



# Telefónica Deutschland

## Investor presentation

September 2020

Investor Relations

# Disclaimer

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



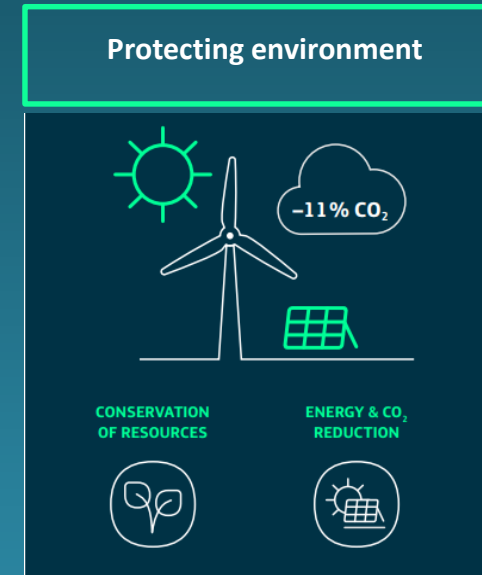
# We steer our sustainability commitments with our Responsible Business Plan 2020



Consistently good to very good results and ratings by external assessments



People are benefitting from our products in their digital lifestyle



Ambition to reduce direct & indirect CO<sub>2</sub> emissions by -11% vs 2017

# Telefónica Deutschland's 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

# Reiterating key priorities of strategic plan for the 'new 20s'

Accelerating growth trajectory



Boost rural coverage, accelerate urban capacity



Smart bundling to improve loyalty



Technology-agnostic internet solutions;  
FMS to improve profitability



Leverage B2B strategy to gain fair market share  
in SME

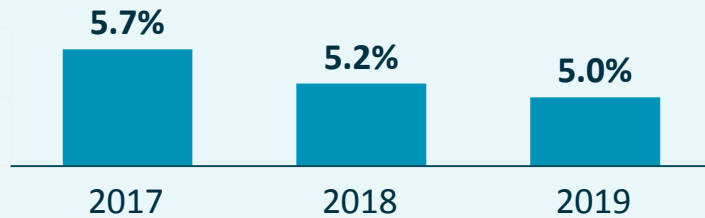


**Commitment to deliver attractive  
shareholder remuneration**

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

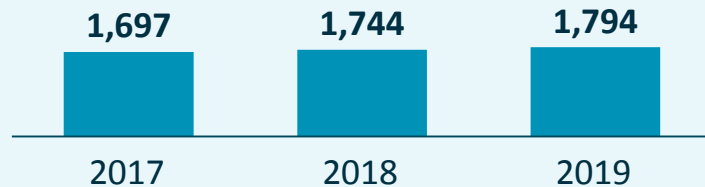
## Stable macro-environment

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



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

in EUR bn



## Current trends

**Dynamic yet rational mobile market**

**Data growth** continued CAGR of >50%

**Soft convergent** market environment

**3 strong mobile networks**

## Future trends

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

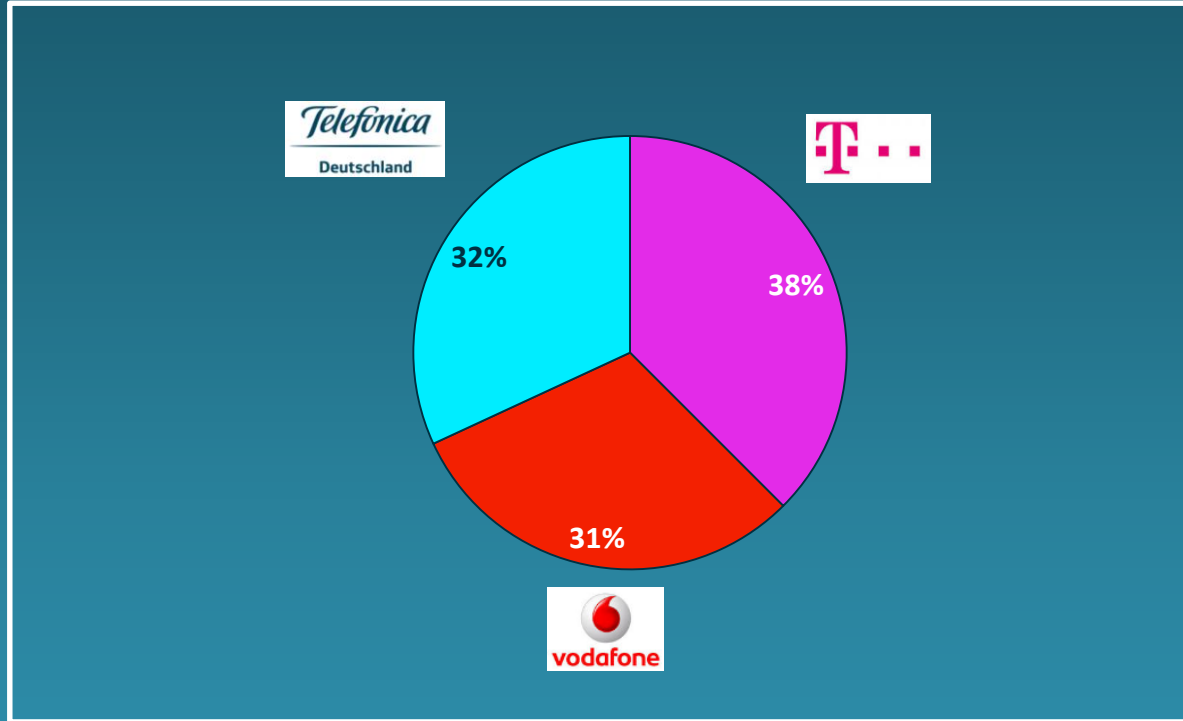
**Fixed-Mobile-Substitution (FMS)** becoming increasingly **relevant**

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

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

# Competitive environment

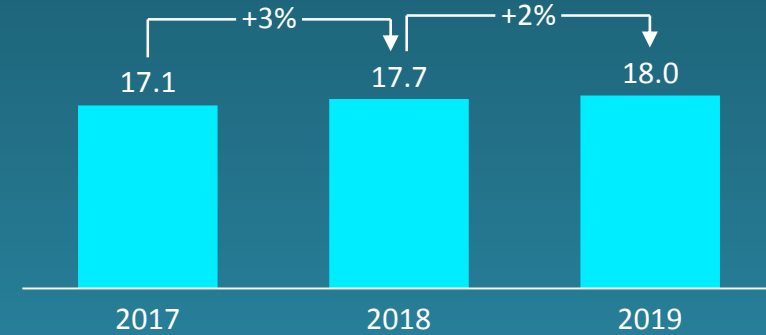
## Rational and balanced market structure<sup>1</sup>



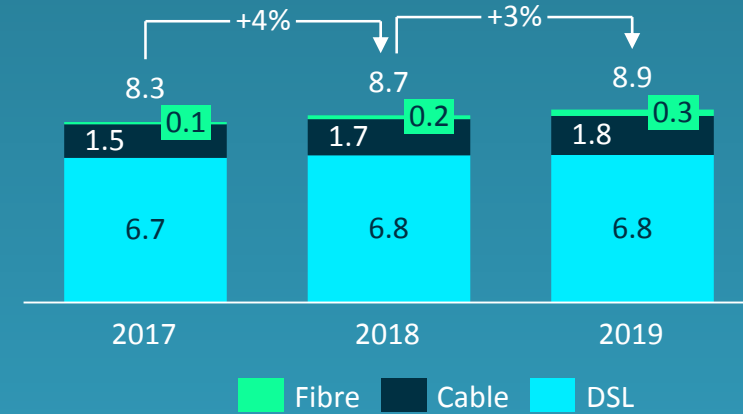
- Rational market following 4 to 3 consolidation
- Tiered mobile data portfolios enabling data monetisation

## Market development in past years<sup>2</sup>

Mobile market: Service revenues  
EUR bn



Fixed broadband retail revenues  
EUR bn



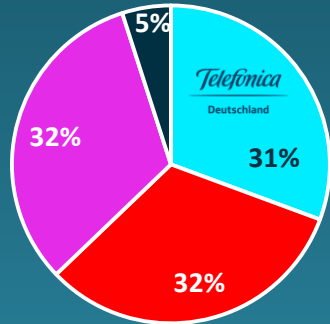
<sup>1</sup> Market share of MSR (IFRS 15) based on reported financials by MNOs for Q2 2020

<sup>2</sup> Source: Analysys Mason "Western Europe telecoms market trends and forecasts 2019–2024", 28.02.2020



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

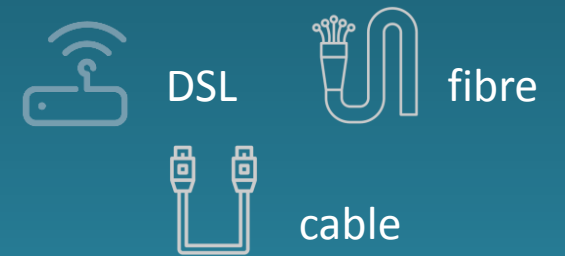
## Competitive spectrum position



>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



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



VERY GOOD Service App Telcos



4.5/5 O<sub>2</sub> TV Computer Bild User Test



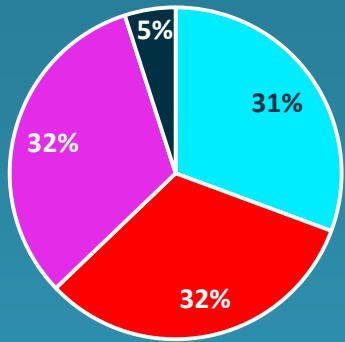
Premium customer service & access to all sales channels

# Future-proof spectrum set-up to enable best customer experience

## Balanced position in coverage and capacity spectrum until 2025

Potential future utilisation	5G 4G	5G 4G	4G 2G	5G 4G	5G 4G	5G 4G	5G 4G	5G 4G	5G
Utilisation today	4G	4G	2G/4G		2G/4G	3G/4G	4G	pLTE	
Total availability	2x 30 MHz	2x 30 MHz	2x 35 MHz	1x 40 MHz	2x 75 MHz	2x 60 MHz	2x 70 MHz	1x 50 MHz	1x 300 MHz

Total Spectrum holding



TEF VF DT DRI

1&1 Drillisch

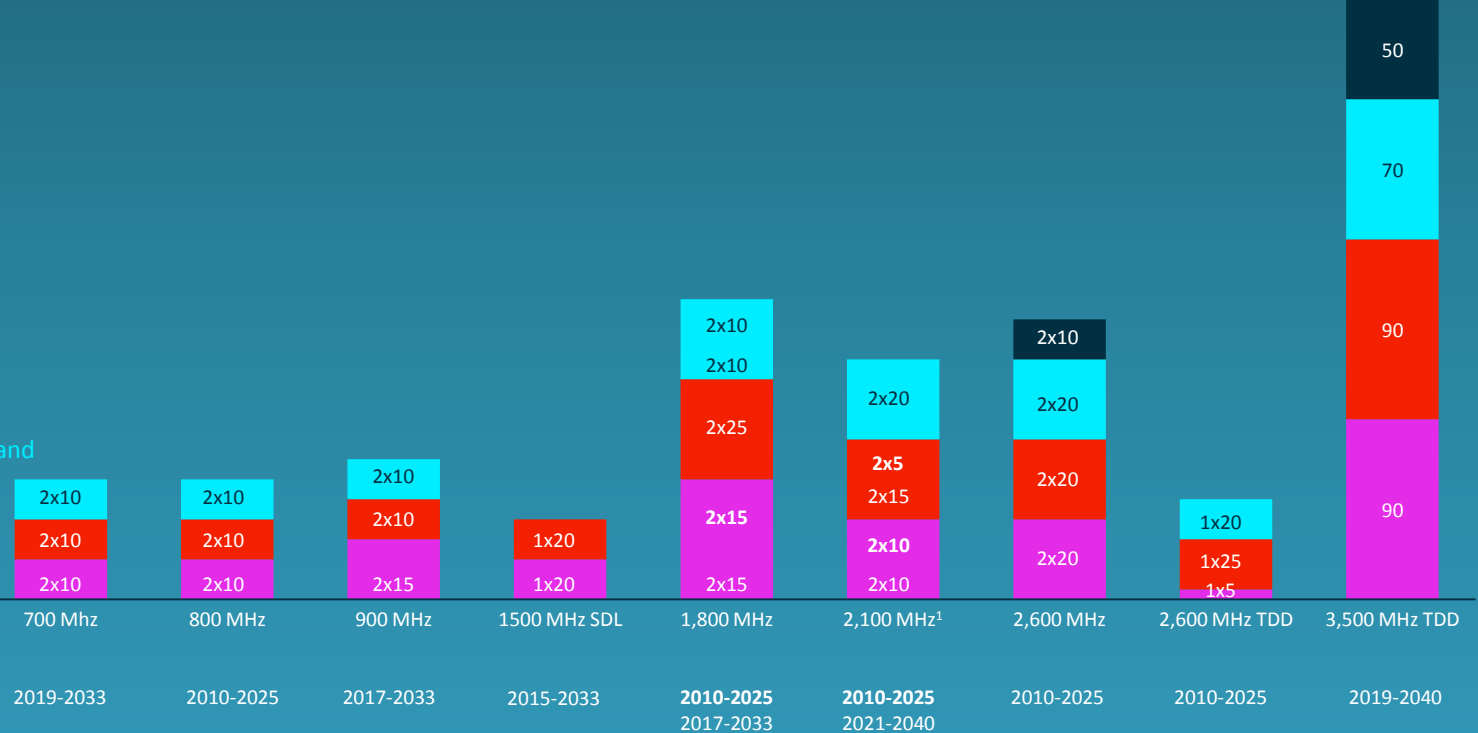
Telefónica Deutschland

Vodafone

Deutsche Telekom

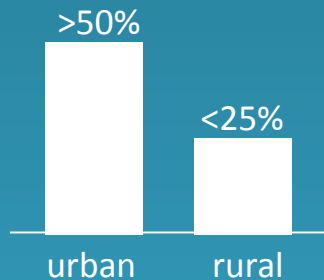
Frequencies

Maturity



# 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**

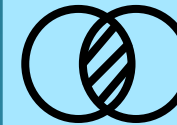


**Accelerate urban capacity via 5G**

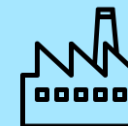
## Boost revenues to outperform market



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



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

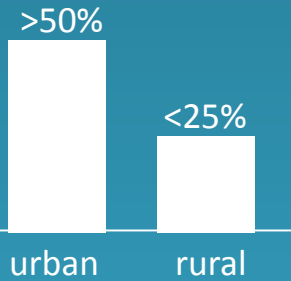


**Attack in B2B**  
to reach fair market share in SME

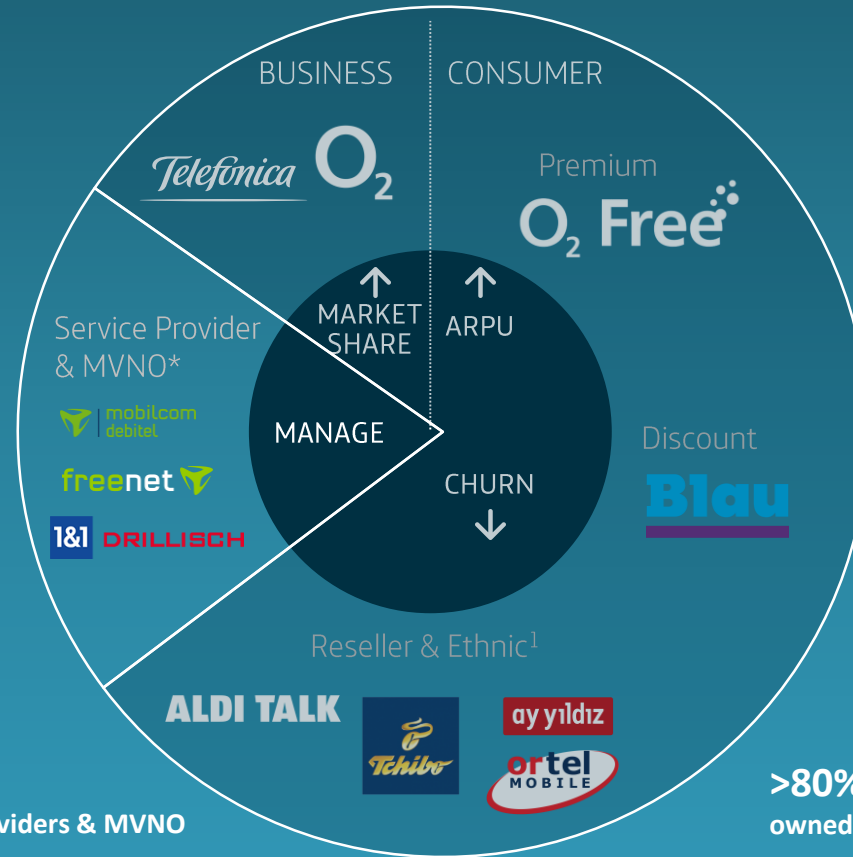
# Revenue growth driven by a step-up in 4G network quality and 5G boost



## Mobile customer share



## Sustained focus on owned customer base



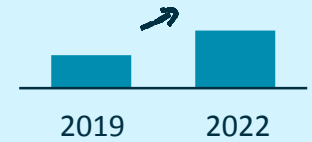
~20% service providers & MVNO

>80% owned customers

## MSR

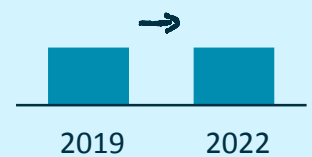
### Rural market share

Fair share

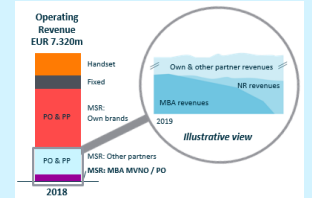


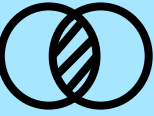
### Urban market share

Maintain share



### Gradual transition of wholesale revenue streams





## MOBILE INFRASTRUCTURE



Fixed-  
Mobile-  
Substitution  
(FMS)



## FIXED NET INFRASTRUCTURE



FttX incl. VDSL



Cable

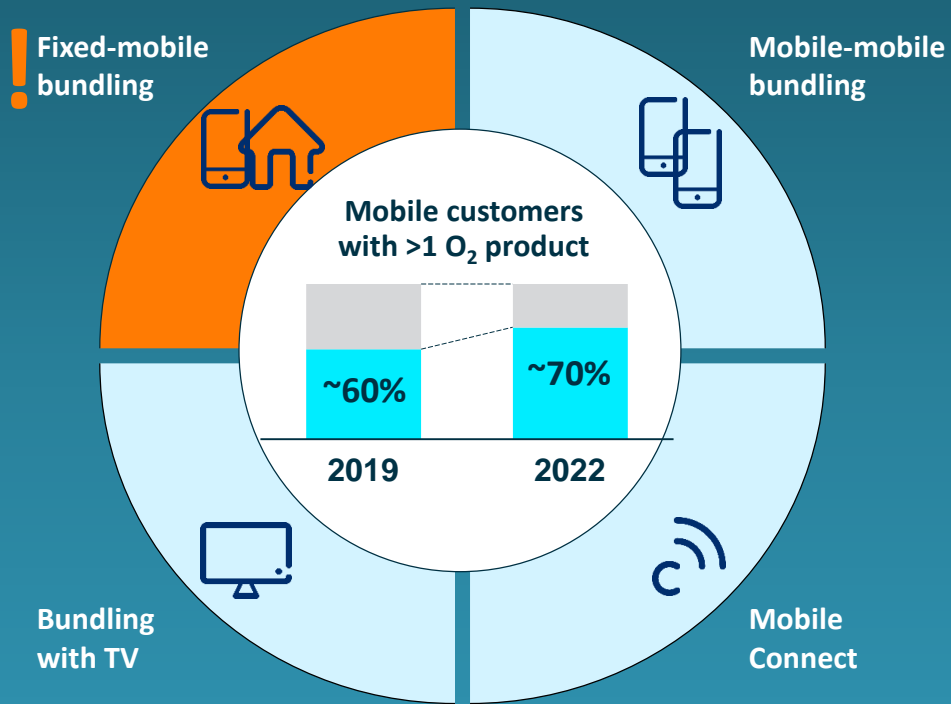
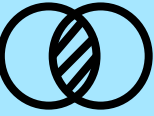


**Smart bundling** to capture value and reduce churn

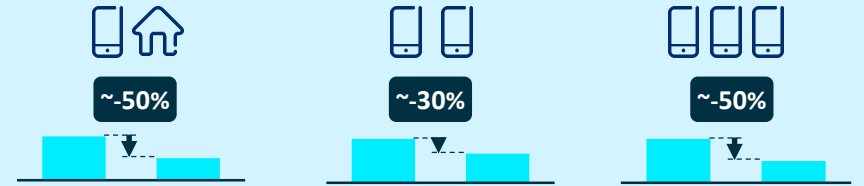
**Technology-agnostic Internet@Home solutions** with focus on customer experience

**Fixed-mobile-substitution** increases profitability

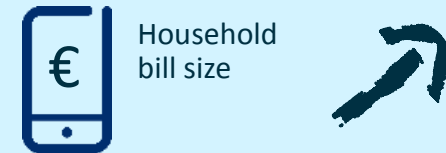
# Improve loyalty and convergence positioning by pushing smart bundling approach



## Impact on churn reduction



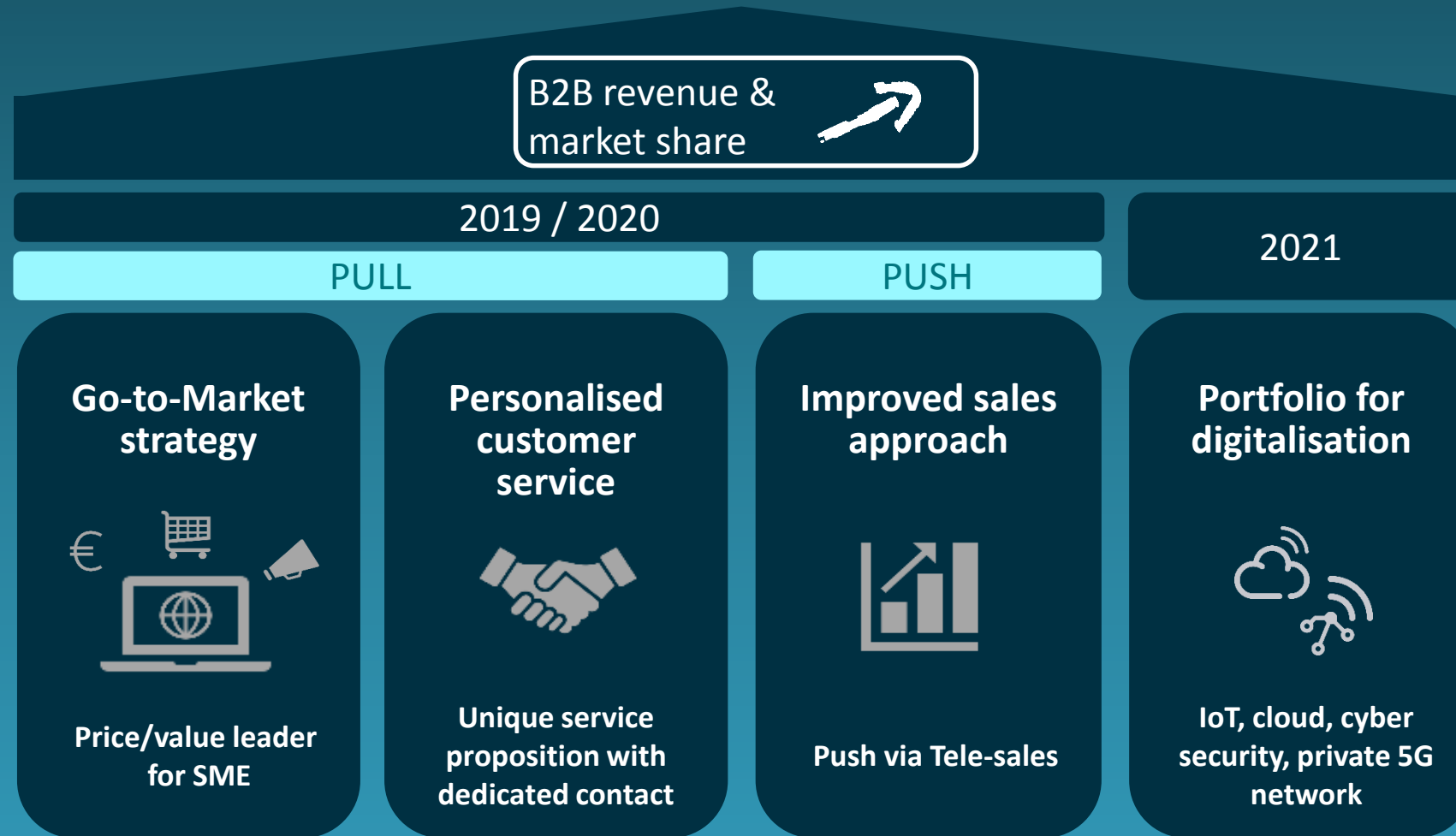
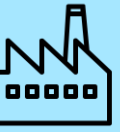
## Share of wallet increase



## Household penetration higher

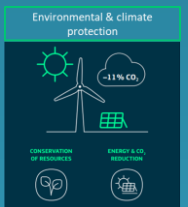
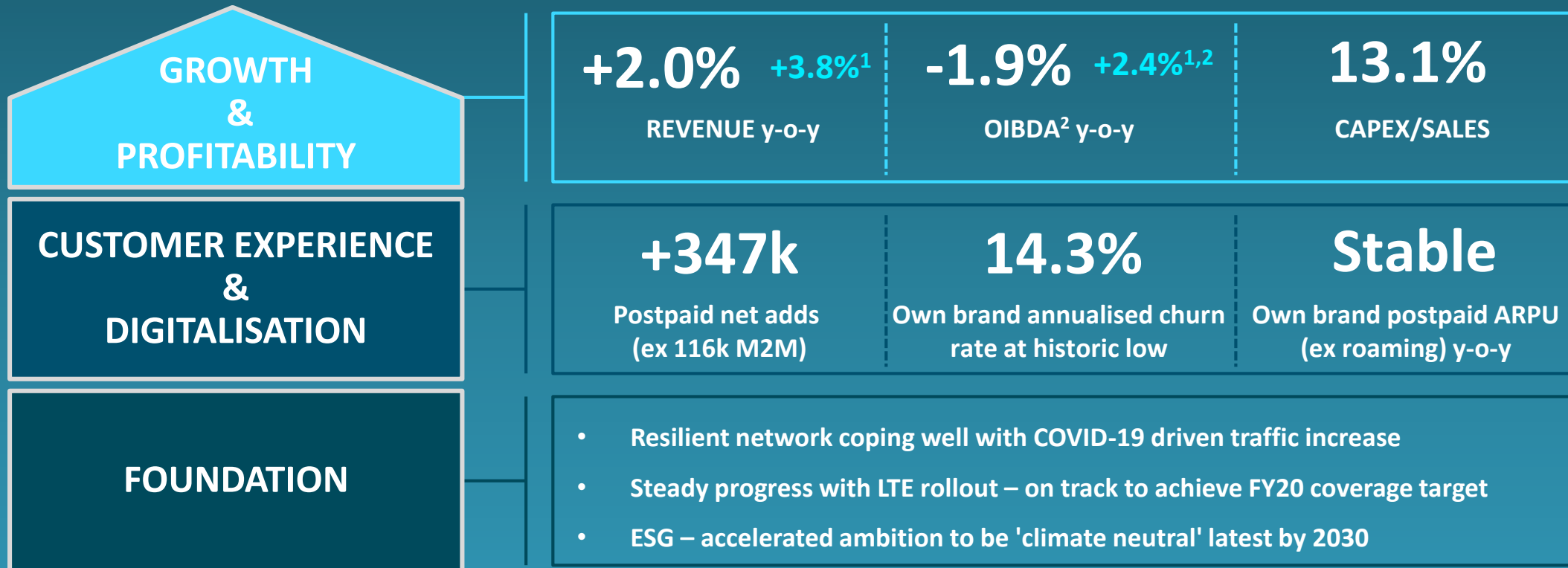


# B2B strategy drives growth by positioning Telefónica Deutschland as price/value leader for SMEs



# Driving intact business dynamics despite COVID-19

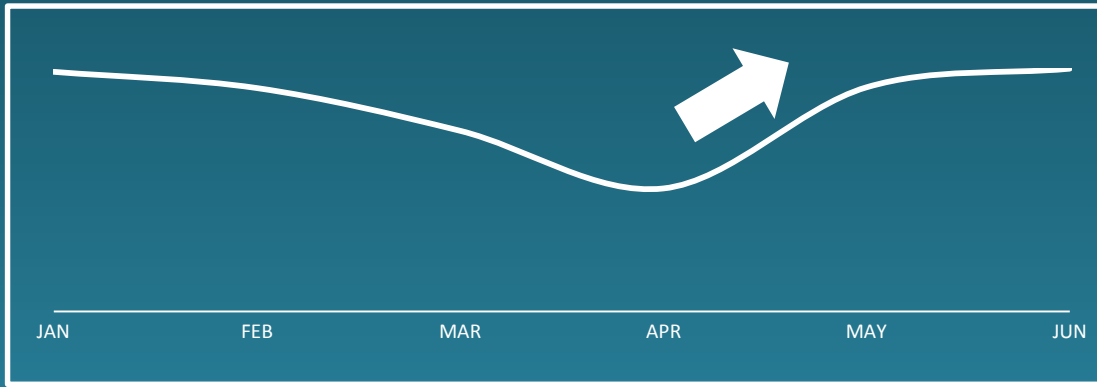
## H1 20



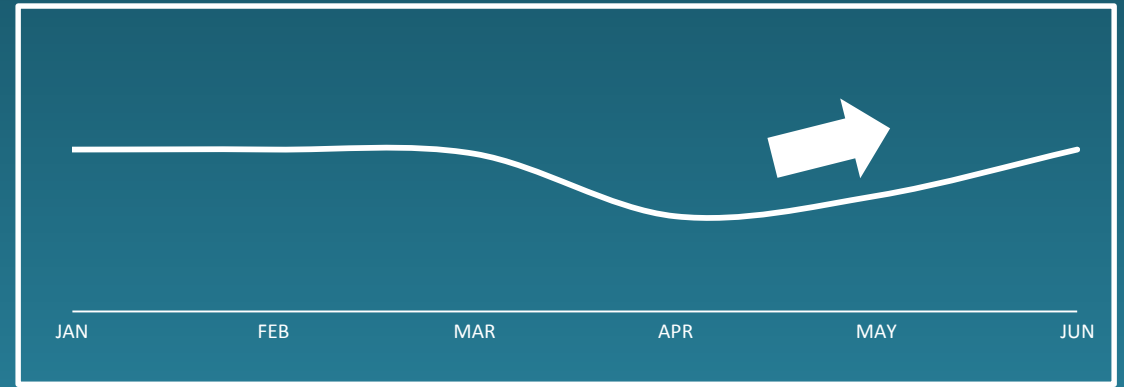


# Seeing encouraging signs of operational recovery with phased easing of COVID-19 restrictions

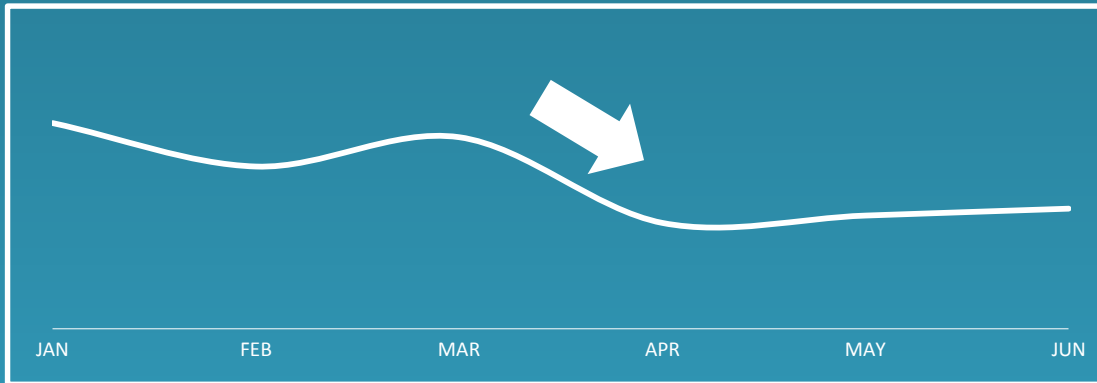
## O<sub>2</sub> gross adds – recovery to pre COVID-19 level



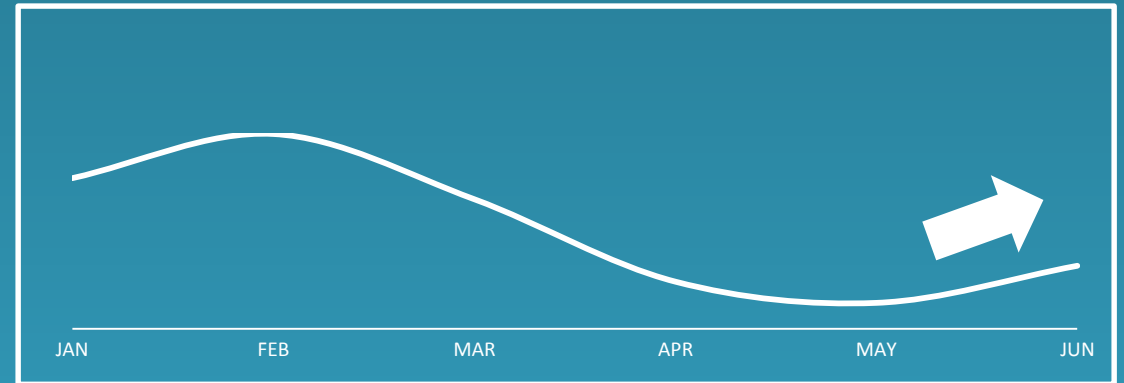
## Prepaid top up bookings – fully recovered



## O<sub>2</sub> churners – reduced to lower levels

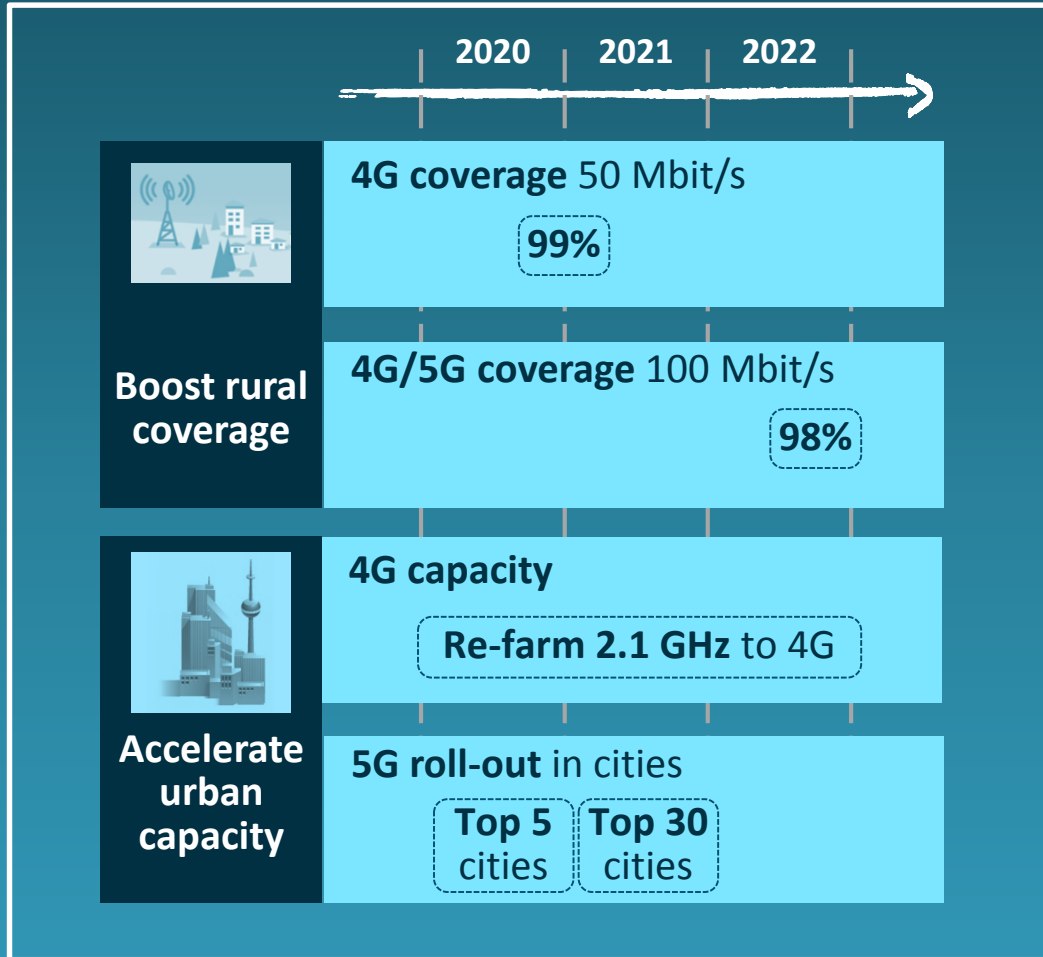


## Roaming revenue – initial signs of gradual recovery



# Resilient network – foundation for future growth

## Network roll-out strategy



## Steady progress with network roll-out strategy

- On track to achieve FY20 coverage target of 7.6k LTE sites
  - >90% pop coverage
  - 100% household coverage in Berlin, Hamburg, Bremen
  - 97% household coverage in NRW
  - 40% of FY20 LTE target achieved
- Ericson to build 5G core network
- Ramp up of 5G rollout into top 5 German cities



# Revenue – operational trends intact

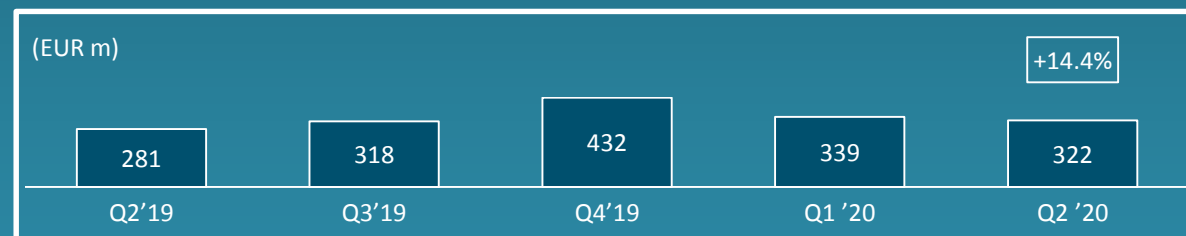
## Revenue slightly up despite reduced roaming contribution



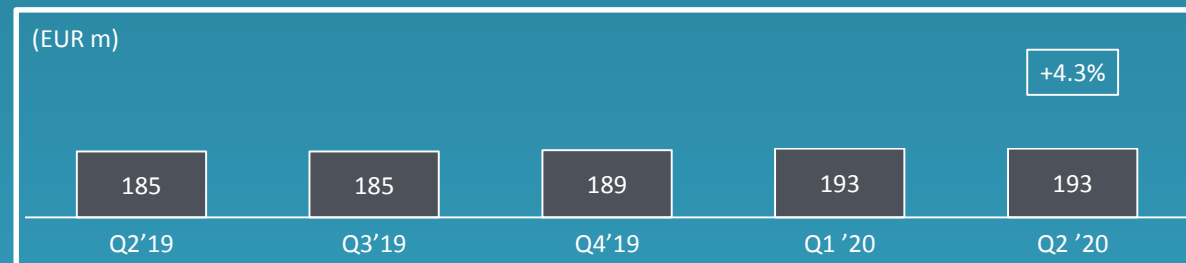
## Operational MSR trend intact despite tougher comps



## Continued demand for high-value devices

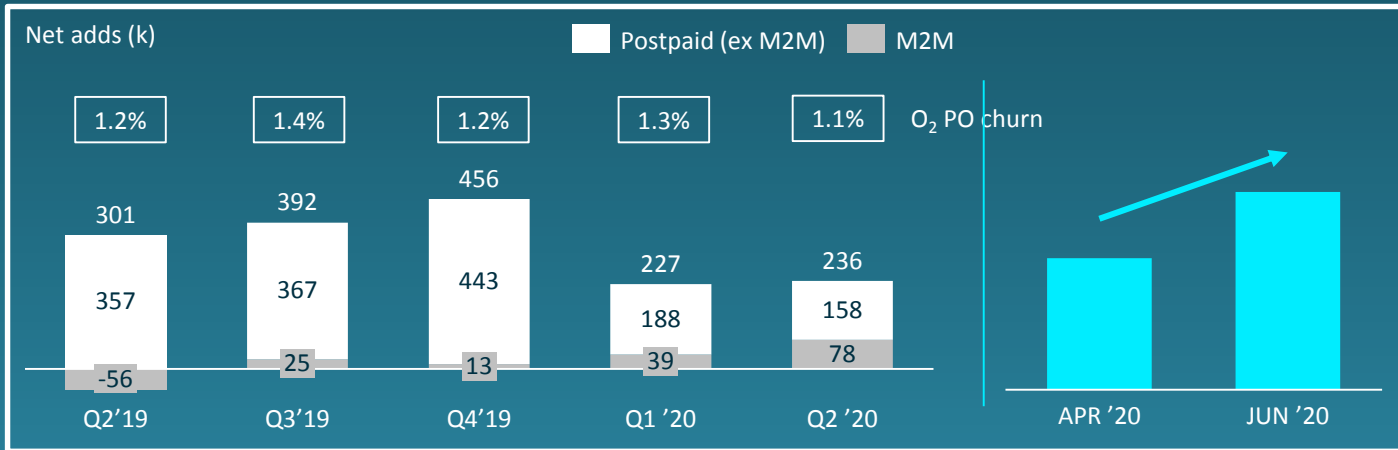


## Fixed revenue growth driven by improved customer mix

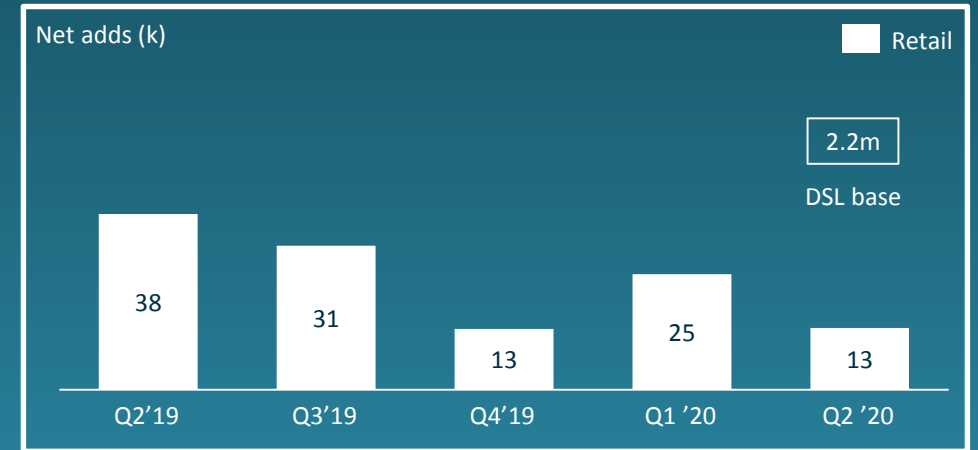


# Gradual trading recovery & early signs of ARPU rebound post lockdown

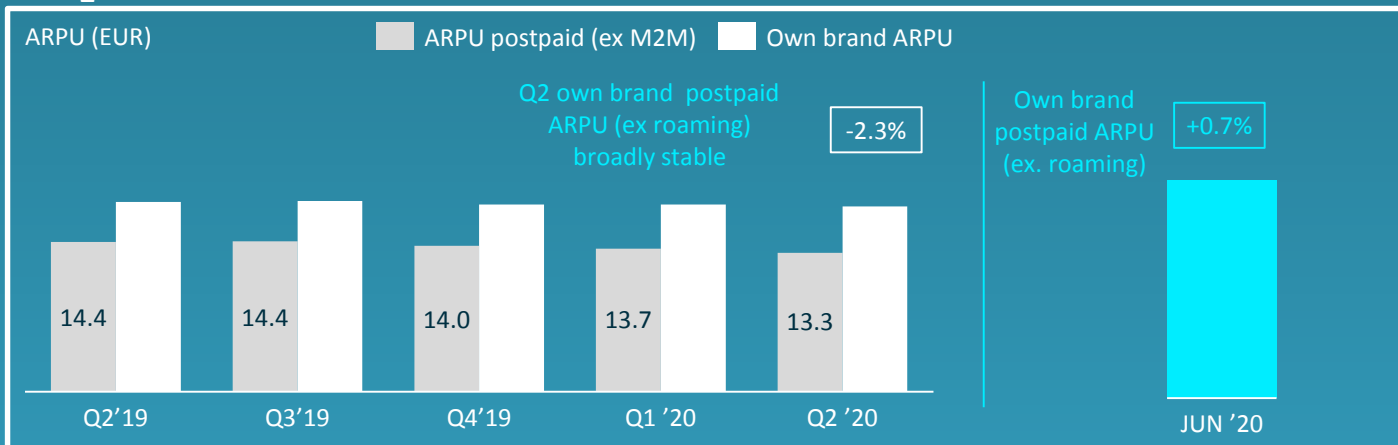
## Focus in mobile on profitable growth



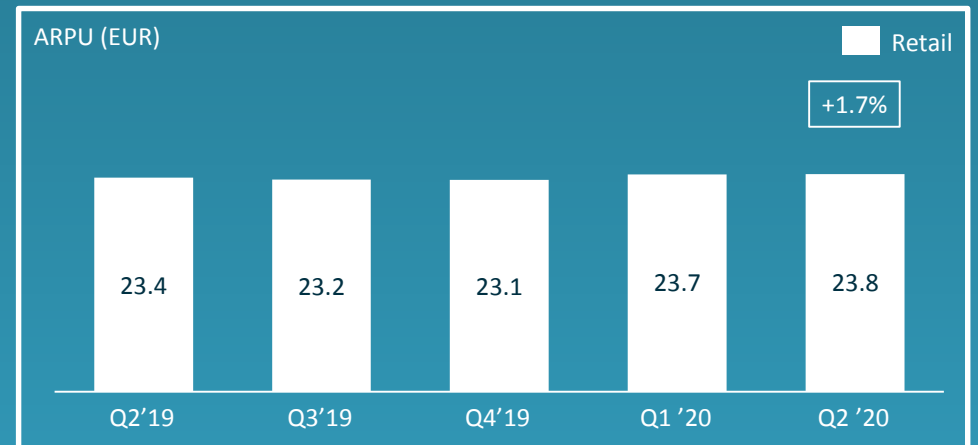
## Sustained demand for VDSL drives growth



## O<sub>2</sub> Free partly offsets reduced roaming contribution to ARPU

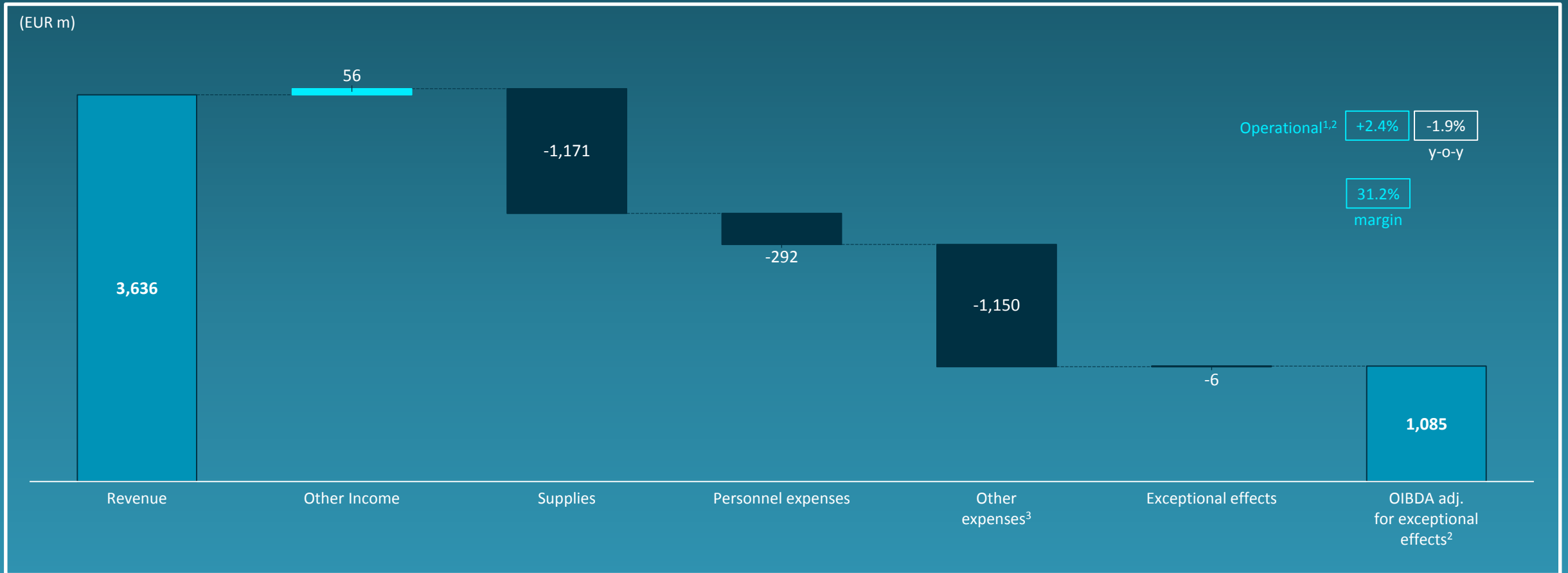


## Fixed ARPU reflects higher VDSL share



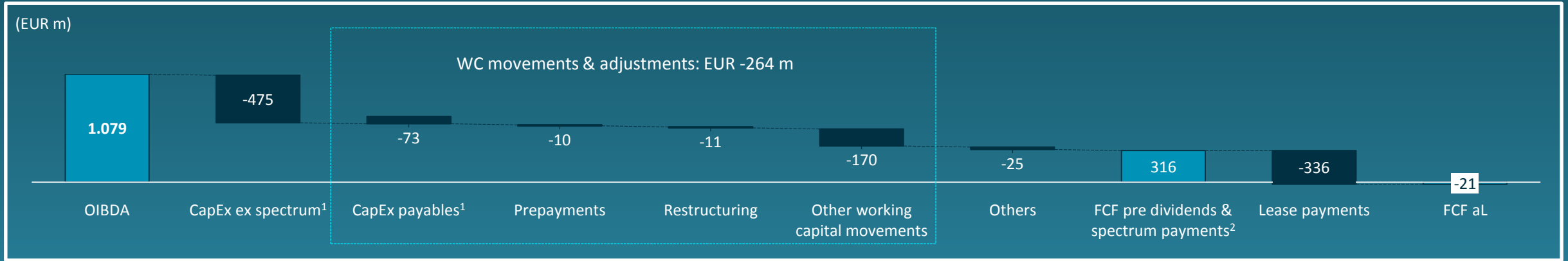
# Operational OIBDA<sup>1,2</sup> continues to grow in H1 20

## H1 20 revenue impacted by special factors with flow-through to OIBDA

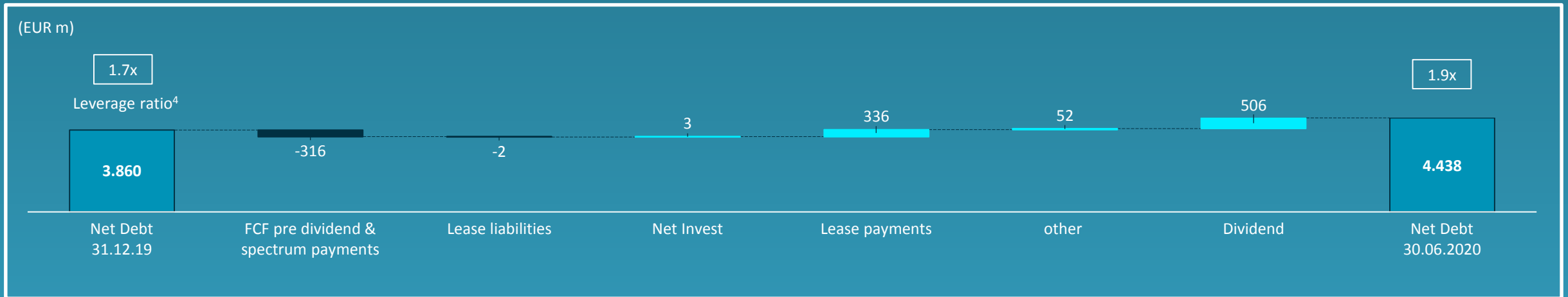


# Free Cash Flow dynamics reflect usual seasonal movements

## Evolution of H1 20 FCF



## Net debt<sup>3</sup> – leverage well in-line with target



<sup>1</sup> Excluding additions from capitalised right-of-use assets and investments in spectrum

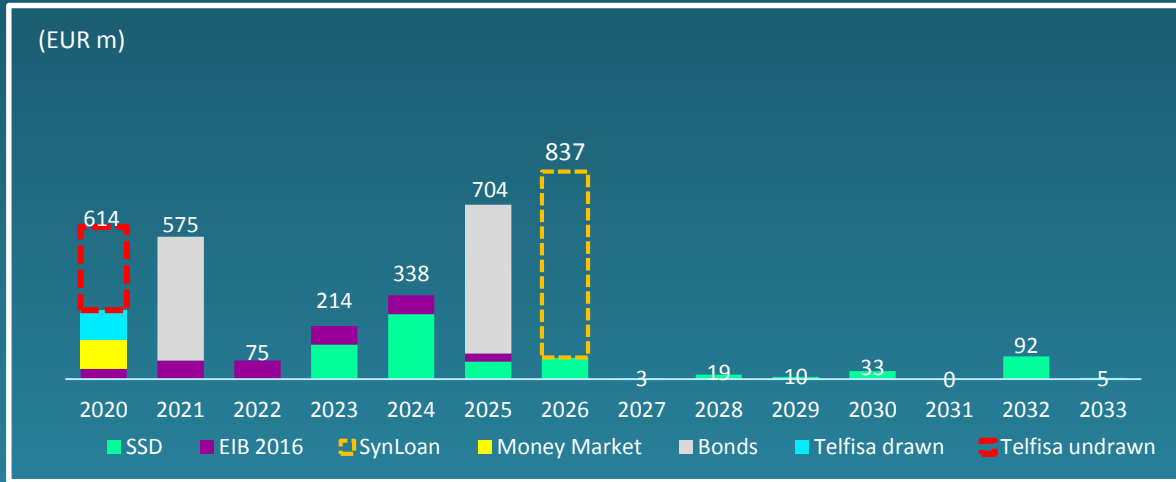
<sup>2</sup> FCF pre dividends & spectrum payments is defined as the sum of cash flow from operating activities & cash flow from investing activities

<sup>3</sup> Net financial debt includes current and non-current interest-bearing financial assets and interest-bearing liabilities as well as cash and cash equivalents and excludes payables for spectrum

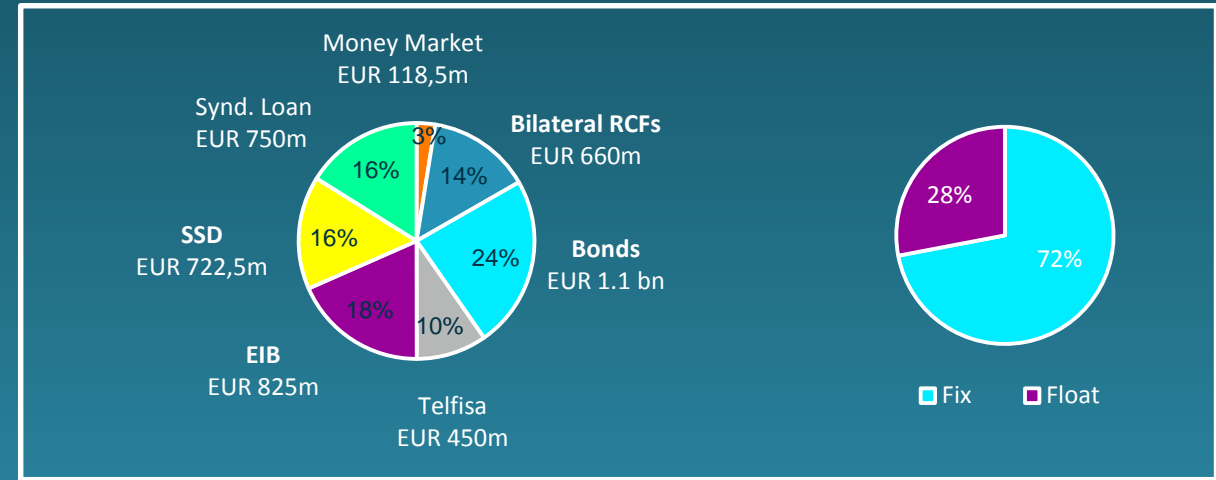
<sup>4</sup> Leverage ratio is defined as net financial debt divided by the OIBDA for the last twelve months adjusted for exceptional effects

# Strong liquidity position - smooth debt maturity profile and well diversified financing mix

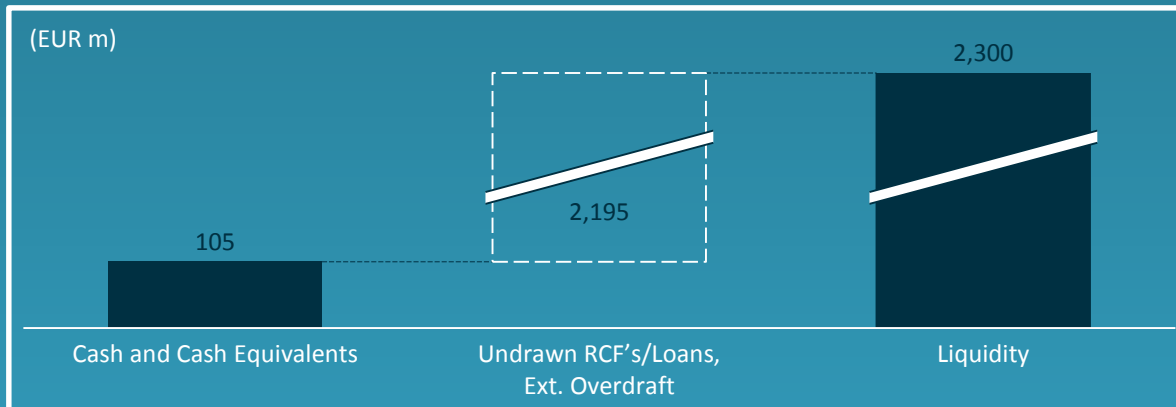
## Maturity profile<sup>1</sup>



## Financing and interest mix<sup>2</sup>



## Liquidity position



## Comments

- Ample liquidity of c. EUR 2.3bn provides significant financial stamina. This includes a EUR450m undrawn EIB Loan
- Well balanced and diversified maturity profile
- Low exposure to changes in interest rates due to a high percentage of debt at fixed rates
- EUR 118.5m Money Market Facilities outstanding

# Strong confidence in mid-term FCF generation ability and remain committed to attractive shareholder remuneration



- **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 a 1.9x (IFRS 16) as of 30.06.2020
- **IFRS 16 leverage target: At or below 2.5x; solid headroom under current rating**
- Deferred spectrum payments lead to increased **financial flexibility**


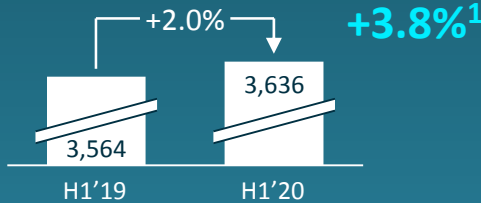
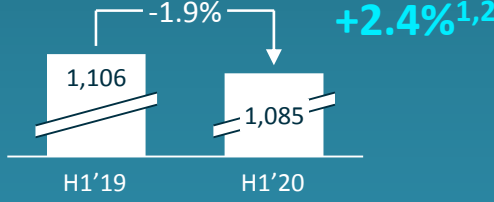
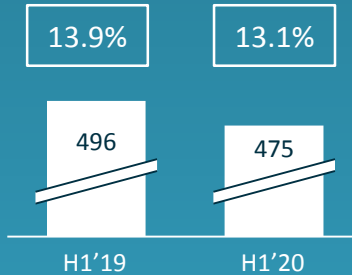


Dividend policy

- **Continuity since the IPO**
- **High pay-out ratio to FCF aL**
- **Dividend of EUR 0.17/share, which will be a floor during our investment programme in 2020/21**

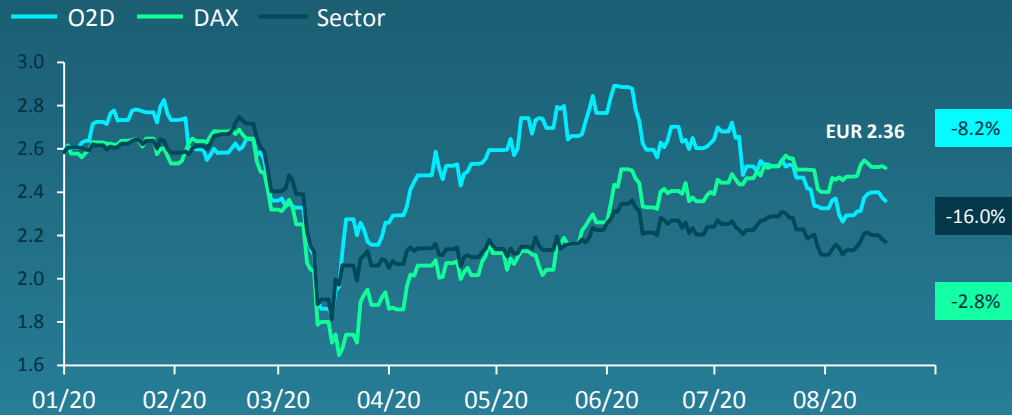


# Confirming FY20 revenue & OIBDA outlook while anticipating C/S below 17-18%; continuously monitoring COVID-19 developments

	Outlook FY20	Mid-term guidance 2020/22	H1 20
Revenue	<p>Flat to slightly positive (incl. reg. impacts of ~EUR 20-30m)</p>	 <p>TEF D with cumulated growth of min. 5%</p>	 <p>3,564 (H1'19) vs 3,636 (H1'20) +2.0% change, +3.8%<sup>1</sup> adjustment</p>
OIBDA <sup>2</sup>	<p>Broadly stable to slightly positive (incl. reg. impacts of less than ~EUR 10m)</p>	<p>Ongoing margin improvement</p>	 <p>1,106 (H1'19) vs 1,085 (H1'20) -1.9% change, +2.4%<sup>1,2</sup> adjustment</p>
C/S	<p>&lt; 17-18%</p>	<p>2-year investment programme to generate growth with C/S (incl. 5G RAN) of &lt; 17-18% in 2020, peaking b/w 17-18% in 2021 &amp; normalising in 2022</p>	 <p>496 (H1'19) vs 475 (H1'20) 13.9% (H1'19) vs 13.1% (H1'20)</p>

# O2D factsheet

## Share price development as of 18 August 2020

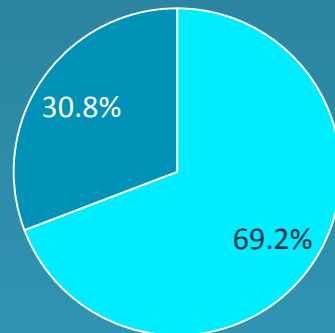


## Telefónica Deutschland at a glance<sup>1</sup>

Market segment	Prime Standard
Industry	Telecommunications
Shares outstanding	2,974,554,993 shares
Share capital	EUR 2,974.6 m
Market cap	EUR 8,156.2 m
Share price	EUR 2.742

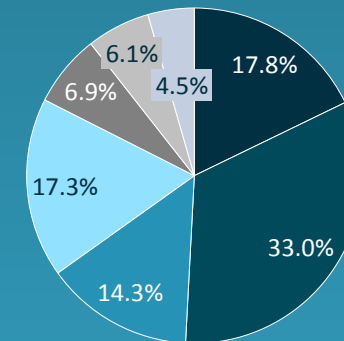
## Shareholder structure<sup>1</sup>

- Telefónica Germany Holdings Ltd<sup>2</sup>
- Freefloat



## Regional split of shareholder structure<sup>3</sup>

- UK & Ireland
- North America
- France
- Germany
- Continental Europe
- Scandinavia
- Rest of World

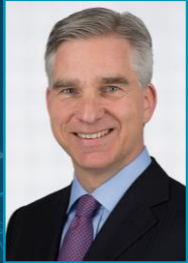


<sup>1</sup> Status: 30 June 2020

<sup>2</sup> Telefónica Germany Holdings Limited is an indirect wholly owned subsidiary of Telefónica S.A.

<sup>3</sup> Source: NASDAQ; Shareholder ID as of March 2020

# Any further questions? Please reach out to us!



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Senior Investor Relations Officer

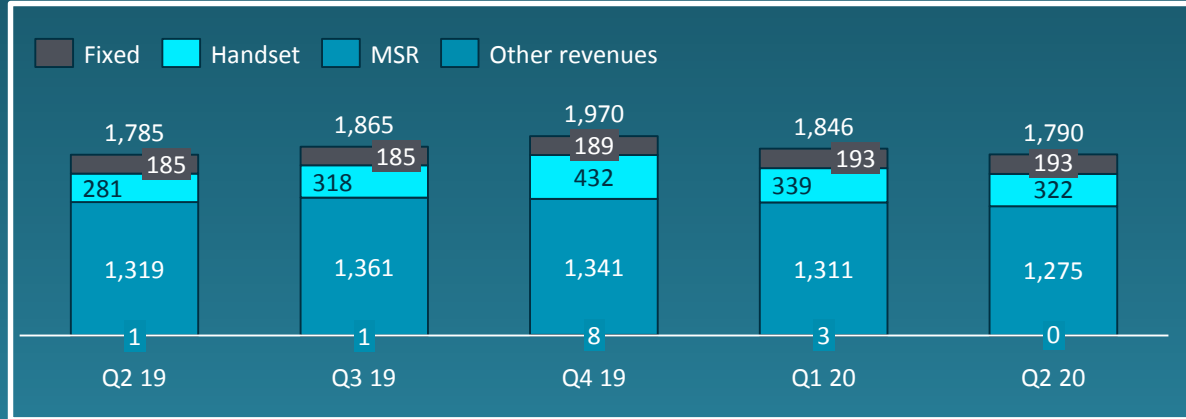
+49 176 3147 5260  
eugen.albrecht@telefonica.com

# Appendix

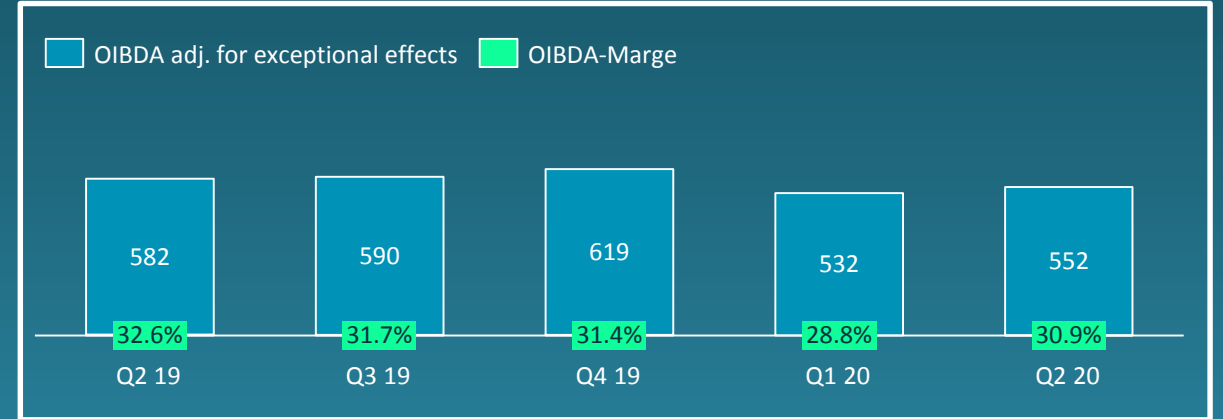
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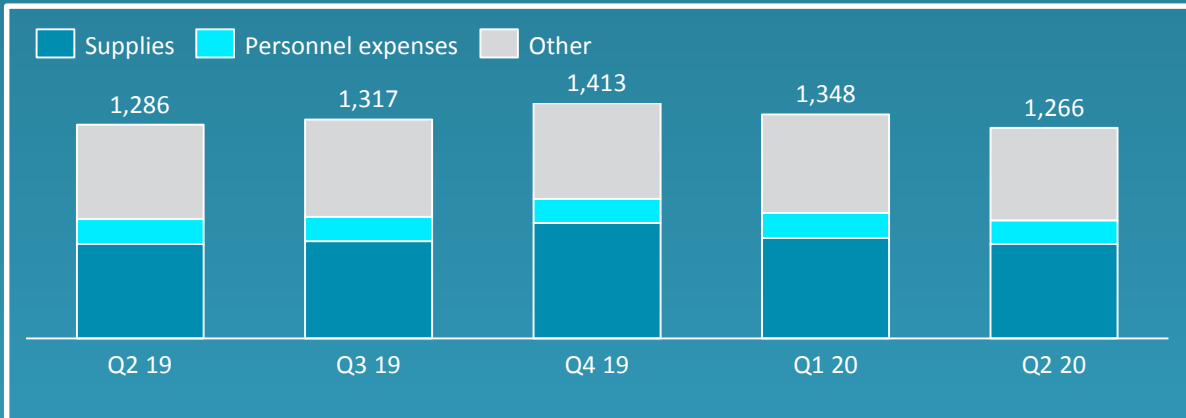
## Revenue structure (EUR m)



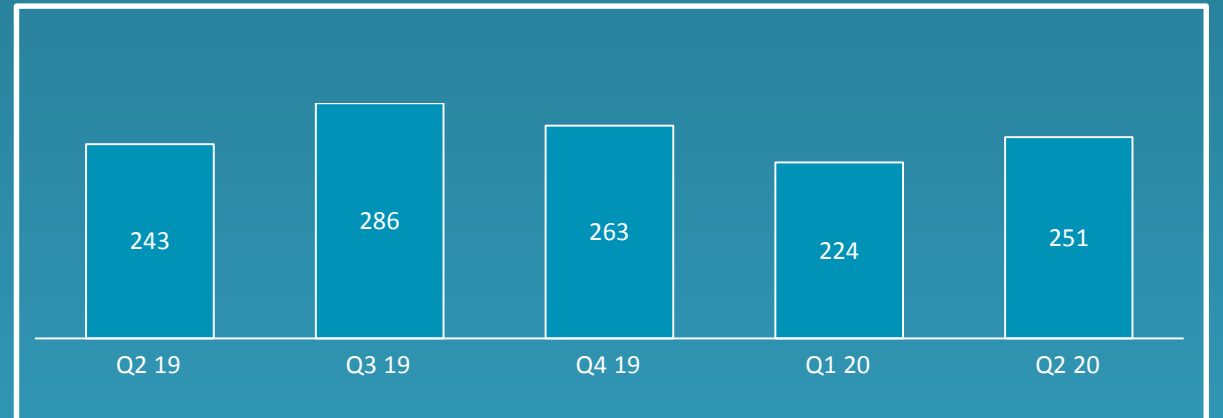
## Underlying OIBDA<sup>1</sup> (EUR m)



## OpEx split<sup>2</sup> (EUR m)



## CapEx<sup>3</sup> (EUR m)



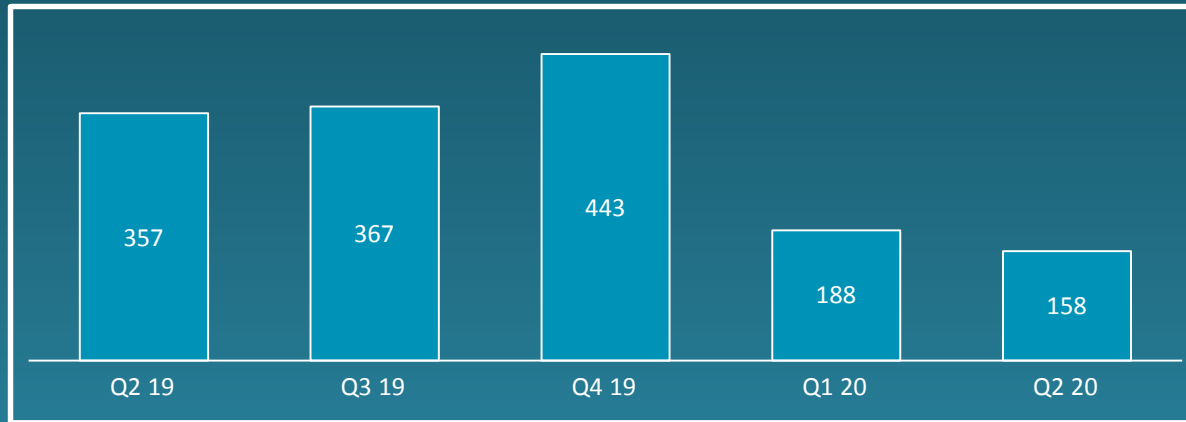
<sup>1</sup> Adjusted for exceptional effects

<sup>2</sup> Includes impairment losses in accordance with IFRS 9

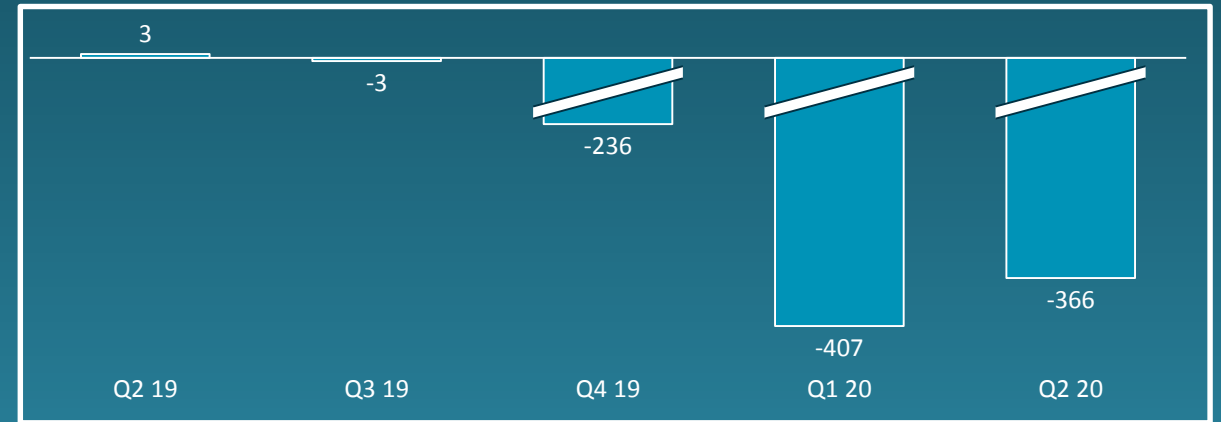
<sup>3</sup> Excluding additions from capitalised right-of-use assets

# Mobile KPIs

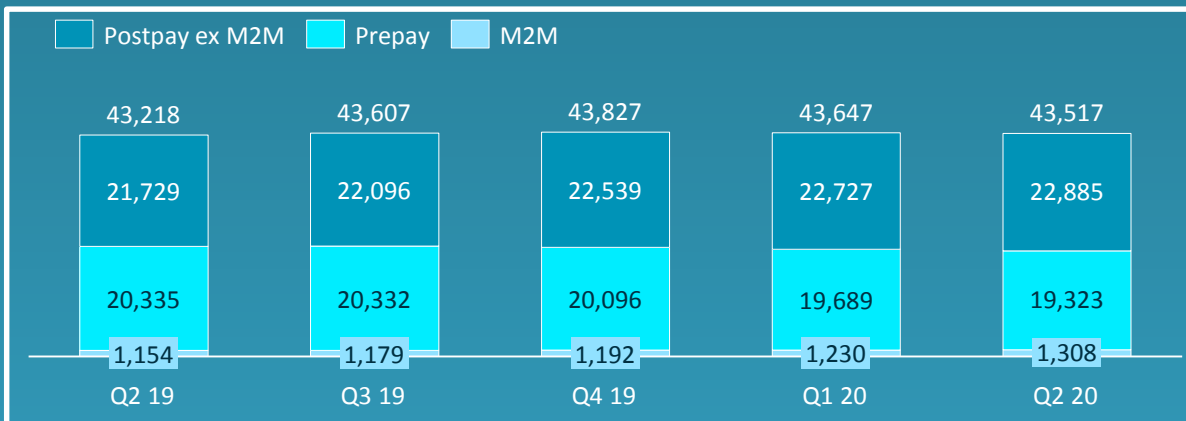
## Postpay net adds<sup>1</sup> (k)



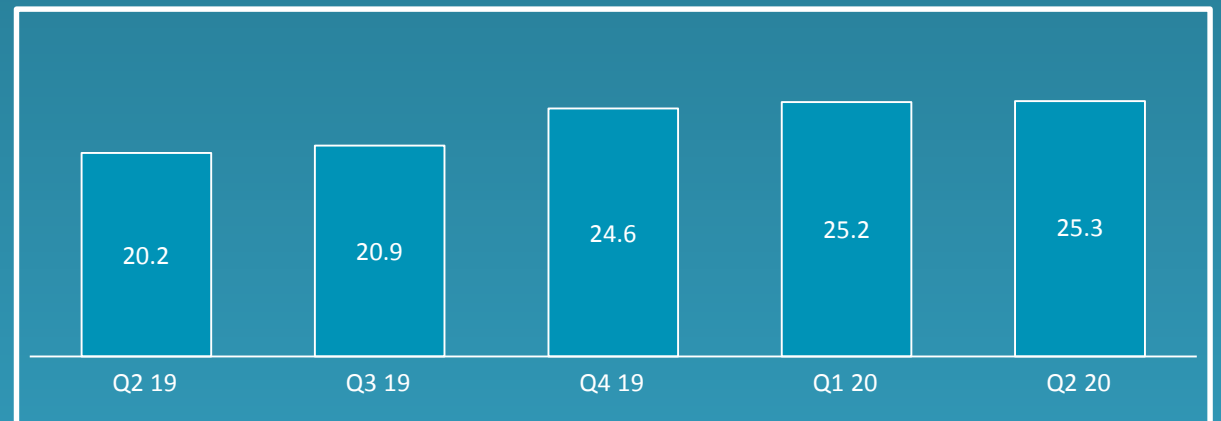
## Prepay net adds (k)



## Mobile customer base (k)

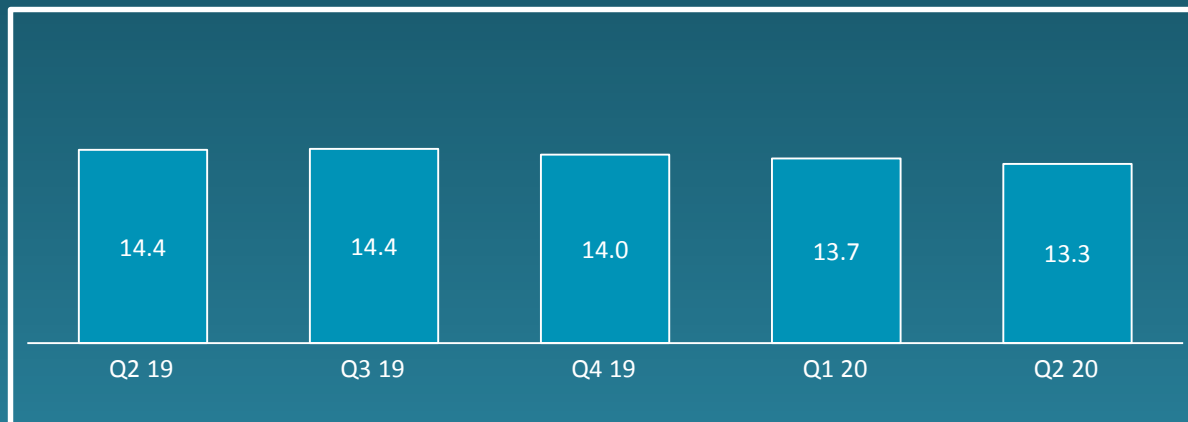


## LTE customer base (m)



# Mobile KPIs

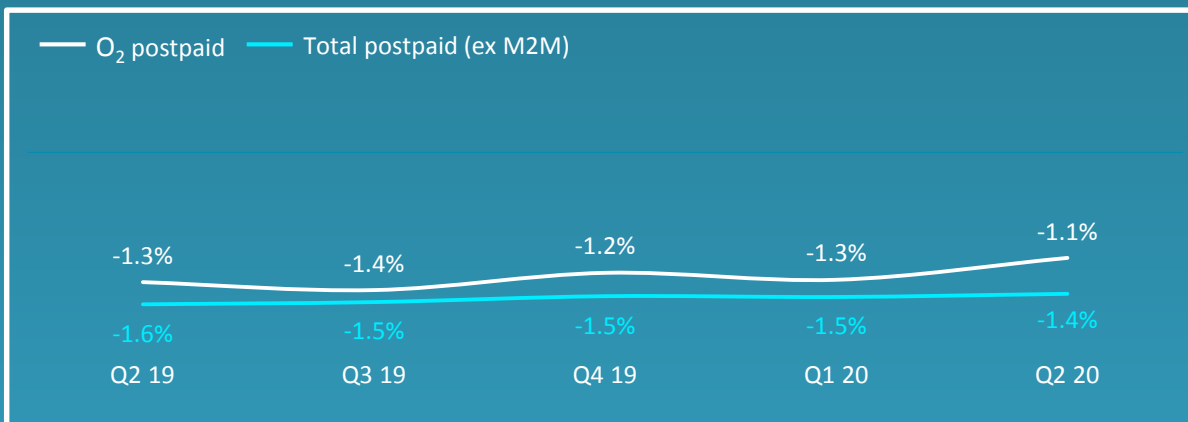
## Postpay ARPU (EUR)



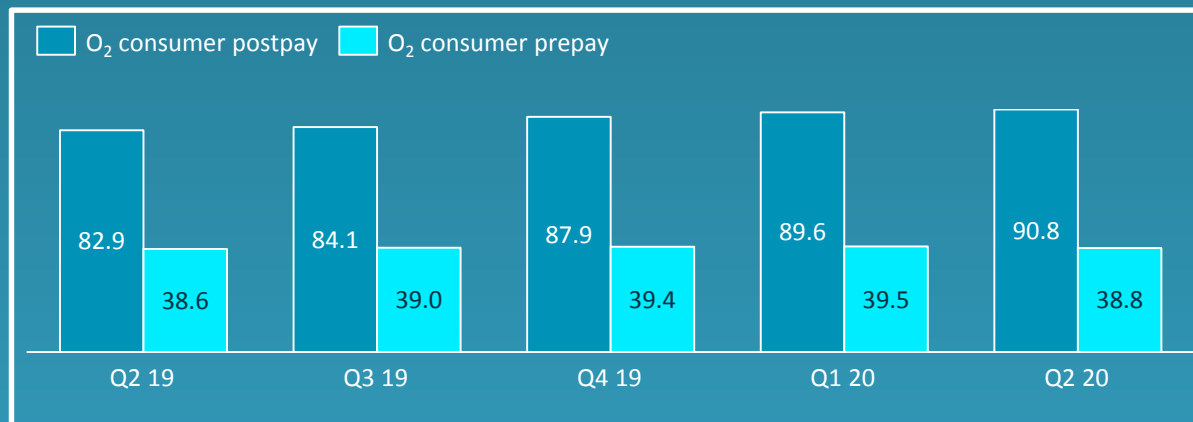
## Prepay ARPU (EUR)



## Churn rate (%)



## Smartphone penetration (%)<sup>1</sup>



# O<sub>2</sub> Free mobile portfolio

	O <sub>2</sub> Free Unlimited Basic	O <sub>2</sub> Free Unlimited Smart	O <sub>2</sub> Free Unlimited Max
Datenvolumen	Unlimited GB	Unlimited GB	Unlimited GB
Max Surfgeschwindigkeit	2 MBit/s	10 MBit/s	Max. MBit/s
Netztechnologie	4G   LTE	4G   LTE 5G Ready	4G   LTE 5G Ready
Flatrate für Minuten/SMS	✓	✓	✓
EU Roaming	✓	✓	✓
Mtl. Grundgebühr bei 24 Monaten Mindestlaufzeit	<b>29</b> ,99€	<b>39</b> ,99€	<b>49</b> ,99€

Preis in € inkl. Mwst.

-  **Unbegrenzt**  
Datenvolumen
-  Mit der passenden Surf-Geschwindigkeit
-  Bereit für 5G
-  **Voll flexibel:**  
Auf Wunsch ohne Laufzeit
-  Ab 29,99 Euro im Monat

	O <sub>2</sub> Free S	O <sub>2</sub> Free M	O <sub>2</sub> Free L
Datenvolumen	3 GB	20 GB	60 GB
Max Surfgeschwindigkeit	Max. Mbit/s	Max. Mbit/s	Max. Mbit/s
Netztechnologie	4G   LTE	4G   LTE	4G   LTE 5G Ready
Flatrate für Minuten/SMS	✓	✓	✓
EU Roaming	✓	✓	✓
Mtl. Grundgebühr bei 24 Monaten Mindestlaufzeit	<b>19</b> ,99€	<b>29</b> ,99€	<b>39</b> ,99€

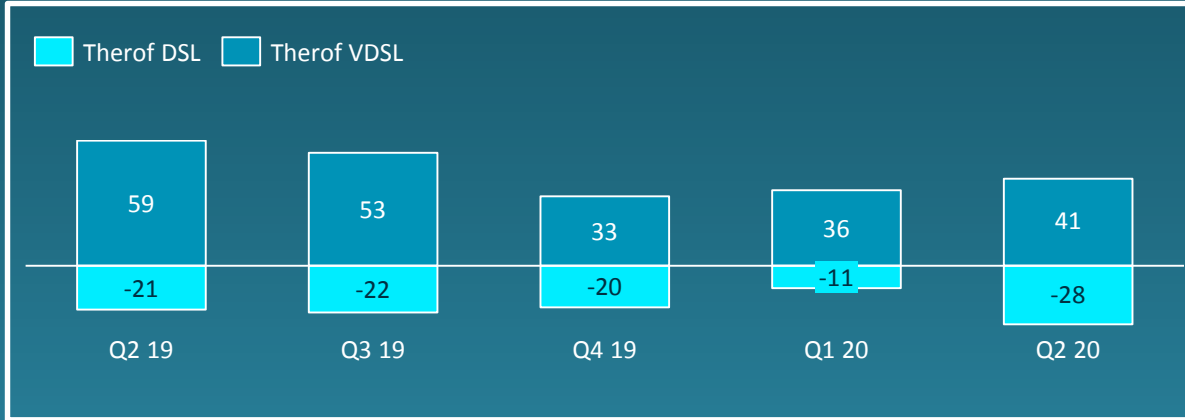
Preis in € inkl. Mwst.

-  **BOOST mit CONNECT**  
Doppeltes Datenvolumen für bis zu 10 Geräte
-  Bereit für 5G
-  **Voll flexibel:**  
Auf Wunsch ohne Laufzeit
-  Von 10 auf 20 GB für 29,99 Euro

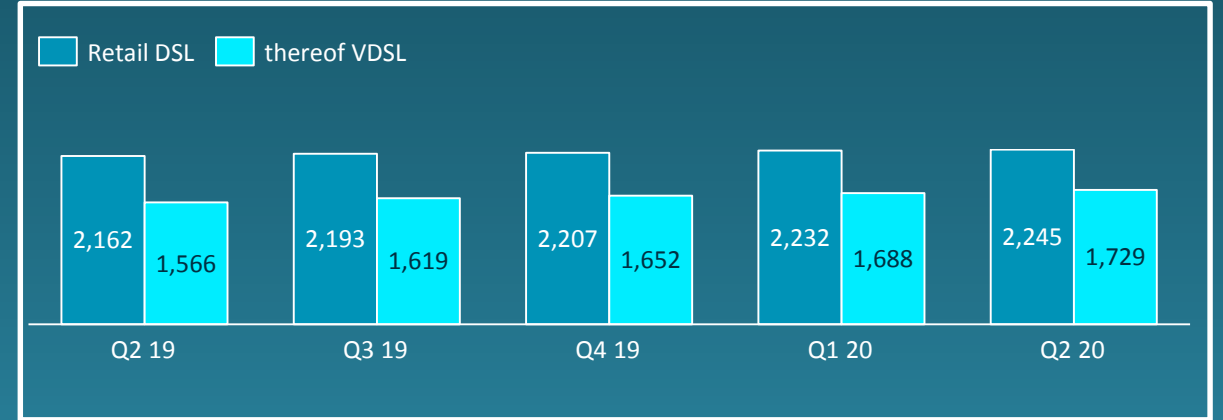


# Fixed KPIs

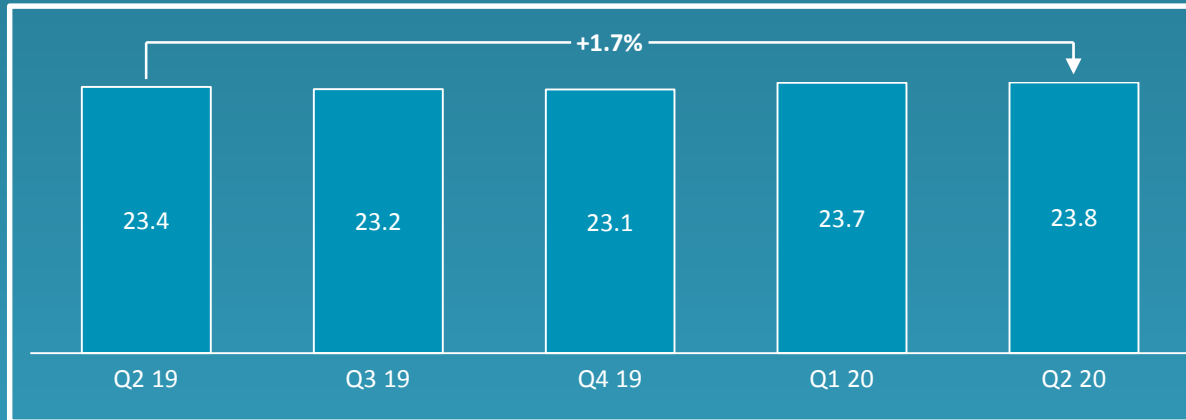
## Retail broadband net adds ('000)



## Fixed accesses ('000)



## Fixed retail ARPU (EUR)



# O<sub>2</sub> Free fixed portfolio

	O <sub>2</sub> my Home XL*	O <sub>2</sub> my Home L	O <sub>2</sub> my Home M	O <sub>2</sub> my Home S
Maximale Surf-Geschwindigkeit <sup>1</sup>	VDSL <b>250 MBit/s</b> (Upload: 40 MBit/s) <sup>4</sup>	VDSL <b>100 MBit/s</b> (Upload: 40 MBit/s) <sup>4</sup>	<b>50 MBit/s</b> (Upload: 10 MBit/s)	<b>10 MBit/s</b> (Upload: 2,4 MBit/s) <sup>5</sup>
Flatrate-Telefonieren ins dt. Festnetz und in alle dt. Mobilfunknetze <sup>3</sup>	✓	✓	✓	✓
Optional buchbar: HomeBox 2 AVM FRITZ!Box 7490 AVM FRITZ!Box 7590 <sup>6</sup>	- - 5,99 mtl.	1,99 mtl. 3,99 mtl. 5,99 mtl.	1,99 mtl. 3,99 mtl. 5,99 mtl.	1,99 mtl. 3,99 mtl. 5,99 mtl.
Anschlussgebühr einmalig <sup>2</sup>	0,- (anstatt 49,99)	0,- (anstatt 49,99)	0,- (anstatt 49,99)	49,99
Rabattaktion <sup>2</sup>	1 Jahr 10,- mtl. sparen	1 Jahr 10,- mtl. sparen	1 Jahr 10,- mtl. sparen	1 Jahr 10,- mtl. sparen
Mtl. Grundgebühr reduziert für O <sub>2</sub> Kunden <sup>7</sup>	ab 24,99 (ab 13. Monat ab 34,99)	ab 14,99 (ab 13. Monat ab 24,99)	ab 9,99 (ab 13. Monat ab 19,99)	-
Mtl. Grundgebühr (bei 24 Monaten Laufzeit)	<b>34,99</b> ab 13. Monat 44,99	<b>24,99</b> ab 13. Monat 34,99	<b>19,99</b> ab 13. Monat 29,99	<b>14,99</b> ab 13. Monat 24,99

*Telefonica*

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**Deutschland**