

# Telefónica Deutschland

## Strategy Update

11 December 2019

**Markus Haas**

CEO

 Markus Haas

**Markus Rolle**

CFO

 Markus Rolle

**Mallik Rao**

CTIO

 Mallikarjuna Rao

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# Telefónica Deutschland's mid-term strategy will be presented by



**Markus Rolle, CFO**

**Markus Haas, CEO**

**Mallik Rao, CTIO**

# Today's agenda

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- **Strategy Update** Markus Haas, CEO
- **Technology Update** Mallik Rao, CTIO
- **Financial Update** Markus Rolle, CFO

1. Telefónica Deutschland's **growth** trajectory
2. Telefónica Deutschland's **5G** investment strategy
3. Telefónica Deutschland's **convergence** positioning
4. Telefónica Deutschland's **B2B** strategy
5. Telefónica Deutschland's **shareholder** remuneration



# Strategy update

**Markus Haas**

CEO

 Markus Haas

# Telefónica Deutschland's history and way forward

1

1998 - 2008

**BUILD**



- Business set-up
- Introduction of O<sub>2</sub> brand
- Start of 4th network

Market entrance

2

2009 - 2019

**SCALE**



- Acquisition & integration of HanseNet & E-Plus
- Consumer mobile leadership
- Established fixed player

Integration

3

2020 and beyond

**GROW**



- Mobile growth in rural & reinforcement in urban
- Smart bundling
- B2B push

Benefits from scale & transformation

# Key priorities for Telefónica Deutschland in the next decade

Accelerating growth trajectory



Boost rural coverage, accelerate urban capacity



Smart bundling to improve loyalty



Technology-agnostic internet solutions; fixed-mobile substitution to improve profitability



Leverage B2B strategy to gain fair market share in SME

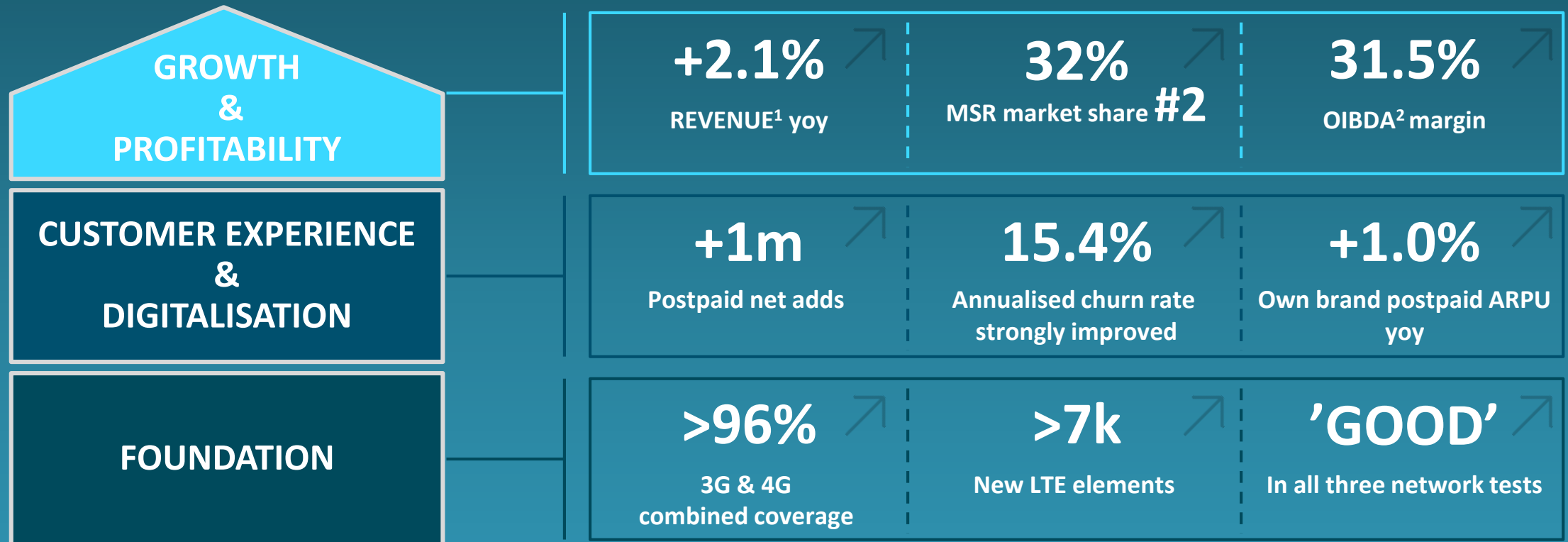


Commitment to deliver attractive shareholder remuneration



# Major progress towards our vision of becoming Germany's Mobile Customer & Digital Champion by 2022

9M-2019



<sup>1</sup> Excluding regulatory effects

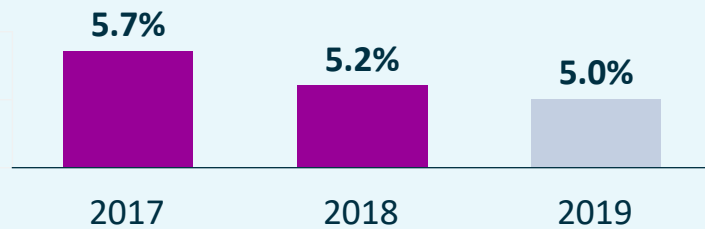
<sup>2</sup> Adjusted for exceptional effects such as restructuring costs or the sale of assets and excluding regulatory effects



# Germany a safe harbour; 5G and exclusive cable access as game changers for Telefónica Deutschland

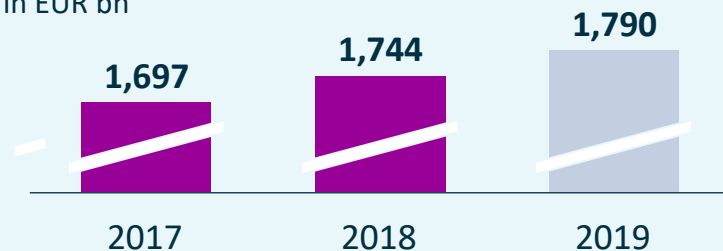
## Stable macro-environment

### Unemployment rate<sup>1</sup>



### Consumer spend<sup>2</sup>

in EUR bn



## Current trends

**Dynamic yet rational mobile market**

**Data growth** maintains CAGR of ~50%

**Soft convergent** market environment

**3 strong mobile networks**

## Future trends

**5G use cases & demand** to accelerate

**Fixed-Mobile-Substitution (FMS)** becoming increasingly **relevant**

**Potential 4<sup>th</sup> urban MNO**

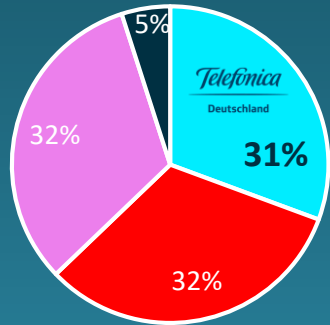
**3 integrated (mobile + fixed) players**

<sup>1</sup> Source: Federal Employment Agency

<sup>2</sup> Source: Destatis, 2019 estimate by Ifo Institute for Economic Research Sept. 2019  
Please note: 2019 based on internal estimates

# The right time to invest to accelerate future growth for Telefónica Deutschland

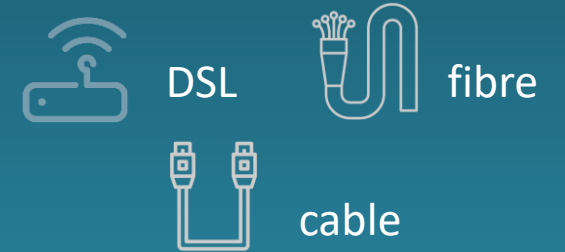
## Competitive spectrum position



>300MHz

## Largest infrastructure footprint with exclusive cable wholesale access

>90% with German households >30 Mbit/s



*Telefónica*

Deutschland

3x 'GOOD' in all network tests



Significantly improved network performance for ~44m mobile accesses

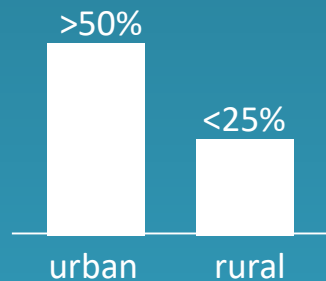
## Customer experience



Premium customer service & access to all sales channels

# The expansion of our mobile network allows Telefónica Deutschland to accelerate our growth trajectory

## Opportunity: Mobile customer distribution



## Step change in network quality from accelerated 4G/5G roll-out



**Boost rural coverage via 4G**

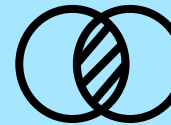


**Accelerate urban capacity via 5G**

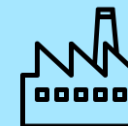
## Boost revenues to outperform market



**Mobile growth in rural – reinforcement in urban**



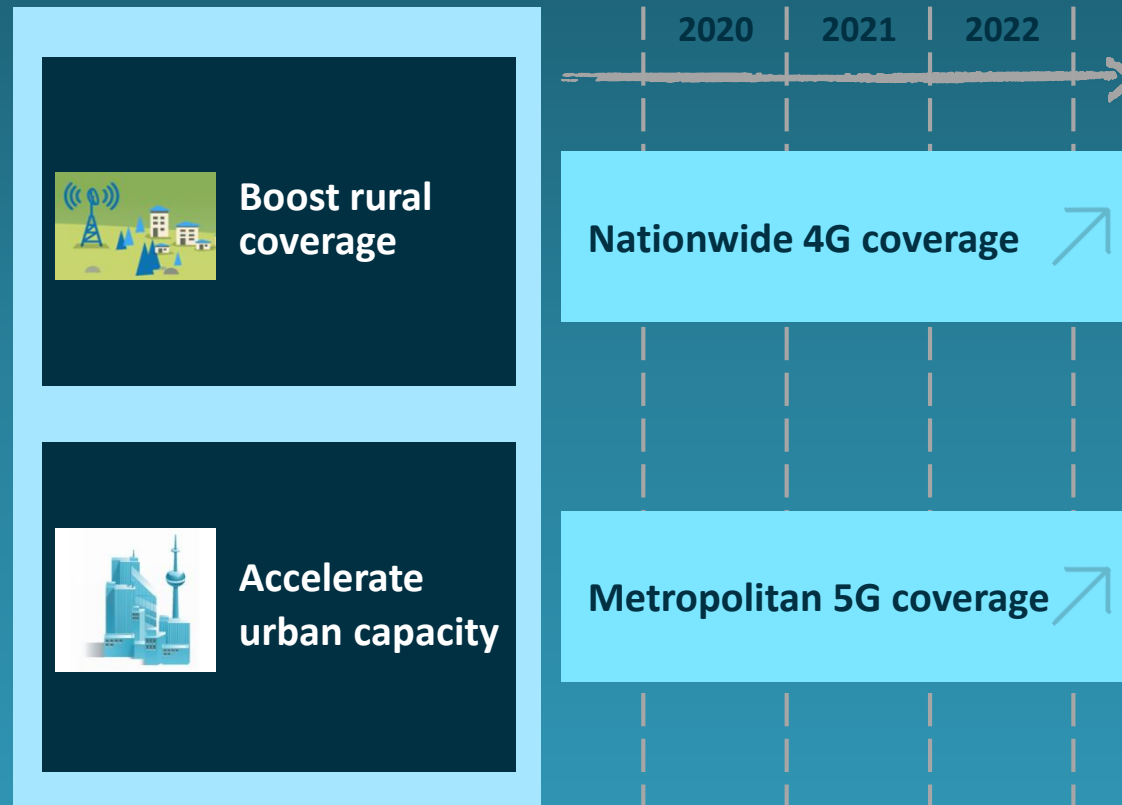
**Smart bundling**  
to capture value and reduce churn



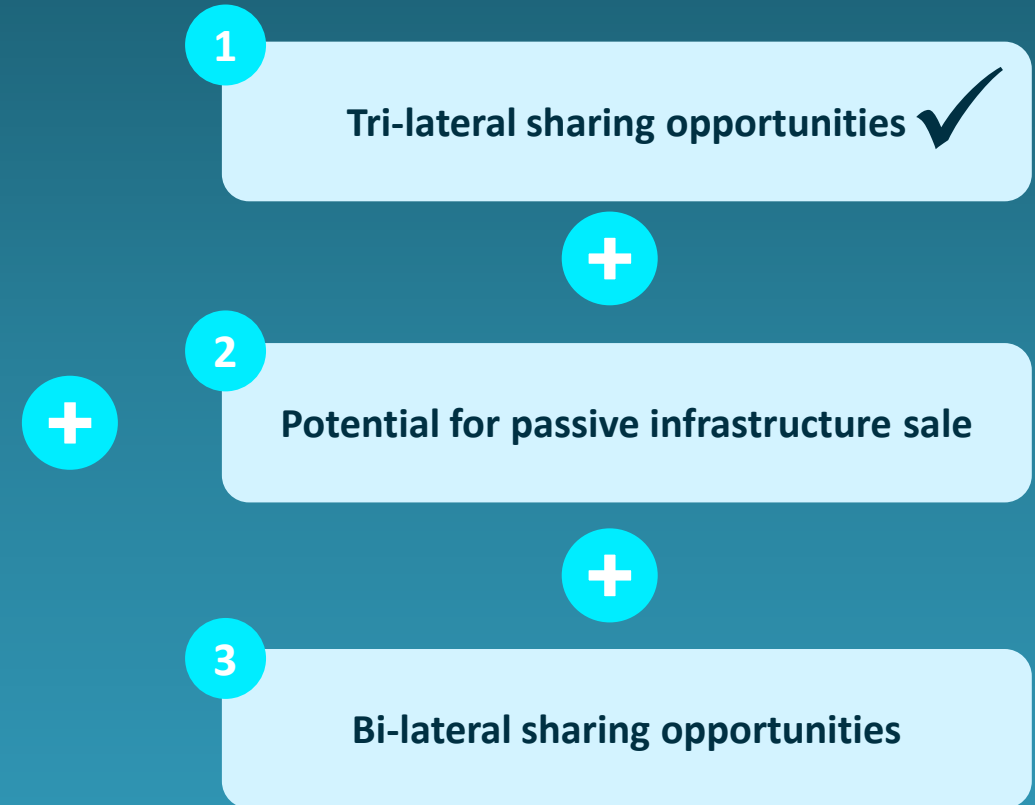
**Attack in B2B**  
to reach fair market share in SME

# Smart investment profile to further push network quality adding 4G coverage & 5G capacity; 3G network switch-off by the end of 2022

## Network roll-out strategy



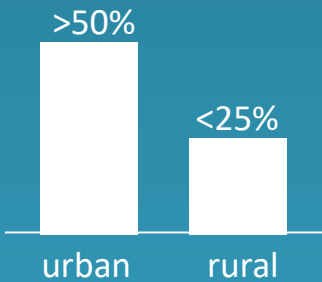
## Infrastructure sharing strategy



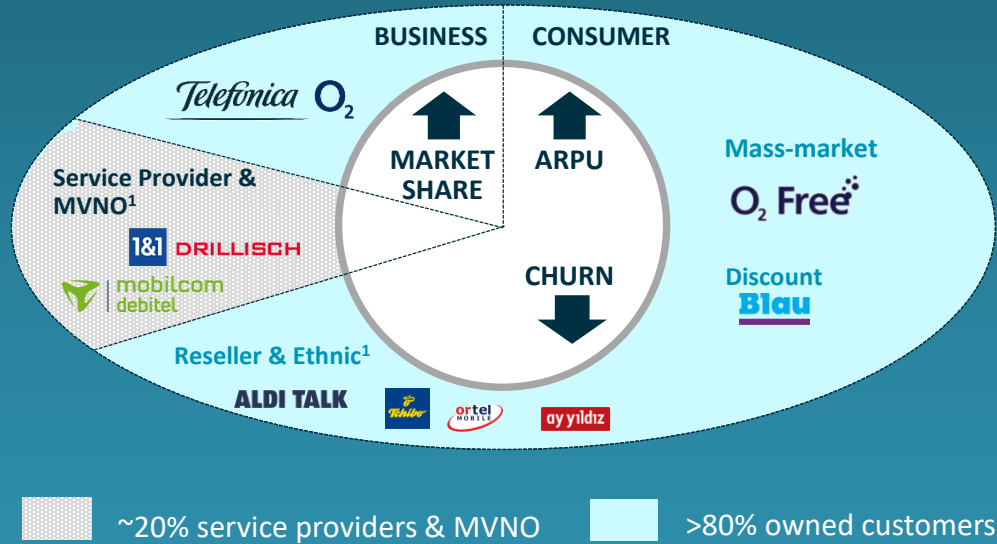
# Revenue growth driven by a step-up in 4G network quality and 5G boost



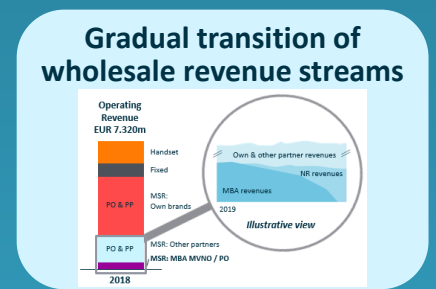
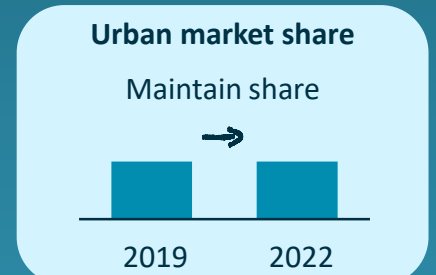
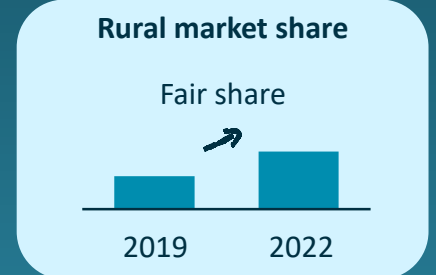
## Mobile customer share



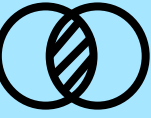
## Sustained focus on owned customer base



## MSR ↗



<sup>1</sup> Not exhaustive



## MOBILE INFRASTRUCTURE



Fixed-  
Mobile-  
Substitution  
(FMS)



## FIXED NET INFRASTRUCTURE



FttX incl. VDSL



Cable

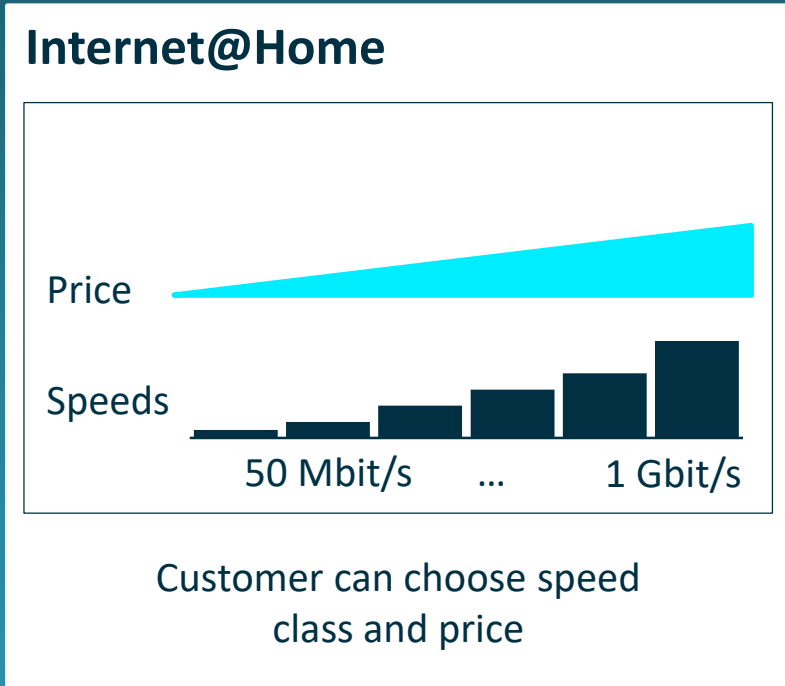
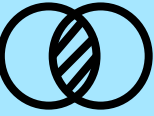


**Smart bundling** to capture value and reduce churn

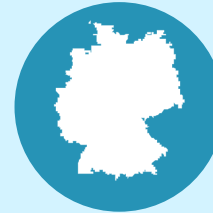
**Technology-agnostic Internet@Home solutions** with focus on customer experience

**Fixed-mobile-substitution** increases profitability

# Offering technology-agnostic internet solutions matching individual customer needs



**Best customer experience** as first priority of Internet@Home

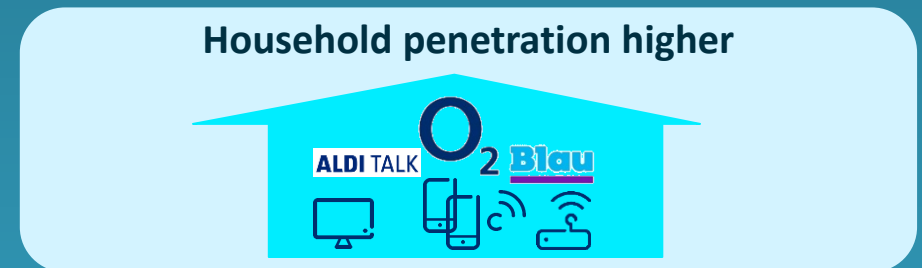
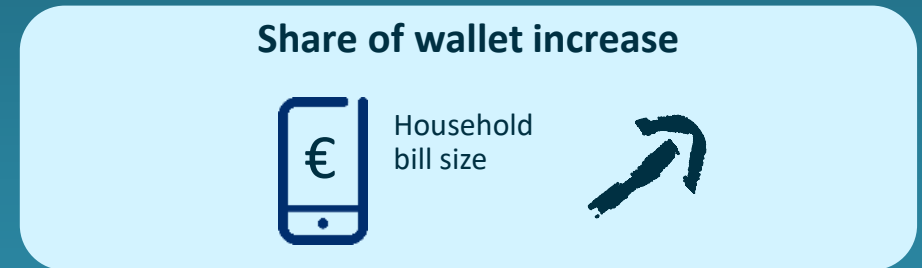
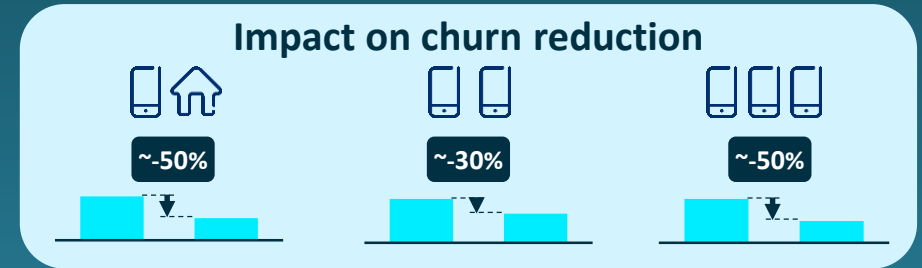
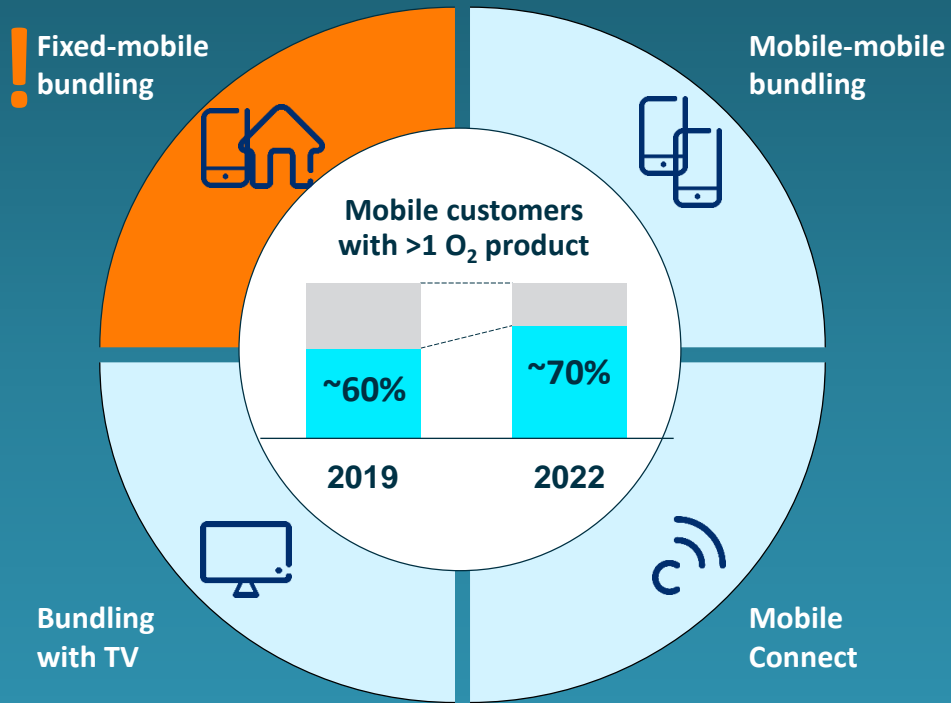
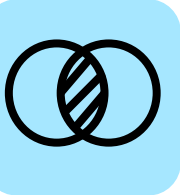


Telefónica Deutschland uniquely positioned with **largest broadband coverage**



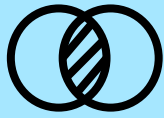
Smart go-to-market approach with **stronger regionalisation**

# Improve loyalty and convergence positioning by pushing smart bundling approach






# Fixed-mobile-substitution leverages mobile network and improves profitability



## Market readiness for Fixed-mobile-substitution (FMS)

High customer demand 

Real wireline substitute 

Proof of concept 

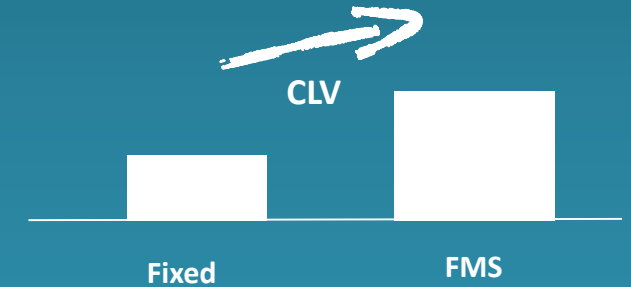
## Leveraging TEF D network

Spare capacity from

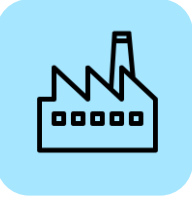
- Early 5G boost into urban areas
- 4G rollout in rural

## Improving profitability

Smart technology mix

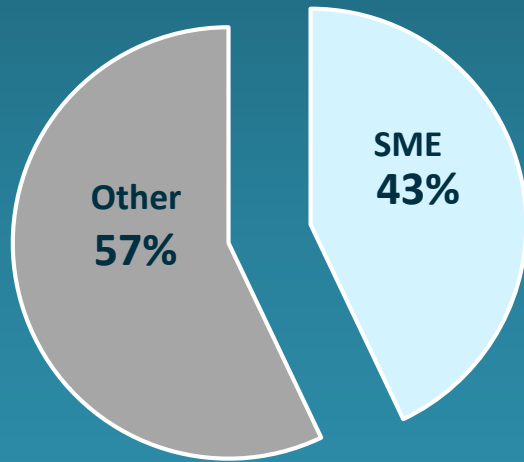


# Leverage the SME segment and industrial 5G opportunities to grow MSR



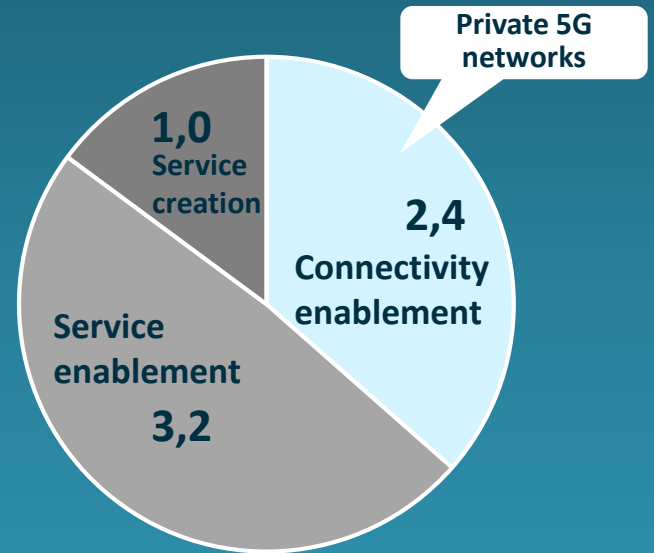
## German B2B mobile market

B2B Mobile Voice/Data retail revenue in 2018  
Total: EUR 4.5 bn

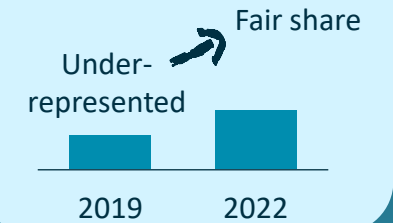


## Industrial 5G opportunity

Revenues addressable by German Telcos in 2026  
Total: EUR 6.6 bn



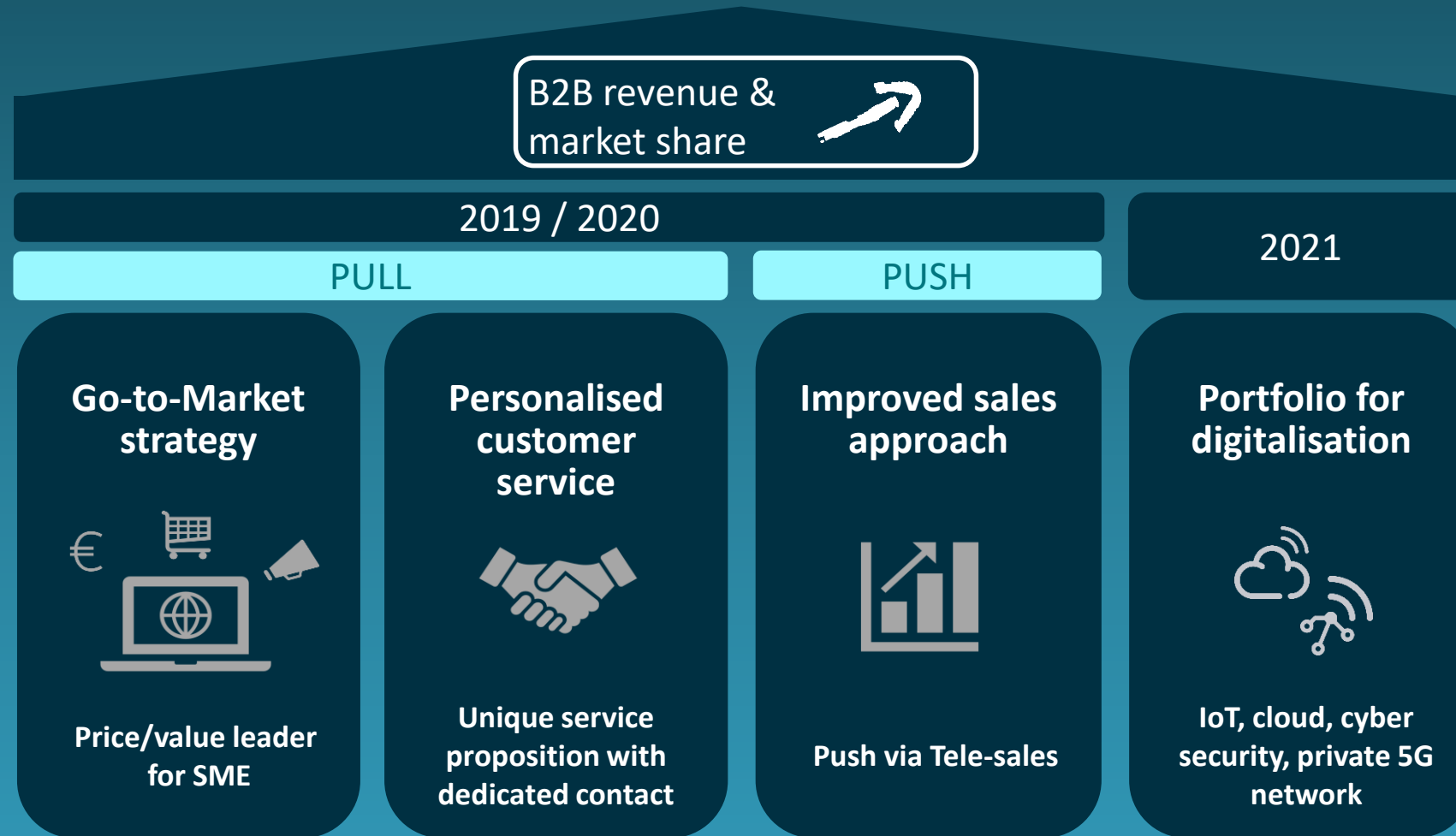
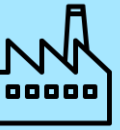
### Mobile SME gross adds



### Industrial 5G market



# B2B strategy drives growth by positioning Telefónica Deutschland as price/value leader for SMEs



# Summary / Key priorities

Accelerating growth trajectory



Boost rural coverage, accelerate urban capacity



Smart bundling to improve loyalty



Technology-agnostic internet solutions; fixed-mobile substitution to improve profitability



Leverage B2B strategy to gain fair market share in SME



Revenue<sup>1</sup> with a cumulated growth of min. 5% between 2020/22

OIBDA<sup>2</sup>: Ongoing margin improvement

Capex<sup>3</sup>: 2-year investment programme to generate growth with C/S peaking at 17-18% in 2020/21 and normalising already in 2022

Dividend proposal of EUR 0.17 for FY 2019, which will be a floor during our investment programme

<sup>1</sup> Excluding regulatory effects

<sup>2</sup> Adjusted for exceptional effects such as restructuring costs or the sale of assets and excluding regulatory effects

<sup>3</sup> Not considering the impact from potential network sharing opportunities



# Technology update

**Mallik Rao**

CTIO

 Mallikarjuna Rao

# Telefónica Deutschland network achieves a breakthrough in network quality with 'good' rating in 3 major German network tests

Extensive network expansion programme with thousands of additional LTE sites implemented in 2019

Targeted optimisation measures post network consolidation

Focus on customer experience by adding coverage & capacity

Major quality improvements; i.e. voice quality & average down- & upload speed

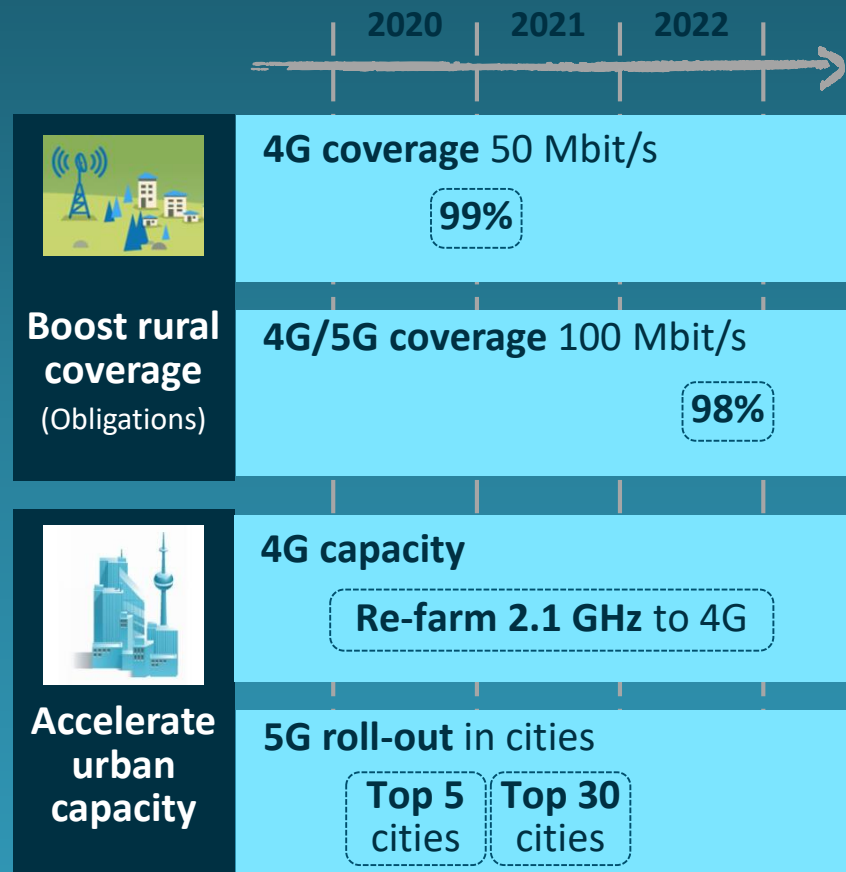
3x 'GOOD' 

In all German network tests



# Smart investment to accelerate the Telefónica Deutschland mobile network roll-out: 4G coverage & 5G capacity while aiming to switch off 3G by the end of 2022

## Network roll-out strategy



## Boost rural coverage & accelerate urban capacity

**Coverage & capacity boost in 4G:** Rollout of ~10k LTE elements into the network in 2020 to further push network quality

**Smart investment:** Spectrum re-farming to efficient use of technologies and simplification of architecture will be the key

**5G with main stream rollout,** using 3.6 GHz, 700 MHz and any upcoming FDD frequencies with special spectrum sharing features

Aiming to **switch off 3G by 2022e** as data traffic is increasingly moving to 4G on customer demand for high speed mobile BB

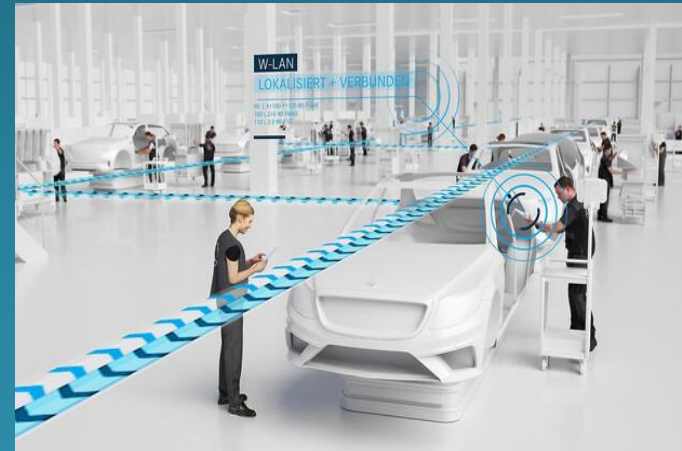
# Private campus networks: One of the first business opportunities for 5G in Germany

High **industry demand** for Telefónica Deutschland's **5G** assets & expertise

More than **8** **successful trials** and **proof of concepts** implemented

**Accelerating growth** with more than **5** **trusted** business partners

**Factory 56** – Telefónica Deutschland builds first **5G indoor network** in digital car production factory



Source: Daimler AG

Our partners for **Factory 56**





# IT platforms play a major role in enabling 5G portfolios and for becoming 'SIMPLER, FASTER & BETTER'

## Today's IT systems already support

- **Fixed/mobile convergence** for consumer postpaid including one single customer account and bill
- **Technology-agnostic household offering** for VDSL, FTTX and cable

## Future IT systems as a key enabler

**5G** tariff & product portfolios

FMS & exclusive cable wholesale access support **technology-agnostic customer offers**

High technological flexibility ensures **fast time-to-market**

# Summary / Key priorities

Breakthrough in network quality with **'good'** ratings in **3 major German network tests**



**Smart investment to accelerate mobile network rollout** as a basis for growth, including leveraging opportunities from 5G campus solutions



**IT platforms** are enabling 5G portfolios & allow us to become **'simpler, faster & better'**



Untapped potential from **additional network sharing opportunities**





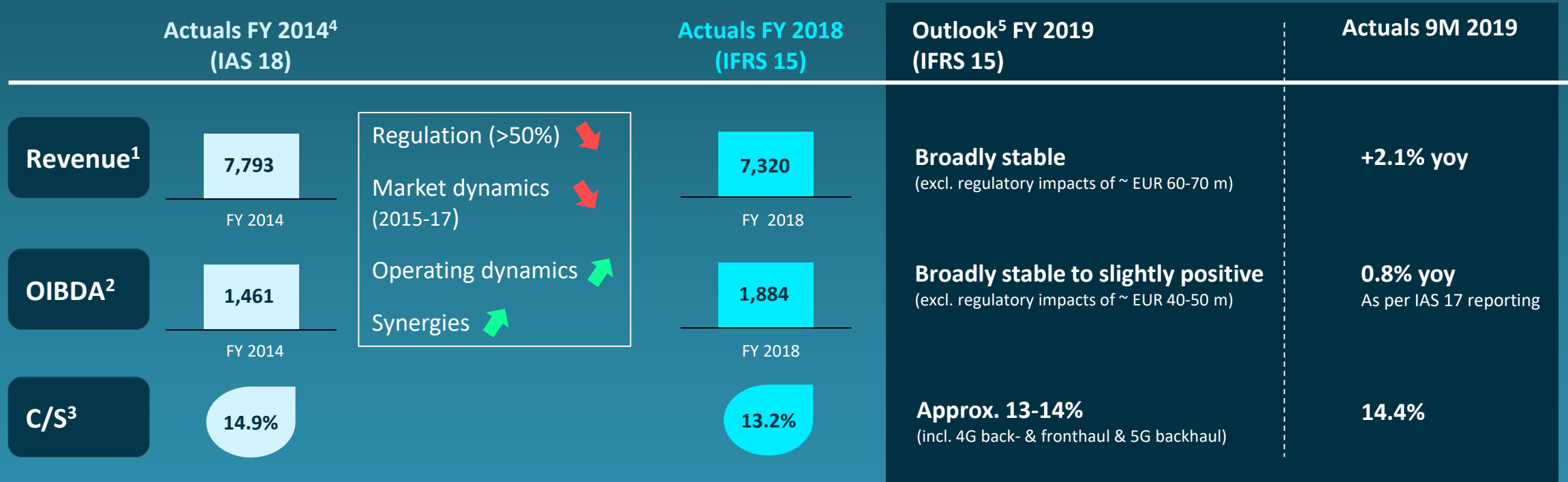
# Financial update

**Markus Rolle**

CFO

 Markus Rolle

# 5 years post merger Telefónica Deutschland is stronger than ever; revenue acceleration and stable profitability in 9M 2019



<sup>1</sup> Excluding regulatory effects

<sup>2</sup> Adjusted for exceptional effects such as restructuring costs or the sale of assets and excluding regulatory effects

<sup>3</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)

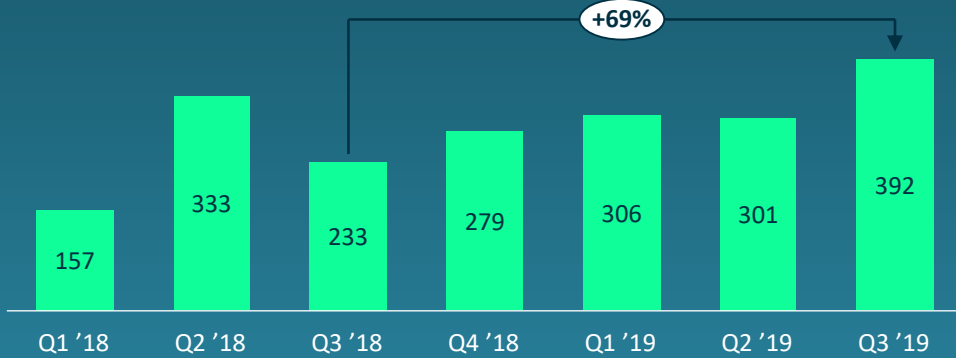
<sup>4</sup> Combined figures for 2014 are approximate and the result of the aggregation and then consolidation of Telefónica Deutschland and E-Plus Group financials according to Telefónica Deutschland Group accounting policies

<sup>5</sup> The effects from the implementation of IFRS 16 as of 1 January 2016 are not reflected in the financial outlook 2019

# Strong operational momentum with ~1 million postpaid net adds in 9M 2019; ARPU trends continue to improve

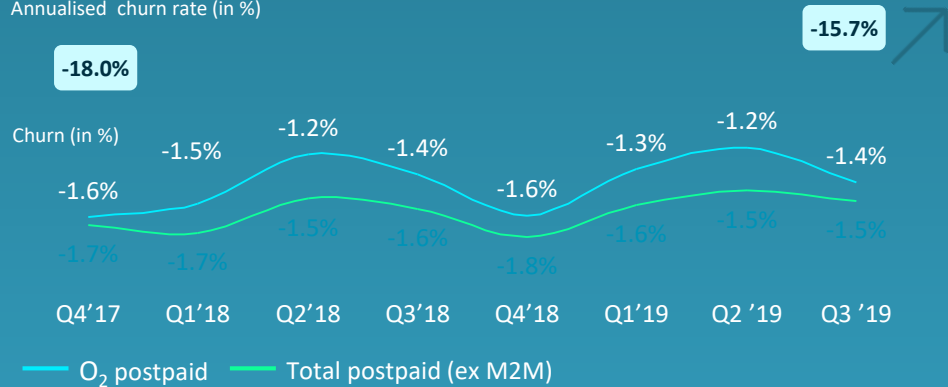
## Strong PO momentum driven by own brand & partners

Postpaid net adds (in k)



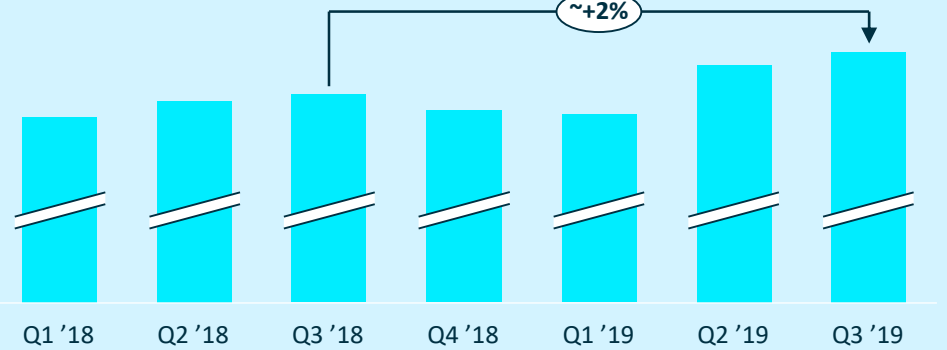
## Churn remains on low level supported by network quality

Annualised churn rate (in %)



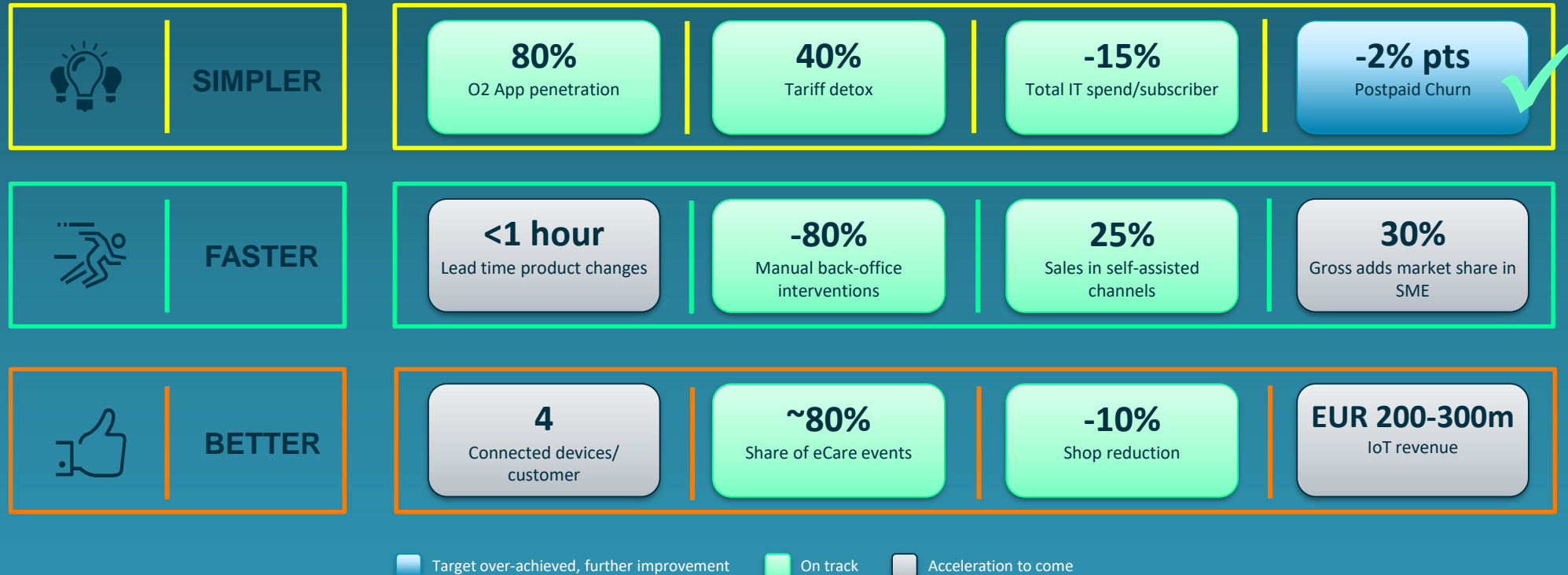
## O<sub>2</sub> Free portfolio drives visible ARPU-up effects in own brand ARPU

Own brand ARPU (in EUR)



# Strong execution progress of our transformation programme D4G

Well on track for 8 out of 12 CMD targets in initial year



# Transformation activities with focus on the customer; 2 out of many examples

## 1 Enhance CX & digitalisation



Mobile Customer  
&  
Digital Champion



**SIMPLER**

Customer interaction



**FASTER**

Customer requests



**BETTER**

Customer experience

## 2 State-of-the-art eCommerce



Scalability & fast  
adaptation




Continuous  
optimisation




Mobile first  
frontend



Cross-functional  
team

Higher willingness  
to pay 

ARPU 

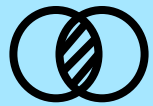
Customer  
experience 

NPS 

# Growth profile driven by additional revenue streams to support ARPU-up & churn-down



**Mobile growth in rural – reinforcement in urban**



**Smart bundling to capture value**



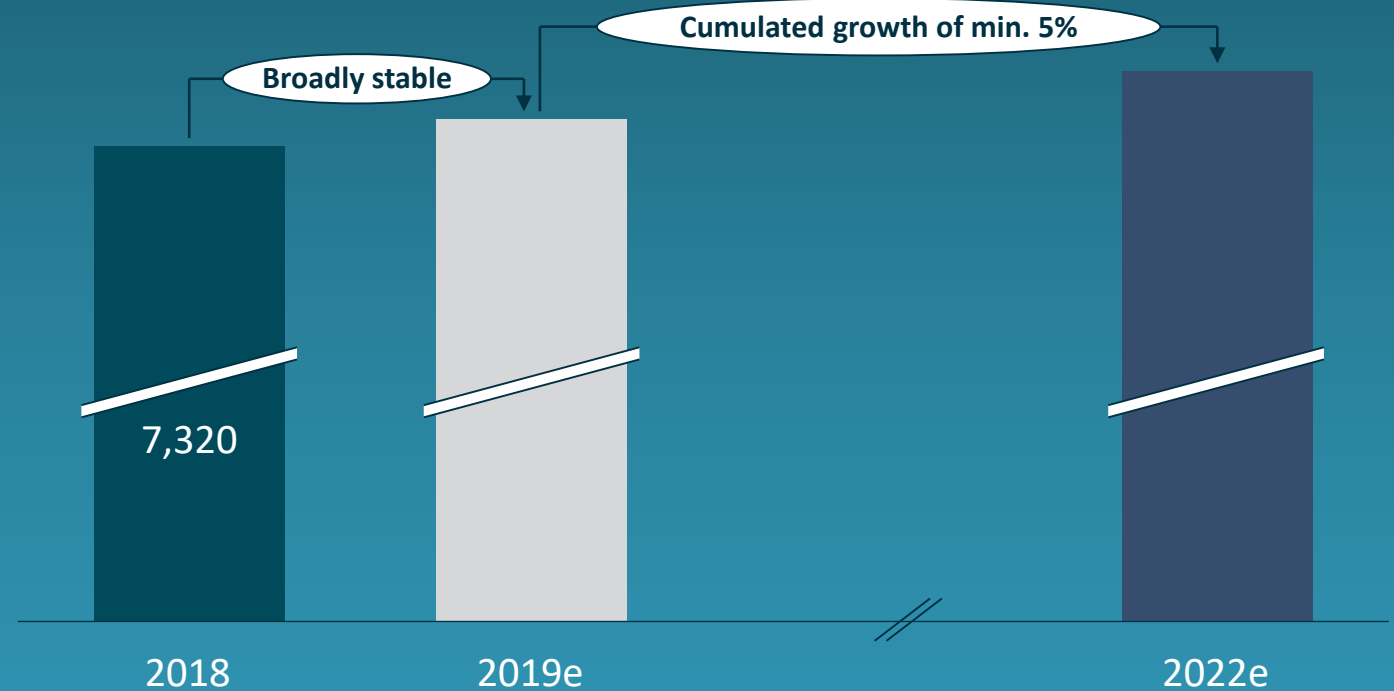
**Attack in B2B to reach fair market share in SME**

**D4G transformation programme  
Simpler – Faster – Better**



## Revenue<sup>1</sup>

(in million EUR)

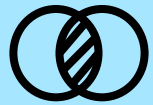




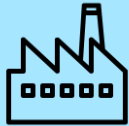
# Deliver ongoing margin improvement



**Mobile growth in rural – reinforcement in urban**



**Smart bundling to capture value**



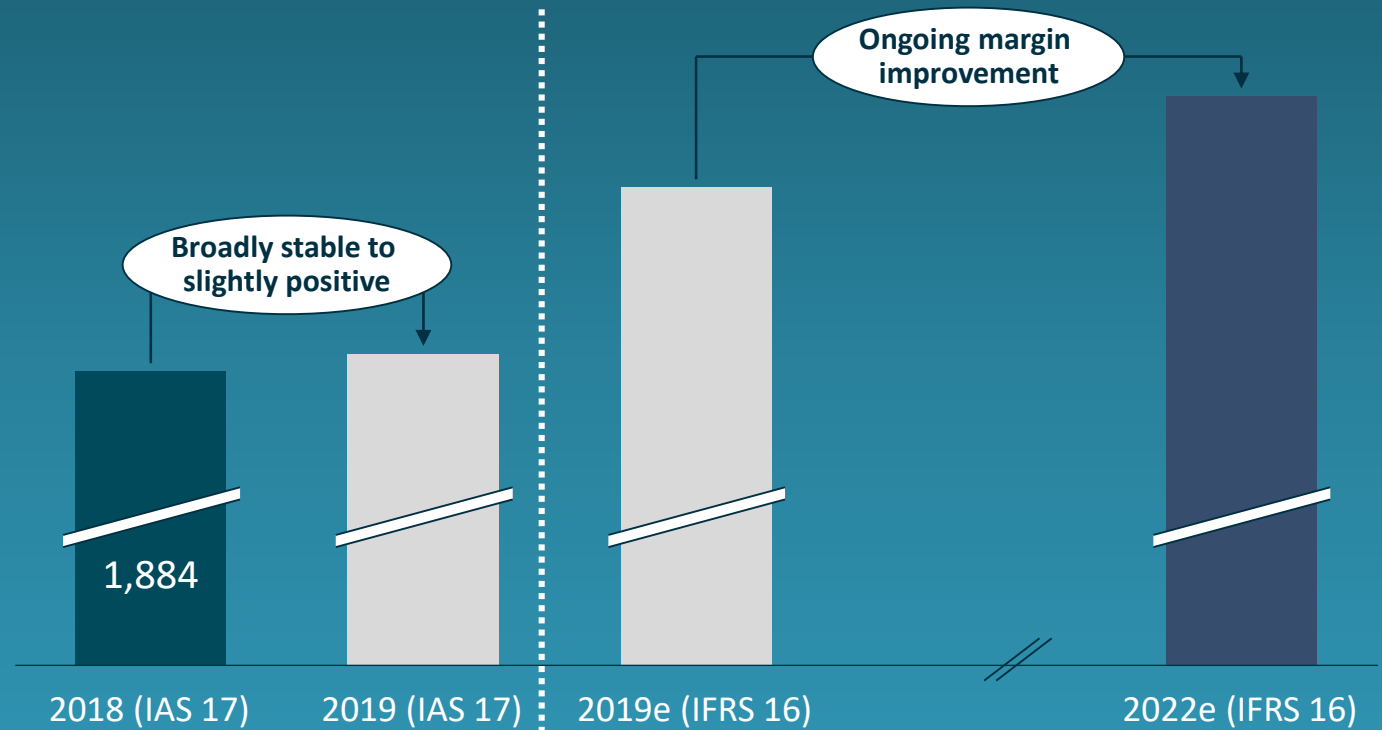
**Attack in B2B to reach fair market share in SME**

**D4G transformation programme  
Simpler – Faster – Better**




## OIBDA<sup>2</sup>


(in million EUR)



<sup>1</sup> Adjusted for exceptional effects such as restructuring costs or the sale of assets and excluding regulatory effects. The effects from the implementation of IFRS 16 as of 1 January 2019 are not reflected in the financial outlook 2019

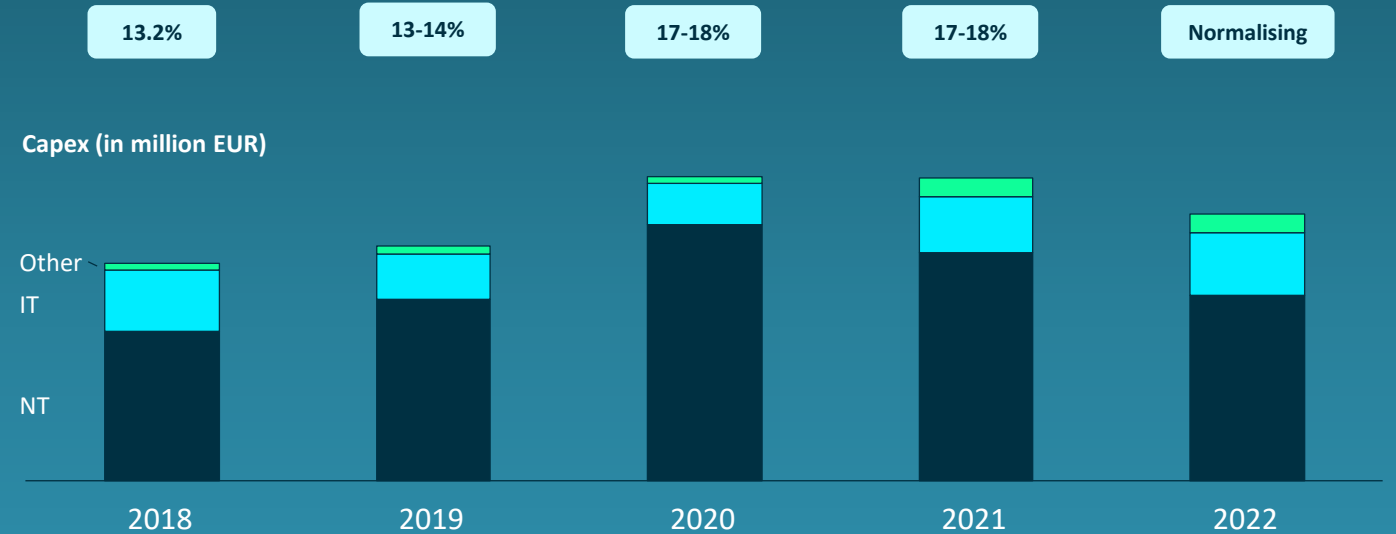
# Investing into network expansion is the key enabler for growth ambitions

 **Boost rural coverage via 4G**

 **Accelerate urban capacity via 5G**

## Capex<sup>1</sup> and C/S

C/S (in %)



Capex split for illustrative purposes

<sup>1</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)

# Mid-term outlook

	Mid-term guidance (CMD 2018)	Updated midterm guidance 2020/22
Revenue <sup>1</sup>	Growth in line with the German market	TEF D with cumulated growth of min. 5%
OIBDA <sup>2</sup>	Ongoing margin improvement	Ongoing margin improvement
C/S <sup>3</sup>	Stable <sup>4</sup> Capex envelope	2-year investment programme to generate growth C/S incl. 5G RAN peaking in 2020/21 between 17-18%; normalising already in 2022

<sup>1</sup> Excluding regulatory effects

<sup>2</sup> Adjusted for exceptional effects such as restructuring costs or the sale of assets and excluding regulatory effects

<sup>3</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)

<sup>4</sup> Includes front- and backhaul for 4G but 5G backhaul only

# Strong confidence in mid-term FCF generation ability



FCF

- **Temporary investment programme** to drive future growth & profitability
- **Strong confidence in mid-term FCF generation ability**
- **No material cash tax** during investment period; minimum taxation of 12-13% thereafter (due to tax losses carried forward of EUR 14.7 billion for corporate income tax and EUR 14.3 billion for trade tax)



Leverage<sup>1</sup>

- Maintaining **Fitch BBB investment grade rating**
- **Strong B/S with low indebtedness**; leverage at 0.9x (IAS 17) resp. 1.8x (IFRS 16) as of 30.09.2019
- **IFRS 16 leverage target: At or below 2.5x; solid headroom under current rating**
- Deferred spectrum payments lead to increased **financial flexibility**

<https://www.telefonica.de/investor-relations-en/share/dividend.html>

# Remain committed to attractive shareholder remuneration



## Dividend proposal FY 2019 & guidance

- Proposal of EUR 0.17 for FY 2019, which will be a floor during our investment programme
- ~6% dividend yield based on closing price as of 10 December 2019



## Dividend policy

- Continuity since the IPO
- High pay-out ratio to FCF adjusted for leases (aL)<sup>1</sup>

<sup>1</sup> Free Cash Flow is defined as net financial Free cash flow adjusted for leases, spectrum payments and exceptional items

# Summary / Key priorities

Accelerating growth trajectory



2-year investment programme to push network



Strong mid-term FCF trajectory



Dividend proposal of EUR 0.17 for FY 2019 (floor for investment phase) = ~6% yield



Maintaining BBB investment grade





Wrap-up:  
Telefónica Deutschland's investment case

# The Telefónica Deutschland Equity Story: Why should you invest?



<sup>1</sup> FCF after lease and excluding dividend & spectrum payments



# Management Q&A

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# Get in touch with the Investor Relations team!



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