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Deutsche Telekom AG (DTE.DE)

Q3 2018 Earnings Call
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MANAGEMENT DISCUSSION SECTION

Timotheus Höttges
Chief Executive Officer

Q3 HIGHLIGHTS

Sales and EBITDA

- Q3 of Deutsche Telekom was another good quarter, with strong growth on both sides of the Atlantic
- To simplify it, all business areas are growing on a profitability basis and, I think, this is unique, looking back
- After nine months, our organic sales is up 2.8%
- Our organic EBITDA is up by 6.2%
- Our ex-U.S. business, or our EBITDA is up 2.5% and our FCF is up 8.5% and adjusted earnings, 9.7%

Operational Momentum, Growth and European Commission

- So, with this, I hand over to Thomas
- No, I’m kidding
- All of this is nicely consistent with our new four years growth guidance, which we have laid out at the Capital Markets Days in spring
- Our operational momentum remains strong across the board and you saw the good numbers and the guidance upgrade in the U.S., which we are reflecting in our group guidance today as well
- Germany and Europe are growing as promised and T-Systems is on track to grow next year
- We were very pleased that the European Commission approved our takeover of UPC Austria, creating a converged leader in this attractive market without any remedies

Investment, Germany and Europe

- Continuing on slide 5, the foundation of our strong growth are our consistent investments in the infrastructure and the network
- Our fiber networks in Germany and Europe are passing now to 39mm homes and an increase of 5mm in the last 12 months
- In Germany, we already passed 8mm homes, with super-vectoring at the end of September, two months after launch, enabling 250 megabit per second for 8mm households

REGULATOR

- The German regulator has set the wholesale rates for our super-vectoring, importantly granting us an extra €4.80 per month for 250 megabits compared to 100 megabits per bitstream
- This shows consistent respect for the principle of higher prices for higher speeds
FIBER WHOLESALE ACCESS FRAMEWORK

- We agreed a fiber wholesale access framework with EWE TEL, which will now be discussed with the relevant stakeholders
- Our German fiber network now measures 500,000 kilometers
  - We reached our planned 2018 milestone of developing 100 business districts in October, already passing 31,000 lines with direct fiber

LTE NETWORK

- Our German LTE network already passes 98% of the population based on the German regulator’s definition
  - At our recent Network Day, we communicated an eight-point plan 5G for our country in which we outlined some targets for 5G, including the unilateral commitment to cover 99.3% of the population and 90% of the area with 5G by 2025
- In Europe, we increased our LTE population coverage by a 3% points to 96% in the last 12 months
- We won a few more networks test this quarter, including Greece, Netherlands, Hungary, and the U.S.
- We continue to make further significant progress with our IP migration
  - We are on track to complete this peer-leading project as communicated at the Capital Markets Day

IP Migration

- Our IP migration not only involves significant extra costs, as you are surely aware of, but also negatively impacts our fixed line KPIs and our top line, especially in the German segment
- This is something to keep in mind when you assess our operational performance
  - The good news is that the IP migration is a temporary drag and that the end is now firmly in sight

GERMANY B2C AND B2B

- In Germany B2C, we will finish the migration at the end of 2019, in German B2B at the end of 2020, nothing new after what we have described and showed you on the Capital Markets Day
- Now, after the migration, costs will go away and we will see the benefits of the significant investments in lower costs

Customer Experience and Innovation

NEW MAGENTATV PLATFORM, VOICE CONTROL AND VOICEIFICATION SERVICES

- Moving on to customer experience and innovation where we had another busy quarter
- In German B2C, we launched our new MagentaTV platform, strengthening our market-leading content aggregation, including personalization functionalities and the seamless integration of over-the-top content, the biggest library you can get in Germany now
- We are currently soft-launching our new smart speaker, Hallo Magenta
- We believe voice control and voiceification services will become a key interface in the smart home of the future
  - And we want to be part of it
Pioneering StreamOn Product

- Our pioneering StreamOn product already has more than 1.5mm German subscribers
- Customer Service Excellence remains a key priority
- In Germany, we achieved further improvement in key KPIs
- Our no-shows almost halved in the last 12 months and our complaints are down by 30%
  - Our revamped service app was rated as outstanding by connect magazine

Un-Carrier

- In the U.S., we launched our next Un-carrier, the team of experts driving an even better customer service experience after T-Mobile already achieved the highest wireless call ever in J.D. Power customer care surveys achieved last quarter

B2B Side

GERMAN ICT GROWTH AND T-SYSTEMS

- On the B2B side, our German ICT growth continues unabated, driven by cloud enabled agile workspace services
- T-Systems has certified and successfully launched its German health platform
- In Europe, we were awarded new smart city project in four countries

German and European Operations

T-MOBILE AND EBITDA

- Moving on to slide 7, our momentum with customers remained very strong. 11.6mm German homes subscribed to our high-speed broadband products
- In our German and European operations, we added 1.4mm converged customers and 1.7mm mobile contract customers
- And you saw T-Mobile’s relentless momentum when they reported results last week
- T-Mobile also again raised their net debt guidance last week by €550,000 at the midpoint and is now targeting 3.8mm to 4.1mm branded post adds in 2018 after 3.6mm in 2017
- Fantastic
- As mentioned earlier, our U.S. colleagues have raised their EBITDA guidance for the year by $200mm
  - And we are happy to raise our group EBITDA guidance by the corresponding €200mm as well
- Our outlook for our ex-U.S. EBITDA remains unchanged
  - As always, our guidance is organic and so our update is based on constant foreign exchange and excludes the newly acquired UPC Austria business

Exchange Rate, FCF and Dividend

- Based on the U.S. dollar exchange rate used by our consensus of €1.18, our new guidance would be for €23.2B EBITDA.
- We also raised our group FCF guidance by €0.1B.
- The difference between the EBITDA and the FCF upgrade is explained by our decision to progressively reduce factoring in 2018 and beyond
- Our dividend proposal for 2018 remains unchanged at €0.70 now becoming very clear
FINANCIAL HIGHLIGHTS

- And as Hannes and Tim promised, let me dig a bit deeper into this quarter’s performance starting with the key financials on the slide 10

Revenues, Organic Growth, EBITDA and FCF

- Our reported revenues this quarter grew 4.7%
- Organic growth was 4.1%
- Our reported adjusted EBITDA grew 8.5% and would have been up 8.1% organically
- And our ex-U.S. EBITDA grew 3.2% this quarter and this would have been 2.7% on an organic basis
- Adjusted earnings were up 6.2% and adjusted earnings were impacted by the T-Systems write-down last year and FCF was stable this quarter, which reflects saving
- YTD, FCF is up 8.5% and we, of course, raised our full-year guidance here today

German Numbers

SALES AND EBITDA

- Now, let’s have a look at the German numbers
- Headline sales were down 0.9%, driven by IFRS 15 effects, which we estimate at around 1% to 1.5% of sales for the year as a whole, while our like-for-like service revenues continued to grow
- Our EBITDA was up 2.1% year-on-year, on track for our full-year guidance to grow the German EBITDA from €8.4B to €8.6B this year

Mobile Service Revenues

- On the next page, you can see that our reported mobile service revenue, again, adjusted for IFRS 15, remained strong at 3.1%, driving continued growth in overall service revenues
- On the other hand, our fixed line service revenues remains slightly negative, mainly reflecting the revenue headwinds due to our advancing IP migration, as Tim has mentioned earlier already, and the sequential deterioration is due to softer wholesale business this quarter

Underlying Commercial Performance

- Our underlying commercial performance in mobile remained steady, while we show only 48,000 own-branded contract net adds
- Adjusted for the bankruptcy of a one single B2B customer, that would have been a normal 106,000 number
  - Despite some of the noises at the lower end of the market, we remain guided by our consistent more-for-more logic, as you could see reflected in our tariff update at the beginning of September
Mobile Data

- As you can see on slide 14, mobile data continues to grow with average usage now close to 2.5 gigabytes, almost 1 gigabyte more than a year ago. 47% of our Magenta-branded mobile contracts are now part of a convergent relationship and 21% of our broadband households.

Fixed Line

- Now moving on to the fixed line side on slide 15
- We maintained our steady broadband customer intake despite our decision to lower promotions at the beginning of August
- If you adjust for losses from our hard IP migration, which were broadly unchanged this quarter, we estimated commercial net add share, again, north of 40%
  - Despite a weaker contribution from wholesale, we delivered 12 consecutive quarters of more than 0.5mm fiber net additions

LINE LOSSES AND RUN RATE

- On the other hand, line losses grew sequentially this quarter
- Again, this mainly reflects our advancing IP migration which, as a byproduct, accelerates the erosion of legacy B2B lines
- Finally, on this page, we added 51,000 TV customers
- Here, our run rate remains below target, but we were able to improve the mix

Retail and Broadband Revenues

- Continuing with the fixed on the next slide, slide 16, our retail revenues fell 0.3% year-on-year, which was a slight sequential improvement
- As you know, since the beginning of this year, we include certain B2B broadband products in our broadband revenues, which largely explains the strong growth of 5.7%
- Our like-for-like broadband revenues grew 2%, very much in line with the growth we have projected at the 2015 Capital Markets Day

T-Mobile US

- Moving on to our two usual slides on the T-Mobile US who already presented, I mean, fantastic results again last week
- In the U.S., we won 1.6mm new customers
  - This was the 22nd consecutive quarter with more than 1mm net adds
- And on the next slide as usual, we show some selected performance metrics for our U.S. subsidiary

BRANDED POSTPAID PHONE CHURN, DEBT EXPENSES AND COSTS

- Our branded postpaid phone churn reached a new third quarter record low of 1.02%
- Bad debt expense remained low at 1.2%
- Our commercial results are underpinned by a strong network and recent tests again confirm T-Mobile’s leadership
- Cost of service excluding the hurricane-related reimbursements are up year-on-year, reflecting the accelerating build-out of our new low-band spectrum
European Segment

- Now moving on to our European segment, this was another quarter of consistent strong commercial momentum
- We added 297,000 new contract customers, 61,000 broadband customers, 35,000 new TV customers and 229,000 new converged customers

New Growth Trajectory

- On page 20, you can see that our European segment has continued on its new growth trajectory, both at revenue and the adjusted EBITDA level
- Reported revenues were up 3.4%, EBITDA by 5.5%, both benefiting from the consolidation of UPC Austria since beginning of August
- Organic revenues were up 2.2% and organic EBITDA 3.6%
- At the nine months stage, we see ourselves well on track for our full year and for our Capital Markets Day guidance

Systems Solutions

- Now moving on to Systems Solutions on the next slide, slide 21. 2018 is a year of transformation as you know as we ramp up investments in growth and the IP migration and our ambitious operational turnaround
- Encouragingly, revenues and EBITDA grew this quarter
  - There’s some phasing in this though and we reiterate our 2018 full-year guidance for €0.4B EBITDA as well as our stated CMD, Capital Markets Day targets

Group Development

CONTRACT AND BROADBAND NET ADDS, REVENUES AND EBITDA

- The next slide shows the segment, Group Development
- We had another decent commercial quarter in the Netherlands with 57,000 contract net adds in mobile and 17,000 broadband net adds in fixed
- Adjusted for regulation IFRS, our Dutch service revenues would have been almost stable and EBITDA grew 11% due to cost savings
- Revenues for our Group Development overall was slightly down due to a one-off in our tower businesses

German Tower Business

- On page 23, we provide some more detail on our German tower business
- Recurring rental revenues and EBITDA each grew 4% similar to the last quarter and that’s mainly driven by efficiencies
- In the last 12 months we added 1,000 sites to our German footprint
  - We remain committed to our plan to add in total 9,000 German sites by 2021

FCF, Net Income and EBITDA

- On page 24 we show the main financial items
- As mentioned, FCF was flat year-on-year, but we raised our full-year guidance today
Despite the FCF, net debt increased mainly due to the acquisition of UPC Austria
Net income grew with EBITDA offset by higher depreciation and minorities

Balance Sheet Items
We remain in our balance sheet comfort zone as you can see on page 25
Our net debt to EBITDA ratio improved back to 2.4 times
And as always, my next two slides summarize our strategy and the commitments we presented to you at our May 2018 Capital Market Days
And I think we’ve made great progress towards these commitments so far this year

QUESTION AND ANSWER SECTION

Hannes C. Wittig
Senior Vice President Investor Relations

Indeed, we are. So, thank you very much you both. And now we can start with the Q&A section. [Operator Instructions] So, starting with Fred of Bank of America Merrill Lynch. Fred, can we have your question?

Frederic Boulan
Bank of America Merrill Lynch

I’ll ask the question in case you can. So, I’ve got two questions, please. First of all, on the fiber side, I would like to know if there was any update on discussions with United on a combined fiber rollout. What are the parameters you have in mind and criteria you have for potential collaboration with them?

And, secondly, we have fairly subdued trends in the fixed line business from a broadband or TV perspective. Are you satisfied with the performance there and what kind of outlook you think we can have for top line in this business on a midterm perspective? Thank you.

Timotheus Höttges
Chief Executive Officer

For the ones maybe not knowing all the details, we have offered United Internet a joint build-out of certain regions in Germany, a city like Berlin, a rural area in [indiscernible] (19:38), and an area in the western part of Germany in the [indiscernible] (19:40). And so we focused our regions where United Internet has at least some infrastructure for [ph] Versatel (19:49) and where the market share gap between DT and United is fairly small. So, both of the companies are able to gain share in these regions. And the blueprint for this offer is the joint venture and the EWE TEL project that we made good progress over the last month.

The idea of the proposal was to expedite FTTH deployments and to collaborate on the basis of a fair risk sharing. And we did not make the proposal to achieve regulatory relief already. United Internet has responded to our proposal by offering a 25% stake in the joint venture. Moreover, they also combined this with the demand for a national roaming deal. For us, both of these conditions make little sense as you could imagine. We think if you are building a joint venture, you have to take the fixed costs and the investments proportionately by the two parties and carry out the risk and then [indiscernible] (21:00). So, I would say that this discussion has come to a standstill. Nevertheless, there are a lot of discussions which are going on in Germany on this subject. As I
mentioned, EWE TEL, but there are more than a dozen other discussions on a smaller scale which we have with local fixed fiber-to-the-home operators in Germany.

Thomas Dannenfeldt  
Chief Financial Officer

I'm going to answer the second question which was the fixed-line trends. So, I think the first message I'd like to give is in terms of the commercial momentum we are having, in terms of the attractiveness of our products, the gross adds we are making in the market on the broadband retail side, I think we feel very comfortable. That's number one. And that is, by the way, also reflected in strong numbers on B2B retail revenues.

Where are weak trends on the fixed line side, it's obviously twofolded. One is the wholesale side. One big part in the wholesale side is that there is a migration ongoing from a Layer3 product to a Layer2 product, which is not a surprise. Already it is clear since some quarters that this will take place, this kind of optimization of players, and that this will have some impact. I think we are roughly on a level of 75% of all those lines being migrated from [ph] Layer3 to Layer2 (22:41). So that is two, three quarters done already.

The second part is then our IP migration, and this is not, let's say, it's not market-related per se but it's self-induced. We believe it's right to do it and we'll keep going with that. And as I said this morning in the press conference, we believe that a higher elevated level will stay for some more quarters, most likely by the end of 2019. But also, let me state, there is no surprise to us and it's part of our guidance we've given in May that this will happen. So, for us, it is like a planned development.

Just to remind everyone, the guidance we've given originally for wholesale and for broadband was wholesale around zero, broadband around 2%. That's basically where we are now. We have ramped that up in the Capital Market Days in May to around 2% on wholesale and broadband, 3% to 4%. You see right now, retail is on 5.7%. So, a bit higher, wholesale is a bit lower so, in mix, we are good.

Hannes C. Wittig  
Senior Vice President Investor Relations

If you wanted the old CMD guidance, relative to that, wholesale was a bit stronger, and retail a bit weaker. And right now, we are seeing actually retail stronger and wholesale a bit weaker. But it evens out over time and Tim is happy.

Jakob Bluestone  
Credit Suisse Securities (Europe) Ltd.

Two questions, please. Firstly, just in the context of the upcoming spectrum auction. Can you maybe just sort of share your thoughts on why Germany, hopefully, will be different from Italy?

And then secondly, your guidance for German EBITDA of €8.6B for the full year does imply an acceleration later in the year. Maybe it's just rounding, but could you maybe just talk through why the guidance suggests faster EBITDA growth in Q4 than what we've just seen? Thank you.

Timotheus Höttges  
Chief Executive Officer

You cannot imagine how much time I'm spending these days on 5G. And just to make that answer a little bit broader, I think we made a lot of good progress over the last weeks. I think the first and almost most important thing was that we, as the only player in the German environment, launched an eight-point program, where we
clearly defined what we will achieve within the next years. To give you a number, until 2020, we will have 99.3% of the coverage with a speed of 50-megabit. By 2022, we will have upgraded this to 100-megabit. And by 2025, 90% of the pop will be covered by 5G services. So, this is, let’s say, we’ve talked about corporations so a passive roaming, a site-sharing, as we call it, would be enabled for the rural towers. And we even approach the industries to say, look, I’m just having a detailed discussion about [indiscernible] (26:05) where we discussed the use cases for each and every industry which we are preparing all these days.

The second, what we did is we aligned ourselves with all the associations in Germany which are quite influenced, like [indiscernible] (26:20-26:27). There are 35 different associations from the different industries where we have now a joint position which has been published already over the last days. I think the big communication is coming out tomorrow about an alignment how we think, how the industry thinks this 5G deployment and the 5G auction should be designed.

That’s very important, guys, because there is an inflation of political demands which are taking place. Every politician thinks that 5G is an answer for [ph] job cuts (27:01). 5G is an answer for white spots. 5G is an answer for wild animal watching in the rural areas. So, there are a lot of, let’s say, political interests behind that, and we are trying to professionalize the discussion to the users demands and giving it back into the authority of the [indiscernible] (27:24).

Now, with regards to the situation of the auction, look, this is one of the areas I’m not so worried about. There are a lot of areas I’m worried about in this 5G auction but not about this topic. Why is that? Because every politician, every politician is asking for a better quality of the infrastructure than rather about higher proceeds. German’s tax situation is quite healthy these days. Political leaders understand that they have to give this money back to the citizens. So, they want to see the quality in the infrastructure, and, therefore, I cannot recall one politician who was advocating for proceeds in this regard.

The second thing is the auction will include up to 400 megahertz of the 3.7 gigahertz spectrum and 120 megahertz of UMTS spectrum, which is the 2.1 band. So, if you consider three players, I think this is enough space for all of us knowing that some of the spectrum will be reserved for local needs for campus networks. But nevertheless, there’s a possibility.

I cannot judge how relevant a fourth player might be in this case. That is something you can better judge from your perspective. The only one which I probably might be able to see is United Internet in this regard, but I cannot talk about his plans to auction on this one. So, therefore, I expect that this auction is not going into Italian situation. And Minister Scholz, our Minister for Finance has provided his own estimates regarding the outcome of what will most likely be the result of this auction. So, there are some indications. Nevertheless, I’m more worried about some obligations which will be part of the definition like a local national roaming or a passive sharing of sites, all this kind of stuff and this is something we are on within the next two weeks because in two weeks from now, the final design and the prerequisites for these auctions will be settled.

Thomas Dannenfeldt
Chief Financial Officer

There was a second question around how confident we are on the German €8.6B vs. the €8.4B last year after three quarters, now nine months down the road is up €110mm roughly and how confident we are to reach the €200mm? So, first of all, we are. That’s the first answer. Why? Quite simple. Q1 was up 1.3%, Q2 was 1.9%, Q3 is 2.1% so that gives you already an indication that the way we’ve planned the year and was laid out is in that up, up, up every quarter situation. Why is that? Now, they are – obviously one part of ramping the EBITDA further up
is realizing cost savings. Those are coming from rental spaces. I talked a bit about that in the Capital Market Days technology processes fourth quarter will kick in.

Tim talked about the number of no-shows being halved which is obviously not only better service for our customer, but also cost reduction on the service side as well. Complaints down by 30%. So, from all those areas, the measures we’ve taken, the longer the year goes the more impact you see on the EBITDA side and that kicking in is our plan, and so we are quite confident that we will see that €8.6B then.

Georgios Ierodiaconou
Citigroup Global Markets Ltd.

Two questions, please. The first one is a follow-up from the earlier question around wholesale. And I was just wondering if you can give us an idea over the next two or three years, not just in the short-term, how you envisage the different moving parts? So, from your description, there are some headwinds, at the same time at some point you have vectoring options available. Is it part of your zero percent assumption that you manage to upsell into vectoring or not. I mean, I was just interested to see how confident you are to keep offsetting some of the headwind.

And then, my second question is around the towers. And, obviously, now you had a few years of experience of branding them in a slightly more independent way than as part of a division. And I was wondering whether it’s something you’re considering for some of your European assets. So, not just have a German asset but run the rest of the towers as part of this group. And specifically, I mean, if you don’t mind me asking, some of your subsidiaries are listed, whether there is any thinking of buying the towers of them? Thank you.

Thomas Dannenfeldt
Chief Financial Officer

I’m going to start with the wholesale German fixed line side. I think that was what your question was about. So, just let me remind you what we’ve seen last quarters and then excluding the last two quarters, but last quarters like last eight quarters was a very positive support by wholesale broadband revenues in our total fixed line service revenues. It was always bouncing around 2% to 3%. Our original assumption was more like a zero or maybe 0.5% so, slightly positive. And it turned out that it was more like 2% to 3% for the time at especially in, let’s say, end 2016 to mid-2018 roughly, in that period of time.

What was coming from that run rate of 2% to 3% was basically wholesalers moving into higher speeds and the new infrastructure. And by doing that, you’ve seen the adoption rates on the fiber-based access lines on the wholesale side were always around 350, or call it, 300 to 350 a quarter. That has slowed a bit down. That’s number one where some support is going away or has gone away last quarters.

And as I said, the second one is more like a one-off. It’s a migration of a base from a more expensive Layer3 to a less expensive Layer2 product. That’s gone by 75%. There’s another quarter to go, but as I said, it was clear that it will happen. But, once that’s gone, we will see again the dynamics of the higher bandwidth, customers move into higher bandwidth again kicking in.

As Tim mentioned, it’s extremely important that the German regulators supported that more-for-more logic on the wholesale side as well [indiscernible] (34:26) from 100 megabits to 250 megabits as an example. So, obviously, our rollout of infrastructure, not only in terms of coverage, but also in terms of speed, upgrading the speed from 50 megabits, 100 megabits to 250 megabits is a strong driver for that development. This is why we guided for the next three years the market for the wholesale broadband revenues and 2% CAGR and where we believe we will go back once that Layer3 to Layer2 migration is gone that we will see that vicinity again.
So, on the other hand, when wholesale was more like 2% to 3%, we've seen a bit weak retail side. We guided that 2% for 2014 to 2018 and we've been more like 1%, sometimes a bit lower, sometimes a bit up. Now, what we've seen is a bit stronger retail and a bit less power on the wholesale side. As I said, it's important in some of both that we are in line with our expectations and that's where we are today and we feel comfortable that we'll be in line with that expectation, 2% for wholesale, 3% to 4% for retail in the future as well.

So, on the other hand, when wholesale was more like 2% to 3%, we've seen a bit weak retail side. We guided that 2% for 2014 to 2018 and we've been more like 1%, sometimes a bit lower, sometimes a bit up. Now, what we've seen is a bit stronger retail and a bit less power on the wholesale side. As I said, it's important in some of both that we are in line with our expectations and that's where we are today and we feel comfortable that we'll be in line with that expectation, 2% for wholesale, 3% to 4% for retail in the future as well.

Timotheus Höttges  
Chief Executive Officer

As you know, we have carved out our tower unit which is now part of our Group Development segment. So, this is, let's say, [indiscernible] (35:51) business for special affairs. So, that means we want to change something, otherwise we would not put it there. So, we will create additional operational and strategic flexibility for the group. Now, part of the strategy was also to insource the tower assets from the Netherlands and from Austria into this portfolio management of Group Development. This is currently ongoing. Further beyond that, DT owns a lot of towers in other areas and there is an opportunity prospectively integrating even this asset into this entity.

Independent from this growth, the company is today already number one of German tower operators and it is as well number one in Europe if we include all the European assets into this one. We are now working with a very professional new management that we managed this portfolio in a much better way as we did in the past. I can talk about a new design of towers which are becoming – we are pre-configured and manufactured, so the time to market to build these towers is one of the changes. We are managing cost base on how to handle and to maintain the towers. There is a triple digit million cost reduction already which we have in our plans on this one. So we want to really professionalize this portfolio.

On top of that, we know that with 5G and with the ambition to close white spots, we are increasing our tower portfolio significantly over the next years. This year, in Germany alone, by 1,300 prospectively towers, 10,000 new towers only for Germany, and I think the same magnitude as well for Europe becoming the next year.

So, the debt, the rating or any kind of liquidity considerations for selling the towers is not a major driver for us at that point in time with the good balance sheet. But I can tell you something, my personal view is that if we are ready to go, I’m willing to consider even a sale or a partial sale of these assets going forward. This hasn’t been taken this decision, but we would not do all this work here if we would not consider even value-enhancing strategy behind this asset.

Ulrich Rathe  
Jefferies International Ltd.

I have two questions on the fixed business on the retail side in both cases. The first one is on the [indiscernible] (38:52) upsell. I mean, in the quarter, it was a bit slower than the recent run rate. I don’t want to overstress a quarter, but is there anything in there, just sort of seasonality and will come back or has it stepped down for maturity reasons or why has that stepped down, the [indiscernible] (39:13) upsell?

And the second question is the IP migration. Just if I remember correctly, you sort of indicated that you would take steps in H2 to mitigate the impact of the IP migration on the volume KPIs. Now, the volume KPIs sort of have deteriorated even on the line losses. So, I'm wondering what has happened to this effort to actually bring that down despite the IP migration? Thank you.
Thomas Dannenfeldt
Chief Financial Officer

I’m going to start on the retail side, the [indiscernible] (39:45) upside or the upside to vectoring infrastructure is quite simple. If you look at the numbers we laid out, it’s only and solely coming from a bit of a slowdown of the wholesalers. Retail is intact. Run rate is intact. There’s no change there and it’s a bit of lower numbers on the wholesale side.

Timotheus Höttges
Chief Executive Officer

On the migration maybe, Hannes, you?

Hannes C. Wittig
Senior Vice President Investor Relations

Just on the migration, we – I think, at the B2C level, we’re seeing a fairly consistent level of hard IP migration impact. On the B2B side, we are starting to de-risk some more complex situations as we finalize the project. And so, we’re seeing a slight increase, and that’s where the sequential step-up is coming from.

So, it’s kind of as expected and it’s not going to go away quickly, as we have said. But it’s, of course, a project that we believe in and that’s finite since we are now at 82% for Germany with the IP migration. So, next question is from Ottavio at SocGen, please.

Ottavio Adorisio
Société Générale SA (UK)

Couple of question on my side. The first one is a follow-up on the 5G. Tim has mentioned the 99% coverage by 2025. I think that’s probably also a target that he was given around October in a different platform. My question is, is that project been costed? If that's the case, could you share with us how much it would cost to basically achieve that particular coverage? Then is that coverage done on the mid-band spectrum or it will be done on different layers across Germany?

I believe that also you mentioned 50,000 sites to be required for 99% coverage. At the moment around 27%, 28% so how the build will be done because it’s a build that is not straight forward to build considering that there is a lot of problem with the permits. So, how the site sharing is going in the airports and how many sites you shared already?

And the second one, it's much more straight forward. It's basically on the European side. You had a pretty good quarter but when you look at the delta, I can see that Poland has been one of the major inflection points that went from minus 19.2% EBITDA full year-on-year to plus 10%. So if you can just tell us what’s happened there and how sustainable is that particular growth rate? Thanks.

Timotheus Höttges
Chief Executive Officer

The first thing as you know, what we are doing in 2020, 2022 this is all based on the 4G deployment. The clearing of the 5G spectrum is 2021 while we can then start deploying the spectrum and then we will deploy in our antennas until 2025 as well the 5G spectrum. So what we do at the first instance is, let’s say, improving significantly the bandwidth with the existing bands and then we use on hotspots prospectively in areas where we need the low latency infrastructure we will then deploy the 5G infrastructure and the 5G antenna.
So, it’s a mix of the 3.5 gigahertz spectrum and clearly, the deployment of the mid band and low band spectrum which we are already doing today. There is an optimization as well. Hopefully we can farm, re-farm some spectrum from the lower bands as well to that one that would help us to get better coverage with less sites. But this is the major roll out which we have foreseen here is based on the existing spectrum and existing antennas. On top of that we have said 10,000 antennas coming on top of that to keep in mind that we have 27,000 antennas already off today so it’s a significant increase going forward.

And on top of that for the high dense areas, there will be 10,000 microcells which we are planning currently to fulfil the needs in the cities and in the hotspots as deployed. I think one of the concepts we just learned from the Asian countries are so-called kiosks that you have certain areas where the CPEs on line of sight on the streets, de-loading and uploading at very, very high capacities, but you do not have to deploy every antenna with this specific functionality.

Thomas Dannenfeldt  
Chief Financial Officer

I’m going to take the question around Poland. First of all, let me clarify that if you do a fourth ranking of the countries contributing to the good development in Europe, you will see Poland at number five position. So it’s not the biggest contributor, but for sure it’s important to see Poland turning around. We’ve been always clear that – we said last year we see better commercial dynamics which keep going this year. We said, this year, we should expect also revenue development y-over-y being positive, and from next year onwards, EBITDA. We’re now seeing it a bit earlier, but to be very clear also in Poland in Q3 you had a €20mm revenue one-off which is a €6mm EBITDA one-off. So, still, Poland is – in terms of year-on-year development kind of, as we said, stable but not in the positive territories if you exclude the one-offs.

Nevertheless, it’s important to understand that our assessment that we started successfully and turning the commercial dynamics last year in Poland that they are intact. By the way, this year, supported by good FMS development, we see NPS, so customer satisfaction loyalty significantly going up. We moved ourselves into the number one position as Tim mentioned. So we’ve seen that leading indicators of net-adds loyalty that has substantially moved. We’ve seen revenue trends move in. Again, too early to call it a complete success, but all the indicators suggest that we are in exactly right track and that we will keep going with that in Poland. But let me also be clear, that is not the number one driver for the EBITDA development in Europe.

Hannes C. Wittig  
Senior Vice President Investor Relations

In any case, it’s a nice situation that we are debating, which is the strongest contributor to Europe’s growth. I remember other days. Christian at HSBC, please?

Christian Fangmann  
HSBC Trinkaus & Burkhardt AG

Couple of questions, more on the commercial front. So, it seems you launched a new version of MagentaTV so, basically, also now a new OTT product. So, what’s really the strategy behind that? Just to trying to understand that, are you trying to steal more from cable and satellite or from other OTT players? And also, are you counting on these, let’s say, non-DT fixed line customers also as TV RGUs?
And then, maybe on mobile, it looks like in October, you have increased the promotions from 6 months to 12 months so, becoming a bit more promotional again. Is it driven by incremental pressure that you’re seeing in the market, just trying to understand how the mobile service revenue may develop in Q4? Thanks.

Timotheus Höttges  
Chief Executive Officer

Magenta is a total re-launch of our Entertain services. By the way, it starts with the branding and the name. You know that for our station and TVs, we have the Entertain as a name in the past. Everything is now called MagentaTV. We have a solution at home and we have a solution on the go. We have a full over-the-top solution, which we have launched, and we have a new library behind that, which is including the long tail of a lot of, let’s say, broadcasters, both from the analog side, as well from the VOD side.

On top of that, we include all the VOD platforms into it. And if you once have a single sign-on, you could easily go with the search functionalities into every kind of library like Netflix, like the maxdome libraries and others. And on top of that, we include all our long-tail spots activities into this plus some exclusive series which we have recently launched that is something which [indiscernible] (49:39) like an additional service which we include. So, that makes the access to content, to all contents much easier.

It’s easy one-click scenario. On top of that, you have the aggregation follow in a much more logic mode. And what is happening is if you watch this service the – it’s not anymore that you have this VOD side and on the other side the TV EPG, the content is merging and it’s tailored to your personal behavior. So, this is the way how we see the future. It was the first time that we, on an agile way, developed this new platform in a very quick mode, and all the functions like Timeshift, Restart functions, backwards EPG are still included in this functionality as well.

Why are we doing this? You’re totally right. We are trying to expand our go-to-market into areas where we haven’t been before. A lot of the customers are not just coming from the fixed-line service and upgrading into a TV service. A lot of the customers will witness that this is a better way of watching TV. And with this, prospectively we are able to upsell the fixed line connectivity, hybrid connectivity or even mobile connectivity to these customers. That’s the idea to expand the access capabilities at Deutsche Telekom.

And at the same time, are we counting non-DT customers? Yes, we do. Are we counting them on the TV and RGUs? It’s currently not relevant and we have to update you. Honestly, I don’t know and we’ll find out. Let’s answer that in the back office here.

Thomas Dannenfeldt  
Chief Financial Officer

On the question on the promotions, first of all, I’d like to remind everyone what we basically did by August, beginning of August exactly. We followed our more-for-more logic. We put some more data into the tariff plans and upped them with data volume on the other hand, €2 higher MRCs. Within that movement, in most of the tariff schemes, we up the promotions as well from 6 to 12 months to keep it going in the first instance a bit easier but in principle, very important to understand there was a hint more-for-more up of €2 in the MRCs. And that is not so much – it’s not – pressure on the market was simply to get that new tariff schemes with the new MRC price points going in the first instance easier.

Josh Hallett  
Redburn (Europe) Ltd.
The first one is actually on TMUS. We often hear them talking about offering superfast 5G speeds that should be able to disrupt the U.S. fixed broadband market. I'm just wondering, that sounds good but, obviously, is that also a risk for you? In your other markets, particularly Germany, Telefónica Deutschland, you're talking about doing fixed wireless. If TMUS can do it in the U.S., why can't TEFD do it in Germany? And would that be a problem for you?

Then I just wanted to ask you on the BT stake, what do you think about it here, the current valuation? Would you consider increasing your stake or something even larger? And, finally, there hasn't been much talk of Vodafone-Unity, the deal in this call. So, I was just wondering, does that mean you're more comfortable with the deal now or is there any updates on that? Thanks very much.

Timotheus Höttges
Chief Executive Officer

I’d like to answer the BT question first. Before we take over BT, we’re considering first taking over Orange, then KPN, then TeliaSonera and then at a later stage then BT. So, that’s to BT. With regards to the – no, okay. I think – and I said that in previous calls that in a base situation, our market is looking more negative on the business in a kind of bullish environment, investors or people getting too biased to positive very often.

Now, I was really convinced that there will be a recovery of BT with all the activities this company has taken. It’s quite impressive on how many areas BT is working at the same perspective. I’m convinced that they will see an uptick on their valuation going forward. But, look, we are not – and I should not say that because I never comment on M&A activities, but it’s part of our pension stock here. This asset, we are not in a phase of upgrading or improving our stake here. We adjust on three transactions, UPC, the Netherlands deal and the big one in the U.S. There are a lot of activities going on with regards to our €12.6B investments which we have for the group going forward or €12.5B, sorry, to be precise here. Hannes gets already very nervous. So, but therefore there is no activities from us to increase our stake.

Let’s now see the evidence on how this business is improving. The new COO coming into the office, let’s see how the regulatory framework is developing prospectively and then we discuss further on the BT stake.

With regard to TMUS, look, superfast 5G speeds to disrupt the fixed broadband market, that’s definitely a business case for the U.S. And one of the reasons is this unbelievable expensive fixed line cost you find in the U.S. market. So, coming with the mobile technology with higher bandwidth at a lower cost, this is definitely a good disruptor. So, that’s slightly different in the European footprint. If you compare the TCOs of fixed line connectivity or fiber connectivity with FMC, their proposition here. But we are not giving up because especially in the rural areas, the FMC, FMS customized be lower than an own fiber deployment. We are developing now the technology, so we will see anyhow a decretion of costs coming forward. And we have our assumptions in how we could commercialize these FMS offers going forward.

We have trials in Germany like in the City of Berlin and other places where we are experimenting with this. You know that we need a line of sight. So, even the geographical preconditions have to be right. So, I would say, it’s – we have the same ambition, the same ideas, but the U.S. environment is more attractive toward this case due to these current pricings than European market.

But, I think, we are well positioned. We are just coming back from Asia, from South Korea and from China, where we have discussed the technology. We want to lead it, in any case, from where we are. And then, we will even see the opportunities for FMS service or 5G service for B2C customers.
Hannes C. Wittig  
Senior Vice President Investor Relations

You also asked on the Vodafone-Liberty deal or, at least, we have taken note of that. The German cartel office today requested referral to Germany. Our position has not changed. We continue to be concerned about and see a market power, market dominance in the TV market. And that’s basically what we have articulated.

Just on fixed wireless access, we had quite a lot on that in our CMD, in Claudia Nemat’s presentation, and we outlined that one of the preconditions for fixed wireless access is also to have a strong fixed line network, which is something that we can use in Germany and even then it has a certain scope, but it’s not universal. And we’re also doing a bit of fixed wireless finally in places like Poland and Austria as Thomas has mentioned. And then just to clarify that Tim’s remarks related to potential acquisitions of our esteemed European peers were all on a humor basis so they were jokes for the record. And with that, I move on to Usman at Berenberg, please.

Usman Ghazi  
Joh. Berenberg, Gossler & Co. KG (United Kingdom)

I’ve got two questions, please. Firstly, I was wondering how Deutsche Telekom views or thinks about the upside from monetizing the tower assets either via a roaming agreement with, let’s say, a fourth operator vs. the risk of actually lowering the barrier to entry by making the tower company, let’s say, more independent. Just some thoughts on that would be interesting. The second question was just on IFRS 16, I guess we all know that this will result in an optical increase in the leverage. But just at DT, I mean, does that optical increase actually result in a different consideration on the uses of cash, etcetera? Thank you.

Timotheus Höttges  
Chief Executive Officer

I’ve said a lot about tower monetization and our openness on this regard. Now your question is going with regards to a roaming agreement with the fourth operator in the German market. Look, the first thing is in the context of the 5G auction, if you want to have a quality of a network, it is better not to have a national roaming. By the way, all investors understand that immediately because think about this logic by saying, if somebody could focus its build out on the cities, somebody is building out a tower in the rural area, which is more costly and the utilization of this tower is anyhow more difficult, he could easily get access to this band by regulatory enforcement. There is no motivation for a carrier to build at rural areas or more unproductive sites.

So, therefore, what we are fighting against is a kind of legally enforced national roaming on towers because we think this would be the end of the rural build-out which is a prerequisite, by the way, for the digitalization of Germany or other markets. So, that is, I’d say, the first observation. That doesn’t mean that we are not open to partnerships in this regard. The first thing, we do not want that the regulator is doing that, we want to do that on a deliberate basis. And second thing, we do not want to have [ph] RAM (01:02:11) sharing or something like this. We want to have, let’s say, a site-sharing.

So, if there would be somebody in a rural area saying, I want to put my antenna on to your site, we are open already today and we made that a big commitment in our eight-point program that in the rural areas, we will share these sites with a fourth operator or with one of our alternative players in the German market on a deliberate price-negotiated basis. And on a site-sharing basis, no problem at all. We are even willing to share our fiber backbone networks because we know how difficult it is and we just announced a deal with Telefónica in Germany where we are enabling 5,000 sites of Telefónica with our backbone services. So, I think there is a difference between a legal enforced national roaming and a site sharing or a backhaul sharing on a deliberate basis. We are open to the latter one.
And on IFRS 16, I think what will happen after implementation of IFRS 16 once it’s understood and transparent, etcetera, etcetera, we will basically move the leverage as we define it today much closer to the rating leverage anyway. Whenever we are in discussions with the rating agencies, we discuss writing debt vs. writing EBITDA. So, and what happens with IFRS 16 that moves closer so that gap we have today between our leverage comfort zone as an example of 2% to 2.5% and the rating agencies’ point of view that gets closer, not close but significantly close, so that makes life easier in that debate.

As the numbers are anyway in our annual report being transparent, you can look them up last year’s report. I think there is – this is not a matter of transparency or a matter of will our perspective change but rather more just a technical leverage of optical change and that’s basically. By the way, we will offer a more detailed view and some better insights and hopefully create better transparency on what happens there on an IFRS 16 webinar we’re going to have end of January, so you’re all invited to join there and follow and ask your question there in detail.

Emmet B. Kelly
Morgan Stanley & Co. International Plc

As it’s your last call, I guess, I have to say [Foreign Language] (01:05:03) so best of luck. But, as this is also your last call, I have to ask some very highly complex finance questions as well to you before you leave.

So, the question is really on your balance sheet and the cost of debt. Your cost of debt has already fallen quite nicely from around 5% in, I think, early 2015 to about, I think, 3.25% today. Now obviously the investment grade telco debt markets are still very much open. So, is there still any more kind of refi you think Deutsche can do in the coming years or have you left anything to do for Christian at all in that regard?

And just as a kind of a follow-on from that, could you kind of remind us of any refi opportunity on a combined T-Mobile USA-Sprint balance sheet and what the financing of that will look like maybe two or three years down the road? Thank you.

Thomas Dannenfeldt
Chief Financial Officer

First of all for the kind words, especially those in German. Your German sounds really fluent. Thanks for that. And on the balance sheet question, I think what has happened actually is the significant change was due to the decision to move away from a strict standalone refinancing of the T-Mobile US entity into a optimization from a TMUS but also from a DT shareholder, basically drive the cost of refinancing down and share the upside that was the whole logic. We decided to do that when we saw that the FCF will nicely go upwards above the zero line. Just remember everyone in 2013 and 2014 we were still negative, so we said let’s use that opportunity. And that is not completely done in a standalone perspective. Looking forward, there is some more bits and pieces to be done, but the major chunk – a big chunk is done. So, bit left for Christian, but not so much. That’s number one.

I think number two is quite simple. As we announced in the market, the combined entity will start with a huge amount of debt, and that will also push the consolidated entity, DT out of the comfort zone. And I think that will hold true for two to three years depending how fast you will actually then see the transformation being successful implemented. Afterwards, there is a moment of time where the DT side, as well as the TMUS side need to look at whether they believe they – you can repeat that or not, but I think it’s too early to speculate on that.
For sure, one thing is clear. If the entity is going to be combined and consolidated at DT level, first two to three years will look difficult in terms of staying in the comfort zone over the first two years, for sure, out of the comfort zone we have defined. And there is no way from our point of view to optimize in those first two or three years because we said clearly, there will be a strict self-funding on the U.S. basis once we combine the entities as long as we don’t see a clear positive FCF dynamics.

Polo Tang  
UBS Ltd.

The first one is on the rollout of super vectoring in Germany. Can you talk about the response to the new product on both the retail side, but also on the wholesale side?

Hannes C. Wittig  
Senior Vice President Investor Relations

It’s early days, of course, but we have a very low five-digit number there already, so it’s not that there’s no demand. And, of course, as Tim has pointed out in his prepared notes that we’re also pleased with the regulatory framework here which foresees €4.80 uplift relative to the 100 megs. And clearly, it shows that the regulator appreciates this higher speed investment.

Polo Tang  
UBS Ltd.

And then the second question from Polo relates to Europe. He wants to know apart from Poland, what’s driving the revenue and EBITDA growth in Europe, and is it sustainable, and is there upside to the CMD targets basically?

Hannes C. Wittig  
Senior Vice President Investor Relations

The CMD targets hold, right? And of course, you have always a bit of phasing before, so we iterated our targets for Europe. But clearly it’s good to see that there is a performance that’s driven by revenue growth and also significant cost reductions. We’ve also outlined those cost reduction. The segment is on track for those cost reductions. And in this quarter just drove healthy numbers, slightly higher than the run rate that we see for the medium term. But for the year as a whole, it’s kind of only a little bit ahead.

So, as always, don’t overestimate quarterly movement in the segment. So that’s also maybe a important point. Important is to look at what we do for overall ex-U.S. and there we have 2.7% growth and that’s bang in the middle of our 2% to 3% guidance that we have outlined at the Capital Markets Day for our ex-U.S. EBITDA growth, 17% to 21%. So, the next question I have is from Robert at Deutsche Bank. Please.

Robert Grindle  
Deutsche Bank AG (UK)

Firstly, those B2B mobile customers you lost through bankruptcy, 60,000 or so, did you lose the revenues from them across the whole of the quarter, or did that happen sort of towards the end or in between? And then secondly a quick comment if you don’t mind on T-Systems, the EBITDA momentum improved materially in the quarter. Maybe that says more about H1 than Q3. But I think you have some agreement with the unions on cost cutting, is that starting to feed through already or is that more a next year story? Thank you.
Hannes C. Wittig  
Senior Vice President Investor Relations

First of all, the answer is twofolded on B2B. There are two elements to understand. The answer is, yes, it’s more or less the whole quarter. But it’s also important to understand it is a relatively low ARPU quality player we’re talking about. So it was not a big chunk of revenue. In fact, you see there it’s much more on the line number than the revenue number impact.

On T-Systems, Tim, do you want to add something? He’s signaling like hell that he wants to add something. Okay. I go first with the T-Systems and then you chip in. On T-Systems, the whole activity in terms of head count-related activities, that’s very early. We started a bit on the executive level, but obviously that is not the big volume driver that is already going on. But the big chunk – the relevant chunk in terms of numbers, you would see kicking in, in 2019, so it’s too early to discuss that now. Tim?

Timotheus Höttges  
Chief Executive Officer

[indiscernible] (01:12:13) wanted to expand a little bit from Polo earlier with regard to the super-vectoring places. In one quarter, we have opened up 8mm households just from a number perspective on 250 megabit per second. And by end of next year, we will have 28mm households. So it is – for me, yes, there will be a revenue impact and an ARPU impact coming. But, for me, the most important thing with this one is the pressure which we had for – or at least we were always expecting from the last years from our competition in this area is totally going away. And customers know and understand that they have a better coverage. So, it helps us both on a competitive communication perspective and it helps us a lot on the political side. And I get already feedback, very positive feedback from a local minister president appreciating this build-out.

If you look to the take-up rates, 55% of our customers in Q3 took up the 50-megabit service and 45% of the customers took the 100-megabit-plus upgrade. So, you see that there is still a majority. I’m being happy with 55% with this huge expansion of our household lineup in the next 12 months. I’m sure that we always have the right answer for all digital services at home. So, just wanted to mention that, for us, this is only a business case issue at the first time. It’s even making as assumption of future proof.

Guy Peddy  
Macquarie Capital (Europe) Ltd.

Just a couple of quick things. You might have mentioned it earlier, but sorry if I missed it. Did you detail what your current dual costs are on your network because of the IP network not being – the dual cost from running an IP network?

Secondly, on a more conceptual one, one of the reasons why tower companies are so highly valued especially in the U.S. is they have very favorable contracts with their operators. And, clearly, we see that through both T-Mobile and Sprint that are both paying very heavily currently for access to towers as they roll out new infrastructure. How do you avoid that in Europe should you actually look to sort of separate out the tower business or does that mean you’re prepared to take a lot lower valuation multiple should you sell a state because you’re not prepared to give contracts like you’ve given in the U.S.? Thank you.

Thomas Dannenfeldt  
Chief Financial Officer

I’m going to start on the costs on the IP transformation. It’s around – on a quarterly basis, it’s around €100mm OpEx and less than €100mm of CapEx that is on the IP network transformation.
On the tower companies, maybe I start and Tim or Hannes chip in. I think, first of all, what everybody needs to understand, talking about the U.S. towers vs. the European towers is the share of rooftops you typically find in Europe is much higher than it is in the U.S. environment. That doesn’t mean, whenever you talk about multitenant approaches, obviously, on a tower, that’s easy because you have enough space. Whereas on a rooftop, which is typically 2 to 3 meters in terms of length so, you can’t put so much on it. That makes a difference and that is, in the first instance, I think important to understand.

The second element is a tower company in the U.S. typically not only provides the space on the tower but also the fiber connectivity to the site. So, for instance, our fiber to the site connectivity we have in T-Mobile US is 98%, 99%. It’s extremely close to 100%, while what is typically in Europe, not the case, where you have a tower company providing the space on the tower but not the fiber line to it. So, once you start to compare, I think it’s always important to have that in mind that there is a difference, a kind of natural difference you have of a U.S. tower business vs. a European tower business.

Nevertheless, what you also have is and that holds true for U.S. I think as for Europe. Within 5G you will see network densification. We talked about 9,000 to 10,000 hours. We’re going to add up in the next four years as an example. So you will see that densification taking place. By the way, obviously, that is more or less or very often it’s white spots and densification. White spots doesn’t mean you share as a natural logic of reducing your costs so you’re open to go multi-tenant. You don’t go normally for rooftops, you go more for tower infrastructure so you change your mix towards more the U.S. mix. So that is what you always need to have to have in mind whenever you assess that, but in principle there is a reason why there is a slight premium on the or there should be a premium on the U.S. side.

Timotheus Höttges
Chief Executive Officer

With the multiples, I agree. The first thing is we are taking about, even for the European towers, about high double-digit multiples for our asset here. And that is already compared to the current trading multiples which we have in our core business. There’s a huge uptick.

There are reasons for that that the towers are less valued than in the U.S., even the architectural, and Thomas mentioned a lot of arguments. But, look, in the U.S. you have much more bigger towers than we have them here in Germany. So, the amount of towers, the sharing capabilities of this one is limited. So, it’s less on this one.

On top of that, we would even accept a lower multiple just theoretically because we would probably exclude some towers and would frame them as golden sites or the golden towers. So, we would not pour everything into this one as the Americans are doing today because we would make a trade-off between our market leadership which we have as well from the coverage to the [indiscernible] (01:18:44). So, it’s a mix and it is an entrepreneurial decision but, exactly, these discussions are taking place these days, and it’s too early to say how we play that. But I think there is a difference between U.S. and Europe.

Hannes C. Wittig
Senior Vice President Investor Relations

And with that we go to Mathieu at Barclays. A last question for today and then we have some closing remarks. Okay, Mathieu?
Mathieu Robilliard
Barclays Capital Securities Ltd.

If I can start with a question following up on what Tim was saying about facilitating access to your infrastructure for a potential fourth player. I mean, going even further down, I mean, would you be ready to give an attractive MVNO deal if that prevented the entry of a fourth player? That’s the first question.

In terms of coverage obligations, so you have volunteered to roll out more cell sites in rural areas and you said that already some time ago. And I was wondering how does that play out in your negotiations at this stage regarding the 5G spectrum auction since you’ve already showed that card. If the outcome is not as you expected in terms of the applications, can you reconsider your rural sites development? And then, finally, we didn’t touch on the Netherlands [indiscernible] (01:20:15) any update in terms of the process, if you have made any amendments to your initial proposals or not? Thank you.

Timotheus Höttges
Chief Executive Officer

The first thing, we have legal requirements in the markets with regard to enabling fourth parties in giving access to our mobile infrastructure, service provider network alike. Beyond that, we are not considering any kind of additional MVNO type of access to our infrastructure.

With regard to the coverage obligations, look, what we are measuring is today when you look to the 3G build-out or the 4G build-out obligations, we are leading the pack and we are very close to already fulfilling or over fulfilling these historical auction requirements. So, this makes us always stronger. And you know our network is much better than – in the local coverage than from our competitors. And therefore, this is definitely something which will impact the negotiations in this regard.

Thomas Dannenfeldt
Chief Financial Officer

I’m going to pick up the Netherlands question. I think, as you know, we are now in the phase two of that merger approval process. The provisional deadline for the EC is November 30. As you know, our position is not new. We firmly believe that this merger is pro-competitive because it will create a third player which has the scale needed to compete against the other two guys being strong converged players. And we are in constructive dialog with the EU Commission, and I think it’s two weeks to go until we get the final feedback. And that’s where I leave it and don’t comment on any more specific aspects.

Maybe because that was the last question, I’d take the opportunity to say at least two or three sentences. Because, as you all know, that’s my last call. Next time, you will hear Tim and Christian. And what I like to do is thank all of you guys for the always open and constructive discussion atmosphere we had in discussing topics. Even if we were not agreeing, it was always very open and constructive to me. I enjoyed it because it is very important to the company here and also to myself, to Tim, to the management to understand what are the concerns in the market, what’s your point of view, and also to pick up impulses you have, things you have seen somewhere else and we haven’t potentially thought about it enough.

So, I’d like to thank you guys for that, for your trust you put in the company and into myself. And I’m grateful for the opportunity to work with you guys. And, I guess, I will meet some of you in the upcoming weeks still. And for those I will not see, as always in life you meet twice and I’m sure there will be an opportunity to meet again. Thank you, guys.
Timotheus Höttges  
Chief Executive Officer

HIGHLIGHTS

Revenue Growth, EBITDA, Net Profits, Investment and FCF

- Look, we had a quarter of revenue growth of almost 4.7%, EBITDA growth of 8.5%
- Net profit grew adjusted by 6.5%, net profit overall by 120%
- And despite the fact that we were investing €9.1B in this first nine months, our FCF has grown by 8.5%

Europe and U.S

- So, all business are growing as we promised, Europe, very strongly, 5.5% on EBITDA growth this quarter
- So, the trend is now some three quarter very positive in this regard and the same is true for the German environment
- U.S., fantastic as always
- Guys, we are quite proud about this quarter and confident that we fulfil the remainder of that year with this momentum
  - So, you feel me I’m very optimistic towards the upcoming future

Auction Design for 5G

- That said, there’s never – everything’s rosy in our lives
- The biggest challenge which we currently are facing is this auction design for 5G
- And in this, by the way
- I’m not so concerned about technical requirements or about, let’s say, the build-out. It’s more the question about how they’re combining the quality of the network with the national roaming obligations in certain rural areas
  - I think this is a negative impact which we see because there is no incentive for an infrastructure competition given
- And this is what I’m fighting with the team here
  - But, overall, we are quite optimistic and even the environment in which we’re operating understands that we are one of the main pillars in our European markets, but as well in the U.S. when it comes to the future digital infrastructure

Management Team

- That said, Thomas is leaving at, I would say, the best timing a CFO can have, at a very good performance and a good outlook for the year
- I can tell you I’ve worked with this guy since 18 years
  - He cost me some here, almost every – all of them
- But I think you all know that we were in symbiosis in the way how we were managing this business in all these different areas, and I’m very proud that I had the capability to work with him
  - I can tell you by [ph] letting him go (01:26:23) which it’s very hard to accept
- Christian is a brilliant thinker and a great mathematician as well. He knows the business inside out from his marketing skills and from the German operation which he was running for ages
So, therefore, I’m very relaxed on this regard looking into the future

- But, nevertheless, my heart is bleeding as well while knowing that Thomas is not on my side as he was for the last 18 years
  - I’d like to thank you for giving him the support in the past, and we all should have champagne at the Morgan Stanley Conference, at least the ones who get invited.