Telefónica Deutschland

MUNICH, 12 May 2021

Interim statement for January to March 2021

Solid start to the year with profitable growth – confirming FY21 outlook

- **Good operational and financial momentum despite C-19 headwinds**
- **Ongoing trading momentum supported by increased online channel activities and historic low churn levels**
- **Revenues up +0.2% y-o-y in Q1 21 – operational trends in-tact across all revenue lines**
- **Strong OIBDA[1] growth of +5.5% y-o-y in Q1 21 driven by improved revenue quality and effective C-19 cost management**
- **C/S ratio of 12.3% in Q1 21 – executing 'investment for growth' programme with back-end loaded annual phasing**
- **Confirming FY21 outlook while closely monitoring C-19 environment**

First quarter 2021 operational & financial highlights

In a hard lockdown quarter, Telefónica Deutschland delivered a solid start to the year with good operational and financial performance in a rational market environment. Ongoing restrictions continued to weigh on commercial activities and international roaming revenues. O_2 shops were closed for most of the quarter impacting trading dynamics while online channels largely compensated for lower gross add volumes. Prepaid demand for data packs was muted due to WiFi offloading on the back of less mobility. Still, the O_2 Free portfolio continued to be well received, leveraging historic low churn levels on the back of the achieved equalisation of the O_2 network quality and continuously improving services.

After the largest 4G network expansion programme in the company's history with over 11,000 new 4G elements being installed in 2020, Telefónica Deutschland now significantly progressed with its 5G network expansion. The 5G network already operates in over 30 German cities with around 1,000 antennas, leveraging the company's 3.6 GHz spectrum to offer great customer experience as also confirmed by the recent 5G network test of Speedcheck. Telefónica Deutschland's 5G network was ranked by Speedcheck a close second for available 5G speed with a meaningful margin to the third ranked operator. Telefónica Deutschland targets to reach >30% of 5G pop-coverage by YE21, ~50% by YE22 and close to full coverage by YE25.

In April, the company was awarded with a 'good' rating in the CHIP magazine's fixed network test, which represents a significant improvement compared to last year.

Telefónica Deutschland's ESG strategy is fully integrated in the company's overall business strategy and the launch of the second Responsible Business Plan in March underpins its target to be carbon neutral by 2025.

[1] Adjusted for exceptional effects. In Q1 21, exceptional effects amounted to EUR -15m of restructuring costs. In Q1 20, exceptional effects amounted to EUR -8m (EUR -9m losses from the sale of assets and EUR +1m restructuring income).

Operating performance

Mobile business

Mobile postpaid continued strong trading momentum supported by online channels (O_2 Postpaid ~40% of gross add share in online). +220k mobile postpaid net additions in Q1 21 compared to +188k in Q1 20 (+16.8% y-o-y) on the back of continued historic low churn and sustained strong customer demand for the well-received O_2 Free portfolio as well as a solid performance of partners.

M2M improved to +42k net additions in Q1 21 compared to +39k in Q1 20.

Mobile prepaid registered -109k net disconnections in Q1 21 versus -407k in Q1 20 supported by some revenue neutral SIM card reactivations while the market trend of prepaid to postpaid migration continued.

Postpaid churn improved +0.2 p.p. y-o-y in Q1 21 and remained on historic low levels of 1.3%. **Churn in the O_2 brand** even saw an improvement of +0.3 p.p. y-o-y in Q1 21 to 1.0%. The positive churn development is providing a clear proof point for the excellent customer experience on the O_2 network as well as some C-19 related lower churn entries. As a result, the implied annualised churn rate of the O_2 brand improved to 11.6% in Q1 21 compared to 15.7% in Q1 20.

Telefónica Deutschland's **mobile customer accesses** increased +1.8% y-o-y and reached 44.4m as of 31 March 2021 driven by strong +4.7% y-o-y growth of the **mobile postpaid base ex M2M** which stood at 23.8m accesses at the end of the quarter. As a result, mobile postpaid share further increased, now accounting for 53.6% of the company's total mobile access base, up +1.5 p.p. y-o-y. **M2M accesses** totalled 1.5m as of 31 March 2021, up +18.0% y-o-y while the **mobile prepaid base** continued to decline -2.6% y-o-y to 19.2m.

The **LTE customer base** grew +5.6% y-o-y to 26.7m accesses as of 31 March 2021, reflecting the sustained demand for high-speed mobile data services. Hence, LTE-penetration across the base increased +2.5 p.p. y-o-y to 62.0%. LTE penetration in postpaid increased to an even significantly higher level of ~76%.

ARPU developments in Q1 21 mainly reflect C-19 related roaming headwinds due to ongoing travel-restrictions while operational trends are in-tact. ARPU accretive effects from the successful O_2 Free portfolio and value-added services were offset by continued C-19 related roaming drags. **Blended mobile ARPU** was down -1.4% y-o-y to EUR 9.7 in Q1 21. **Prepaid ARPU** was EUR 6.0, up +1.2% y-o-y in Q1 21 mainly because of fewer inactive SIM-cards. **Postpaid ARPU** declined by -3.9% y-o-y to EUR 13.2 in Q1 21, mainly reflecting the before mentioned C-19 headwinds. **O_2 postpaid ARPU** was down -1.4% y-o-y in Q1 21 while excluding the C-19 related loss of roaming revenues, trends are in-tact posting +0.5% y-o-y ARPU-growth in Q1 21.

Fixed business

The **fixed broadband customer base** increased +1.0% y-o-y to 2.3m accesses at 31 March 2021, driven by a strong increase of the **VDSL base** to 1.8m, +7.0% y-o-y. VDSL represents 80% of the fixed broadband customer base. However, fixed broadband registered -7k net disconnections in Q1 21 in a market focused on high speed fixed connectivity during lockdown. Therefore, the demand for VDSL (+9k net additions in Q1 21) remained solid.

Fixed churn was broadly stable (-0.1 p.p. y-o-y) at 1.0% in Q1 21.

Fixed broadband ARPU continued its upward trend reflecting the increasing share of VDSL customers and stood at EUR 23.9 in Q1 21, posting +0.7% y-o-y growth.

Financial performance

Revenues continued to grow and totalled to EUR 1,850m in Q1 21, +0.2% y-o-y, with operational trends intact across all revenue lines while reflecting C-19 headwinds due to the ongoing lockdown measures. **Ex C-19 impacts of ~EUR -24m, revenue growth would have been +1.3 p.p. higher in Q1 21.**

Mobile service revenues[2] (MSR) were EUR 1,307m in Q1 21, -0.3% y-o-y, with C-19 impacts of ~EUR -24m offsetting strong own brand and solid partner performance. **Ex C-19 impacts MSR[2] growth would have been +1.8 p.p. higher in Q1 21.**

Handset revenues grew **+2.3% y-o-y to EUR 347m** in Q1 21 as a result of continued strong demand for high value handsets while also reflecting seasonality.

Fixed revenues continued to grow, up **+3.9% y-o-y to EUR 200m in Q1 21**, driven by VDSL customer base growth with comps naturally getting tougher.

Other income totalled EUR 30m in Q1 21, up +16.3% y-o-y.

Operating expenses included EUR -15m of restructuring expenses mainly for customer service reorganisation while decreasing **-1.1% y-o-y to EUR 1,333m in Q1 21.**

- **Supplies** amounted to EUR 590m in Q1 21, down -2.4% y-o-y reflecting an MTR cut from EURc 0.9 to EURc 0.78 as of 1 Dec-20, a decrease of connectivity-related costs due to lower roaming revenues as well as lower hardware cost of sales because of a different handset mix. Hardware cost of sales and connectivity-related cost of sales accounted for 56% and 40% of supplies, respectively.
- **Personnel expenses** decreased -6.4% y-o-y and totalled EUR 140m (including EUR -2m of restructuring expenses) in Q1 21 due to a lower FTE base and received social security payments for employees of temporarily closed own shops whose salaries the company topped up to 100%.
- **Other operating expenses[3]** increased +1.4% and stood at EUR 603m in Q1 21, reflecting increased restructuring expenses (EUR -13m vs EUR +0m in prior year) as well as seasonal effects while efficiency gains continued. Commercial costs (66%) were broadly stable y-o-y reflecting trading, channel mix and phasing of marketing spend. Non-commercial costs accounted for 29%. Group fees were EUR 10m in Q1 21 (EUR 8m in prior year) including a EUR 2m provision for prior periods.

[2] Mobile service revenue includes base fees and fees paid by the company’s customers for the usage of voice, SMS and mobile data services; it also includes access and interconnection fees as well as other charges levied on partners for the use of the company’s network.

[3] Includes other expenses and impairment losses in accordance with IFRS 9 in the amount of EUR 20m in Q1 21 (compared to EUR 19m in Q1 20).

OIBDA[4] growth accelerated sequentially and increased +5.5% y-o-y to EUR 562m in Q1 21 mainly as a result of improved revenue quality and effective C-19 cost management while the ongoing C-19 related roaming drag weighed. **Ex C-19 impacts of ~EUR -5m, OIBDA[4] growth would have been +1.0 p.p. higher in Q1 21.** OIBDA[4] margin stood at 30.3% in Q1 21 (+1.5 p.p. y-o-y) reflecting the before mentioned effects.

Depreciation & Amortisation totalled EUR 574m in Q1 21, up +3.8% y-o-y. The increase in D&A is due to a combination of the earlier 3G switch off by YE21 and higher RoU asset amortisation while somewhat offset by the UMTS licenses having reached their end of useful life at YE20.

Operating income in Q1 21 stood at EUR -27m compared to EUR-29m in the prior year.

Net financial expenses accounted for EUR -10m in Q1 21 versus EUR -15m in Q1 20 mainly due to lower financial expenses including less interest payments as a result of the repayment of a EUR 500m bond in February 2021.

Income tax was EUR -2m in Q1 21.

Total profit for the period stood at EUR -40m in Q1 21 compared to EUR -44m in Q1 20.

CapEx[5] increased +1.8% y-o-y to EUR 228m in Q1 21 with a C/S ratio of 12.3%. The CapEx[5] deployment comes with backend-loaded annual phasing as Telefónica Deutschland is executing its 'investment for growth' programme to capture valuable revenue and OIBDA[4] growth opportunities.

Operating cash flow (OIBDA[4] minus CapEx[5]) increased +6.3% y-o-y and amounted to EUR 319m in Q1 21. Excluding exceptional effects, operating cash flow amounted to EUR 333m in Q1 21, up +8.1% y-o-y.

Free cash flow (FCF)[6] amounted to EUR 248m in Q1 21 compared to EUR 241m in Q1 20. Lease payments, primarily for leased lines and antenna sites, amounted to EUR -266m in Q1 21 (EUR -259m in Q1 20). As a result, FCFaL stood at EUR -18m for the reporting period, flat year-on-year.

Working capital movements were negative in the amount of EUR -73m in Q1 21. This development was mainly driven by a decrease in capex payables (EUR -80m), increased prepayments (EUR -32m), net restructuring impacts (EUR +11m) as well as other working capital movements of EUR +29m. The latter include the development of net receivables of EUR +124m (including factoring), which was outweighed by other working capital movements, especially a decrease in trade and other payables.

Consolidated net financial debt[7] amounted to EUR 3,405m as of 31 March 2021 with a leverage ratio of 1.4x[8], well below the company's self-defined target ratio of at or below 2.5x. This leaves comfortable leverage headroom with regards to the company's BBB-rating with stable outlook by Fitch.

[4] Adjusted for exceptional effects. In Q1 21, exceptional effects amounted to EUR -15m of restructuring costs. In Q1 20, exceptional effects amounted to EUR -8m (EUR -9m losses from the sale of assets and EUR +1m restructuring income).

[5] Excluding additions from capitalised right-of-use assets.

[6] Free cash flow pre dividends and payments for spectrum (FCF) is defined as the sum of cash flow from operating activities and cash flow from investing activities and does not contain payments for investments in spectrum as well as related interest payments.

[7] 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.

[8] Leverage ratio is defined as net financial debt divided by OIBDA of the last twelve months adjusted for exceptional effects.

Financial outlook 2021 confirmed

Telefónica Deutschland has invited to its virtual annual general meeting on 20 May 2021 to resolve upon the dividend proposal of EUR 0.18 per share for the financial year 2020.

Telefónica Deutschland confirms its FY21 outlook while acknowledging the German government has recently adopted a new law for C-19 restrictions until 30 June 2021. The applicable measures depend on regional incidence levels. The company is continuously monitoring the C-19 environment and its further developments.

	Baseline 2020	Outlook 2021	Q1 21
Revenue	EUR 7,532m	Flat to slightly positive y-o-y	+0.2% y-o-y
OIBDA Adjusted for exceptional effects	EUR 2,319m	Broadly stable to slightly positive y-o-y	+5.5% y-o-y
Capex to Sales Ratio	14.5%	17–18%	12.3%

Link to detailed Data Tables

Further information

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