



VIA LEONARDO DA VINCI, 1  
20090 TREZZANO S/N (MILAN)  
ITALY

Phone: + 39 02 3011 3510  
Web Site: www.windtre.it

SECTOR	Communications	MARKET POSITION	2nd mobile player in Italy (35.7% vs. 37.2% TIM and 27.1% Vodafone) 15% fixed-line market share (vs. TIM, Vodafone, Fastweb, Tiscali, BT Italia)
INDUSTRY	Telecom		
SUB-INDUSTRY	Telecom Carriers	NUMBER OF EMPLOYEES	7,090 (169 senior managers, 711 middle managers and 6,210 office staff)
SHAREHOLDER	CK Hutchison (100%)	ARPU (Avg Rev Per User, EUR/Month)	Mobile customers: 11.3 Fixed-line customers: 27.9
KEY PEOPLE	Jeffrey Hedberg, CEO Stefano Invernizzi, CFO		
NEXT RELEVANT DATES	May 11, 2018: Q1 Results Summer 2018: Entry of Iliad in Italy		

For more information:  
[www.promoscore.it](http://www.promoscore.it)  
+39 081 0170 617

Author: *Alessandro Sica*  
[alessandro.sica@bancapromos.it](mailto:alessandro.sica@bancapromos.it)

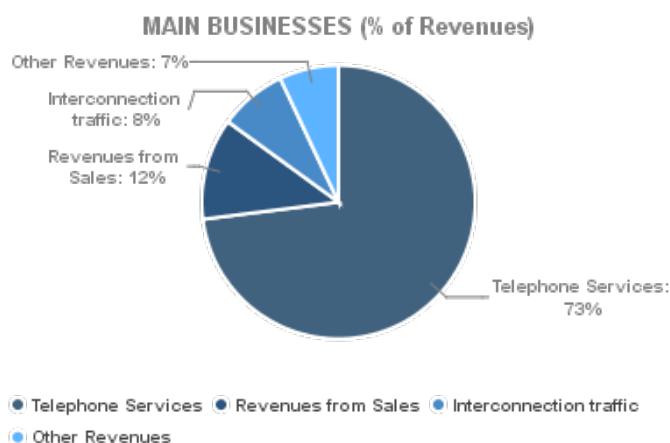
Managing Supervisor: *Paolo Cozzolino*  
[paolo.cozzolino@bancapromos.it](mailto:paolo.cozzolino@bancapromos.it)

## QUICK LOOK

Wind Tre S.p.A. operates in the Italian TLC sector and offers mobile, fixed-line and internet products and services to customers and firms. The firm was born from the merger of H3G S.p.A and Wind Telecomunicazioni S.p.A. thanks to a 50/50 joint venture between CK Hutchison and VimpelCom (now Veon) for the management of their business in Italy. As of 12/31/2017, Wind Tre has 29.5 mln mobile customers and 2.7 mln fixed-line customers. The distribution network is made of 1,635 exclusive sales points (689 Wind and 946 Tre) and 3,715 non-exclusive multibrand dealers.

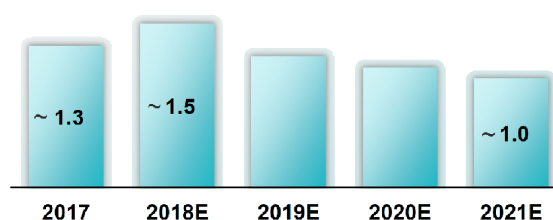
## HIGHLIGHTS

- MARKET OVERVIEW**- The TLC sector is one of the industrial segments that has been less affected by the global financial crisis but it is characterized by rapid technological change and related changes in customer demand. Italy is Europe's 4th largest TLC services market in terms of revenues after the UK, Germany and France: the value of the Italian mobile market in 2017 has been estimated to be about EUR 14 bln whereas the Italian fixed-line market has been estimated to be worth around EUR 5 bln.
- OWNERSHIP AND MANAGEMENT** - Wind Tre S.p.A. is controlled at 100% by Hong Kong-based CK Hutchison, which paid Veon EUR 2.45 bln in July 2018 for the 50% stake in the Italian TLC operator it did not yet own. Jeffrey Hedberg (1961) is Wind Tre's CEO. He has held key roles in many TLC companies for over 25 years (Swisscom, Deutsche Telekom, Telkom South Africa, Mobilink). Stefano Invernizzi (1965) is Wind Tre's Director of Finance, Control & Procurement (formerly 3 Italia's board member and CFO).
- BUSINESS DIVERSIFICATION (1/3): SEGMENTS** - Wind Tre Group's total revenues (EUR 6,182 mln in FY17) are split in telephone services (73.15%), sale of mobile phones and accessories (12.29%), interconnection traffic (8.01%), international roaming (1.34%), judicial authority services (0.10%), other revenues from services (2.54%), other revenues (2.57%).
- BUSINESS DIVERSIFICATION (2/3): SUPPLIERS** - Wind Tre relies on suppliers of equipment and software for the management of its fixed/mobile network (ZTE, Ericsson, Nokia, Huawei, NSN), on Open Fiber to provide ultra-broadband to its customers and on content providers (Netflix, Sky).
- BUSINESS DIVERSIFICATION (3/3): CLIENTS** - After the merger, Wind Tre is pursuing a dual brand strategy in the retail segment (Wind brand for households and 3 brand for young customers) and a fully integrated approach in the business segment (the Wind Tre Business brand has been created to serve firms and public administrations).
- INCOMING CHALLENGES** - In 2018 it is expected a growing pressure on prices in the wireless market due to the entry in Italy of the French operator Iliad (as required by the European Commission to authorize the merger). According to S&P, of the three mobile operators in Italy, Wind Tre will be the most exposed to the fierce price competition of Iliad because of the company's current positioning in the low-mid range of the mobile market. However, roaming revenues from Iliad's use of Wind Tre's network should partially offset the potential shrinkage of its price-sensitive customer base. The process of integration of Wind and Tre's wireless networks will be definitively completed only at the end of 2019.



### Capex plan (EUR billion)

6Bn€ in 5 years (2017-2021)



## FIGURES

## INCOME STATEMENT

(in EUR Mln)	December 2017	December 2016	December 2015
<b>Operating Revenue (Turnover)</b>	<b>6171,00</b>	<b>2880,00</b>	<b>2086,00</b>
Costs of goods sold	3299,00	1747,00	1430,00
<b>Gross profit</b>	<b>2872,00</b>	<b>1133,00</b>	<b>656,00</b>
<b>Gross margin (%)</b>	<b>46,54%</b>	<b>39,34%</b>	<b>31,45%</b>
Costs of employees	359,00	209,00	147,00
<b>EBITDA</b>	<b>1948,00</b>	<b>719,00</b>	<b>358,00</b>
<b>EBITDA margin (%)</b>	<b>31,57%</b>	<b>24,97%</b>	<b>17,16%</b>
Depreciation & Amortization	3350,00	2166,00	378,00
<b>Operating P/L [=EBIT]</b>	<b>-1402,00</b>	<b>-1447,00</b>	<b>-20,00</b>
<b>EBIT margin (%)</b>	<b>-22,72%</b>	<b>-50,24%</b>	<b>-0,96%</b>
<b>P/L before tax [=EBT]</b>	<b>-3064,00</b>	<b>-1580,00</b>	<b>-75,00</b>
<b>EBT margin (%)</b>	<b>-49,65%</b>	<b>-54,86%</b>	<b>-3,60%</b>
<b>P/L for period [=Net income]</b>	<b>-2877,00</b>	<b>-1549,00</b>	<b>-75,00</b>
<b>Profit margin (%)</b>	<b>-46,62%</b>	<b>-53,78%</b>	<b>-3,60%</b>

## BALANCE SHEET

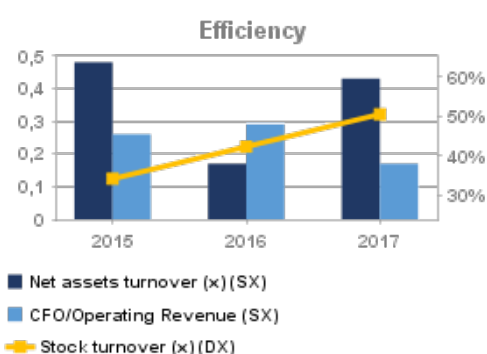
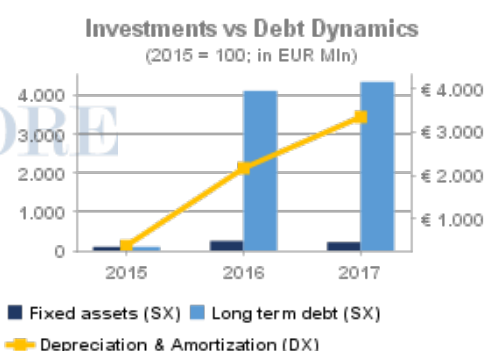
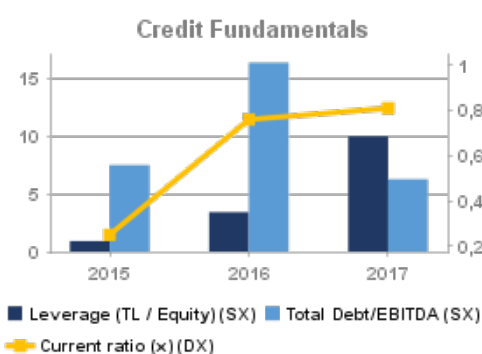
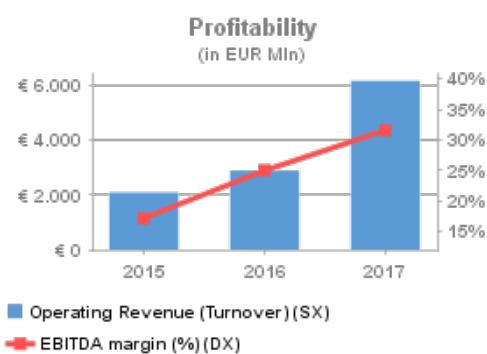
(in EUR Mln)	December 2017	December 2016	December 2015
<b>ASSETS</b>			
Cash and cash equivalent	598,00	559,00	89,00
Other current assets	596,00	345,00	112,00
Debtors	1276,00	1530,00	589,00
Stock	122,00	68,00	61,00
<b>CURRENT ASSETS</b>	<b>2592,00</b>	<b>2502,00</b>	<b>851,00</b>
Other fixed assets	1922,00	1815,00	192,00
Tangible fixed assets	3525,00	5615,00	3039,00
Intangible fixed assets	9675,00	9929,00	3662,00
<b>FIXED ASSETS</b>	<b>15122,00</b>	<b>17359,00</b>	<b>6893,00</b>
<b>TOTAL ASSETS</b>	<b>17714,00</b>	<b>19861,00</b>	<b>7744,00</b>
<b>LIABILITIES &amp; EQUITY</b>			
Other current liabilities	692,00	650,00	360,00
Creditors	2340,00	2272,00	616,00
Loans	187,00	363,00	2407,00
<b>CURRENT LIABILITIES</b>	<b>3219,00</b>	<b>3285,00</b>	<b>3383,00</b>
Long term debt	12028,00	11388,00	276,00
<b>NON-CURRENT LIABILITIES</b>	<b>12883,00</b>	<b>12087,00</b>	<b>335,00</b>
<b>SHAREHOLDERS FUNDS</b>	<b>1612,00</b>	<b>4489,00</b>	<b>4026,00</b>
<b>TOTAL SHAREH. FUNDS &amp; LIAB.</b>	<b>17714,00</b>	<b>19861,00</b>	<b>7744,00</b>

## FREE CASH FLOW TO FIRM

(in EUR Mln)	Dec 2017	Dec 2016	Dec 2015	Dec 2014	Dec 2013
Cash from Operations	1028,00	829,00	540,00	n.a.	n.a.
Capex	749,00	322,00	266,00	n.a.	n.a.
Interest Expense	1783,00	168,00	54,00	n.a.	n.a.
Tax Rate	0,24	0,31	0,31	n.a.	n.a.
<b>FCFF</b>	<b>1634,08</b>	<b>622,25</b>	<b>311,04</b>	<b>n.a.</b>	<b>n.a.</b>

Source: Wind Tre S.p.A. Financial Statements (audited by PwC S.p.A.) - KPMG Corporate Tax Rate Survey

Note: FCFF = CFO - Capex + Interest Expense \* (1 - Tax Rate)



- **RESULTS 2015/2017** - Despite the successful refinancing of its capital structure completed in October 2017 (optimization of annual interest costs of about EUR 270 mln, average interest rate from 5.5% to 2.7%), Wind Tre is a highly leveraged company. In the period 2015/2017, working capital has been persistently negative and, in spite of the increase in EBITDA, net losses progressively grew too. It has to be highlighted that the merger has happened on December 30, 2016 so financial data for 2016 and 2015 has been prepared by Wind Tre as if the merger had been consummated at the beginning of each period.
- **PLAN 2017/2021** - According to its industrial plan, Wind Tre wants to achieve EUR 6 bln of Capex within 2021. The development of fiber and 4G/5G networks will be crucial, as proved by the partnership until 2024 with Open Fiber to develop ultra broadband FTTH in 271 Italian cities and by the experimentation of 5G services in Prato and L'Aquila within a project of the Italian Ministry of Economic Development. Moreover, a primary goal of the company is to bring its Net Leverage Ratio (Net Debt/EBITDA) below 3x in the long-term.

Revenues Dynamics (2013=100)					
Company	Dec 2017	Dec 2016	Dec 2015	Dec 2014	Dec 2013
WIND TRE	109,79	51,24	37,11	81,87	100,00
ILIAD	132,11	125,19	117,00	110,83	100,00
VODAFONE	n.a.	137,17	152,87	125,50	100,00
TELECOM ITALIA	83,55	84,21	84,30	92,60	100,00

EBITDA Margin %					
Company	Dec 2017	Dec 2016	Dec 2015	Dec 2014	Dec 2013
WIND TRE	31,57	24,97	17,16	41,26	41,19
ILIAD	36,51	36,05	35,61	32,21	33,83
VODAFONE	n.a.	28,09	25,05	27,71	26,99
TELECOM ITALIA	39,29	40,76	35,11	39,40	39,94

EBT Margin %					
Company	Dec 2017	Dec 2016	Dec 2015	Dec 2014	Dec 2013
WIND TRE	-49,65	-54,86	-3,60	-7,20	-7,61
ILIAD	15,39	13,66	13,08	11,45	11,97
VODAFONE	n.a.	-4,20	-1,25	2,59	-5,35
TELECOM ITALIA	8,96	14,01	2,23	10,68	2,24

Interest Cover					
Company	Dec 2017	Dec 2016	Dec 2015	Dec 2014	Dec 2013
WIND TRE	-0,79	-8,61	-0,37	0,60	0,64
ILIAD	10,04	8,44	9,05	7,53	7,08
VODAFONE	n.a.	-0,11	0,61	1,23	-2,45
TELECOM ITALIA	2,25	2,09	1,05	1,90	1,17

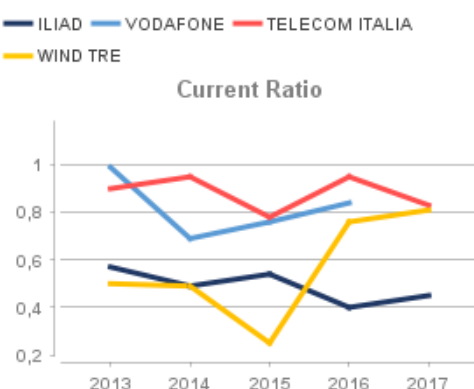
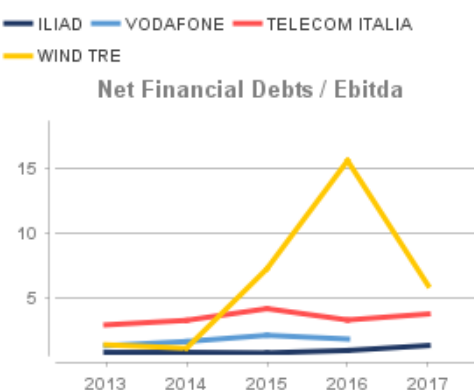
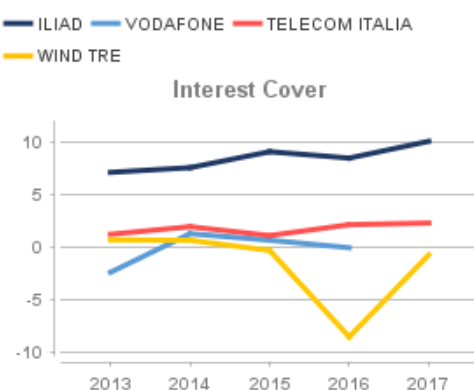
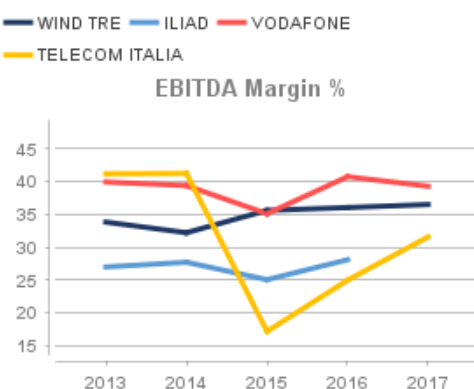
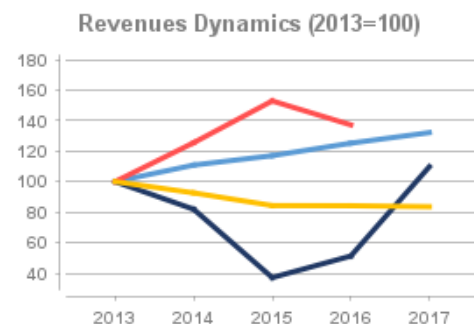
Net Financial Debts / Ebitda					
Company	Dec 2017	Dec 2016	Dec 2015	Dec 2014	Dec 2013
WIND TRE	5,96	15,57	7,25	1,12	1,39
ILIAD	1,33	0,95	0,76	0,80	0,80
VODAFONE	n.a.	1,83	2,12	1,64	1,32
TELECOM ITALIA	3,76	3,30	4,17	3,27	2,92

Current Ratio					
Company	Dec 2017	Dec 2016	Dec 2015	Dec 2014	Dec 2013
WIND TRE	0,81	0,76	0,25	0,49	0,50
ILIAD	0,45	0,40	0,54	0,49	0,57
VODAFONE	n.a.	0,84	0,76	0,69	0,99
TELECOM ITALIA	0,83	0,95	0,78	0,95	0,90

Leverage Ratio (Asset based) %					
Company	Dec 2017	Dec 2016	Dec 2015	Dec 2014	Dec 2013
WIND TRE	9,10	22,60	51,99	12,89	14,93
ILIAD	40,09	36,47	36,56	45,77	42,16
VODAFONE	n.a.	47,66	50,34	55,26	58,91
TELECOM ITALIA	34,58	33,43	29,95	30,33	28,75

Net Assets Turnover					
Company	Dec 2017	Dec 2016	Dec 2015	Dec 2014	Dec 2013
WIND TRE	0,43	0,17	0,48	0,34	0,38
ILIAD	0,80	0,81	0,98	1,19	1,11
VODAFONE	n.a.	0,44	0,44	0,45	0,40
TELECOM ITALIA	0,35	0,34	0,35	0,38	0,43

ROA using P/L before Tax %					
Company	Dec 2017	Dec 2016	Dec 2015	Dec 2014	Dec 2013
WIND TRE	-17,30	-7,96	-0,97	-1,56	-1,79
ILIAD	9,15	7,87	8,03	9,52	9,49
VODAFONE	n.a.	-1,48	-0,41	0,89	-1,68
TELECOM ITALIA	2,58	3,97	0,63	3,28	0,76



Note: Wind Tre figures in FY13-14 are sum of 3 Italia and Wind Telecomunicazioni - Source: Bureau van Dijk, FS

## INVESTMENT CASE

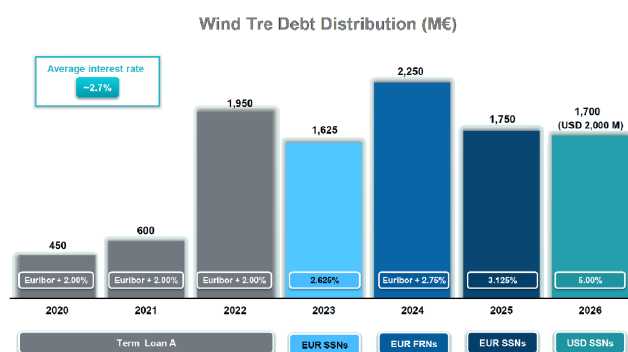
### Wind Tre S.p.A. - Senior Secured - EUR - Fixed - 2.625% - January 2023 - (XS1708450488)

YTM	4.76	CREDIT RISK RATING	Moody's: B1 (S)
G-SPREAD	419 bps vs EUR Italy Sovereign Curve (I40)		S&P BB- (N)
I-SPREAD	440 bps vs Euro Swaps Curve (S45)		Fitch: BB (P)
ASW	406 bps vs Euro Swaps Curve (S45)	COUNTRY RATING (Italy)	Moody's: Baa2 (N)
MODIFIED DURATION	4.193		S&P BBB (S)
LIQUIDITY RISK	Low to Moderate	PD (1Y) / RR	2.16% / 60%
OUTST. / MIN. PIECE	1,625 mln / 100k + 1k	Z SCORE / Z' SCORE	-0.12 / -0.02
LEVEL OF CORPORATE DISCLOSURE	Adequate	TIMELINESS OF RESULTS REPORTING	Adequate

### MAIN EXTERNAL RISK / RETURN FACTORS

Leverage	↓	Legal Risk	↓
----------	---	------------	---

Source: Bloomberg, Financial Statements



- OPTIONAL REDEMPTION** - Wind Tre may redeem some or all of the aforementioned notes on or after 11/03/2019 at the following redemption prices: 101.313 (2019), 100.656 (2020), 100 (2021 and thereafter). In addition, prior to 11/03/2019, Wind Tre may redeem: (i) some or all of the above-mentioned notes at a redemption price equal to 100 plus the applicable make-whole premium (@50); (ii) up to 40% of the notes with the net proceeds from certain equity offerings at a redemption price of 102.625 (equity clawback); (iii) up to 10% of the then outstanding aggregate principal amount of the notes at a redemption price equal to 103.

- CHANGE OF CONTROL** - Upon the occurrence of a change of control, Wind Tre is required to offer to repurchase all outstanding notes at a purchase price of 101 plus accrued and unpaid interest.

- GUARANTOR AND COLLATERAL** - Wind Acquisition Finance S.A. (incorporated in Luxemburg and participated at 100% by the issuer Wind Tre S.p.A.) is guarantor of the issue. The notes are secured by: (i) a pledge over all of the shares of capital stock of Wind Tre and of Wind Acquisition Finance; (ii) a pledge over certain selected bank accounts held by Wind Tre; (iii) an assignment of receivables of VIP-CKH Luxembourg S.à.r.l. and Wind Tre Italia S.p.A. in respect of certain shareholder loans to Wind Tre.

- COVENANTS** - The Indenture restricts, inter alia, the ability of Wind Tre to: (i) incur or guarantee additional indebtedness and issue preferred stock; (ii) make certain payments, including dividends or other distributions, with respect to the shares of Wind Tre; (iii) prepay or redeem subordinated debt or equity; (iv) make certain investments; (v) sell, lease or transfer certain assets; (vi) engage in certain transactions with affiliates; (vii) consolidate or merge with other entities.

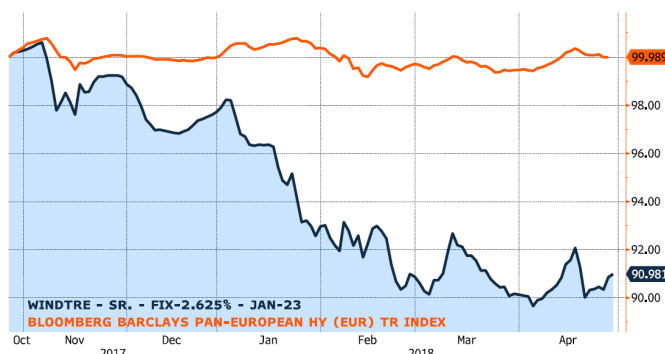
## RISK FACTORS

- LEVERAGE** - Wind Tre's core business is capital intensive and the company may not be able to collect sufficient cash to meet its indebtedness and capital expenditures. According to S&P, given the operational and managerial commitment demonstrated by Veon and CK Hutchison, prospective support from any one shareholder would be provided in conjunction with, and not independently from the other one.

- LEGAL RISK** - Wind Tre is subject to risks related to civil, tax and competition proceedings. For example, in April 2018 the Italian Competition Authority (AGCM) has fined Wind Tre because of commercial malpractice for EUR 4.25 mln due to omitted and misleadingly indicated certain information regarding some of its internet services.

- GEOPOLITICAL RISK** - Wind Tre's business is barely diversified in geographical terms since it is wholly concentrated in Italy. However, Veon has significant holdings in Russia as well as operations in Ukraine: this potentially exposes Wind Tre to the adverse impact of US and EU sanctions against Russia introduced as a result of developments in Crimea and subsequent events.

- RISK MANAGEMENT** - After the refinancing plan, existing derivatives have been extinguished and replaced with new agreements. Overall, EUR 3 bln of interest rate derivatives are in place. Currency risk deriving from the bond issue is fully hedged with cross currency swaps for a notional of USD 2 bln.



## DISCLAIMER

The contents of this document and, in particular, the processing of the information collected, is property of Banca Promos. Therefore, without the prior formal consent of Banca Promos, the abovementioned material, in its entirety, can not be copied, downloaded, reproduced, used on other Internet sites, modified, transferred, distributed or communicated to third parties, except for personal use, remaining in any case, forbidden any commercial use.

Banca Promos does not carry out portfolio management activities.

The Bank guarantees that the production, the distribution, and the use of investment research, is only for proprietary and/or treasury trading purposes, adopting the necessary safeguards in order to exclude this activity from the discipline regarding inducement.

This information is intended for qualified investors and no commercial agreement is necessary as no direct or indirect compensation has been or will be received in exchange for this service.

The information does not represent an investment advisory service and is not intended as an offer or solicitation related to the purchase or the sale of financial instruments.

The Bank guarantees that the parties carrying out the abovementioned analysis have no interests in the financial instruments processed and, therefore, there are no personal situations of conflict of interest.

Banca Promos S.p.A. assumes no responsibility for errors or omissions of any kind about the information published, despite of the carefullness given to the production of the contents.

The content of this document excludes the "price sensitive" information character as it is based on qualitative and quantitative information publicly available on the market, and, each consideration expressed by the authors, reflects an independent and personal judgment of the analysed data.

