# euNetworks Reports Fourth Quarter and Full Year 2014 Results

**For the quarter and year ended 31 December 2014:**

- Continued recurring revenue growth in the quarter following strong sales and installation performance
- Strong growth in gross profit and adjusted EBITDA for the year, with an improved cash flow position while increasing capital expenditure

**London, UNITED KINGDOM – 18 February 2015 –** euNetworks Group Limited (SGX: 5VT.SI), a unique Western European provider of bandwidth infrastructure services, announced results for the three months ended 31 December 2014 and for the full year 2014. New sales increased in Q4 2014, up 31% from Q4 2013 and 24% from Q3 2014. Service installations grew 7% from Q3 2014 and 13% from Q4 2013. Adjusted EBITDA performance was flat quarter over quarter, largely due to the impact of one off costs incurred in Q4 2014 relating to corporate activity.

For the full year, the Group delivered strong growth performance in recurring revenue and adjusted EBITDA, with new sales up 50% from 2013 and installations growing 26%. The Group's cash flow position improved, while capital expenditure increased by 3%.

| (€k) | Q4 2014 | Q4 2013 | % change | Q3 2014 | % change | Year 2014 | Year 2013 | % change |
|---|---|---|---|---|---|---|---|---|
| **New Sales** | 783.7 | 600.4 | 31 | 630.8 | 24 | 2,940.0 | 1,965.5 | 50 |
| **Installations** | 734.8 | 650.9 | 13 | 688.9 | 7 | 2,729.0 | 2,162.1 | 26 |
| **Monthly Incremental Service Revenue** | 123.9 | 153.8 | (19) | 254.2 | (51) | 759.1 | 195.5 | 288 |

| (€m) | Q4 2014 | Q4 2013 | % change | Q3 2014 | % change | Year 2014 | Year 2013 | % change |
|---|---|---|---|---|---|---|---|---|
| **Total Revenue** | 27.2 | 24.0 | 13 | 25.7 | 6 | 103.4 | 97.4 | 6 |
| ***Recurring Revenue*** | *27.2* | *24.0* | *13* | *25.7* | *6* | *102.5* | *97.1* | *6* |
| **Gross Profit** | 20.8 | 17.7 | 18 | 19.6 | 6 | 77.9 | 71.0 | 10 |
| **Gross Profit Margin %** | 76.6% | 74.4% | 3 | 76.1% | 1 | 75.4% | 72.9% | 3 |
| **Adjusted EBITDA(1)&(3)** | 7.4 | 7.4 | 0 | 7.5 | (1) | 28.3 | 25.4 | 11 |
| **Capital Expenditure** | 6.1 | 10.7 | (43) | 8.8 | (31) | 28.7 | 27.9 | 3 |
| **Proxy Cash Flow(2)** | 1.3 | (3.3) | n/a | (1.3) | n/a | (0.4) | (2.5) | 84 |

1. Adjusted EBITDA means EBITDA before the deduction of share option expense.
2. Proxy cash flow is calculated as Adjusted EBITDA less capital expenditure.
3. 4Q 2013 includes €0.9m one off benefit from a reduction in provisions for the costs of returning properties to their original condition at the end of the lease terms

Recurring revenue was €27.2m in Q4 2014, improving 13% from Q4 2013 and 6% from Q3 2014. €23.1m of total revenue was from network services, growing 16% from Q4 2013 and 6% from Q3 2014. euNetworks continues to grow network revenues at above the upper end of the forecast market growth rate of 3-5%. Network service revenue grew 9% in 2014. These results reflect the continued sales and marketing focus on Dark Fibre, Wavelengths, Ethernet and the euTrade service portfolio.

Gross profit was €20.8m, up 18% from Q4 2013 and 6% from Q3 2014. Core network gross profit was €17.8m, up from €16.5m in Q3 2014. Gross margin continued to improve, reaching 76.6% in the quarter, up from 74.4% in Q4 2013 and 76.1% in Q3 2014. euNetworks' focus on selling on-net bandwidth services continues to drive an improved product mix, delivering higher gross margins.

Adjusted EBITDA reduced by 1% from Q3 2014 and was in line with Q4 2013, at €7.4m. One off costs relating to corporate activity impacted the growth of adjusted EBITDA in the quarter. In addition, Q4 2013 adjusted EBITDA included €0.9m one off benefit from a reduction in provisions for the costs of returning properties to their original condition at the end of the lease terms. If this was taken into account then Adjusted EBITDA would have increased by 12%. In 2014 Adjusted EBITDA was €28.3m, growing 11% from 2013. This growth reflects the continued scaling of the business and successful focus on achieving operational efficiencies while increasing sales performance.

Capital expenditure was €6.1m in Q4 2014, 43% lower than in Q4 2013 and down 31% from Q3 2014. euNetworks continues to invest in growth and network development projects to create value for the business. Capital expenditure was again largely success based in the quarter in support of key customer projects and for 2014, these drove 67% of capital expenditure.

Proxy cash flow was €1.3m, improving from €(3.3)m in Q4 2013 and from €(1.3)m in Q3 2014. For the year, proxy cash flow was €(0.4)m, improving from €(2.5)m in 2013.

"The results reported today reflect the continued momentum we see in the business," said Brady Rafuse, Chief Executive Officer of euNetworks. "Our operating capability has supported our recurring revenue growth, with very strong service installations performance. Recurring revenue, gross profit, adjusted EBITDA and our cash flow positon all improved in 2014."

"We invested in growth and network development projects to create value in 2014 and will continue with this approach in 2015. The debt funding commitment secured in October provides us with further opportunity to invest and also add growth inorganically. The integration of the Fibrelac business that we acquired in October has progressed well and we are now offering the combined customer base the benefits of our pan European footprint. We are excited by the opportunities all these activities bring and as ever thank our stakeholders for their ongoing support."

**Further review and discussion of the performance of the Group for Q4 2014 and FY 2014 is set out on the following pages.**

**Lead measures of financial performance**

Lead measures are indicators of the Group's future financial performance.

Sales Performance
In Q4 2014 euNetworks achieved new sales of €783.7k, up 31% from Q4 2013 and 24% higher than Q3 2014. Installations in Q4 2014, indicating the conversion of sales to billing incremental recurring revenue, were €734.8k, up 13% from Q4 2013 and 7% from Q3 2014.

Churn
In Q4 2014 churn averaged 1.6%, slightly higher than 1.1% in Q3 2014 and 0.8% in Q2 2014. This increase was anticipated due to some known disconnections. Churn for the year averaged 1.1%. This metric offers a like for like industry comparison so excludes disconnections that are replaced by new services.

Monthly Incremental Service Revenue (MISR)
MISR is the lead indicator for the growth in monthly recurring revenue (MRR) for the business. With the Group's new sales and continued high rate of service installation, euNetworks added €123.9k of MISR in the quarter (net of disconnections and price decreases, which were higher in Q4 2014 than previous quarters). MISR is not a direct corollary to reported revenue as it does not reflect the timing of each service starting or being disconnected or service credits, but remains a fundamental indicator of future performance. MISR for 2014 reached €759k, improving 288% from 2013.

**Product, geography and customer mix**

In Q4 2014, 78% of new sales were for the focus products of Dark Fibre, Metro and Long Haul Wavelengths, euTrade and Ethernet, down from 83% in Q3 2014. The Group forecasts that over time Dark Fibre, Metro and Long Haul Wavelengths, euTrade and Ethernet will represent >85% of sales.

The proportion of revenue generated by each operating geography has remained broadly stable over time, however euNetworks is increasingly delivering services to customers in two or more countries, indicating the growing value of its European footprint to the customer base. At the end of Q4 2014, and as with previous quarters, more than 60% of revenue came from customers taking euNetworks services in more than 2 countries.

euNetworks' segment view of its customer base remained relatively unchanged in the quarter and year (Q4 2014: Wholesale 41% of MRR, Channel 18% of MRR, Finance 22%, Industry 6%, Online 8%, Media 4%).

**Creating value**

euNetworks invests capital to create value, measured in recurring revenue and EBITDA growth. Growth capital expenditure (success based) and network development capital expenditure typically make up over 75% of capital spend each quarter.

Types of capital expenditure

| category | description | typical payback |
|---|---|---|
| Growth | Capital expenditure that enables services for one or more customers and could also develop the network further | < 12 months |
| Network Development | Capital expenditure supporting deeper network coverage or expansion to drive opportunity. This is more speculative investment than Growth, but is based on qualified demand from the existing customer base and also market trends e.g. London metro expansion, London to Stockholm ULL optimisation | 24-48 months project dependent |
| Maintenance & Capitalised labour | Capital expenditure required to maintain current operations. Capitalised labour accounts for the proportion of people's time spent working on capital projects. | Not applicable |

Capital expenditure was €6.1m in Q4 2014, down from €10.7m in Q4 2013 and down from €8.8m in Q3 2014. Growth projects accounted for 65% of capital expenditure in Q4 2014, down from 72% in Q3 2014 and up from 44% in Q4 2013. As with Q3 2014, there were a number of significant customer projects underway. *dc connect London* drove the majority of network development capital expenditure in the quarter. Further network development projects will run through 2015.

Measuring value

Payback on customer associated growth capital was 8 months in Q4 2014, slightly ahead of payback in Q3 and Q2 2014.

Capital that is allocated for growth is typically targeted with a **money multiple** of greater than 1. Money multiple (MoM) is the return from money invested (the net present value divided by the capital expenditure) and assumes a 10% cost of capital. The average money multiple on the capital spend associated with the top 10 incremental committed sales in the period was 1.7, with 2.1 achieved in Q3 2014.

**Corporate Matters**

On 17 November 2014, J.P. Morgan (S.E.A.) Limited announced on behalf of EUN Holdings, LLP, (**the Offeror**) that the Offeror had acquired approximately 17.32% of the shares in euNetworks Group Limited at a price of S$1.16 per share (**the Offer Price**) and that it would make a mandatory unconditional cash offer for the rest of the shares not owned, controlled or agreed to be acquired by the Offeror and its concert parties (**the Offer**). The Offer was made and its closing date was extended twice, most recently to 13 March 2015. The Offeror announced that it would not be increasing the Offer Price.

On 29 January 2015, it was announced that the percentage of the total number of shares in euNetworks Group Limited which were held in public hands was approximately 9.7% and, accordingly, that it no longer met the free float requirement prescribed by Rule 723 of the SGX-ST Listing Manual Section B: Rules of Catalist (**Catalist Rules**).

On 11 February 2015, euNetworks and the Offeror jointly announced that the Offeror presented to the Board of Directors a proposal for a voluntary delisting of euNetworks Group Limited pursuant to Rules 1307 and 1308 of the Catalist Rules and that the Offeror proposes that the Offer serve as the reasonable exit alternative offered to shareholders for the purposes of Rule 1308(1) of the Catalist. The SGX had also confirmed that, subject to meeting various conditions, the Company need not hold an extraordinary general meeting to approve the voluntary delisting. This waiver was granted on the basis of, amongst other things, shareholders owning more than 90% of the shares, confirming in writing to the SGX that they would vote such shares in favour of the delisting of euNetworks if a delisting resolution was put to shareholders for consideration. To facilitate the delisting, the Offeror announced that the Offer would be kept open for such a period as may be required to complete the delisting.

A circular in relation to the voluntary delisting will be sent to shareholders in due course. This will contain the updated recommendation of the Independent Directors and the Independent Financial Advisor appointed by them to opine on the Offer.

**Corporate Development**

On 3 October 2014 euNetworks GmbH entered into a €70m credit loan facilities agreement jointly with Barclays Bank PLC and RBC Capital Markets. This credit loan may be expanded to €100m as organic or inorganic growth opportunities materialise. These funds are intended to be used for general corporate purposes, network development and corporate development activities and a portion of this new credit loan facility was also used to completely repay existing debt facilities that were entered into on 8 May 2013.

On 16 October 2014 euNetworks closed the acquisition of Fibre Lac S.A. ("Fibrelac"), a Swiss based fibre company, adding ~360km of dark fibre network connecting 7 Swiss cities. Fibrelac offers a natural extension of euNetworks' market leadership in Germany and also broadens the lit service offering available to Fibrelac customers across euNetworks' European long haul and densely fibred metropolitan footprint. This is a highly complementary business to euNetworks and delivers strong market presence for the company with further value to be created. Integration is well underway and as part of that process, Fibrelac was renamed euNetworks SA on 13 January 2015.

**Forward looking guidance**

Guidance remains in line with the Q3 2014 statement. euNetworks considers that it can achieve revenue growth at or marginally above total European bandwidth market growth, expected to be 3%-5% for the current calendar year, by growing market share in its focus products: Fibre, Wavelengths, and Ethernet.

Further, as euNetworks continues to scale, both gross profit and recurring Adjusted EBITDA are expected to grow at a slightly greater rate than revenue.

These improvements will be derived from euNetworks' continued focus on high gross margin sales of 80% or better (versus Q4 2014 gross margins of 76.6%), and cost management at all levels. This is a continuation of trends evident in the last financial year and for the financial year from 1 January 2014 to 31 December 2014.

"We continue to believe we have a value proposition that our customers appreciate, with a service performance that is industry leading," said Brady Rafuse. "We are confident that these trends will continue in 2015."

**About euNetworks**

euNetworks Group Limited (SGX: 5VT:SI) is a bandwidth infrastructure provider, owning and operating 13 fibre based metropolitan networks across Europe connected with a high capacity intercity backbone covering 45 cities in 10 countries. The Company offers a portfolio of metropolitan and long haul services including Colocation, Dark Fibre, Metro Wavelengths, Wavelengths, Ethernet, and Internet. Enterprise and carrier customers benefit from euNetworks' unique inventory of fibre and duct based assets that are tailored to fulfil their high bandwidth needs.

euNetworks Group Limited is headquartered in London and publicly listed on the Singapore Stock Exchange. For further information please visit www.eunetworks.com.

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