

Management Presentation Q3/2018 Results

08 November 2018 | **Analyst and Investor Conference Call**

freenet GROUP

MOBILCOM-DEBITEL / KLARMOBIL.DE / GRAVIS / FREENET.DE / EXARING AG / MEDIA BROADCAST / FREENET DIGITAL / FREENET ENERGY / MOTION TM

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Presenting board members

Christoph Vilanek

**CEO of freenet AG
since 2009**

- Management positions at debitel AG since 2005
- Consultant for telecommunication with McKinsey&Company since 2001
- Management positions in Direct Marketing and Media 1991-2001



Ingo Arnold

**CFO of freenet AG starting
from January 2019**

- Head of Finance and IR at freenet AG and Managing Director of mobilcom-debitel GmbH since 2012
- Head of Controlling and Treasury at debitel AG since 2001 and at freenet AG since 2008
- Management positions in finance in different industries 1990-2001



Agenda

(1) Operational Update

Christoph Vilanek, CEO

(2) Financials

Ingo Arnold, CFO

(3) Outlook

Christoph Vilanek, CEO

(4) Q&A

Operational performance YTD 2018

Customer ownership

- Growing **postpaid base** to 6.87m
- Increasing number of **freenet TV** customers (RGU) +21 per cent yoy
- **waipu.tv** with over 1 million registered customers and more than 202,000 paying users

➔ **Growth in all important areas**



freenet TV

waipu .tv

Financial metric

- **Revenue** before IFRS 15 **increases 4.4 per cent yoy**
- **EBITDA** exclusive of Sunrise and profits of analogue radio sale at **302.2 mEUR** (+0.8 per cent yoy)
- **Free cash flow** exclusive of Sunrise at **216.7 mEUR** and in line with guidance of 210.0 mEUR
- Operational and qualitative targets on track

➔ **Stable organic YTD growth**

Shareholdings

- **Sunrise** with solid and promising performance
- Expecting to become a profiteer of Swiss market consolidation
- Investment in **CECONOMY** with disappointing share performance however huge strategic opportunities

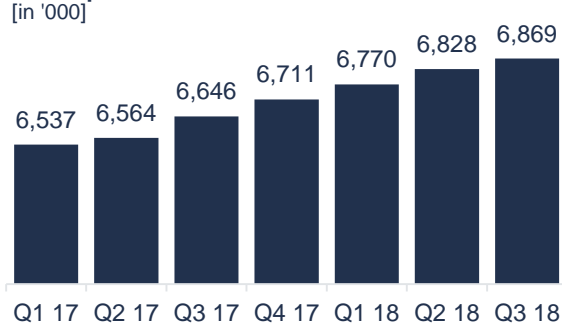
➔ **Confirming strategy**

Sunrise

CECONOMY

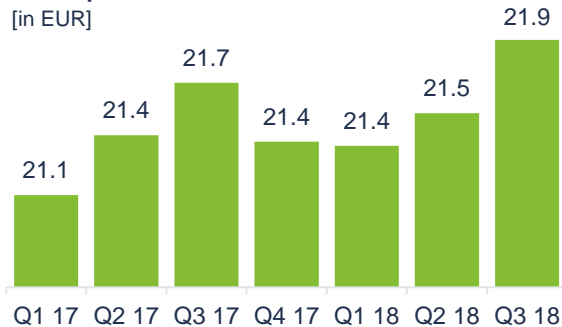
Mobile Communications segment developing steadily

Postpaid-Customers



- Increase in strategically most important and valuable customer group with two-year contracts: **Postpaid base** increased by 3.4 per cent yoy or **+223,000** to 6.87 million
- **Postpaid ARPU** Q3/2018 stable at **21.9 euros**
- **Digital Lifestyle** revenues **+13.1 per cent** compared to 9M previous year

Postpaid ARPU



Digital Lifestyle revenues



Continuous extension of features and benefits with waipu.tv

New features launched in Q3

- Samsung TV App (Live TV and EPG)
- Apple Airplay
- Voice control via Alexa
- Re-Launch of marketing-website
- EPG search function v1.0 (search for channels and programs)
- Full update and upscaling of the software platform and architecture
- Optimization of developer platform (shared library for iOS and Android)

Features to be launched before end of 2018

- Apple TV (Beta Version)
- Samsung TV (NPVR and full search 2.0)
- Customized backend integration for third party providers
- DRM (content protection) for NewTV channels
ePay as additional payment method
- Search V 2.0 (full text search)

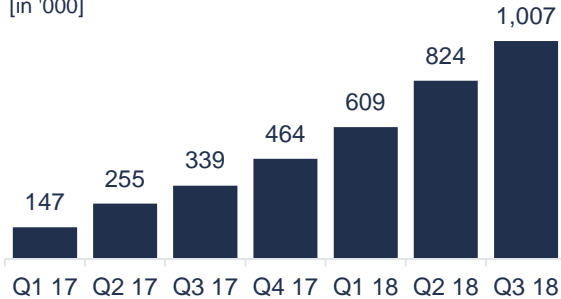
New content

- Live TV ingest in NewTV – with exclusive channels
- Launch blockbuster channel
- Integration and launch of 9 new New-TV channels

TV and Media segment gaining subscribers

waipu.tv Registered customers

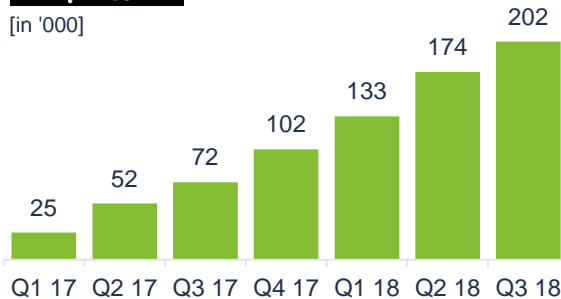
[in '000]



- **waipu.tv** reached more than **1,000,000 registered customers**, thereof more than **202,000** with paid subscription doubling from Q4/2017
- **freenet TV** with more than **901,000 freenet TV subscribers (RGU)** within expected range

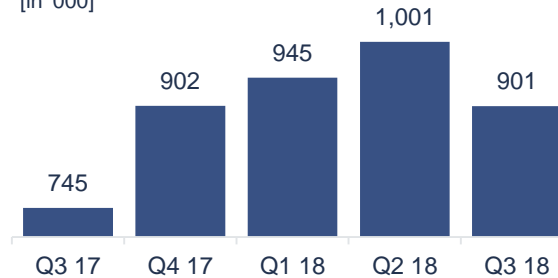
waipu.tv Subscribers

[in '000]



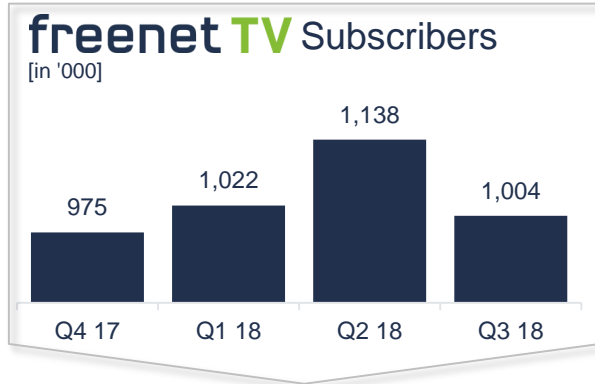
freenet TV Subscribers (RGU¹)

[in '000]

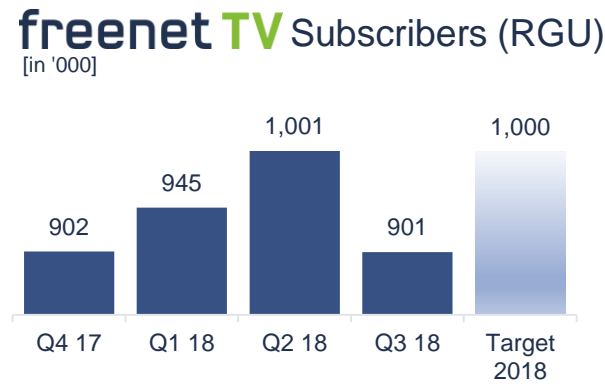
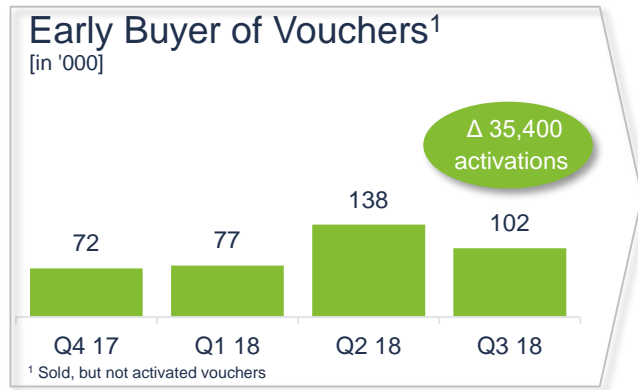


¹ RGU as the abbreviation for "Revenue Generating Unit" refers to freenet TV subscribers who purchased and also activated the freenet TV access

Introduction of Revenue Generating Units (RGU)



- KPI 'freenet TV subscribers' includes all sold vouchers
- With '**freenet TV subscribers (RGU)**' a more transparent and efficient KPI is introduced. RGUs reflect activated and therefore revenue generating vouchers – after activation, vouchers have a runtime of 12 months: net change in Q3/2018: -99,200
- **Early Buyers** bought and stocked, but did not activate vouchers
- freenet TV subscriber (RGU) increased by +21 per cent yoy. The 2018 target of 1 million RGUs is equivalent to 1.2 million subscribers



Media Broadcast's divestment from analogue radio antennas

New regulation regime

- German regulatory board announced new regulation of analogue radio antennas
- New regulated prices would have made the business unprofitable in the long-run
- Given the overall focus on digital (DVB-T2 and DAB+) Media Broadcast management decided to auction the antenna infrastructure to radio stations as well as private investors
- Media Broadcast still offers service and maintenance but only a smaller proportion of the antennas remains contracted
- Consequently, Media Broadcast reviewed its staffing and given the finalization of DVB-T2 roll-out, the let-go of the antennas and the status of DAB+ workforce needs to be reduced by a 20 per cent (current negotiation with the workers council to bring down every weekly hours by 20 per cent instead of layoffs)

* Reference year 2017

Effects 2018*

Revenue: -15.0 mEUR

EBITDA: - 6.5 mEUR

One-off: +25.7 mEUR (no cash)

Effects 2019ff.*

Revenue: -40.0 mEUR

EBITDA: -8.0 mEUR

Cash: +3.0 mEUR/year (til 2026)

Competition is essential for success of 5G

Federal Network Agency (BNetzA) has to clarify legal uncertainties

BNetzA consultation draft
Service provider make important contribution to competition
Service provider do not impair investment/CAPEX capability of MNOs
Order to negotiate about service providers
Order to negotiate about national roaming
Obligation to expand with sense of proportion (under political requirements)



What is required?
Clear regulation of service provider obligation (Diensteanbieterpflichtung)
Non-discriminatory treatment
Efficient legal protection
Clarification of legal uncertainties in sense of competition
freenet Group will sue legal uncertainties if necessary

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(2) Financials

Ingo Arnold, CFO

(3) Outlook

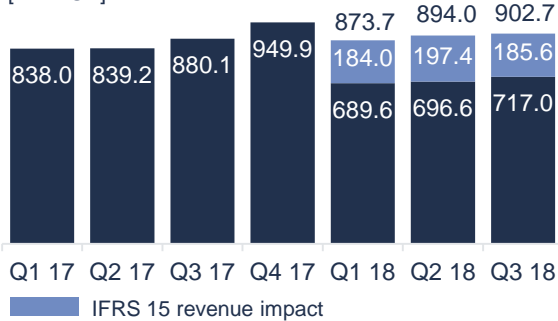
Christoph Vilanek, CFO

(4) Q&A

Stable EBITDA despite decline in gross profit

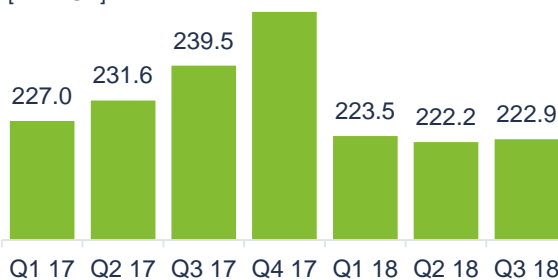
Revenue

[in mEUR]



Gross profit

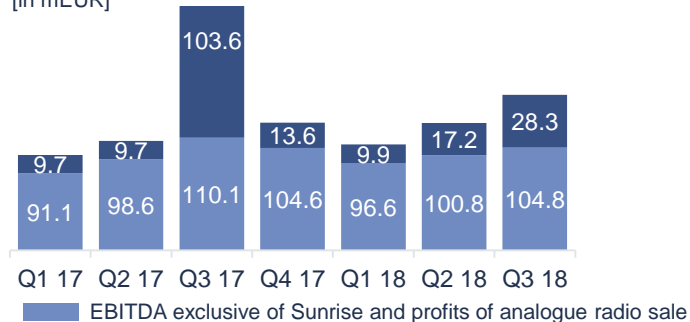
[in mEUR]



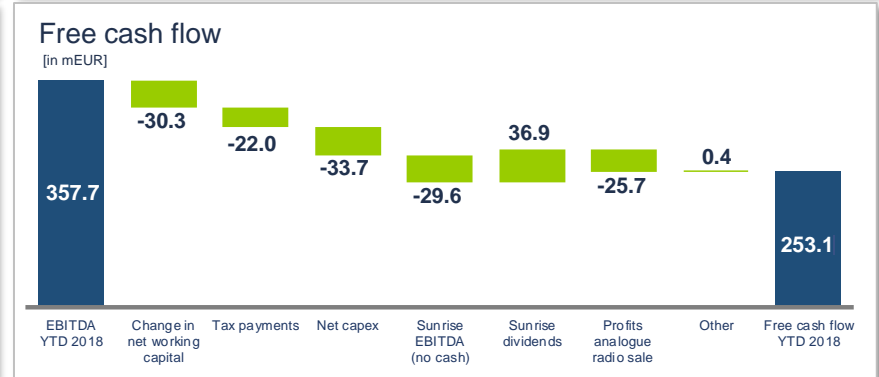
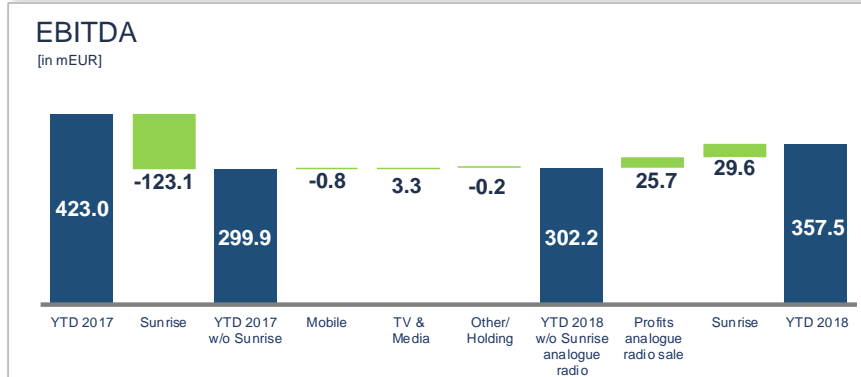
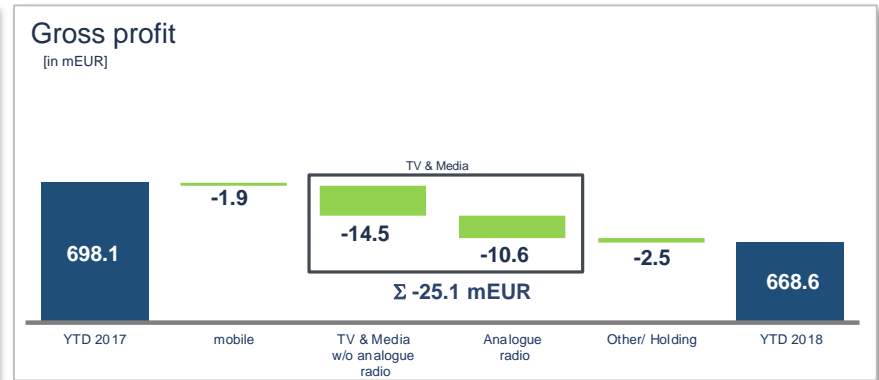
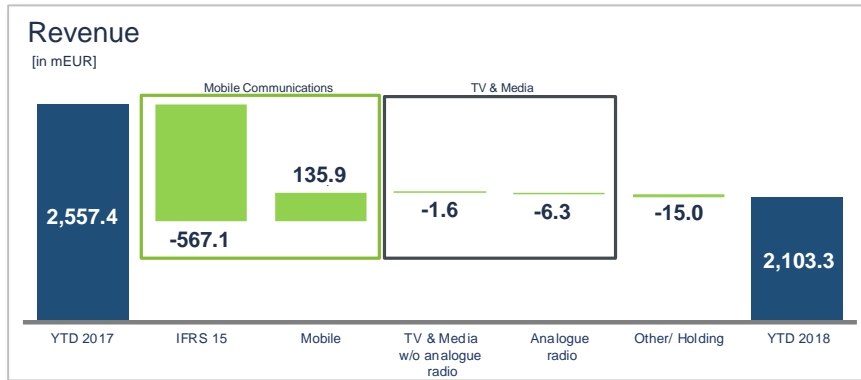
- Group **Revenue** before IFRS 15 increases YTD by 4.4 per cent
- Group **Gross profit** decreases YTD by 29.5 mEUR to 668.6 mEUR (2017: 698.1 mEUR) impacted mainly by TV and Media (-25.1 mEUR); Mobile Communications performance stable
- Group **EBITDA** exclusive of Sunrise and profits of analogue radio sale decreases yoy 5.3 mEUR to 104.8 mEUR (2017: 110.1 mEUR), but remains YTD stable with 302.2 mEUR (+0.8 per cent)

EBITDA

[in mEUR]



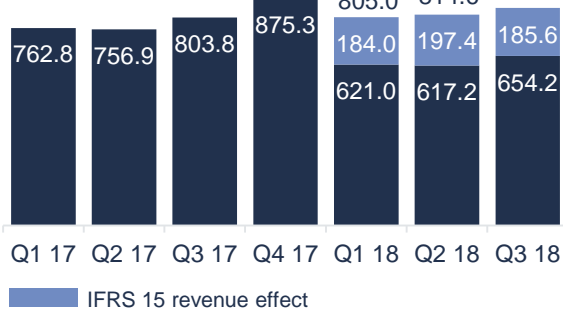
Explanation of deviation on major financial performance indicators



Mobile Communications segment performs stable

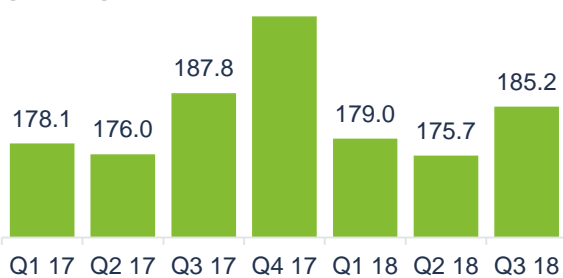
Revenue

[in mEUR]



Gross profit

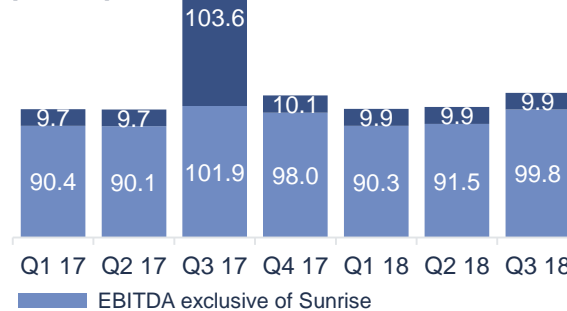
[in mEUR]



- **Revenue** before IFRS 15 increases YTD by 5.8 per cent from extension of (low margin) hardware business
- **Gross profit** and **EBITDA** exclusive of Sunrise remain **stable** compared to previous year and quarter
- **Gross profit** amounts YTD to 540.0 mEUR (2017: 541.9 mEUR or -0.4 per cent)
- **EBTIDA** exclusive of Sunrise amounts YTD to 281.6 mEUR (2017: 282.4 mEUR or -0.3 per cent)

EBITDA

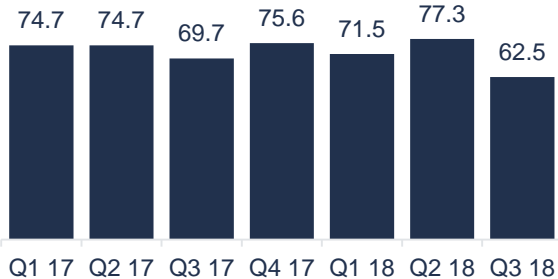
[in mEUR]



Gross profit decline TV and Media levels off in EBITDA

Revenue

[in mEUR]



- **Revenue** declines yoy by 10.3 per cent due to lower analogue radio revenues (YTD -3.6 per cent)
- **Gross profit** decreases YTD by 25.1 mEUR to 100.8 mEUR (2017: 125.8 mEUR) mainly impacted in Q3/2018 (yoy -13.4 mEUR) due to missing operational contributions from analogue radio and other expected B2B effects
- **EBITDA** exclusive of profits of analogue radio sale increases YTD by 13.4 per cent to 27.8 mEUR (2017: 24.5 mEUR)

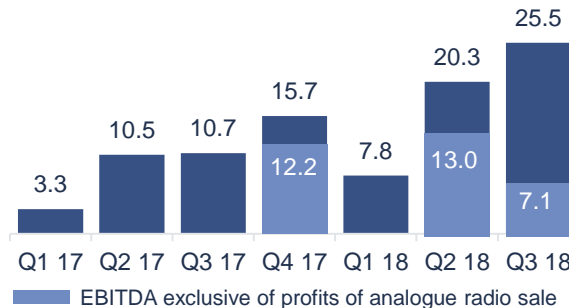
Gross profit

[in mEUR]

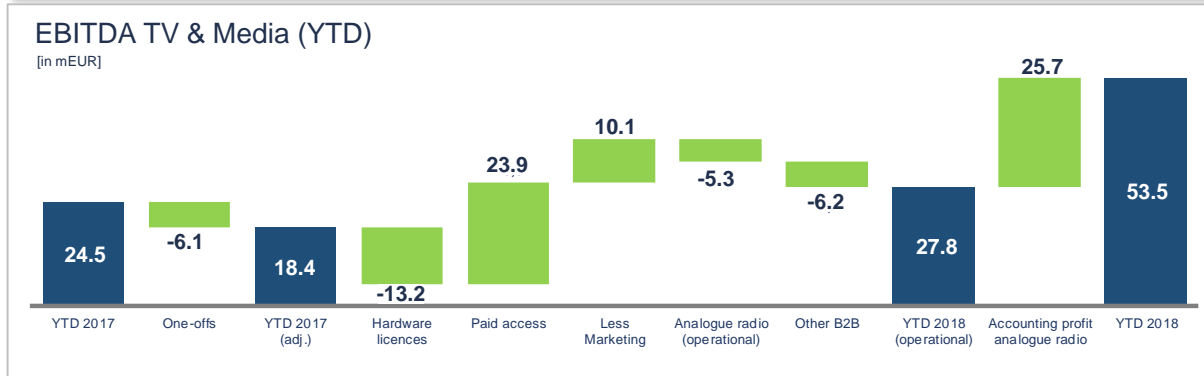
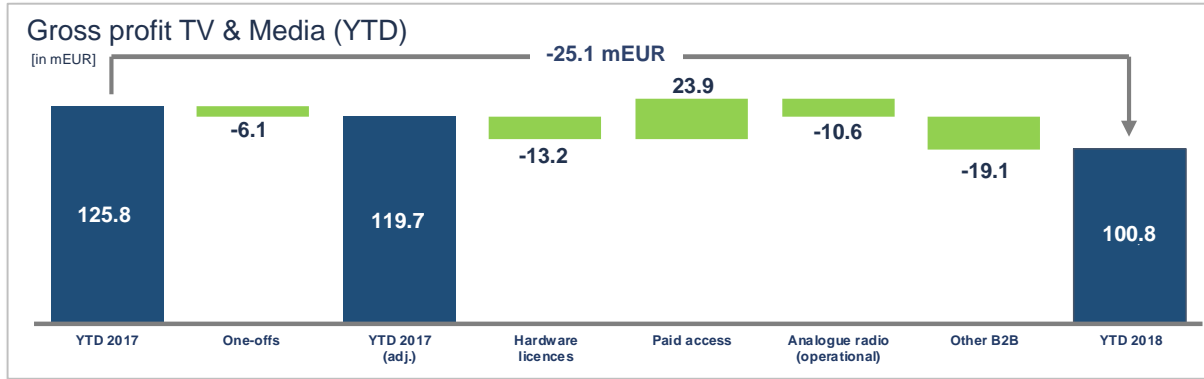


EBITDA

[in mEUR]



Strategic and structural changes impact TV and Media

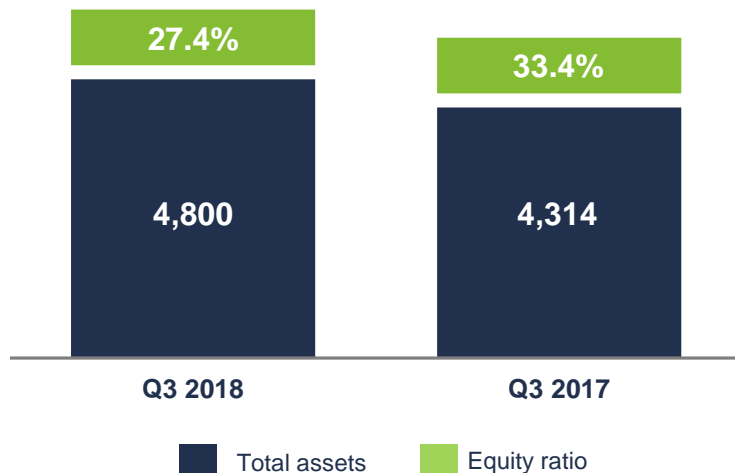


- Gross profit decline of -25.1 mEUR** to 100.8 mEUR (2017: 125.8 mEUR) in TV and Media induced by:
 - Hardware licences from DVB-T2 transition: YTD -13.2 mEUR
 - Analogue radio divestment: YTD -10.6 mEUR
- On **EBITDA** level compensating effects (esp. structural changes in B2B) lead to a YTD growth of 3.3 mEUR to 27.8 mEUR excluding profits of analogue radio sale (2017: 24.5 mEUR)

Main financial KPIs: Equity ratio, net debt & leverage

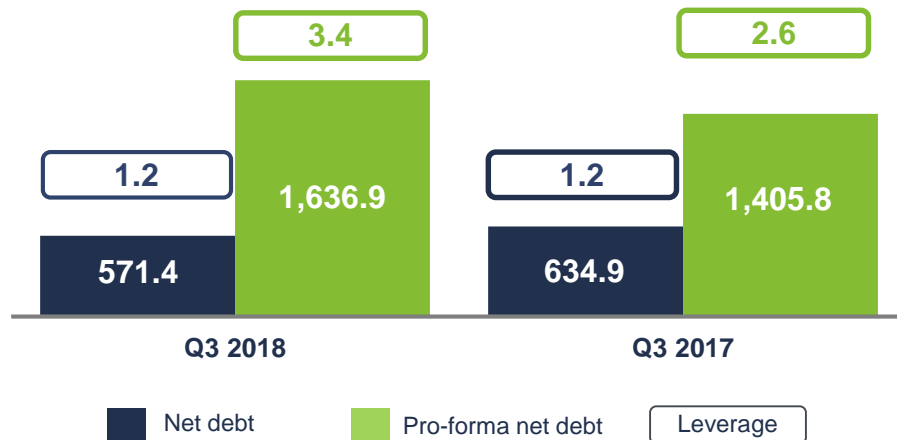
Total assets & Equity ratio

[in mEUR]



Net debt & Leverage

[in mEUR]



Special topics (1/2)

CECONOMY AG – Accounting treatment

- CECONOMY investment accounted according to IFRS 9
- Initial recognition led to a one-time expense of 47.1 mEUR recognised in the other financial result (first day loss).
- First day loss equals the difference between purchase price (incl. purchase costs) and the share price as of 12 July 2018 (Closing Date).
- Subsequent recognition will be at fair value (share price) through other comprehensive income (i.e. equity directly)



Price loss in CECONOMY investment will not influence dividend distribution capability for the financial year 2018 and beyond

Special topics (2/2)

TV and Media segment – Sale of analogue radio infrastructure

- New price regulations (decrease in revenues) would map one-to-one in gross profit and EBITDA as analogue radio business was already running under a fully optimised cost structure
- Halving of EBITDA was estimated for 2019 under new regulatory regime
- Given the digitalisation focus and a predictable price erosion every two years (regulation cycle) management decided to auction the antenna infrastructure
- Sales profit complies by and large with the estimated long-term value-in-use

[in mEUR]	2017	2018				2019	2026	Total
	FY	Q1	Q2	Q3	Q4	FY			
Profits from analogue radio sale	3.5		7.3	18.4		25.7		29.2	
EBITDA	3.5		7.3	18.4		25.7		29.2	
Payments	3.5						25.7 mEUR	29.2	

Future capital market communication

A philosophical change towards more transparency

- freenet Group recognises the demand of the capital market for more transparency in the capital market communication
- New communication strategy will include changes to major issues and will be disclosed with the annual report 2018
- Among other issues, the free cash flow definition will be stronger aligned to the market view (see below)

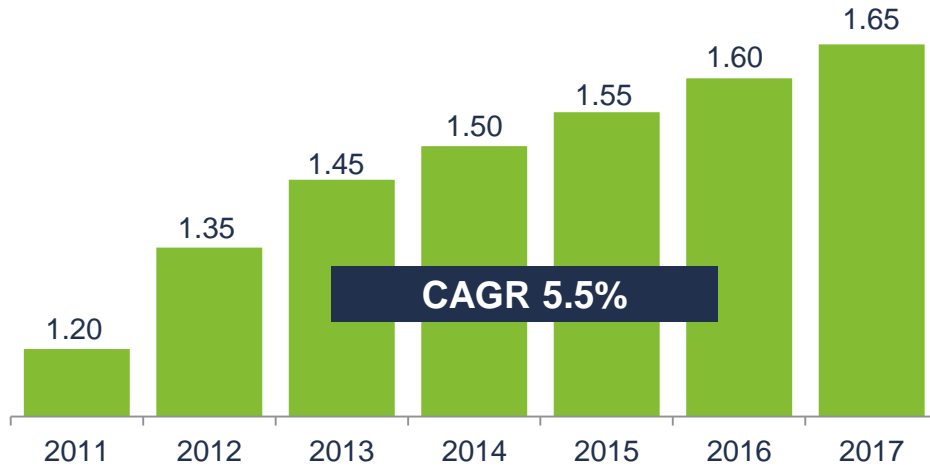
Current logic (based on Q3/2018)

	in mEUR
EBITDA	357.5
+/- Profit share of at-equity accounted investments	-29.6
+/- Gains/ losses on the disposal of fixed assets	-25.3
+/- Change in working capital (and related issues)	-30.3
+ Dividends received (Sunrise)	36.9
- Tax payments	-22.0
= Cash flow from operating activities	287.2
- CAPEX (net)	-33.7
= Free cash flow	253.6

Future logic (based on Q3/2018)

	in mEUR
EBITDA	357.5
+/- Profit share of at-equity accounted investments	-29.6
+/- Gains/ losses on the disposal of fixed assets	-25.3
+/- Change in working capital (and related issues)	-30.3
+ Dividends received (Sunrise)	36.9
- Tax payments	-22.0
-/+ Interest paid/interest received	-27.1
- Repayment of lease liabilities	-16.3
= Operating free cash flow	243.8
- CAPEX (net)	-33.7
= Free cash flow	210.1

Dividend expected to be stable



8.0%
yield¹

- Since 2011, the dividend is tied to the free cash flow with a specific distribution threshold, i.e. between 50 and 75 per cent of the free cash flow is paid out to shareholders
- Change in free cash flow logic will not impact the dividend/free cash flow-tie, i.e. a stable and free cash flow covered dividend will also be paid in the future

¹ Base on closing share price Xetra of EUR 20.70 (30 September 2018) and a stable dividend payment of EUR 1.65 per share.

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Focussing strategic growth priorities

				
Further strengthening and establishing of freenet TV and waipu.tv	Finishing divestment of analogue radio business (B2B)	Accelerating speed regarding strategic cooperation with CECONOMY	Increase number of strategically most important customer group with stable ARPU	Improvement and extension of Digital Lifestyle portfolio

Thank you.
Looking forward to answer your questions.

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Appendix

Guidance 2018 and perspective (1/2)

	Group revenue ¹	Group EBITDA	Free cash flow ²	Dividend payout
Perspective 2019				50-75% of FCF incl. Sunrise
Guidance 2018		410 - 430 m€³ (+Sunrise)	290 - 310 m€⁴ (+Sunrise)	50-75% of FCF incl. Sunrise
Results 2017 (preliminary)	3,507.3 m€	408.0 m€ (incl. Sunrise 541.2 m€)	308.4 m€ (incl. Sunrise 342.8 m€)	1.65 €/share
Guidance 2017		> 410.0 m€² (+ Sunrise)	~310.0 m€³ (+Sunrise)	50-75% of FCF incl. Sunrise













¹ Without effects from IFRS15

² Free cash flow is defined as cash flow from operating activities, minus investments in property, plant and equipment and intangible assets, plus proceeds from the disposal of property, plant and equipment and intangible assets

³ Expected EBITDA contribution of Sunrise Communications Group AG not included

⁴ Dividend payment Sunrise not included

Guidance 2018 and perspective (2/2)

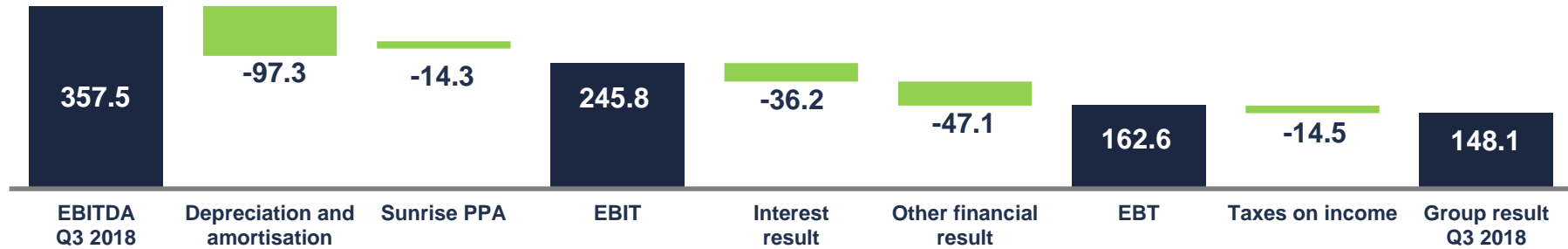
	Mobile Communication		waipu.tv		freenet TV	
	Customer ownership	Postpaid ARPU	Total User	Paying User	Paying User	ARPU ¹
Perspective 2019						
Guidance 2018				> 250,000	> 1,200,000	
Results 2017	+60,000	21.4 €	464,000 ²	102,000	975,000	4.3 €
Guidance 2017			> 500,000	> 100,000	~ 950,000	~ 4.5 €

¹ freenet TV ARPU is referring to number of freenet TV paying users

² without 76,000 pre-registered users

Detailed bridge on group result

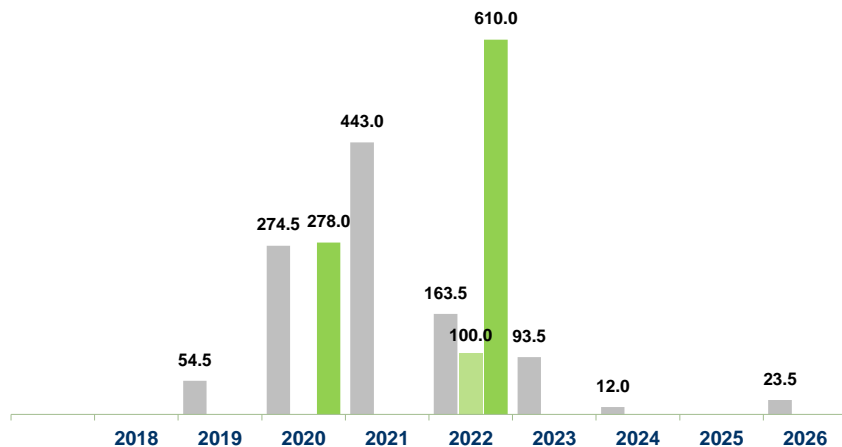
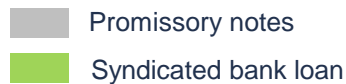
Group result
[in mEUR]



Current financing and maturity structure

Average financing cost below 2.0 per cent p.a.

[in mEUR]



Issue	Instrument	Volume	Maturity
2012	Promissory note	54.5 m€	2019
2015	Promissory note	100 m€	2020, 2022
2016 (March)	Promissory note	560 m€	2021, 2023, 2026
2016 (November)	Promissory note	350 m€	2020, 2022, 2024
2016	Syndicated bank loan	610 m€ (+100 m€)	2022
2018 (July)	Bank loan ("Bridge")	278 m€	2020 (Jan)