EPM, I simply won't comment out of respect and quite frankly lack of understanding. And they're also a publicly-traded company so I'm sure they'll provide the required disclosures. What I can tell you though is that we see no operational hiccups. Our relationship with them, obviously we manage the business. We control and consolidate the business and we drive the business. But, more importantly, we hold a very strong, very close, and very constructive [ph] partnership (00:51:47) relation with them. So it hasn't and we don't expect that it would affect the business. As you know, we have internally generated cash flow in Colombia to certainly fund their investment needs going forward. So that's pretty much their own situation, not our own.

And with regards to Paraguay, there is increased competition in Paraguay. There has been increased competition in Paraguay for a while and we don't expect that it would subside for any particular reason. It will continue to be as strong as it has been. What we have been doing in the meantime is we have been strengthening our position. We attained spectrum at the beginning of this year and we went out and very quickly build a network there. No CapEx spared there so that we're ready. And we've been doing the same on cable. We've been building cable in Paraguay left and right so that we strengthen our position. And more importantly than anything else on that, we're getting better and better at being close to our residential customers in Paraguay. Our NPS numbers are going up in Paraguay and I'm a strong believer that the closer you are to the customer the better you provide good customer service, and the more convergent your offer is the better you're going to withstand any other competition. So we're putting money into the network, we're getting closer to the customer, and we're not letting that go.

There's also increased competition in the B2B space in Paraguay. But it is a growing market in Paraguay, and that's one of the places where we deployed a state-of-the-art Tier 3 data center, first of its class in the marketplace just to help us continue to support our B2B clients. I guess all I'm saying is there will continue to be competition but that's part of what we do.

<**Q - Soomit K. Datta**>: Okay. Understood. Thanks.

Operator

We will now take our next question from Ernesto Gonzalez from Morgan Stanley. Please go ahead.

<**Q - Ernesto Gonzalez**>: Hello. Thank you for taking my question. On the release you mentioned that you're looking for further cost savings. Could you please quantify what they would be, their size and timing, and also the margin expansion opportunity? Thank you.

<**A - Timothy Lincoln Pennington**>: Let me start. I mean kind of we have been undergoing a program of transformation, IT transformation, which has driven margin improvements. I mean I said in my sort of speech, the goal for us is to maintain the growth in our revenue base whilst holding our costs down. Now we are investing in sales and marketing activities; you saw that in the quarter. I mean those grew by 4%, just over 4%, and our G&A grew because our network grew. But those could've grown a lot faster had we not been identifying cost savings in other parts of the business. This is a never-ending constant focus of ours. We are changing the way we view the business and that will drive margins. I'm not sure we want to go into kind of speculating over margin expansion or kind of when these things will come through. But rest assured the margin expansion is core to the way we look at the business and manage the business, and we're managing a balanced portfolio, if you like, investing in some places, seeing margin growth in other places.

<**A - Mauricio Ramos**>: I think the question is really good, Ernesto, in the sense that it allows us to say I think what I said in my remarks which is we are so focused on margin expansion, and I think Tim and the team have a track record that's impeccable in the last three or so years. We've taken our EBITDA margins up almost 400 basis points and our operating cash flow margins are up some 600 basis points. If you look at our Latin American operating cash flow, margin is actually north of the 20% target that I had set three years ago, and this has been accomplished while we basically turn around the revenue profile of the company and drive equity and free cash flow. The point I'm making is that we remain super extra focused on this. There are, just as you would imagine, ongoing, closely managed centrally cost reduction and efficiency programs across the entire operations.

And the reason we remain so focused on this is because, as I said earlier, we're very, very cognizant of the fact that we want to come out of this revenue reconfiguration with a very lean organization so that at the end of this process there is both sustainable top line growth and a digitized, lean organization. The shorter-term, balance, is the one I alluded to before which is for the time being, despite all the cost-cutting, we don't want to sacrifice long-term top line growth in order to attain short-term EBITDA growth. And that is why we always balance this discussion, saying we're very focused on costs but we understand that we're delivering EBITDA a little bit back ended. We need to make sure that our top line remains captured in all its opportunity.

<**Q - Ernesto Gonzalez**>: Thank you.

Operator

We will now take your next question from Peter Nielsen, ABG. Please go ahead.

<**Q - Peter Kurt Nielsen**>: Thank you. Yeah, my question was actually just answered basically in terms of the EBITDA growth relative on lagging service revenue growth. I think you were indicating, Mauricio, that we should expect the same in the second half. And I guess it is too early for you to tell us now whether that is something that will continue into the next year.

<**A - Mauricio Ramos**>: Maybe let me answer it this way just to perhaps help building this answer which I know it's weighing in everyone's analyses. We're extremely pleased with the direction we've taken. Our strategy is working and

all the pieces are coming together. These results are very good. But we want you to know that we're not done. We're not being complacent about this and that we understand that we need to deliver this EBITDA growth. We are now in an incredibly positive situation to be which is we have the ability to build a great 2019 and beyond. That's a really good place to be. Net adds are strong. ARPU is holding steady. And you have heard me say this before, and this is the answer I think to your question, in this business today's net adds are tomorrow's revenue growth; you've seen that already happen in our business. And today's revenue growth is tomorrow's EBITDA growth; we just need to be really smart on managing and maximizing that EBITDA growth, and that comes by being very, very careful not to sacrifice the long-term revenue growth opportunity that we have. That's the long and short; that's the balancing act here.

<**Q - Peter Kurt Nielsen**>: Very good. Thank you.

<**A - Michel Morin**>: Operator, last question please.

Operator

We will now take our final question from Javier Zorrilla from JPMorgan. Please go ahead.

<**Q - Javier Zorrilla**>: Thank you, thank you. My question is more related to cable and data streaming in the second quarter. I wanted to know if there was any impact from the World Cup. I know that in some of the countries you were streaming the World Cup in the app. So I just wanted to know if there's any effect on the earnings as a result of that.

<**A - Mauricio Ramos**>: Javier, that's a fantastic question. The answer is yes.

<**A - Timothy Lincoln Pennington**>: The World Cup was technically in the third quarter, I suppose.

<**A - Mauricio Ramos**>: Yeah, well fair enough. Fair enough but I'm not sure I can answer a third question. Yeah, the effect is closer to the customer, the effect is a stickiness of our digital product, association of our brand with entertainment, with pay TV, with broadband, with digital offering. And we have some fantastic results in terms of views, in terms of downloads, in terms of connections to our mobile app, and in terms of just affinity with the brand.

<**Q - Javier Zorrilla**>: So I guess in the third quarter we should expect even more acceleration I guess from let's say data, streaming and...

<**A - Timothy Lincoln Pennington**>: I think it's fair to say the World Cup will be positive. People want see it but there's a variety of different access points across our market and it's a good promotional exercise for us. But I think we would view it as basically an opportunity to get the brand out and get the products out.

<**A - Mauricio Ramos**>: Yeah, and it doesn't trickle through in any specific – it just trickles through in lower churn, more net adds, better perception of the brand. It doesn't trickle into any specific KPI per se. But it trickles into net adds, lower churn, and better brand perception, and higher NPS. So it's more of a longer-term effect.

<**Q - Javier Zorrilla**>: Sure.

<**A - Timothy Lincoln Pennington**>: Yeah, we don't think it's material.

<**Q - Javier Zorrilla**>: Okay. Thank you.

<**A - Mauricio Ramos**>: Thank you.

Mauricio Ramos

Well thank you, everybody. We're very pleased with the results, and we just want to thank you for [indiscernible] (01:01:35) today and your questions.

Operator

This concludes Millicom's financial results conference call. Thank you for your participation. You may now disconnect.