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# Lasanoz Finance

*LF Telecom Infrastructure M&A Case Study:*  
Play Communications Acquires 3S for EUR 96M  
(July 2019).

3S was the largest independent provider of metro optical fibre and data center services in southern Poland.

Warsaw, October 2020



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2. PLAY's Strategic Transmission Conundrum in a 5G World
3. PLAY's Options Examined
4. Valuation Methodology and Market Reaction
5. Lessons Learned



# Key Information on 3S Transaction (1/2)

M&A Transaction Involving one of the Biggest, and the Last Independent Fiber Provider in Poland

3S is the owner of one of the largest metro fibre networks in Southern Poland.

**Assets:** 3,800 km of optical fibre, plus 5 data centres

**Revenues (2018):** PLN 88.2m

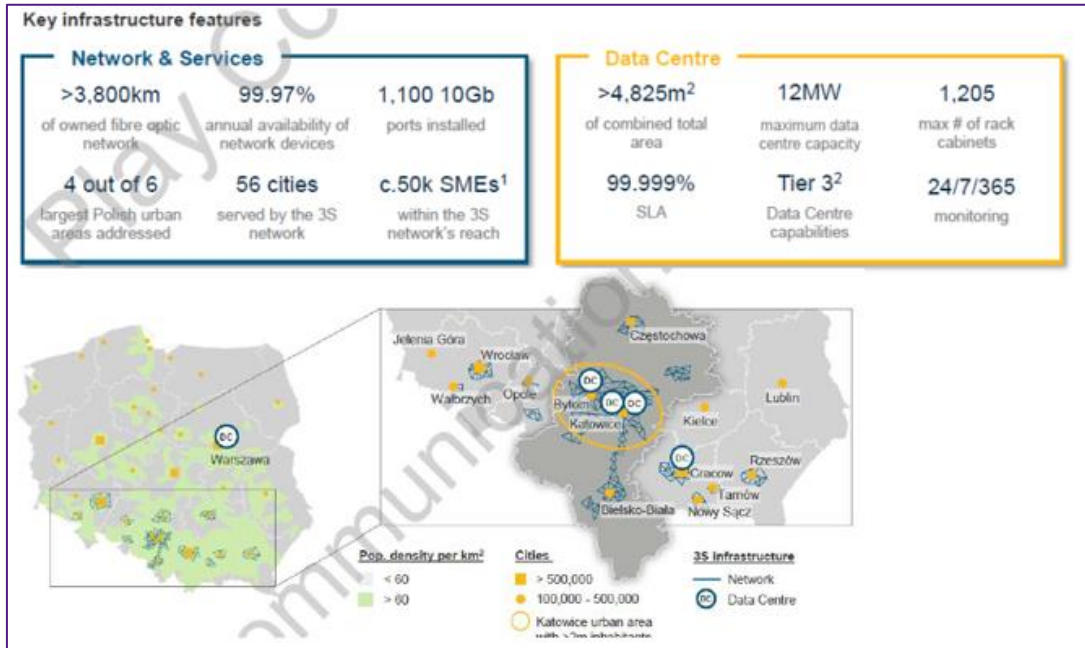
**EBITDA (2018):** PLN 32m (36% margin)

**Transaction value:** PLN 410m (EUR 96m)

**Transaction multiple:** 12.8x EV/2018 EBITDA

**Transaction closing:** August 2019

**M&A Advisor to Play:** Lasanoz Finance



3S Group Status in Q1 2019  
(before the transaction)



# Key Information on 3S Transaction (2/2)

M&A Transaction Involving one of the Biggest, and the Last Independent Fiber Provider in Poland

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**3S was sold in a competitive auction run by ING Bank on behalf of Polish private equity fund Enterprise Investors.**

- >25 entities sought the info memo
- A handful of bidders made the short list
- PLAY Communications received exclusivity
- Within 5 business days of receiving exclusivity, the deal was signed.
- 10 weeks from start to signing

**Lasanoz Finance acted as sole M&A advisor to PLAY:**

- Valuation approach, supervision of all modelling streams
- Coordination of DD work
- Bidding strategy and price recommendation
- Multiple presentations to Management Team
- Liaison with Key Shareholders on bidding strategy and terms
- Negotiation of final terms, review of legal documentation
- Support on investor relations

**Other advisors to Play were:**

- White & Case (legal)
- PWC (financial and tax due diligence)
- Solon (commercial due diligence)



# Key Information on 3S Transaction | Dedicated LF Advisory Team

Seniority, Relevant M&A Experience, and Strong Telecoms Track Record

LF Team Member



**Alexander Neuber**  
Founder & Managing Director



**Kent Holding**  
Senior Advisor



**Karol Depczyński**  
Senior Advisor



**Kamil Bork**  
Manager

Project Role

- Project Leader
- Senior relationships
- Lead negotiator
- Quality assurance

- Co-lead of LF advisory work
- Telco and infrastructure expert – strategic input
- Research & modeling supervision

- Business Plan and Model Scenarios
- Telco expert – synergies and review of Commercial DD

- Negotiation support
- Project deliverables
- DD co-ordination
- Research

Selected Experience



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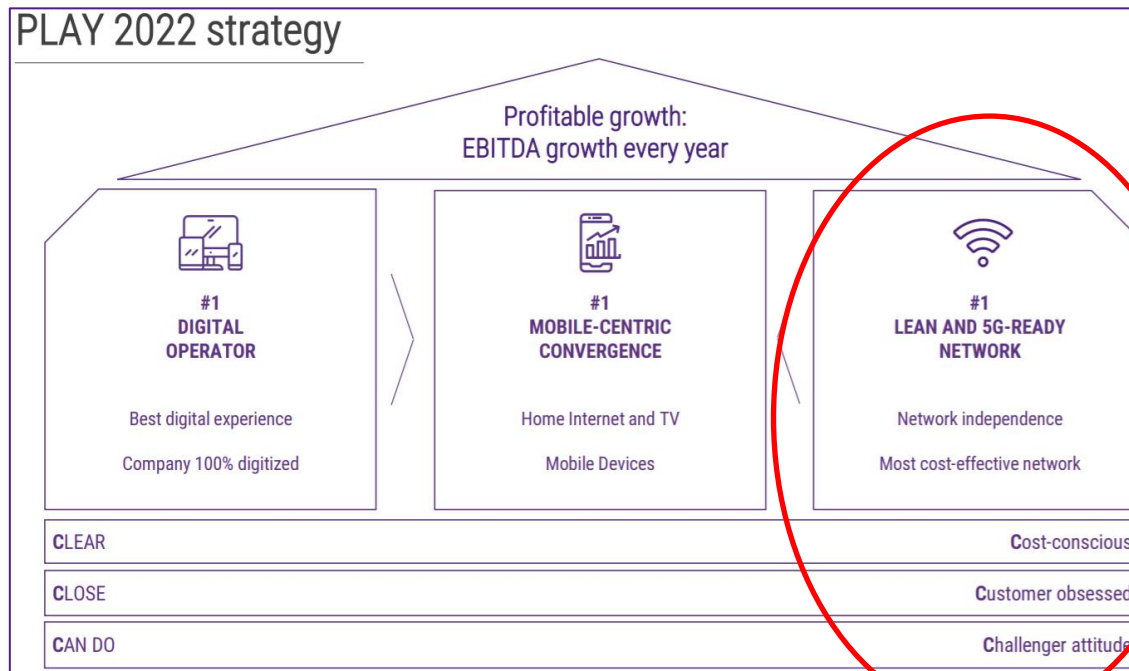
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# PLAY's Strategic Transmission Conundrum in a 5G World

Having Expanded its Radio Access Network, PLAY Faced an Urban Backhaul Question in the M/T

- PLAY is a rare example of a late entrant moving from #4 to #1 in a very competitive market
- Well executed nationwide radio access network roll-out to eliminate dependence on national roaming and optimise cost
- 5G data growth will require further increase in number of urban sites and a robust transmission infrastructure
- Particular focus of Play in Poland, as:
  - A. mobile internet has surpassed fixed in Poland, due to historical underdevelopment of fixed and cable networks
  - B. Play is the only pure mobile operator





# PLAY's Strategic Transmission Conundrum in a 5G World

Urban Backhaul Requirements >3-4 GBps Require Fiber Rather than Microwave

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- Data growth under 5G according to market consensus is forecasted to increase by 30% yoy
- Focus on high traffic urban sites
- Switch from microwave (MW) to optical fibre (FO) as key backhaul technology connection becomes a necessity
- Plenty of optical fibre available in Poland, however:
  - A. Large sections are owned by Play's direct competitors: Orange (incumbent), T-Mobile and Polsat Cyfrowy (both having acquired large fixed infrastructure assets in the past)
  - B. Cable TV operators' networks are concentrated on consumer market; low propensity to service business clients
  - C. Ducts in certain areas are congested



# PLAY's Strategic Transmission Conundrum in a 5G World

## PLAY's Current Urban Transmission Benefits from Some Features That May Not Stand Test of Time

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- PLAY's urban transmission and backhaul is characterised by some features that were deemed unlikely to stand the test of time:
  - A. Reliance on MW links; need to have majority of sites with backhaul speed above 3 Gbps in the future
  - B. Widely available E-band microwave links, which can be contracted from UKE, which will however run out of bandwidth on MW links, and above 5Gbps there will be interference; it benefits PLAY in a 4G world in terms of availability and pricing, but may penalise PLAY in a 5G world
  - C. Increase in MW throughput would come at a steep cost increase, e.g. a move to 5Gbps links, on current pricing (moving to other bands), increases the cost by a factor of [X]x to [Y]x
- There existed no good substitute for the 3S asset, except for competitors or small mom-and-pop operations
  - A. PLAY's initial network simulation has shown that it could utilise 3S' coverage and roll-out capacity to provide nearly [XX]% of all required fiber links for PLAY's 5G future requirements
  - B. PLAY was the only MNO that did not have its own fiber-building machine (Orange is the incumbent, T-Mobile bought GTS, Polkomtel bought Netia)
  - C. Poland, unlike much of western Europe and the US, has no good track record in sharing telecom infrastructure, whether that is towers or fiber (prior to the tower sales transaction announced 23<sup>rd</sup> October 2020)



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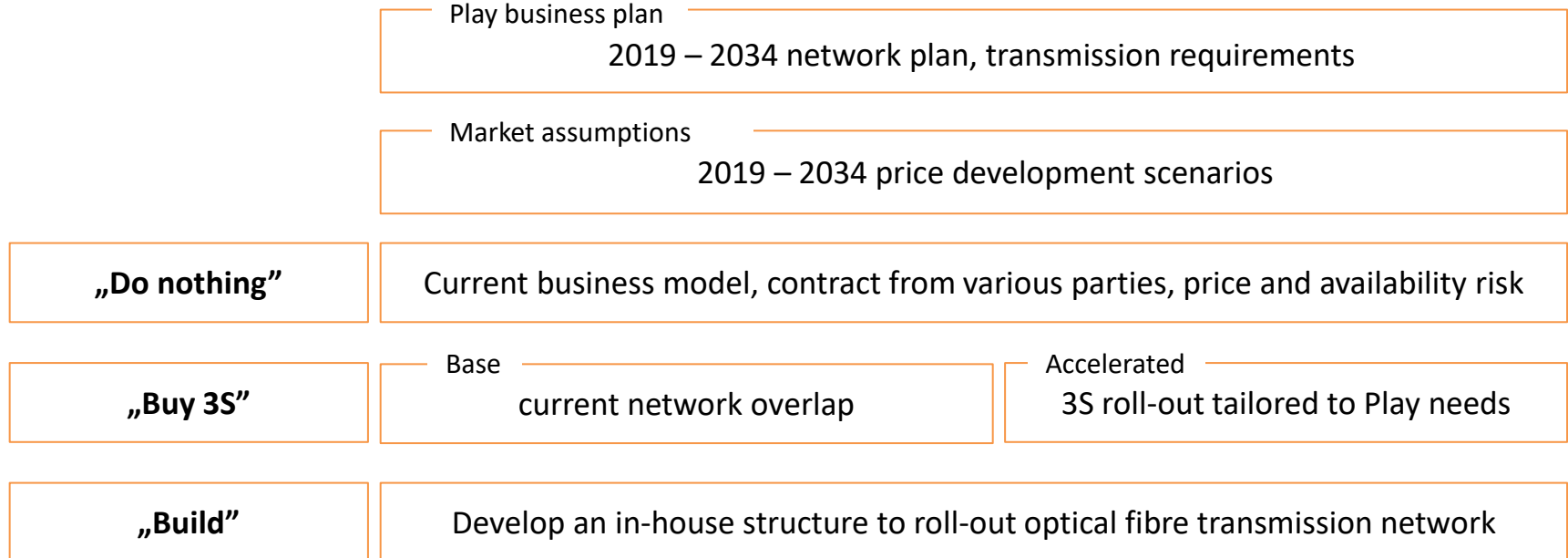
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# PLAY's Options Examined

## How Did We Approach the Valuation of 3S, Including Transmission Cost Synergies?

- The starting point for our analysis was PLAY's detailed modelling of its future network roll-out, and related backhaul transmission needs
- Subsequently, the future cost of links was estimated in a „do-nothing” scenario, i.e. an extrapolation based on the current structure of transmission technologies and the expected price increases resulting from MW repricing and a parallel shift to leased lines from dark fibre
- 3S' network footprint was matched with Play's urban network topology (both current and expected), in order to model potential cost synergies post-acquisition, and to compare that to a build scenario in terms of both timing and cost



# PLAY's Options Examined

Analysis Demonstrated That 'Buy' Would Allow PLAY to Move to Fibre Much Faster Than With 'Build'

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- Creating its own 'fiber building machine', building teams, competences, arranging permits, and construction work, was judged to delay the creation of an effective fully-controlled urban fiber network by several critical years in the early stages of 5G in Poland.
- Acquiring 3S and expanding on its current fiber build capacity would allow to move [XX]% of PLAY's urban base stations onto owned fiber footprint
- A 'Build Scenario' would have generated higher interim third-party transmission costs
- These analyses gave comfort that the strategic reasons to acquire 3S were complemented by solid cost synergies, bringing the post-synergy cost of acquisition back to tolerable levels



# PLAY's Options Examined | Summary of Benefits from Acquisition

## Benefits Overwhelming, Costs and Risks Minimal

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- **Strategic benefits**
  - Accelerates time to market for 5G, a strategic initiative publicly promised – there is no other solution that get there this fast, 4 to 5 years faster than all alternatives
  - Allows Play to fill the gap quickly that will be left when national roaming is turned off
  - Empowers Play position at negotiating table with other MNOs for fiber network sharing
  - Play and 3S share same entrepreneurial culture and cost consciousness, supporting successful integration
- **Technical benefits (network)**
  - Adds key missing competence in fiber and fiber construction to Play's market- leading network knowhow
  - Allows Play to leapfrog the learning curve on a critical technical skill for successful 5G rollout
  - Exactly fits Play strategy of keeping technical know-how in house while outsourcing low-value labor element
  - 3S technical team already experienced in building to Play specs: they have already delivered tailored transmission networks as new build
- **Quality and Churn-reduction/protection**
  - Nearly unlimited capacity of fiber through 3S acquisition ensures quality of Play's 5G network and thus supports customer satisfaction
- **Lowest marginal cost of delivering 5G data explosion**
  - Attractive effective cost (acquisition price less all synergies and 3S' CF)
  - 3S is very experienced at finding combinations of existing fiber and duct to minimize cash expenditure to build
- **Hedge of unsustainable position in urban transmission**
  - Scarcity: 3S was the last remaining large-scale fiber provider in Poland (Netia went to Polkomtel, GTS to TMO and Hawe in bankruptcy administration)
  - Avoided price pressure: Had Infra funds bought 3S, they would have needed long-term fiber contracts at substantially higher rates (or worse: leased line pricing) to make a deal work for them



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# Valuation Methodology and Market Reaction

Combination of Internal Modelling and External Benchmarks Narrowed the Valuation Range

- Structuring analysis of own bottom-up models and top-down benchmarks, we managed to compile a convincing case for management and shareholders, as well as a coherent valuation.

## Internal Models

Network Roll-out Plan

Transmission Structure Plan

DC Contracts and Future Needs

New Network Length/Capex

Build Staffing & Opex

Sell-side 'Shaved' Plan

Solon's DC Bottom-up Plan

## External Data

3S Network Maps

3S Roll-out Assumptions

TRM and DC Market Intel

Capex & Duct Rent Benchmarks

Sell-side Business Plan

Investment Banking Reports on Traded Comps

Comparable Fibre/DC Deals

## Outputs

TRM Synergies

DC Synergies

Buy vs Build

DCF Valuation

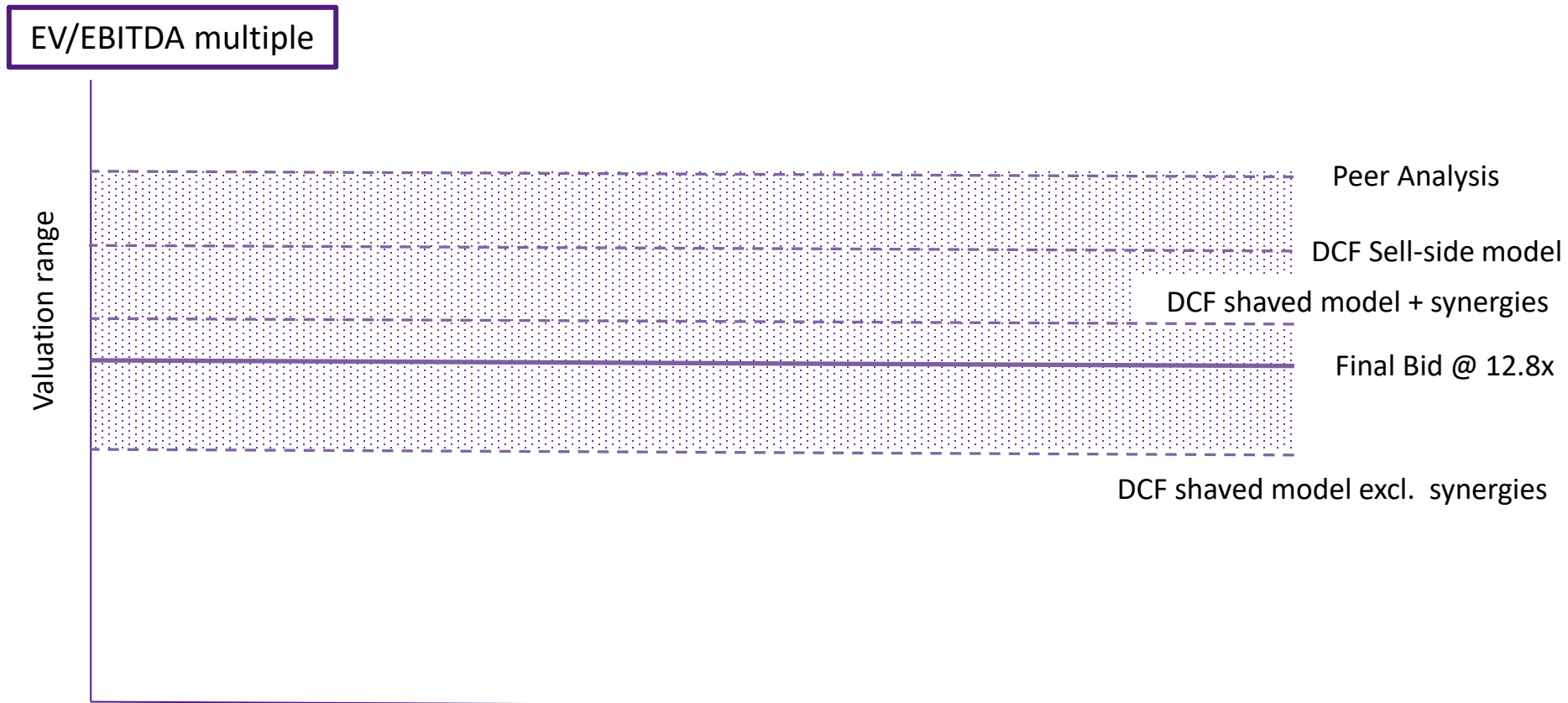
EBITDA Multiple Valuation



# Valuation Methodology and Market Reaction

The Final Agreed Price of 12.8x EV/EBITDA Was Within the Indications from Different Methodologies

- Results of different valuation methods were compared to justify the initial bid and then the final bid of 12.8x, once due diligence results and competitive info has been gathered.



# Valuation Methodology and Market Reaction

Overall Positive or Neutral Comments of Coverage Analysts; Share Price Stable After Announcement

- All key analyst reports recognized the strategic importance of the transaction
- In some cases when the valuation was questioned in light of little short-term upside to Play's results, long-term benefits were acknowledged as justification for the acquisition

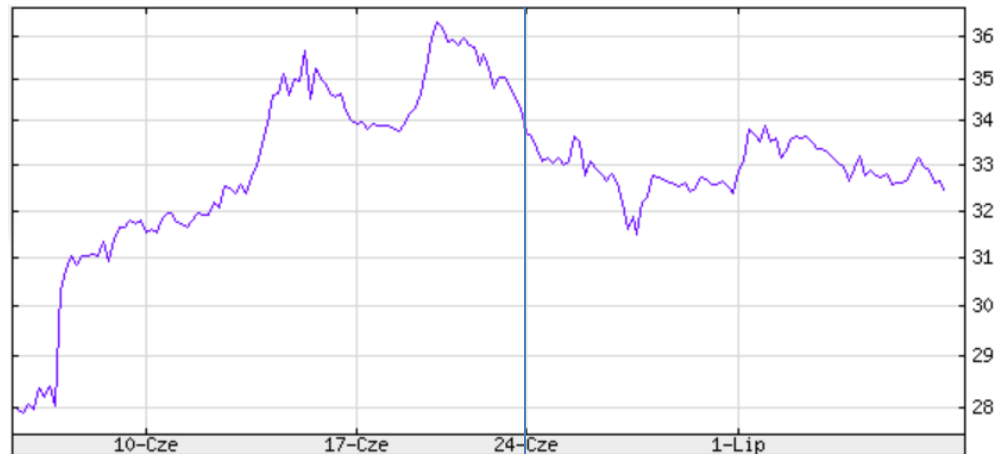


**Long-term gain, Short-term pain.** In our view this transaction (fiber backbone purchased potentially at its capex value) supports Play's long-term story of the mobile-centric operator enjoying own high-speed backbone network, with some risks mitigated and with the dividend policy unchanged.



First, it is hard to build effective mobile network without support of own fixed-line backhaul network. And this is why Orange Polska is in superior position and it is also why Cyfrowy Polsat decided to acquire Netia. Second, acquisition of 3S can show that Play does not consider selling of its mobile network assets, at least for now.

## PLAY Shares before and after 3S Deal Announcement



Announcement 24.6.19 pm



Bank Polski



We believe the transaction in the longer-term decreases the risk for Play, as so far Play has not owned any material fiber network (leased some). Global trends (5G) requires more and more sites to be connected to fiber.

The main purpose of the transaction is to connect base stations built as part of the ongoing and future roll-out of the network to the fiber.



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# Lessons Learned

## Understanding the Strategic Fit Followed by Swift Execution

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- A „coalition of the willing” has been created before placing the winning bid.
- Support from multiple stakeholders (management, internal teams, shareholders, independent supervisory board members) was gained to push the deal ahead, by:
  - Understanding the market dynamics and the upcoming strategic challenges in the 5G world
  - Analysing and comparing various options, instead of „steering” the company into the acquisition
  - Calculating bottom-up synergies to make everyone comfortable with the valuation
  - Discussing with the internal teams at Play the future tasks and challenges in integrating 3S
- Once the directional decision has been taken, execution was fast and effective:
  - Excellent preparation for due diligence by internal teams and the team of advisors
  - Sell-side was convinced that Play’s bid was serious and offering the best growth path for 3S in the future
  - Exclusivity was obtained and the deal signed 10 days thereafter.

# PLAY

