



# Telefónica Deutschland

## Company profile



Investor Relations, November 2019

# Executive Summary: Telefónica Deutschland

## VISION

We want to become the **German Mobile Customer and Digital Champion** by leveraging growth opportunities with the biggest mobile customer base and by entering the next level of digitalisation

## STRATEGIC PRIORITIES

- **Lean Organisation**
- **Digitalisation**
- **Superior shareholder return**

## OPERATIONAL AND FINANCIAL PERFORMANCE

- Telefónica Deutschland showing **sustained commercial performance and financial momentum** in a dynamic competitive, yet rational environment
- Underlying<sup>1</sup> revenue +2.1% year-on-year in 9M 2019 with **focus on data monetisation** and solid demand for handsets
- Underlying<sup>2</sup> OIBDA (as per IAS 17) +0.8% year-on-year YTD Sep 2019, reflecting **ongoing market & transformation invest**
- Solid B/S, liquidity position and FCF generation ability

## CAPEX AND EFFICIENCY

- **Strong spectrum position** maintained post 2019 auction; deferred payment significantly enhance financial flexibility with **interest-free instalments until 2030**
- Capex invest remains **focused on customer experience with the LTE roll-out in full swing** to fulfil coverage obligations

<sup>1</sup> Excluding the negative impact from regulatory changes; mainly driven by the MTR regulation (mobile termination rate cut to EURc 0.95 per minute as of 1 Dec 2018) and the international call regulation within the EU that kicked-in as of 15 May 2019

<sup>2</sup> Adjusted for exceptional effects and excluding the negative impact from regulatory changes; mainly usage elasticity effects from the European roaming regulation and the international call regulation within the EU

# Telefónica Deutschland at a glance

## 1 company - 4 years

- Largest and fastest mobile merger in the West
- One of the largest players in German mobile market by customers
- Synergy case upgraded to EUR 900 m will be delivered



**>30%** OIBDA growth  
over 4 years



**>30%** Headcount  
harmonised in 3 years



**>30%** Shop reduction  
in 3 years



**>25m** Customers  
migrated to one IT stack in 2016



**>30%** Network sites  
to be consolidated by 2019

**O<sub>2</sub> Free<sup>®</sup>**

**3G Unlimited  
4G Big bucket portfolio**

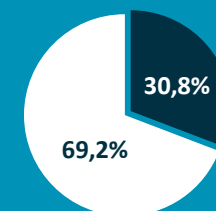
Revenue<sup>1</sup> **EUR 7,320 m**  
MSR<sup>1</sup> **EUR 5,267 m**  
OIBDA<sup>1</sup> **EUR 1,884 m**  
Capex<sup>2</sup> **EUR 958 m**  
Accesses **47 m**

All figures FY 2018

Market Cap **EUR 7,308 m**  
Fitch Rating **BBB**  
Listed **MDAX  
TecDAX**  
Employees **>9,000**

All figures 30.06.2019

## Shareholder structure

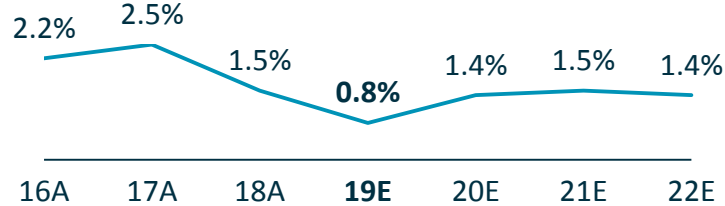


■ Telefónica Germany Holdings Ltd.  
■ Freefloat

# Macro outlook shows German economy will remain mostly stable with strong consumer spending to be expected

## Summary of macro outlook<sup>1</sup>

### GDP growth real, %



### CPI, annual change



### Population % change 2018-'22

-0.05%

## Key drivers and outlook

- Germany's **economy is in full swing**, no major changes expected
- **Low inflation rate (1.3%)**; no major risk expected
- Stable **low unemployment** rate at 4.9%<sup>2</sup>
- **Price regulations** like *Mobile Termination Rate, Roam Like Home* and *Intra EU Calls* **decrease revenues**, which need to be compensated

## Political situation

- *Christian Democratic Union* (CDU and CSU) and *Social Democrats* (SPD) **continue to govern nationally as part of a longstanding Grand Coalition** led by chancellor Angela Merkel
- Merkel's potential **successor still uncertain**; upcoming government elections in 2021

## Read across for Telefónica Deutschland

- **Strong purchasing power** and low inflation rate positively impacting overall business
- Latest **focus of German government** with regards to mobile infrastructure gives **window of opportunity to create a regulatory framework** which enables us to build the necessary infrastructure at a lesser cost (e.g. through participation in state aid programme and/or other less cost-intensive co-operations)
- **Risk of 4<sup>th</sup> entrant** in regulatory framework

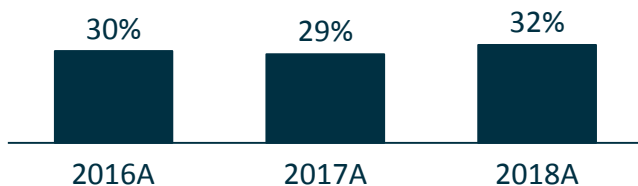
# German telco market is expected to continue to grow service revenues

## Market share

TEF DE – mobile service revenue market share<sup>1</sup>

#2

MSR market share



Market mobile service revenue  
EUR m

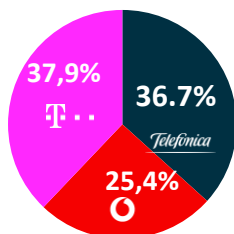
18,183

18,085

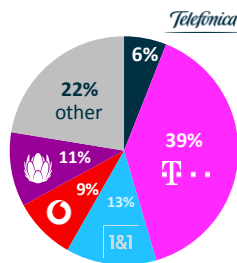
16,516

TEF DE – market share 2018<sup>2</sup>

Mobile accesses



Fixed BB accesses



Total market  
m accesses

116.7

34.4

## Key market trends

### MOBILE MARKET DEVELOPMENT

- German **mobile market outlook** (ex. reg. effects) **slightly growing**, backed by strong macro environment with attractive growth opportunities (mobile data, ADA<sup>3</sup>, IoT)
- Significant regulation impact** resulting from MTR cuts and to a limited extent intra-EU call price caps
- Willingness to spend is increasing with ARPU-up opportunities** from increasing penetration of data tariffs and LTE and increasing migration of customer to high-value tariffs (improved tariff mix)
- Telefónica Deutschland ranks **#2 in MSR market share**

### FIXED MARKET DEVELOPMENT

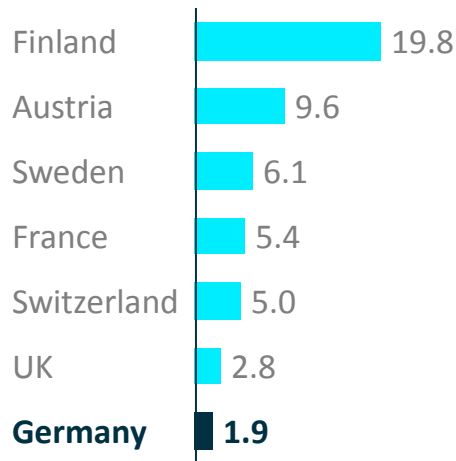
- German fixed market shows a **moderate positive development** driven by continued infrastructure roll-outs in rural regions and increasing number of households
- Vodafone / Liberty merger expected to have **no major impact on growth trajectory**

# Telefónica Deutschland is well positioned to lead one of the most attractive telco markets

## MARKET TRENDS

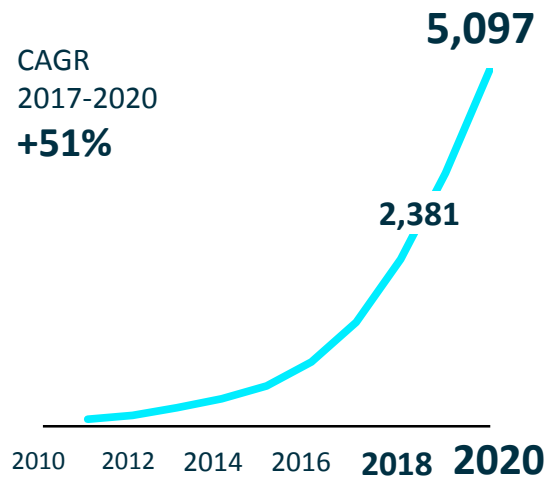
German market with significant further growth potential

### Mobile data usage in Europe<sup>1</sup> in GB/month per connection



- Germany still a European **laggard in terms of customer data usage**
- Further opportunities from growing LTE adoption

### Mobile data traffic in Germany<sup>1</sup> Annual volume of mobile data traffic in million GB



- **Music & video streaming** as usage drivers
- Average usage of 3 GB/month for LTE customers

### Preparation for 5G opportunities



### Risk of 4<sup>th</sup> entrant in the German market

1&1

### Soft convergence trend



### TV



### Pre- to Postpaid migration



### Advanced Data Analytics & IoT



# Competitive advantages allow us to leverage growth opportunities on our way to become the **German Mobile Customer & Digital Champion**

## LARGEST AND MOST MODERN NETWORK<sup>1</sup>



We have completed our **network consolidation successfully** and are ready to deploy 5G fast and efficiently

## FUTURE-PROOF PRODUCTS & SERVICES



Across all segments with largest owned **customer base of ~35 m**

## TRANSFORMATION & DIGITALISATION



Transformation programme **Digital4Growth (D4G)** places the customer at the centre of our actions

# Becoming the Mobile Customer & Digital Champion: All-round infrastructure player confirmed

## MOBILE INFRASTRUCTURE



**> 7,000 new LTE sites by Oct 2019**  
on track for FY 2019 target of 10,000



4G



5G



### Driving innovation in 5G

Establishing the world's first 5G network for automobile production in Mercedes-Benz Cars "Factory 56"



## FIXED NET INFRASTRUCTURE



**Long-term FttH and VDSL access through Deutsche Telekom**



VDSL



FttH



Cable



### Exclusive cable wholesale access

to Vodafone's and Tele Columbus' cable network in Germany; enhancing infrastructure footprint to give customers choice: Triple play offers via fixed & cable



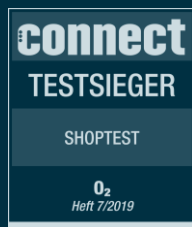


# We have been successfully driving the 3 fundamental pillars of our business in HY1 2019: Quality, trading and financials

## QUALITY

### WINNER

**Stores**  
National store operators



### WINNER

**Partner-Stores**  
Franchise operators



### VERY GOOD

**Fixed Net**  
Fixed Net big players



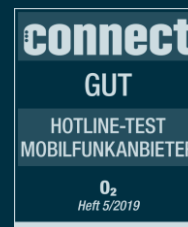
### VERY GOOD

**Fixed Net**  
Fixed Net offers



### GOOD

**Service Hotline**  
Telcos



### 4.5/5

**O<sub>2</sub> TV**  
Computer Bild User Test

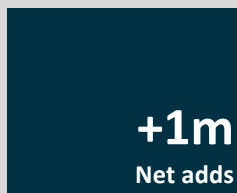


All awards from 2019

## TRADING

### Postpaid

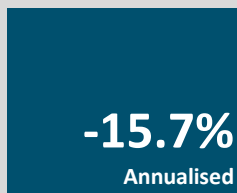
23.3m customers



All figures from Jan-Sep 2019

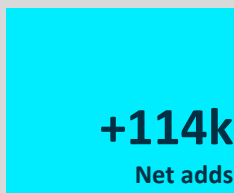
### Churn

vs. -18.0% (FY'17)



### Fixed

2.2m customers



## FINANCIALS

Revenue & MSR  
on track

OIBDA  
on track

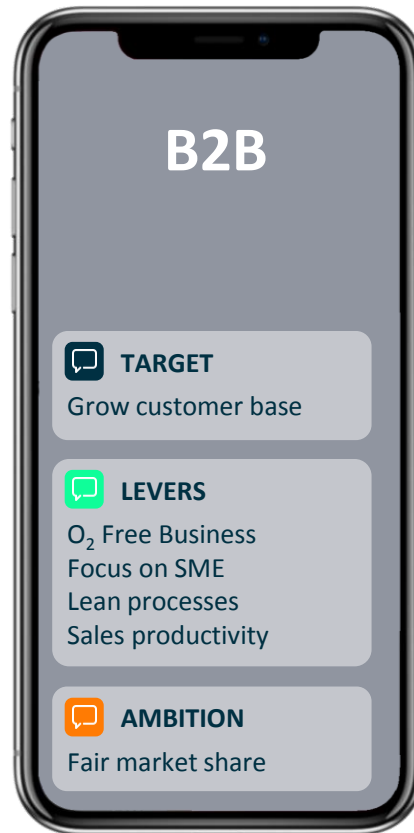
Capex  
on track

All references to the results Jan-Sep 2019

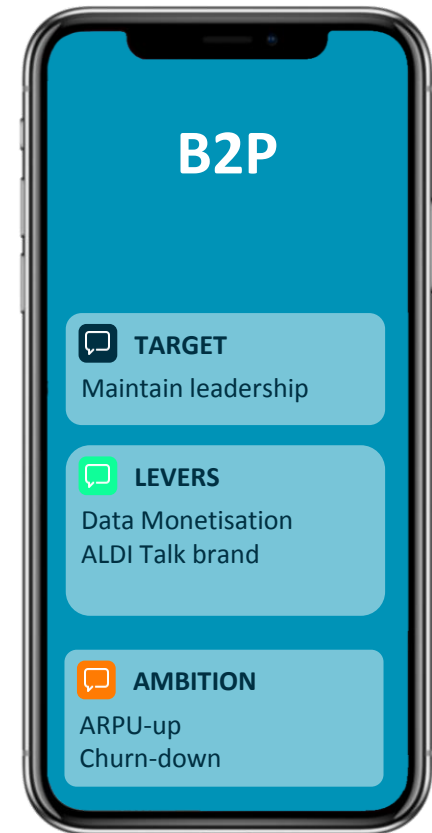
# Focus on customer experience to generate growth with a portfolio of future-proof products, services and solutions for all customer groups



O<sub>2</sub> **Blau**

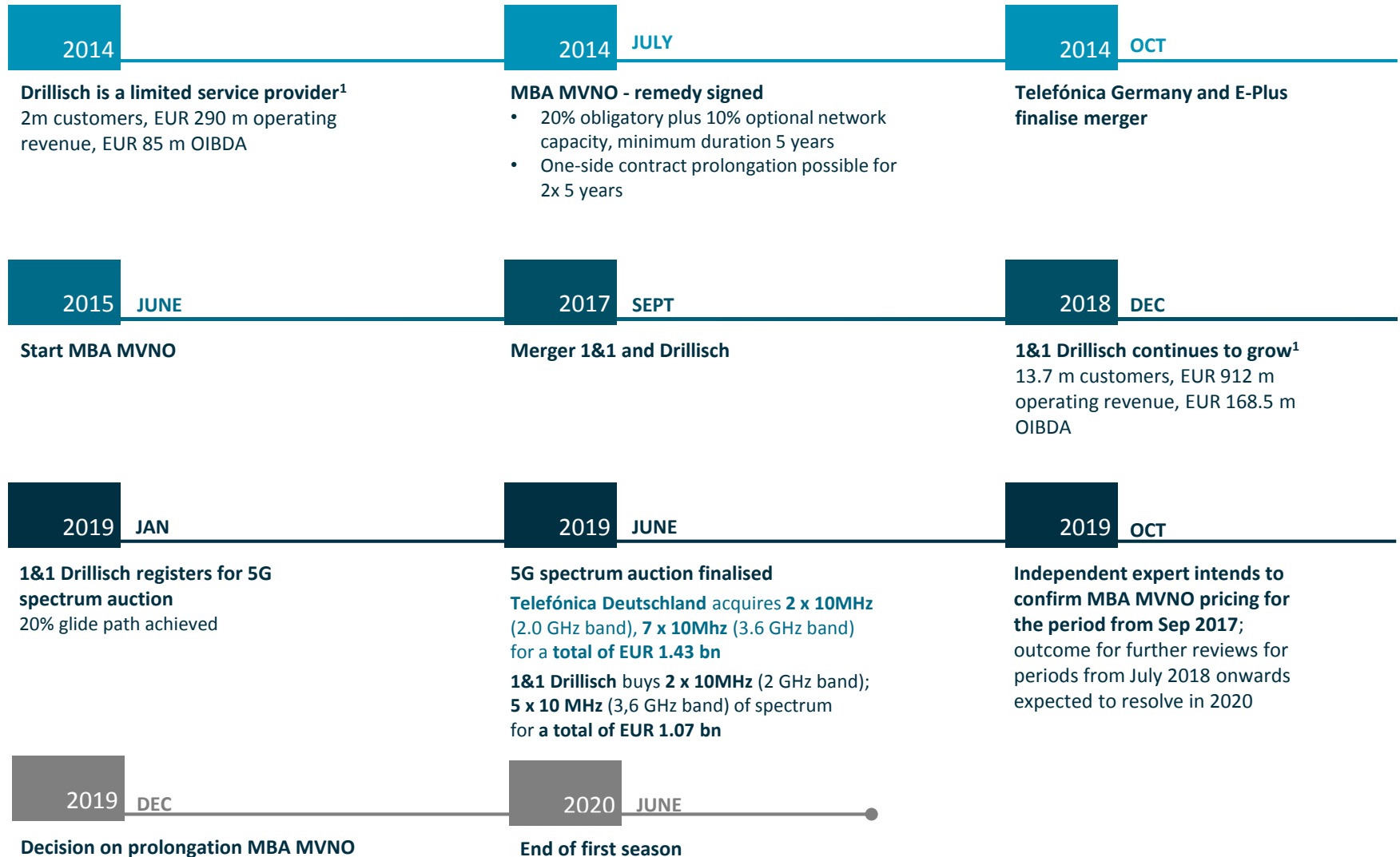


O<sub>2</sub>



B2P: Not all brands shown, only selection

# Deep-dive: Overview of Telefónica Deutschland's relationship with 1&1 Drillisch

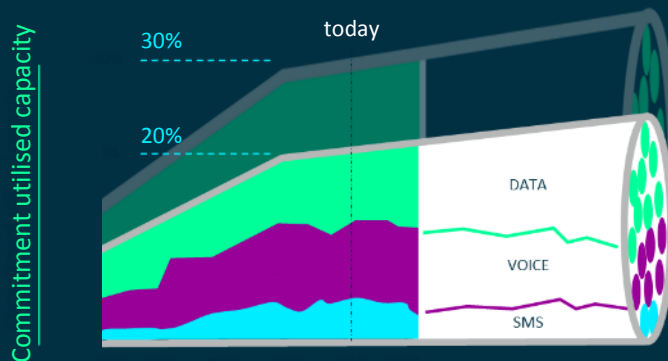


# Post German spectrum auction no short- to mid-term impact expected; long-term mitigation via own & other partner business

## SCENARIO 1:

Continuation of MBA MVNO

### EU-approved capacity glide path

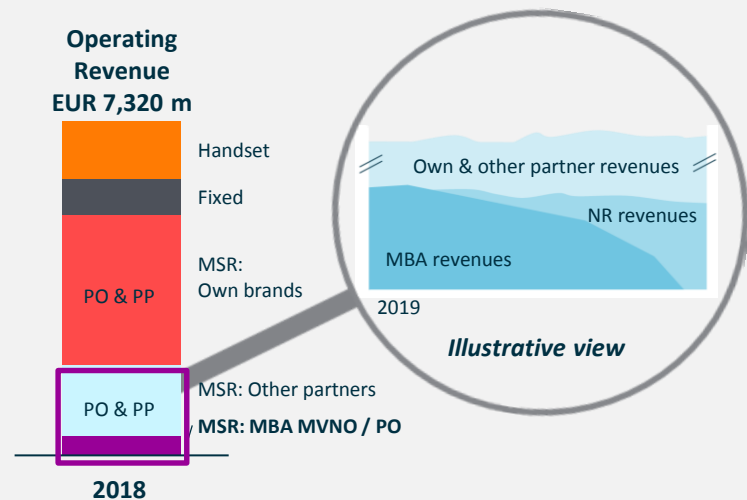


#### Four levers for revenue growth

- Exponential **data** growth
- **Capacity** of 20% and potential upgrade to 30%
- Price-tiering based on **speed**
- Price-tiering based on **technology**

## SCENARIO 2:

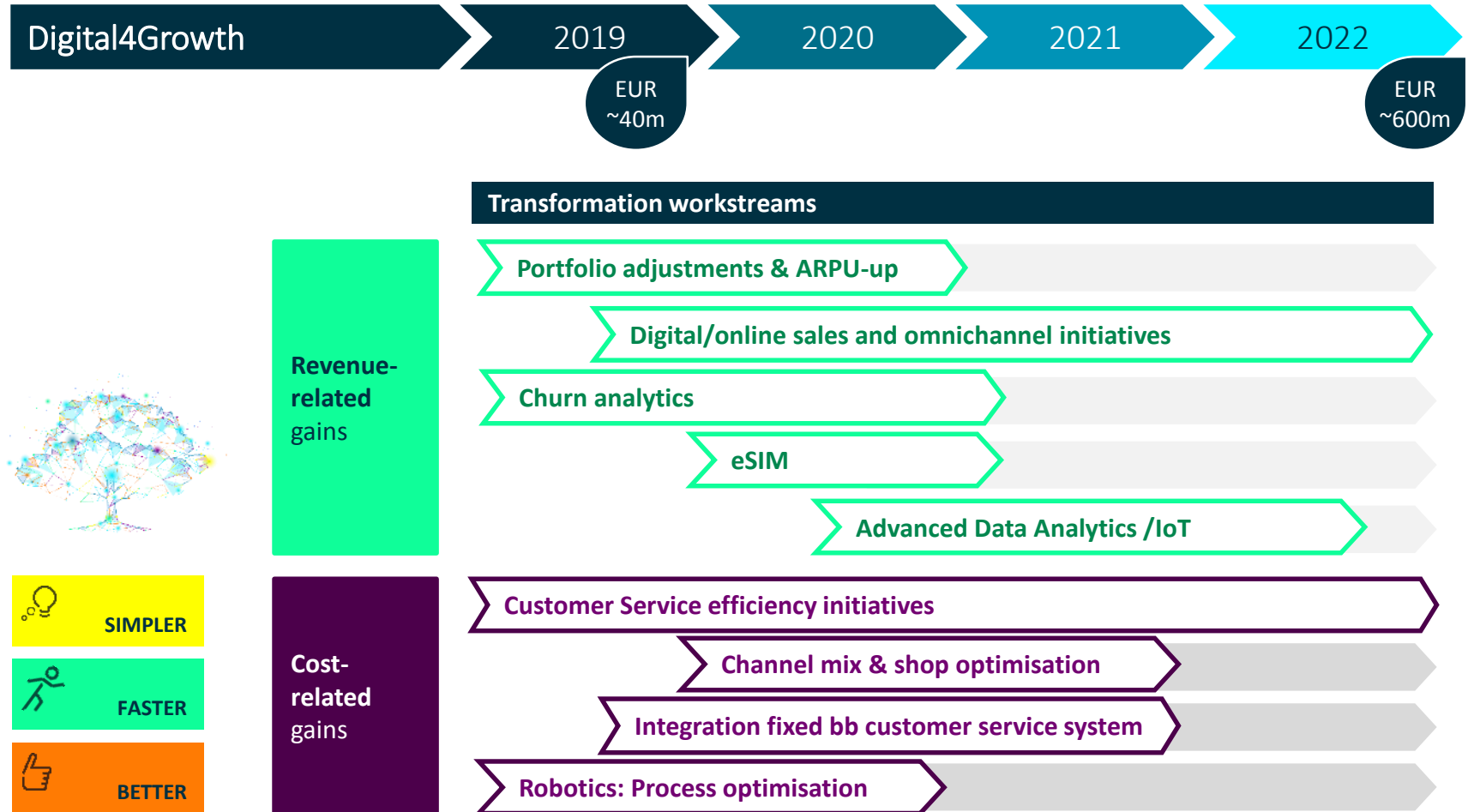
MNO remedy – gradual transition



#### Gradual transition of revenue streams

- **Commercial terms** derived from MBA MVNO
- **Sublease spectrum** for 2G/3G/4G national roaming
- MVNO and MNO only for a **transition period**
- Gradual ramp-up of **other partner & own business** to mitigate

# Our transformation programme 'Digital4Growth' is designed to transform our company holistically placing the customer at the centre of our actions



# Financial Performance: Strong trading & financial momentum in January to September 2019 with revenue further improving

TEF_TOTAL	2016	2017	2018 (IFRS15)	2019 (IAS 17)
mEUR	FY	FY	FY	9M
<b>Operating Revenue</b>	<b>7,503</b>	<b>7,296</b>	<b>7,320</b>	<b>5,429</b>
Operating Revenue excl. regulatory effects yoy		(0.5%)	0.9%	2.1%
<b>Mobile Service Revenue</b>	<b>5,437</b>	<b>5,287</b>	<b>5,267</b>	<b>3,960</b>
Mobile Service Revenue excl. regulatory effects yoy		(0.1%)	0.4%	1.5%
<b>OIBDA adjusted for exceptional effects</b>	<b>1,793</b>	<b>1,840</b>	<b>1,884</b>	<b>1,359</b>
OIBDA adjusted for exceptional effects & excl. regulatory effects yoy <sup>1</sup>		2.6%	5.3%	0.8%
<b>CAPEX</b>	<b>1,102</b>	<b>950</b>	<b>966</b>	<b>782</b>
C/S ratio	14.7%	13.0%	13.2%	14.4%
<b>Operating Cash Flow<sup>2</sup></b>	<b>967</b>	<b>835</b>	<b>831</b>	<b>529</b>
<b>Mobile Postpaid Net Adds</b>	<b>1,453</b>	<b>738</b>	<b>1,002</b>	<b>999</b>
<b>DSL Retail Net Adds</b>	<b>6</b>	<b>(32)</b>	<b>8</b>	<b>114</b>

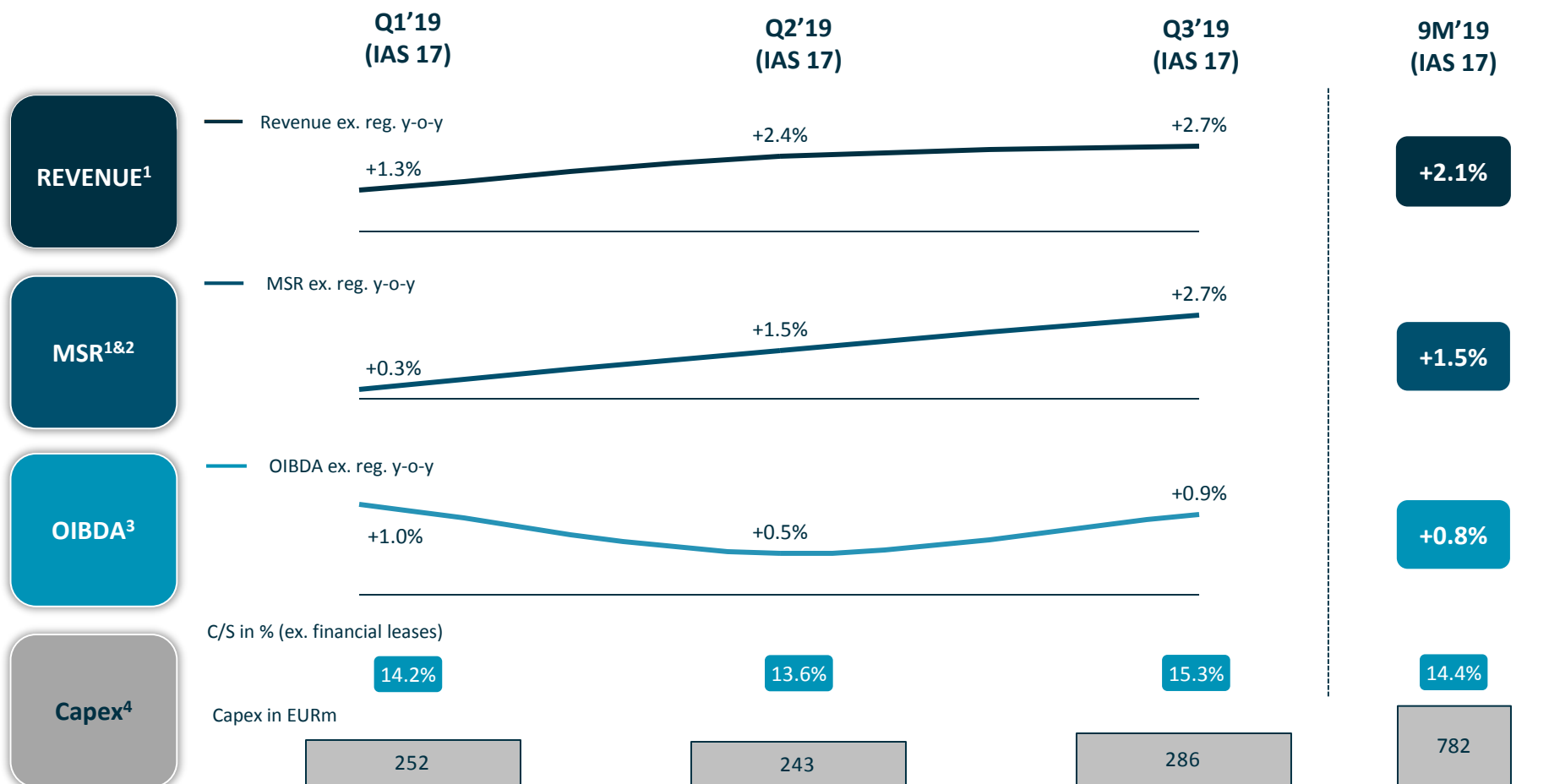
## HISTORICAL DEVELOPMENT

- OIBDA growth driven by synergies capture and new transformation activities (Digital 4 Growth)
- Network consolidation activities and market dynamics affected revenue development. Positive revenue growth in 2019

## Jan - Sep 2019 PERFORMANCE

- Strong trading momentum in O<sub>2</sub> and partner brands; LTE customer base up +21.8% y-o-y to 20.9 million
- Demand for O<sub>2</sub> Free continues to drive data usage growth with a CAGR of 50%
- Underlying<sup>1</sup> revenue trends supported by sustained demand for handsets & strong traction of O<sub>2</sub> Free portfolio
- Reported MSR up +1.6% in Q3'19, and thus again in positive territory after the turnaround in Q2'19; underlying<sup>1</sup> MSR trends improve to +2.7% y-o-y in Q3
- OIBDA reflects ongoing market and transformation invest; EUR ~60 m benefit from roll-over synergies and transformation
- Capex phasing supports pace of LTE roll-out; mid-term expectations unchanged at approx. EUR 1 bn

# Operational and financial trends remain strong



<sup>1</sup> Excluding the negative impact from regulatory changes (mainly driven by the mobile termination rate cut to EURc 0.95 per minute as of 1 Dec 2018)

<sup>2</sup> Mobile service revenue include base fees and fees paid by our customers for the usage of voice, sms and mobile data services. Also, access and interconnection fees as well as other charges levied on our partners for the use of our network are included

<sup>3</sup> Exceptional effects were EUR 1.8 million of restructuring expenses in the period June to September 2019 (EUR 8.4 million based on IAS 17). The difference between restructuring charges under IAS 17 and IFRS 16 is due to the fact that certain IAS 17 operating lease commitments require the recognition of provisions, whereas those are recognised as lease liabilities under IFRS 16. Regulatory effects amounted to EUR 10.3 million in the period June to September 2019

<sup>4</sup> Excluding additions from capitalised right-of-use assets (as of 1 January 2019) and excluding additions from capitalised finance leases (till 31 December 2018)

# Outlook 2019: Building on our 2018 achievements and a solid 9M performance as we move from integration to transformation

	Actuals FY'18 (IFRS15)	Outlook <sup>2</sup> FY'19 (IFRS15)	9M 2019	Mid-term expectations
Revenue	7,320 FY '18	Broadly stable (excl. regulatory impacts of EUR ~60-70 m)	+2.1% yoy	Revenue growth in line with German market; capturing market share in IoT
OIBDA <sup>1</sup>	1,884 FY '18	Broadly stable to slightly positive (excl. regulatory impacts of EUR ~40-50 m)	+0.8% yoy As per IAS 17 reporting	Ongoing margin improvement supported by growth centric transformation case (EUR ~600 m gross OIBDA 2019/22)
C/S <sup>2</sup>	13.2%	Approx. 13-14%	14.4% yoy	Keeping Capex level stable at around EUR 1 bn

- Underlying revenue reflect tailwinds from ARPU-up strategy supported by new O<sub>2</sub> Free tariffs which help to counteract ongoing legacy base management topics, while we continue to leverage our many long-term partnership contracts
- OIBDA benefits from integration and transformation savings, partly offset by commercial and transformation invest; transformation savings to gradually ramp-up throughout 2019 and over the course of our four year D4G programme
- Re-iterating midterm expectations: Expecting to grow with the market, strong confidence in our ability to grow FCF and continue to support a high dividend pay-out ratio to FCF



# Strategic initiatives: Telefónica Deutschland's strategy provides superior growth & profitability

## GROWTH



- Exploration of new **5G business opportunities** (e.g. 'Factory 56' with Mercedes-Benz)
- Continued **data monetisation in B2C** from evolving O<sub>2</sub> and Blau portfolios, focusing on customer experience
- **All-round infrastructure player** (mobile, VDSL, cable), FWA optionality
- **Leverage partner business** to maximise value add
- Transformation of **B2B business** to exploit market opportunities in SME segment

## EFFICIENCY



- Becoming German '**Mobile Customer & Digital Champion**' with our transformation programme '*Digital4Growth*', focusing on customer experience and digitalisation
- Ongoing **invest into future-proof network & IT platforms** to increase efficiency
- Opportunity of **mobile network sharing**
- **Ambition to switch off 3G** by 2022
- **Lean & agile organisation** to execute in a fast and efficient manner

## RETURNS



- Leverage Germany's **largest owned customer base** (35m customers)
- **ARPU-up and Churn-down**, through multi-brand and multi-channel service landscape
- **Transformation case** presented at CMD in Feb 2018 with upfront invest and gradual ramp-up up of savings to **EUR ~600 m gross OIBDA contribution** between 2019-22
- Open for **network sharing** especially in 5G environment
- Sustained OIBDA growth and efficient CAPEX spend supports **solid FCF trajectory** and **dividend**

*Telefónica*

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