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Research Update:

Deutsche Telekom Upgraded To 'A-' On Stronger Cash Flows To Maintain Leverage; Outlook Stable

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Rating Action Overview

- Deutsche Telekom AG (DT) fell below its maximum leverage target of 2.75x (S&P Global Ratings-adjusted: 3.0x) in 2025, and we expect it to remain at or below this level.
- Thanks to continuous revenue growth and gradual profitability improvement, we project annual free operating cash flow (FOCF) exceeding €20 billion, providing DT with substantial financial flexibility to address unforeseen capital needs while adhering to its financial policy.
- As a result, we raised our long-term issuer credit rating on DT and its fully owned financing subsidiary, Deutsche Telekom International Finance B.V., and its issue ratings to 'A-' from 'BBB+' We also affirmed the 'A-2' short-term rating. The outlook was revised to stable from positive.
- The stable outlook reflects our expectation that DT will continue to generate solid service revenue growth and improve operating efficiency, leading to a gradual EBITDA margin improvement to about 45% by 2027, with adjusted FOCF to debt remaining above 15% of sales and debt to EBITDA at or below 3.0x.

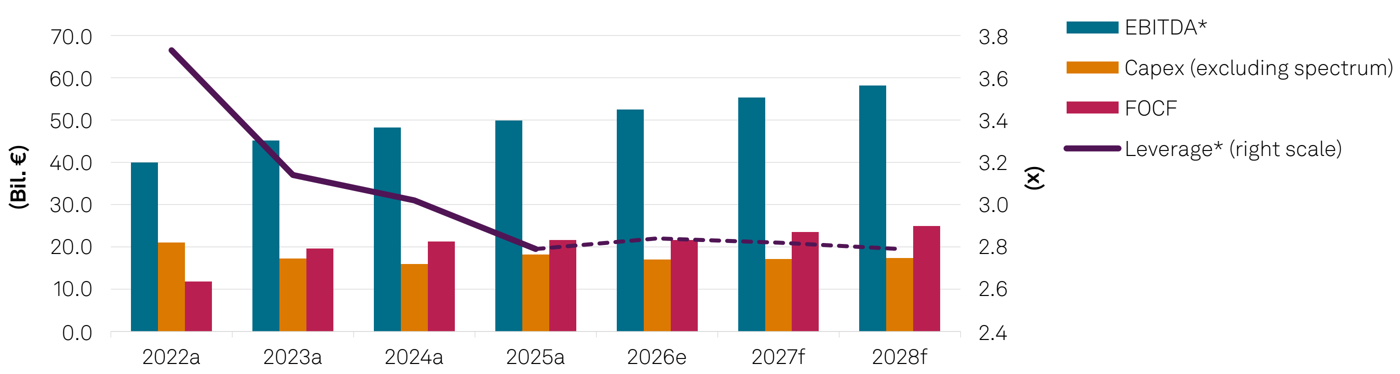
Rating Action Rationale

The upgrade reflects our view that DT has the financial flexibility to maintain credit metrics consistent with an 'A-' rating. DT's S&P Global Ratings-adjusted leverage decreased to 2.8x at year-end 2025, from 3.0x in 2024, driven by robust adjusted FOCF of €21.5 billion in 2025 and favorable exchange rate effects (an approximate 0.15x positive impact on leverage). This deleveraging occurred despite ongoing mergers and acquisitions (M&A), spectrum payments, dividends, and share buybacks, continuing a trend since 2021 when leverage was 3.8x. We project DT will generate at least €20 billion in annual FOCF, providing substantial financial flexibility. We anticipate this flexibility will be allocated to shareholder returns, M&A, and spectrum acquisitions, while adhering to DT's financial policy framework of 2.75x maximum reported leverage. This in turn should translate into adjusted leverage at or below 3.0x, a commensurate level for the rating.

We understand DT intends to maintain a controlling majority ownership in T-Mobile US (TMUS) but does not specifically aim to increase the stake durably above this level; this therefore provides DT the discretion to participate in, or abstain from, share buybacks executed by TMUS, and thereby to partly fine tune the impact of those buybacks on the group's consolidated leverage.

We expect DT's free cash flow generation will remain at about 15% of debt over the forecast period, translating to more than €20 billion in FOCF annually. The combination of revenue growth, improving profitability, and a fairly stable capital expenditure (capex) profile should lead to stronger FOCF generation. In our view, the U.S. arm is the driving force for FOCF generation, accounting for approximately 80%.

Stronger FOCF supports Deutsche Telekom's leverage trajectory



*S&P Global Ratings-adjusted data. a--Actual. e--Estimate. f--Forecast. Capex--Capital expenditure. FOCF--Free operating cash flow. Source: S&P Global Ratings.

We now consider T-Mobile the leading wireless provider in the U.S., despite strong competition from AT&T Inc. and Verizon Communications Inc. The company's U.S. operations, which contributed 68% of DT's EBITDA in 2025, benefit from a superior mid-band spectrum position and a strong market reputation. This has enabled T-Mobile to establish itself as the leader in the U.S. wireless market. Reflecting this strength, T-Mobile's service revenue grew 7.7% in 2025, compared to 3.0% for AT&T and 2.0% for Verizon. The recent acquisition of US Cellular further improved T-Mobile's postpaid phone market share to 31%, narrowing the gap with Verizon's 34%. In 2025, T-Mobile added 3.3 million postpaid phone subscribers, demonstrating the strength of its brand, pricing, and network quality--significantly outpacing Verizon (362,000 additions) and AT&T (1.6 million additions). While we anticipate continued growth, we expect T-Mobile's postpaid phone net additions to moderate to about 2.5 million as industry conditions mature.

T-Mobile's fiber network lags competitors, though strong FWA performance offers partial compensation. T-Mobile faces a competitive disadvantage due to its smaller fiber infrastructure compared with AT&T and Verizon. While the company is investing in fiber through acquisitions--including Lumos ($1.45 billion, paid in two installments) and Metronet ($4.9 billion)--it plans to reach only 15 million passings by 2030, significantly fewer than AT&T's target of 60 million and Verizon's 40million-50 million. Despite this gap, T-Mobile has demonstrated considerable success with its fixed wireless service, currently serving approximately 8.5 million fixed wireless access (FWA) customers--exceeding its peers. FWA effectively monetizes underutilized wireless resources, representing a converged product and driving growth. T-Mobile projects over 12 million FWA subscribers by 2028 and 15 million by 2030, an average annual increase of roughly 1.4 million.

DT continues to maintain its strong incumbent position in the German market. While DT's German business experienced a modest revenue decline in 2025, fourth-quarter performance reversed this trend with positive service revenue growth in both mobile and fixed segments. DT anticipates continued expansion of its fiber footprint and increasing fiber customer adoption will support future revenue growth. In 2025, the company expanded its fiber footprint by 2.5 million homes and achieved record fiber customer additions, reaching a 16.4% penetration rate--though this remains below the European average. We attribute this lower coverage (a German fiber take-up rate of approximately 20% versus a 50% EU average) to weak demand partially caused by a strong legacy network through a high VDSL coverage, a lesser degree of infrastructure competition compared to other markets, as well as regulatory requirements and other specific factors that increase rollout costs and timelines. Still, DT's focus for 2026 is accelerating fiber customer growth toward its 1 million target for 2027, which will enhance both revenue volume and value. The German segment has consistently delivered mobile service revenue growth at the high end of its 2.0% to 2.5% guidance range, and we expect continued strong mobile subscriber growth and network leadership to underpin further gains in 2026.

EBITDA margin expansion is driven by service revenue growth and operating efficiencies. We expect DT's well-invested mobile networks to continue supporting robust mobile service revenue growth in both North America and Europe. On the cost side, synergies from recent acquisitions are expected to improve margins, and DT projects €1 billion in savings by 2027 (compared with 2024) through AI adoption, comprising €800 million in operating expenditure reductions and €200 million in capex savings. We believe DT will benefit from the scale of its operations as it implements AI-driven efficiencies, primarily through digitalization, enhanced productivity, and improved customer satisfaction. Overall, we project the adjusted EBITDA margin will expand to 43.0% by 2027, up from 41.8% in 2025. However, elevated energy costs could moderate this trajectory.

Outlook

The stable outlook reflects our expectation that DT will continue to generate solid service revenue growth and improve operating efficiency, leading to a gradual improvement in the EBITDA margin to about 43% by 2027, with adjusted FOCF to debt remaining at about 15% of sales and debt to EBITDA at or below 3.0x.

Downside scenario

We could lower the rating if DT's leverage exceeds 3.0x on a prolonged basis. This could happen if debt-financed acquisitions or shareholder returns are prioritized above maintaining the financial policy. We could also take a negative rating action if the company experiences operational setbacks such as declining revenue or weakening profitability, for example stemming from more intense competition.

Upside scenario

We could raise the rating if credit metrics strengthened such that adjusted debt to EBITDA and FOCF to debt before spectrum payments improve to less than 2.5x and to 20%, respectively, and that such a metric was supported by a publicly stated financial policy.

Company Description

DT is one of the world's largest telecom operators, with headquarters in Bonn, Germany. It offers fixed and mobile telecom services to retail and business customers, as well as information technology services. The company's geographic EBITDA split in 2025 was about 66% in the U.S., about 24% in Germany, and 11% in Europe. DT's largest shareholder is the Federal Republic of Germany, which as of Dec. 31, 2025, held a 28.3% stake through its own holdings as well as holdings by the German government-owned bank KfW.

Our Base-Case Scenario

Assumptions

- Annual revenue growth of 3.0%-3.5% over 2026-2027, stemming primarily from strong mobile subscriber growth, fiber net additions on both sides of the Atlantic, and continued FWA net adds in the U.S., somewhat offset by a decline in legacy telephony business.
- The adjusted EBITDA margin to gradually strengthen toward 43% by 2027 compared to 41.8% in 2025, benefiting from mobile service revenue growth, bundled product offerings, and AI-based operational efficiency gains. DT forecast €1 billion in savings by 2027 (compared with 2024) through AI adoption, comprising €800 million in operating expenditure reductions and €200 million in capex savings.
- Capex (excluding spectrum payments) of about 14% of sales over 2026-2027. We expect capex in Germany and the European division will be higher at 18%-19% driven by fiber rollout, whereas the U.S. segment will only require 11%-12%.
- We expect DT to maintain a majority ownership interest in TMUS of 50%-60%. In February 2026, this stood at 52.8%.
- We expect the remaining discretionary cash flow will be spent on a mixture of spectrum, M&A, and shareholder returns
- We fully consolidate TMUS in our credit metrics.
- A U.S. dollar to euro exchange rate of 1.15 throughout the forecast period.

Key metrics

Deutsche Telekom AG--Forecast summary

Period ending	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027	Dec-31-2028
(Mil. EUR)	2022a	2023a	2024a	2025a	2026e	2027f	2028f
Revenue	114,197	111,970	115,769	119,081	123,091	126,877	129,939
Gross profit	61,271	64,769	68,395	70,334	73,636	77,145	80,552
EBITDA (reported)	43,047	44,759	47,671	48,826	51,404	54,229	57,083
Plus/(less): Other	(3,189)	351	501	1,007	1,007	1,007	1,007
EBITDA	39,858	45,110	48,172	49,833	52,411	55,236	58,090

Deutsche Telekom AG--Forecast summary

Period ending	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027	Dec-31-2028
Less: Cash interest paid	(5,669)	(6,136)	(6,245)	(6,223)	(5,685)	(5,096)	(6,002)
Less: Cash taxes paid	(902)	(1,312)	(1,504)	(1,652)	(5,284)	(6,027)	(6,419)
Funds from operations (FFO)	33,287	37,662	40,423	41,958	41,441	44,114	45,669
EBIT	12,382	18,637	27,018	26,286	26,990	29,263	31,676
Interest expense	5,886	7,021	6,941	6,794	5,858	5,275	6,179
Cash flow from operations (CFO)	35,805	37,255	40,255	40,666	38,364	40,523	42,080
Capital expenditure (capex)	23,989	17,659	19,039	19,128	16,807	16,997	17,244
Free operating cash flow (FOCF)	11,816	19,596	21,216	21,538	21,557	23,526	24,836
Dividends	3,385	4,027	5,592	6,438	7,204	7,923	8,390
Discretionary cash flow (DCF)	8,431	15,569	13,650	13,100	2,353	6,603	7,447
Debt (reported)	113,030	104,523	112,191	110,339	119,650	128,295	136,194
Plus: Lease liabilities debt	38,792	40,793	40,248	36,384	34,929	33,182	31,523
Plus: Pension and other postretirement debt	4,057	3,962	3,107	1,614	1,614	1,614	1,614
Less: Accessible cash and liquid Investments	(5,325)	(7,473)	(8,013)	(7,448)	(5,278)	(5,278)	(5,285)
Plus/(less): Other	(1,803)	(323)	(2,184)	(1,835)	(1,835)	(1,835)	(1,835)
Debt	148,751	141,482	145,349	139,053	149,080	155,978	162,210
FOCF (adjusted for lease capex)	1,303	13,446	17,423	20,486	17,323	19,025	20,159
Interest expense (reported)	5,679	6,588	6,613	6,522	5,586	5,003	5,907
Capex (reported)	24,114	17,866	19,171	19,256	16,935	17,125	17,372
Cash and short-term investments (reported)	5,772	7,280	8,478	7,825	5,000	5,000	5,010
Adjusted ratios							
Debt/EBITDA (x)	3.7	3.1	3.0	2.8	2.8	2.8	2.8
FFO/debt (%)	22.4	26.6	27.8	30.2	27.8	28.3	28.2
FFO cash interest coverage (x)	6.9	7.1	7.5	7.7	8.3	9.7	8.6
EBITDA interest coverage (x)	6.8	6.4	6.9	7.3	8.9	10.5	9.4
CFO/debt (%)	24.1	26.3	27.7	29.2	25.7	26.0	25.9
FOCF/debt (%)	7.9	13.9	14.6	15.5	14.5	15.1	15.3
DCF/debt (%)	5.7	11.0	9.4	9.4	1.6	4.2	4.6
Lease capex-adjusted FOCF/debt (%)	0.9	9.5	12.0	14.7	11.6	12.2	12.4
Annual revenue growth (%)	5.0	(2.0)	3.4	2.9	3.4	3.1	2.4
EBITDA margin (%)	34.9	40.3	41.6	41.8	42.6	43.5	44.7
EBITDA/cash interest (x)	7.0	7.4	7.7	8.0	9.2	10.8	9.7
EBIT interest coverage (x)	2.1	2.7	3.9	3.9	4.6	5.5	5.1

Data adjusted by S&P Global Ratings unless otherwise stated. a--Actual. e--Estimated. f--Forecast.

Liquidity

We assess DT's liquidity as strong based on our expectation that liquidity sources will exceed uses by 1.9x in the 12 months starting January 2026. In addition, we believe DT enjoys a high standing in capital markets and has well-established and solid relationships with its banks.

Principal liquidity sources	Principal liquidity uses
• Cash and liquid investments of about €2.9 billion (excluding the U.S.); • €12.0 billion available undrawn committed credit facilities that do not contain covenants or material adverse clauses; and • Cash FFO (excluding the U.S.) of about €10 billion.	• Debt maturities of about €2.2 billion over the 12 months starting January 2026; • Capex (excluding the U.S. and spectrum payments) of about €8.2 billion; and • Dividend payments of €7.2 billion.

Issue Ratings--Subordination Risk Analysis

Capital structure

As of the last quarter of 2025, about 78% of DT's consolidated external debt was at the U.S. level. The majority of the remaining debt was at the parent or at Deutsche Telekom International Finance B.V. The latter is used as a finance vehicle, and the parent guarantees its issuances. Based on DT's 52.8% economic stake in TMUS as of February 2026, the structural subordination ratio was about 57.1%.

Analytical conclusions

We do not notch down the debt issued at DT even though the structural subordination ratio now exceeds 50%. In our view, significant mitigants exist to the structural subordination. Firstly, we regard DT's majority stake in TMUS to be highly liquid, given TMUS is a listed company and has considerable equity value. This provides a strong cushion to creditors at the parent level. Furthermore, in the event of a default at TMUS, the European business would have significant network assets and contribute a substantial proportion of cash flow. We think these assets and funds would be largely available to the parent's creditors, given the modest amount of priority debt in European subsidiaries. Furthermore, DT's debt is not cross defaulted with its U.S. subsidiary's debt, and the latter does not benefit from any guarantee from the parent.

Deutsche Telekom AG--Rating component scores

Component	
Foreign currency issuer credit rating	A-/Stable/A-2
Local currency issuer credit rating	A-/Stable/A-2
Business risk	Strong
Country risk	Very low
Industry risk	Intermediate
Competitive position	Strong
Financial risk	Intermediate
Cash flow/leverage	Intermediate
Anchor	a-

Deutsche Telekom AG--Rating component scores

Component

Modifiers	
Diversification/portfolio effect	Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Strong
Management and governance	Positive
Comparable rating analysis	Neutral
Stand-alone credit profile	a-

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, July 7, 2025
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Industry Credit Outlook 2026: Telecommunications, Jan. 14, 2026
- Deutsche Telekom AG, June 27, 2025
- Deutsche Telekom Outlook Revised To Positive On Stronger Cash Flows To Maintain Leverage; 'BBB+/A-2' Ratings Affirmed, May 28, 2025

Ratings List

Ratings List
Upgraded; Outlook Action

Ratings List

	To	From
Deutsche Telekom AG		
Deutsche Telekom International Finance B.V.		
Issuer Credit Rating	A-/Stable/A-2	BBB+/Positive/A-2
	To	**From**
Deutsche Telekom AG		
Deutsche Telekom International Finance B.V.		
Senior Unsecured	A-	BBB+
Ratings Affirmed		
Deutsche Telekom AG		
Short-Term Debt	A-2	
Commercial Paper	A-2	