

Management's Discussion and Analysis of Financial Condition and Results of Operations of Cable Onda

The following discussion of our financial condition and results of operations should be read in conjunction with the consolidated financial statements as of December 31, 2019 and 2018 and the notes.

Overview

Founded in 1990, we are one of the leading providers of residential Pay-TV, fixed broadband Internet, fixed telephony and mobile services in Panama, to B2C and B2B customers. Through our "Cable Onda" brand, we are the largest fixed broadband Internet provider in Panama, with almost three times as many subscribers as the second-largest provider, and the largest fixed telephony provider in the country to B2C residential consumers. Through our subsidiary Telefónica Móviles Panama S.A, we provide mobile communications services across the most extensive 2G, 3G and 4G networks in the country. We also offer B2B services to governmental and SME corporate customers, including fixed Internet, cloud solutions, backup solutions, outsourcing of both IT department management and operations, personalized IT projects, and cybersecurity. We have approximately 346,000 customers in the cable PayTV market and 334,000 customers in the broadband internet market. We are the mobile market leader by number of subscribers in Panama serving more than 1.7 million subscribers as of December 31, 2019.

Throughout our 29-year history, we have experienced significant growth, primarily through strategic acquisitions. Our strategic acquisitions have helped us strengthen our position as one of the leading telecommunications providers in Panama. Our growth has also been driven by our consistent investments to maintain, expand and upgrade our network capabilities to allow us to offer advanced communications and entertainment services with a high degree of reliability and customer satisfaction. As a result of these investments, our network today is entirely digital, employs the DOCSIS 3.0 standard. Our network also includes more than 10,000 km of HFC and more than 5,000 km of fiber. Our network passes more than 800,000 HFC homes in Panama.

Recent Business Developments

On August 29, 2019 we acquired 100% of the share capital of Telefónica Móviles Panama S.A ("Telefónica Panamá") for \$593.6 million from Telefónica Centroamérica Inversiones, S.L., which is owned, directly and indirectly by Telefónica S.A. ("Telefónica Panamá Acquisition"). We believe the Telefónica Panamá acquisition is consistent with our strategy to increase market leadership, enhance our existing mobile services, continue improving and increasing mobile and fixed network coverage and capacity, as well as to diversify our sources of cash flow.

On November 1, 2019 Cable Onda completed a bond debt offering under the Rule 144A and Regulation S, of \$600 million aggregate principal amount of 4.500% senior unsecured notes due January 30, 2030 (the "Notes"). We intend to use the net proceeds from the offering of the Notes to partially finance the acquisition of Telefónica Panamá, to refinance debt, and for general corporate purposes. The Notes are listed on the Panama Stock Exchange and the Luxembourg Stock Exchange.

The Notes were sold within the United States to qualified institutional buyers in reliance to Rule 144A under the Securities Act and to certain non-U.S. persons in offshore transactions in reliance to Regulation S under the Securities Act.

Results of operations

The following table sets forth certain income statement items and operating information for the periods or at the dates indicated:

	Years ended December, 31		% Change
	2019	2018	
	<i>(in thousands of \$)</i>		
Revenue	472,091	388,426	21.5%
Costs and expenses	366,500	361,090	1.5%
Programming and operating costs	103,416	85,296	21.2%
Depreciation and amortization	118,931	81,607	45.7%
Personnel expenses.....	63,040	98,460	(36.0%)
General, sales and administrative expenses.....	81,114	95,727	(15.3%)
Income from operations	105,591	27,336	286.3%
Financial expense	29,313	13,607	115.4%
Profit before income tax	76,278	13,729	455.6%
Income tax	(20,793)	(9,553)	117.7%
Net income	55,485	4,176	1228.7%
Attributable to:			
Controlling interest.....	55,480	4,379	1,167.0%
Non-controlling interest.....	5	(203)	(102.6%)
Operating Data:			
RGUs Cable and other fixed			
Total	945,860	945,707	0.0%
ARPUs Cable and other fixed			
Total	46.6	44.9	3.8%
ARPUs B2C Mobile			
Total	7.1	N/A	N/A
ARPUs Mobile (B2C + B2B)			
Total	8.2	N/A	N/A

Revenue

Total revenue increased by 21.5%, or \$83.7 million, from \$388.4 million for the year ended December 31, 2018 to \$472.1 million for the year ended December 31, 2019, primarily as a result of the acquisition completed during the fiscal year 2019 of Telefonica Moviles Panama which generated \$75.3 million (for the period from September 1 to December 31, 2019) from mobile communications services and sales of mobile devices, and the increase in our customer base and successful increases in our servicing fees for our residential, SME and commercial segments pursuant to increased strategic sales of VAS. Revenue from projects and solutions increased 36.3%, from \$9.0 million for the year ended December 31, 2018 to \$12.3 million for the year ended December 31, 2019.

Revenue from data transmission, Internet and data center increased by 4.8% for the year ended December 31, 2019, while TV subscriptions revenue decreased by 1.3% and fixed-line services revenue fell by 9.1%. The increase in revenue from data transmission, Internet and data center is mainly due to the increase in internet consumption along with a lower churn and an increasing ARPU.

Mobile service revenue was \$68.0 million and \$7.0 million from the sale of equipment for 2019, first year after the acquisition. Both mobile services and sale of mobile equipment have no comparison period because these revenue streams are related to the acquisition of Telefonica Moviles Panama in 2019.

Data transmission, Internet and data center revenue accounted for 38.4% of total revenue in 2019, compared to 44.5% in 2018, while revenue from TV subscriptions accounted for 31.7% of total revenue in 2019, compared to 39.0% in 2018. Fixed-line services revenue accounted for 9.4% of total revenue in 2019, compared to 12.6% in 2018. Mobile service revenue as a share of total revenue was 14.4% in 2019 and sale of mobile devices as a share of total revenue was 1.5% for the same period.

Programming and operating costs

Programming and operating costs increased by 21.2%, or \$18.1 million, from \$85.3 million for 2018 to \$103.4 million for 2019, primarily as a result of increases in our customer base. As a percentage of revenue, 2019 programming and operating costs are aligned with 2018 in 22%.

Depreciation and amortization

Depreciation and amortization increased by 45.7%, or \$37.3 million, to \$118.9 million in 2019 from \$81.6 in 2018. The increase was primarily as a result of the increase in property, plant and equipment as well as right of use assets because of the acquisition of Telefonica Moviles Panama. As a percentage of revenues, depreciation and amortization increased from 21.0% for 2018 to 25.2% for 2019.

Personnel expenses

Personnel expenses decreased by 36.0%, or \$35.4 million, to \$63.0 million in 2019 from \$98.5 in 2018. The decrease was primarily as a result of \$16.0 million in extraordinary bonuses to 100% of the Company's employees and \$20.0 million severance paid to key executives in 2018. As a percentage of revenues, personnel expenses decreased from 25.3% for 2018 to 13.4% for 2019.

General, sales and administrative expenses

General, sales and administrative expenses decreased by 15.3%, or \$14.6 million, to \$81.1 million in 2019 from \$95.7 in 2018. The decrease in general, sales and administrative expenses was primarily as a result of the implementation of a new efficiency plan commencing in March 2019, ongoing until the end of the year, which primarily focused on optimizing and reducing personnel-related expenses. As a percentage of revenues, general, sales and administrative expenses decreased from 24.6% for 2018 to 17.2% for 2019.

Income from operations

Income from operations increased by 286.3% for the year ended December 31, 2019, primarily due to a 21.5% increase in revenues as a result to the acquisition of Telefonica Moviles Panama.

Financial expense

Financial expense, which includes interest expense, net of interest income increased by 115.4%, or \$15.7 million, from \$13.6 million for 2018 to \$29.3 million for 2019. This increase was mainly driven by an increase in financial expenses related to the acquisition of Telefonica Moviles Panama.

Income tax

Income tax was \$20.8 million, an increase of \$11.2 million for the year ended December 31, 2019 compared to income tax of \$9.6 million for the year ended December 31, 2018. Our effective tax rate for 2019 was 27.3% compared to 69.6% for 2018. The decrease is driven by 2018 non-deductible costs related to Cable Onda acquisition. The 2019 Rate is also impacted by non-deductible costs, related to the acquisition of Telefonica Moviles Panama.

Net income

As a result of the foregoing, net income for the year ended 31 December 2019 was 55.5 million, a 1,228.7% increase compared with our income of \$4.2 million for year ended 31 December 2018, as shown above the main drivers are: the increase in revenue (\$86.7 million), the increase in cost and expenses (\$5.4 million) and the increase in financial expenses due to debt issued for the acquisition of Telefonica Moviles Panama (\$15.7) million.

Liquidity and capital resources

Historically we have relied, and in the future, we intend to continue to rely primarily on, cash from operations and external bond and bank financings to fund our operations, capital expenditures and working capital requirements.

We believe that our sources of liquidity are sufficient for our present requirements for the next 12 months. Although we believe that we should be able to meet our debt service obligations and fund our operating requirements in the future through cash flow from our operations, we may seek additional financing in the capital markets from time to time, depending on market conditions and our financial requirements. We intend to continue to focus on investments in property, systems and equipment (fixed assets) and working capital management, including the timely collection of accounts receivable and efficient management of accounts payable.

Capital expenditures

Our capital expenditures on property, plant and equipment, licenses and other intangible assets for the period ended December 31, 2019 and 2018 amounted to \$89.1 million and \$95.2 million, respectively, which includes for 2019, \$70.7 million for technical equipment (core network CPEs and installation) and \$2.9 million for building improvements, \$2.3 million for IT equipment, \$0.2 million for transport equipment, \$1.7 million for building and \$0.9 million for office equipment.

Cash flows

The table below sets forth our cash flows for the periods indicated:

	Years ended December 31,		% Change
	2019	2018	
	<i>(in thousands of \$)</i>		
Net cash provided by operating activities	165,241	109,906	50.3%
Net cash provided by (used in) investing activities	(685,711)	(96,153)	613.1%
Net cash provided by (used in) financing activities	574,678	(13,700)	4294.7%
Net (decrease) increase in cash and cash equivalents	54,208	53	102,179.2%
Cash and cash equivalents at the end of the period	60,693	6,486	835.8%

Years ended December 31, 2019 and 2018

For 2019, cash provided by operating activities was \$165.2 million compared to \$109.9 million for 2018. The increase was mainly due to \$54 million costs transferred to Cable Onda in 2018 from Millicom (Parent) because of the acquisition of the first one by the last.

For 2019, cash used in investing activities was \$685.7 million compared to \$96.2 million for 2018, mainly due to acquisition of Telefonica Moviles Panama.

For 2019, cash provided by financing activities was \$574.7 million compared to -\$13.7 million used in financing activities for 2018. The increase in cash provided by financing activities during 2019, is mainly due to the debt raised in connection with the Telefonica Moviles Panama acquisition.

For 2019, cash and cash equivalents increased by \$54.2 million. We had closing cash of \$60.7 million as of December 31, 2019, compared to \$6.5 million as of December 31, 2018, mainly because there were no dividends paid in 2019 (dividends paid in 2018 were \$30.0 million).