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Apollo Global Management's Potential Takeover of Millicom for $10bn

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DEAL INTRODUCTION

DETAILS ABOUT THE DEAL

In January 2023 it was announced that private equity group Apollo Global Management was in talks with Millicom International Cellular about a takeover of the Latin American telecommunications company.

The bid, according to reports, would see Apollo pay $19 per share, valuing the company at around $10 billion and representing a significant premium from its $14.83 close on 24 January – the day talks were reported. Millicom US-listed stock jumped 19% in morning trading following the announcement of a potential deal.

With interest rates being hiked across the globe to counteract racing inflation, and given the volatility of financial markets, Apollo is seeking to structure the bid in a way that would avoid the group repaying or refinancing the near $7 billion pile of debt that Millicom is sitting on.

INDUSTRY OVERVIEW - TELECOMMUNICATIONS

The telecommunications industry consists of companies that offer communication services and infrastructure, through avenues such as telephone, satellite, or internet, on a global scale.

The sector has rapidly changed since the turn of the century, with the rise of mobile services alongside large privatisation. The largest players include the likes of AT&T, Verizon, and T-Mobile.

2022 saw both M&A activity and deal value fall in 2022, with the latter, according to Bain & Company, dropping by around 40% in the first three quarters of the year.

Despite this, digital infrastructure deals experienced a significant uptick, with a standout deal being Brookfield Asset Management and DigitalBridge's purchase of Deutsche Telekom's GD Towers for $10.7 billion.

The industry, like many others, suffered mainly last year due to macroeconomic turmoil, with the rising cost of debt placing a greater strain on leveraged investments.

Looking ahead to this year, macroeconomic and geopolitical concerns are set to persist. Therefore, and as PwC recently highlighted, it is expected that companies will continue to favour mid-sized deals given strains on access to capital. With this said, despite the ongoing increased cost of financing, the telecoms sector may fare well given that large players tend to have significant cash reserves. Overall, deals in 2023 may be structured in creative manners that allow both buyers and sellers to reach a fair valuation and therefore, as PwC highlighted, bridge the valuation gap.

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ACQUIRER OVERVIEW

APOLLO

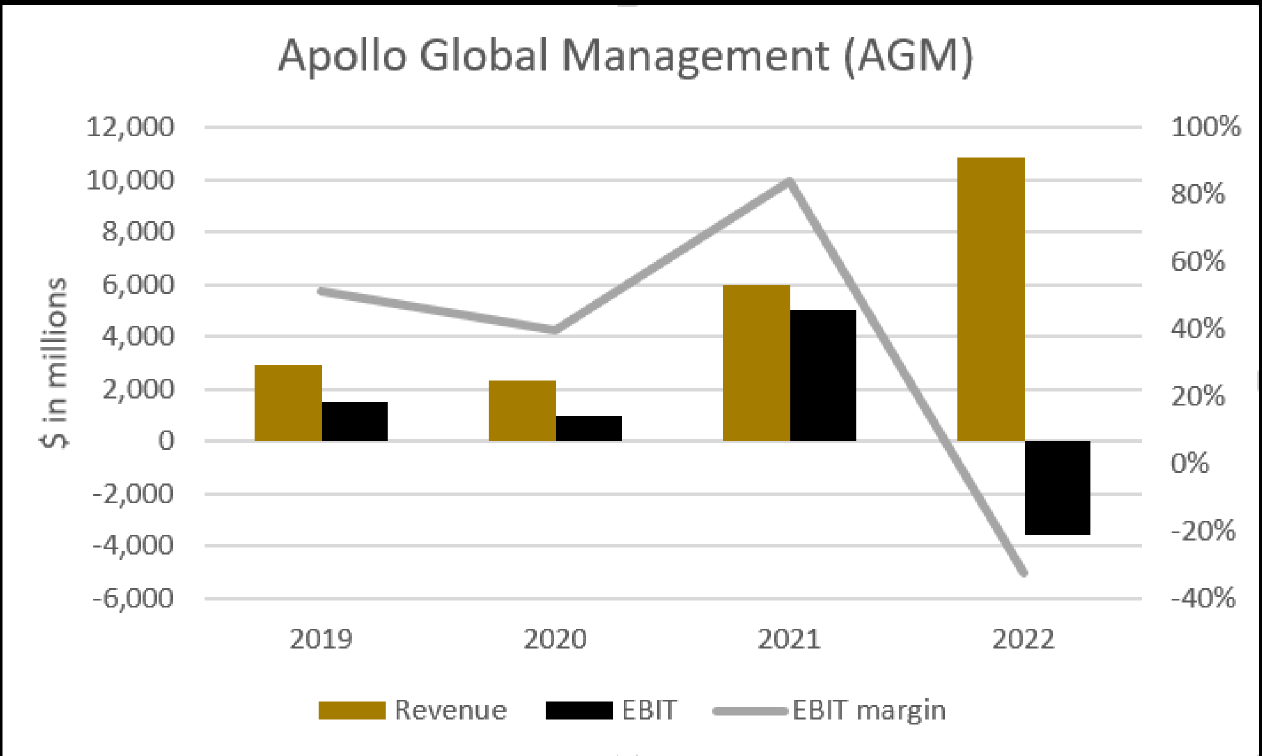
Ticker: APO

APOLLO GLOBAL MANAGEMENT

Apollo Global Management is a global alternative investment management firm founded in 1990 and is headquartered in New York City, the United States.

It provides investment management services and invests in credit, private equity, and real assets. As of 2022, the company has $548 billion of assets under management, invested on behalf of pension funds, financial endowments, and sovereign wealth funds, as well as other institutional and individual investors.

KEY FINANCIALS



BUSINESS MODEL

Apollo's business model includes two core segments: "Asset Management" and "Retirement Services".

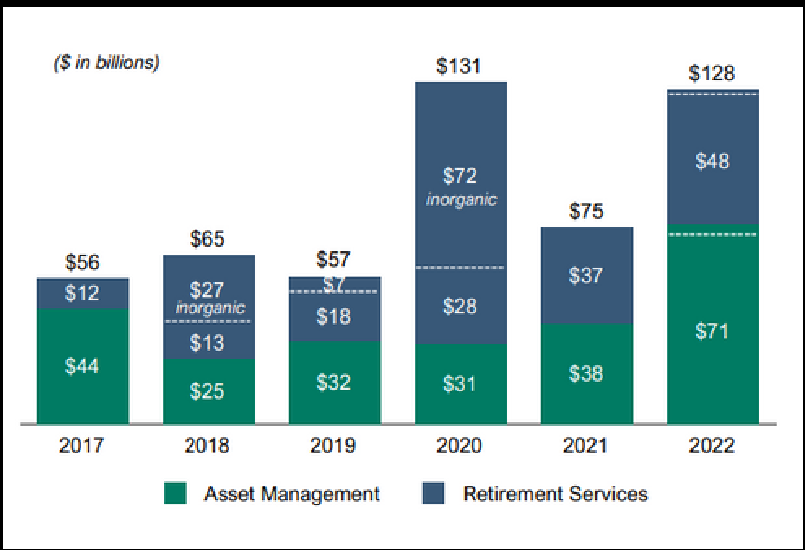
Asset Management:

The "Asset Management" segment involves investing across the full Yield, Hybrid, and Equity spectrum. The Yield investing strategy covers financing in both public and private markets, offering creative lending solutions for expansion. The Hybrid investing strategy invests in all market settings and offers companies flexible debt and equity solutions. The Equity investing strategy focuses on value-oriented opportunities where it can drive financial and operational performance to create stronger businesses.
Revenue is generated from management fees, capital solutions fees, and fee-related performance fees.

Retirement Servies:

Apollo's retirement services business – Atheme, offers a range of retirement savings solutions for groups and individuals. It helps clients increase their savings and generate lifetime income by issuing, reinsuring, and acquiring retirement savings products.

Revenue is generated from spread-related earnings.



ESG PRACTICES

Since the start of the ESG Program in 2008, Apollo has engaged with hundreds of portfolio firms to promote sustainability, climate action, employee involvement, and responsible citizenship.

Environmental
Apollo aims to be a leading capital provider for the energy transition. Over the past five years, Apollo-managed funds have invested more than $19 billion in energy transition and sustainability-related projects, supporting businesses and initiatives in the development of clean energy and infrastructure.

Social
Apollo plans to invest more than $10 million over than next decade in non-profit organisations working to expand underrepresented individual opportunities.

Governance
The company strongly focuses on strong and transparent governance. In January 2022, Apollo adopted a simple and transparent corporate structure, with a single class of common stock to ensure shareholders' voting rights.

TARGET OVERVIEW

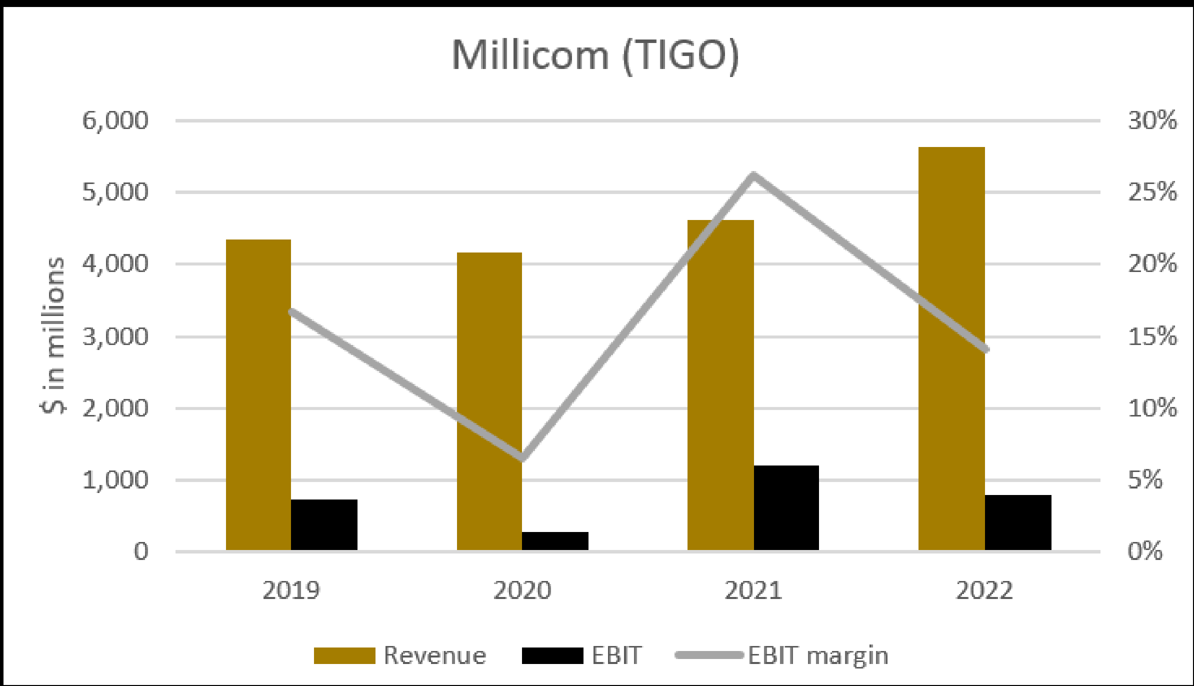
Ticker: TIGO

MILLICOM INTERNATIONAL CELLULAR

Millicom is a leading provider of fixed and mobile telecommunication services in Latin America, operating under the Tigo brand. It was founded in 1990 and headquartered in Luxembourg.

As of March 31, 2023, Millicom had approximately 10,300 employees and provided mobile and fiber-cable services to 50 million customers, with a fiber-cable footprint of nearly 13 million homes passed.

KEY FINANCIALS



BUSINESS MODEL

Millicom generates revenue through two main channels: Business B2B and Consumer.

Business B2B
Tigo Business – Millicom's Business B2B segment, has helped thousands of companies in transforming and expanding with its secure, high-speed business broadband services. Anew fiber optics has been added to interconnect countries across Latin America. Since its launching in 2012, Tigo Business has seen exceptional growth among three primary audiences: multinational corporations, large local companies, and small and medium-size businesses (SMBs). In 2022, there was a 16% organic increase in digital services, contributing to the strong performance in corporate B2B.

Consumer
B2C Home: Millicom is the leading telecom provider the in the market, with 3.1 million mobile customers and 415,000 HFC home customers in 2022.

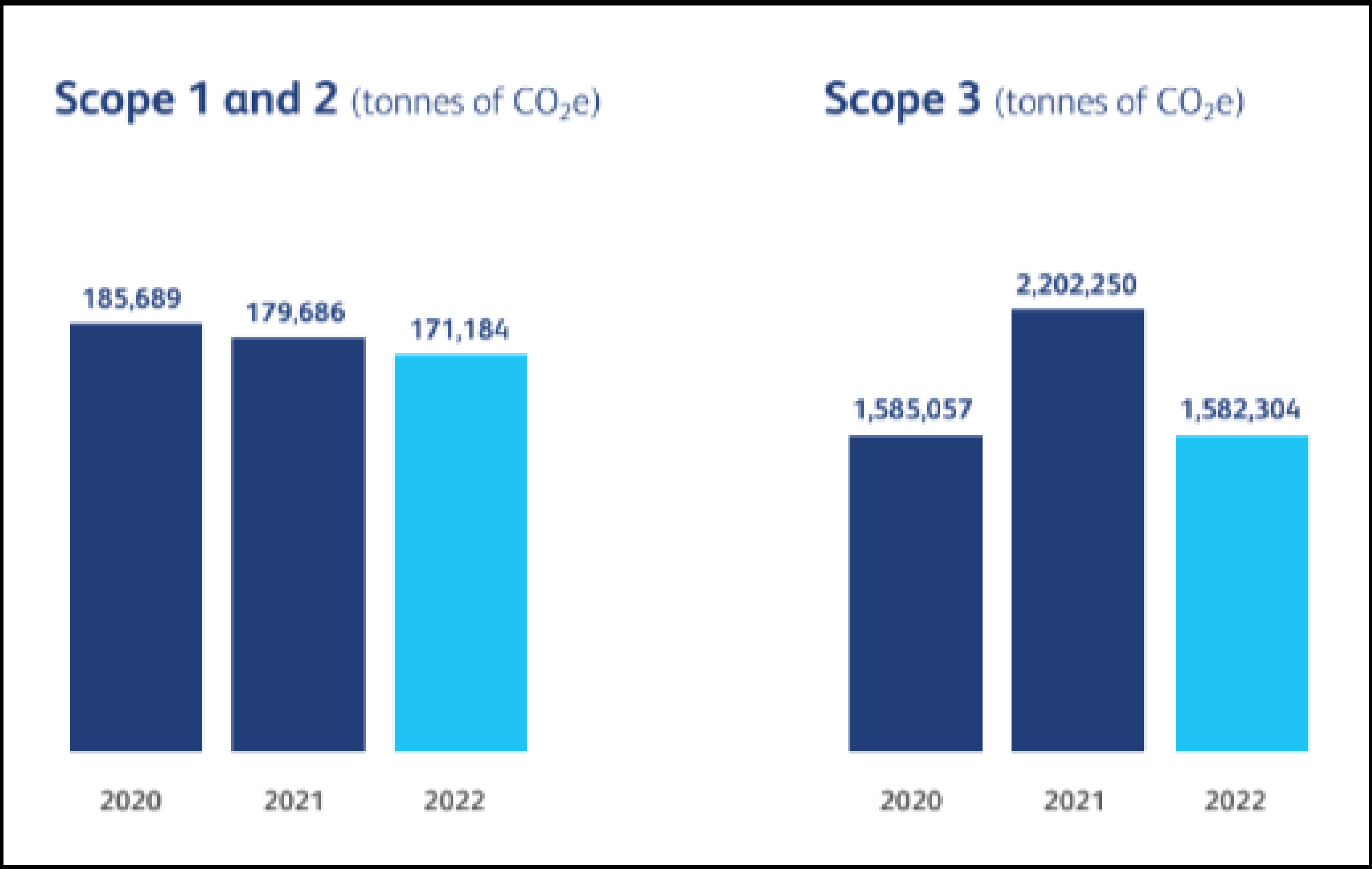
B2C Mobile: Millicom's long-term focus is to converge Tigo's fixed and mobile services throughout Latin America. The company is now the #1 or #2 mobile and/or broadband provider in many of the markets it serves.

Mobile Financial Services (MFS) – Tigo Money: Since its launch over a decade ago, Tigo Moey has become the leading mobile wallet in the markets it serves, with almost 6 million active users. Many Latin American citizens are gaining first-time access to the financial systems through the Tigo Money app.

ESG PRACTICES

In June 2022, Millicom announced its $700 million commitment to expand its broadband network in Central America in the next two years to promote inclusive economic development.

The company aims to accelerate the digital transformation of all industries to provide the basis for long-term sustainable economic success. Millicom has committed to reducing absolute Scope 1 and 2 greenhouse gas (GHG) emissions by 50 by 2030 and absolute Scope 3 GHG emissions by 20% by 2035, both from a 2020 base year. Yet, their Scope 3 GHG emissions increased by nearly 40% in 2021. However, in 2022, the emissions level recovered back to its 2020 level, signaling an improved approach in their progress.



DEAL ANALYSIS

STRENGTHS

A significant strength of the proposed acquisition would be the low deal price, with JPMorgan describing Millicom as "the most discounted telecom stock in Latin America" in 2022. Moreover, Apollo is strongly leveraging a shaky stock price since Millicom's stock has dropped significantly by about 60%, fuelled by poor performance and a weak Colombian Peso over the past five years, making the purchase extremely appealing from a risk and return standpoint.

The acquisition would further strengthen Apollo's position in the fast-expanding Latin American telecoms industry. In the last five years, Latin America's adoption of 4G has more than doubled; by the end of 2021, there were more than 410 million connections. The acquisition offers significant prospects given Millicom's extensive exposure to Latin America and its profitable but diversified exposure to the future growth anticipated in the region.

WEAKNESSES

The international banking community has recently had difficulty unloading billions of dollars in private equity takeover debt, highly restricting their preparedness to make sizeable loans for new deals. This, combined with macroeconomic factors such as the higher cost of debt, reduces the attractiveness of LBOs, creating a challenging environment that will strongly influence how the deal materialises.

These points were evident last year when Apollo bought Brightspeed from telecoms group Lumen Technologies, where they struggled to find financing. After failing to find lenders prepared to fund the deal, banks ultimately provided Apollo $3.9 billion in funding out of their pocket.

DEAL ANALYSIS

OPPORTUNITIES

The bid partnership with Marcelo Claure, former Softbank COO and Sprint CEO, gives Apollo an influential industry figure to spearhead the negotiations and achieve optimal deal structure. With his extensive insider experience as an operator and telecom investor, Claure brings unique industry insight and a robust network that he can leverage to add essential expertise to the deal team.

In addition, as a seasoned private equity firm, Apollo will significantly impact Millicom's business after the deal close in terms of operational improvements, with plenty of room for streamlining processes, implementing new technology, and restructuring. With complementary products and technology sharing having some of the most significant growth potentials, there are also many opportunities to generate revenue synergies between Millicom and other portfolio firms controlled by Apollo.

THREATS

The group mainly operates in developing nations where the development of tax systems, rules, and enforcement procedures varies, leading to ambiguity in applying the tax code and interpreting tax treatment. This creates certain uncertainties around the tax and compliance requirements of the deal, which could, in turn, eat into the returns generated when Apollo comes to put the business up for sale again.

Moreover, a financial threat may arise from failure to properly assess risks associated with the acquisition, particularly regarding the structure in which Apollo and Claure aim to avoid repaying or refinancing around $6.9 billion worth of existing debt. Given the rapid and continued rise in interest rates, Millicom's debt load would be substantially higher if Apollo and Claure could not secure this debt condition.

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VALUATION ANALYSIS

DISCOUNTED CASH FLOW ANALYSIS (DCF)

ENTERPRISE VALUE [2]

WACC \ Terminal Growth Rate	0.5%	1.0%	1.5%	2.0%	2.5%
13.0%	9,933	10,171	10,431	10,714	11,024
13.5%	9,541	9,756	9,989	10,243	10,520
14.0%	9,178	9,373	**9,584**	9,812	10,060
14.5%	8,841	9,018	9,209	9,415	9,639
15.0%	8,528	8,689	8,863	9,050	9,251

EQUITY VALUE PER SHARE

WACC \ Terminal Growth Rate	0.5%	1.0%	1.5%	2.0%	2.5%
7.5%	24.22	25.60	27.11	28.75	30.56
8.0%	21.94	23.19	24.55	26.02	27.63
8.5%	19.83	20.96	**22.19**	23.52	24.96
9.0%	17.88	18.90	20.01	21.21	22.51
9.5%	16.05	16.99	18.00	19.09	20.26

EQUITY VALUE

WACC \ Terminal Growth Rate	0.5%	1.0%	1.5%	2.0%	2.5%
7.5%	4,168	4,406	4,666	4,949	5,259
8.0%	3,776	3,991	4,224	4,478	4,755
8.5%	3,413	3,608	**3,819**	4,047	4,295
9.0%	3,076	3,253	3,444	3,650	3,874
9.5%	2,763	2,924	3,098	3,285	3,486

PREMIUM (DISCOUNT) TO CURRENT PRICE

WACC \ Terminal Growth Rate	0.5%	1.0%	1.5%	2.0%	2.5%
7.5%	31.5%	39.1%	47.3%	56.2%	66.0%
8.0%	19.2%	26.0%	33.3%	41.3%	50.1%
8.5%	7.7%	13.9%	**20.5%**	27.7%	35.6%
9.0%	(2.9%)	2.7%	8.7%	15.2%	22.3%
9.5%	(12.8%)	(7.7%)	(2.2%)	3.7%	10.0%

Please click on the table to access full model.

Based on the WACC assumption of 14.0% and TGR assumption of 1.5%, the share price for Millicom was obtained to be $22.19, which represents a 20.5% premium compared to the current share pice of $18.41.

As shown in the sensitivity analysis, the share price calculations appear to be sensitive to WACC and TGR assumptions, making the share price calculations to range between $16.05 (12.8% discount to current price) to $30.56 (66.8% premium to current price)

Based on this range, the share price offer of $19 seems reasonable which appears to be still lower than the calculated share price, indicating that Apollo Global Management may be able to take advantage of the undervalued nature of Millicom in this potential takeover.

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VALUATION ANALYSIS

ACCRETION / DILUTION ANALYSIS

PBT	**(6,289.00)**
(Income Tax)	1,320.69
Net income	**(4,968.31)**
Outstanding Diluted shares of combined company	571
EPS of combined company	-8.7064
EPS of acquirer standalone	-8.3168
Accretive/Dilutive	Dilutive
Accretive/Dilutive	-0.3896
Accretive/Dilutive (%)	5%

Please click on the table to access full model.

The model shown above suggests a 5% dilution in the case of a merger since the combined company EPS appears to be lower than the standalone EPS of the acquirer.

It should be noted that, the negative earnings of the acquirer causes the EPS calculations to be negative in nature. Hence, negative EPS values are being compared in the accretion / dilution analysis.

CONCLUSION

IMPACT ON INDUSTRY

The acquisition could allow Millicom to achieve substantial operational advancements while also giving the company essential financial stability and backing from a well-capitalised player like Apollo. Furthermore, given Millicom's recent stock market performance, the acquisition and assistance from Marcelo Claure could provide the company with the resources and knowledge it needs to improve its performance and profitability drastically. Furthermore, given that Apollo has a portfolio of companies in the telecoms industry, Millicom has opportunities to benefit from synergies and partnerships between other portfolio companies.

Moreover, the acquisition of Millicom would offer Apollo a significant opportunity to expand its presence in the Latin American telecoms industry within its portfolio. With Millicom's extensive geographical occupancy and diversified exposure to the future growth anticipated in the region, Apollo can leverage this to bolster the go-to-market strategy and generate excellent returns for the fund. In addition, although Apollo has struggled with a reluctant DCM environment in past deals, the partnership with telecom veteran Claure should give the deal enough attractive features to secure optimal financing terms and deal structure.

A new three-year plan to spend over $3 billion in Millicom's Central and South American businesses was publicly unveiled in February last year. Building up its networks in Colombia and Paraguay is foremost among the initial steps of Millicom's new investment strategy, which has already been implemented, with upgrades and expansion of its 4G and fibre networks at the forefront. In addition, industry competitors such as America Movil and Telefonica will closely monitor the deal outcomes as Apollo and Claure attempt to make Millicom a much more competitive player in consumer pricing and coverage in the region.

GLOSSARY

Common Stock: ***Common stock refers to the basic form of ownership after purchasing a share in a corporation, allowing shareholders to vote for board of directors***

DCM: ***The debt capital markets is an intermediary for companies to issue either public or private debt for their financing***

Dilution: ***Dilution in finance refers to the negative change in value after a transaction***

EPS: ***Earnings per share is a measure of a company's profitability, calculated by dividing quarterly or annual income by the number of outstanding stock shares.***

Takeover: ***Takeovers refer to taking full control of a firm, which usually happens through mergers or acquisitions. In takeovers, the acquirer may decide to make a public company private, hence not allowing investors to buy shares on the acquired business.***

TGR: ***Terminal Growth Rate is the rate that a company is expected to grow at forever based on the market and industry conditions.***

WACC: ***Weighted average of cost of capital represents the cost of capital used to represent a firm's after-tax costs from all resources.***