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Deutsche Telekom AG (DTE.DE)

Q1 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and welcome to Deutsche Telekom's Conference Call. At our customers' request, this conference will be recorded and uploaded to the Internet. May I now hand you over to Mr. Hannes Wittig.

Hannes C. Wittig

Senior Vice President, Investor Relations, Deutsche Telekom AG

Yeah. Thank you. Good afternoon, everyone, and welcome to our first quarter 2020 conference call. With me today are our CEO, Tim Höttges; and our CFO, Christian Illek. Tim will first go through his highlights of this quarter, followed by Christian who will talk about the quarter's financials and provide a few deep dives. After this, we have time for Q&A, a bit less than usual, if you allow, because we have some urgent appointments afterwards. Before I hand over to Tim, please pay attention to our usual disclaimer which you will find in the presentation.

And, now, it's my pleasure to hand over to Tim.

Timotheus Höttges

Chief Executive Officer, Deutsche Telekom AG

Yeah. Thank you, Hannes, and welcome, everybody, from my side. I want to talk about our strong Q1 results and, in addition, I want to give you an update on how COVID-19 has impacted our business and why we remain confident to achieve our stated full-year 2020 targets. This will be followed by Christian with a deeper dive into our Q1 results plus some additional financial disclosures.

Let me start with my highlights. We closed the US merger on April 1 from the home office, so we gained all remaining approvals. We were able to raise €19 billion shortly after closing, despite peak market turmoil and on better terms than expected in our initial merger case. In brackets, I was a little bit nervous in the meanwhile, but it turned to be all much more positive. We confirmed the target synergies and are now working on the rapid implementation which is going well. In Germany, meanwhile, we revealed our plans to cover over half of the country with 5G, and this already in 2020.

The strong commercial and financial momentum we've seen in 2019 continued in the first quarter of 2020 on both sides of the Atlantic. All segments are growing from a profitability basis. Our EBITDA grew double-digit in the first quarter. Yes, you heard it rightly. Our EBITDA grew double-digit. And this, despite, say, the impact of the global COVID-19 crisis. It seems to be that our operations are very resilient.

We were able to move swiftly with decisive and generous crisis support for our customers. Our networks and service operations held up flawlessly across all geographies and technologies. We remained in our stated leverage comfort zone and we confirmed our dividend. So, based on our Q1 performance and based on what we are seeing so far, we see ourselves on track for our stated 2020 guidance.

Before we go through the details, let's look at the quick summary of our Q1 financial performance on page 4. Let's keep that simple, all the segments grew this quarter again. Page 5, we showed some of our key investments outside of the US. In Germany, we covered over 35 million lines with fiber, of which 1.7 million with gigabit connectivity. In the EU, we now passed 3.4 million with full fiber, bringing the total footprint, including Germany, to just over 5 million. This is up 1 million compared to one year ago. We now have 250,000 customers on

Q1 2020 Earnings Call



supervectoring as demand starts to accelerate. And in Germany, we reduced our IT time to market to five months, less than one-third of what it was in 2017. In the APP penetration, our European segment has reached 57%.

Our networks stand out and keep winning all awards. By the way, the most successful first quarter we ever see in Deutsche Telekom. We won the recent Connect test for the over best mobile networks both in Germany, in Europe, and as a multi-country operator for entire Europe. We won all German mobile network tests. We won all German fixed line tests. We won all service tests and we won the test for the best German IPTV platform with almost full marks. And we were named one of the Germany's top three customer-oriented companies alongside with Amazon and Miller. Our customer service metrics that we showed you mid-February keep improving.

Moving on to slide 6. Early May, all German operators met with Bundesnetzagentur to declare their 4G coverage. From what we learned, I can tell you we are not just far ahead of Telefónica Deutschland, we are also far ahead of Vodafone. But network leadership is not just about 4G, it will increasingly be about 5G.

A couple of weeks ago, and I mentioned that already, we revealed a big plan for 5G in Germany and let me give you the details. Upon launch, we will refarm some of our 3G spectrum. And as soon as our newly acquired 3G spectrum becomes available, we will have two times 15 megahertz of 2.1 gigahertz spectrum on 5G. 2.1 gigahertz is excellent for 5G because this spectrum range combines speed with good propagation. We will switch on 5G in 2.1 gigahertz and at least half of Germany are ready this year.

On top of this, we will have the top 20 cities covered with 3.6 gigahertz. Going forward, we will leverage other spectrum ranges such as 700 megahertz frequencies. So, we have a mix of low-band, mid-band, high-band, which is, compared to my competition, significantly better, and we will roll out faster than anybody else. So, comparing the commitments of Vodafone with ours, we will have 4 times more coverage already by the end of the year with regard to 5G. I'm very excited about this acceleration plan, which we laid out during the corona crisis, and it shows that we are maintaining our clear German mobile market leadership.

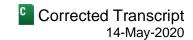
On page 7, we talk about the customer growth, and it remains strong. We are very grateful for the trust, especially in these difficult times. The incumbents are the winners, and we see it again. In our European footprint, we added 1.4 million converged customers. In Germany, almost 15 million homes are served by our fiber products, and we saw a strong and steady mobile customer growth on both sides of the Atlantics. There was a time when people were criticizing our vectoring and super-vectoring rollout. We are now able to serve more than 80% of German households. And we are the guardhouse for the digitization in Germany and especially for all the business customers. So, all the traffic load in the COVID crisis is managed on our network and we not had a single outage in our networks during the crisis so far.

Let me now, on page 8, talk about the way we have approached the coronavirus. Those who knew me know that I'm reluctant with praise, but I'm really, really proud how our company, our people have responded to the crisis. Early on, well ahead of others, we announced many offers to help those affected by the lockdown, not just in Germany, but let me focus here on Germany and give a few examples.

Immediately after the close-down here, we gave 10 gig extra mobile data for free. Millions of customers signed up for this via our app, residential customers and business customers. To help stranded families, we gave six months of Disney+ for free. So far, we have more than 0.5 million takers on this new proposition, exclusive at Deutsche Telekom.

We supported German business with multiple free offers and usage went up by many multiples. Here, we are talking about Teams and mainly Webex from Cisco. We gave Webex to schools for free and we had 40,000

Q1 2020 Earnings Call



takers that enables 1 million pupils since the beginning of the crisis. And on request of the German government, we teamed up with SAP to develop a COVID-19 tracing app, so it shows the trust even the government has in us. So on, it's a really long list of things. And I can tell you, we have proven that we are taking societal responsibility and we won't stop for the upcoming months.

On page 9, we show the impact of COVID-19 crisis on our operations. And again, we use Germany as an example. We kept the networks up and running. There were no disruptions, zero. As we speak, each minute, we enable around 70,000 Webex or similar conferences on our fixed-line infrastructure. Within one week, we enabled 16,000 service staff to work from home. Our field service had enough protective equipment and remained fully operational. Currently, we have 180,000 people at Deutsche Telekom working remote.

All our service KPI were stable and some even better than before the crisis. Complaints, for instance, are down by a quarter. Our employee health ratio improved on a like-for-like basis. This is stunning. Take an example, in Germany, we have 6,000 people in the field operations and we had a better health ratio than before COVID, and the same is true with the idle time and the handling of our service people who are working from home. The productivity increased by 8% points.

When it comes to distribution, as our shops were closed, we saw somewhat lower gross adds, but we also saw significantly lower churn than usual. I should say, even lower. In any case, our digital channels and our inbound call centers picked up much of the slack. So, in sum, overall, commercial performance was not hugely affected.

As we speak, most of our shops are open to customers and are operating again. Commercial activity is slowly beginning to normalize. Looking forward, it will be interesting for us to leverage the lessons learned during the crisis for our efficiency, for the digital customer experience, for our networks.

On page 10, the good news is that based on our strong first quarter and what we have seen so far, we feel able to reiterate our guidance as stated. And, by the way, we reiterate our guidance. Most of the telcos are not giving a clear commitment with regard to the guidance for this year.

Clearly, COVID-19 brings some short-term and some long-term headwinds to all the business, especially on revenues. And Christian, he will show you the sensitivities of this parameters later on. But positively, at the EBITDA level, there are a lot of mitigating actions we took and we can take going forward. And our stated 2020 guidance had been prudent as well.

The bottom line is our group outlook will change when we fully incorporate Sprint. T-Mobile last week guided for the second quarter and said that they will provide full-year guidance with their second quarter results. And then, we will reflect this in the group outlook.

That said, our stated guidance is unchanged. We continue to expect €13.9 billion ex-US EBITDA. This is, of course, not affected by the US merger. Without the merger, we would still expect free cash flow to grow from €7 billion to €8 billion this year, as stated. And again, we confirm with €0.60 2019 dividend ahead of our virtual AGM in June. I think this is another very, very strong environment in this difficult COVID times.

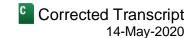
Let me now hand over to Christian for a number or further deep-dives. Christian, over to you.

Christian P. Illek

Chief Financial Officer, Deutsche Telekom AG



Q1 2020 Earnings Call



Thanks, Tim, and welcome from my side. Let me start with the key financials on page 12. So, reported revenues grew this quarter by 2.3%. Organically, that would have been 1.1% and that compares to 2.8% growth in 2019.

On an adjusted EBITDA after lease growth, as Tim stated, we grew double-digit, with 10.2%. On an organic basis, that would have been 9% and that compares to 4.2% in the previous year. If we're just taking a look at our ex-US business, EBITDA grew by 3.8%. That compares to a 4.7% in 2019. That flips on an organic basis. Here, our growth in 2020 is 4.2%. That compares to a 3.7% in 2019.

So, I can say, as you're taking a look at the Q1 figures, we're tracking comfortably ahead of the Capital Markets Day guidance of 2% to 3% CAGR.

The headline free cash flow, as Tim stated earlier, was down by 17% this quarter. And this is coming from a working capital drag, or more precisely, we've taken a conscious decision to reduce our factoring exposure in our T-Mobile ex-US footprint by €700 million.

Adjusted earnings per share were up 8% this quarter, very similar to the run rate in 2019. And net debt, depending on which definition you take, grew either by 7.7%, this is the IFRS 16 definition; or in the old definition, 8.6%.

Let me, before I'm going into the performance review of the segment performance, give you an overview to what extent we're impacted by the COVID-19 crisis, and what are the areas, to what are we exposed. And let me clear the visual first.

So, what you see in the left hand column in the middle is basically the maximum exposure which we would have if everything which we planned would be taken away. Obviously, this will not happen. On the right hand column, you see the impact which we have observed so far.

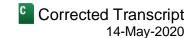
So let me start with the retail roaming revenues. So on retail roaming, we roughly planned €350 million in revenues this year outside the US. And we had a fairly decent first quarter, so we didn't see a lot of impacts there other than the last two weeks. But by – throughout the month of April, we could see that the retail roaming revenues actually decreased by 80%, which – and this is something which speaks for the quality of the forecasting team, was anticipated by the team in that given month to a large extent.

If you go into the handset revenues, that's obviously a large number. In the ex-US footprint, we're basically selling handsets worth €3.5 billion. As we have closed the shops, we have seen that those sales rates came down by 20%, and as we have reopened the shops again, we now have to take a look how this develops over time.

ICT revenue, this is the total number which we're having here. What we're seeing right now is that especially in the large project business, we've seen quite a bit of project delays. This is also due to the fact that we have a lockdown and people cannot basically communicate in the same manner as they have done it before or you're not allowed to enter customer premises. But bear in mind that 80% of the T-Systems' revenue is contractually committed for the year 2020 and, therefore, we only have to work on the other 20%.

There's an adverse or, let me put it differently, positive effect which is coming from fixed core revenues, and this is out of bundle revenues which we're talking about. Due to the fact that we have so many people in home office, we could see a significant increase in the revenues in these categories. And you can see the impact. We've planned roughly €600 million in the European footprint, and in the months March and April, these revenues were up 33%

Q1 2020 Earnings Call



or a third relative to what we plan for beforehand for the crisis. Obviously, we have to take a look how this evolves over time, but this is – I would say this is a corona benefit which we also have to acknowledge here.

And on bad debt, you can see that our numbers historically have been quite low. In Germany, we're just planning with 0.6% of revenues, and the rest of footprint, it's 1.4%. In total, that's around €300 million. So far, we have seen limited impact, but that is obviously an impact which will kick in later and is highly dependent on our large − how long the crisis will endure, because the longer it will, obviously, that impact will increase. But so far, we don't see anything.

As Tim said earlier on, so bottom line, we are negatively affected by the corona crisis, but we have mitigation measures in place that we are still confident to basically keep the guidance at the €13.9 billion EBITDA for our operations outside the US.

Let's move to the next chart which is the EBITDA growth. And you can see basically the EBITDA growth on an organic basis in our footprint ex-US, and you see the growth rate in the US, I think both numbers speak for themselves. So, I think it's a very nice development, and we're really happy with it.

On the next chart, page number 15, I'm moving over to the free cash flow. And as I said, the free cash flow was comparatively to the previous year down by 17%, and that is because we have taken that conscious decision to reduce factoring by €700 million. If you basically adjust for that impact, actually, free cash flow would have been up by €400 million in that current quarter compared to the last year.

What you also can see on the more long-term perspective, that we have started with that reduction of factoring already in 2018, and that is a continuous program. So everything is baked in into the €8 billion free cash flow guidance which we have given you on both sides of the Atlantic.

But let me also take the opportunity to provide you a little bit deeper dive into the ex-US free cash flow. At the Capital Markets Day in 2018, we quantified the ex-US free cash flow at €3.3 billion – that was in 2017. And we guided an increase to around €4 billion in the year 2021. And I would say it is fair to say this is not reflected in the current consensus right now. Now, when you look at our consolidated free cash flow number from 2019 of €7 billion, and you take the T-Mobile US free cash flow out of the equation, then you would get us to a €3 billion free cash flow ex-US performance in the year 2019.

So – and now we're taking a look how this basically plays out in 2020. In 2020, we're basically planning to have €3.3 billion of free cash flow, but that includes, again, an acceleration of reducing our factoring exposure by €700 million. So, in that respect, I would say, we're in a very good track on reaching that €4 billion by 2021. And obviously, if we're going for that €4 billion run rate, as 2020 indicates, we will not stop in 2021 and provide you with a better figure if possible.

Let's move over to leverage, and we have changed the perspective on leverage – or we have added an additional perspective on leverage just for the sake of the argument that some competitors basically provide a pre-IFRS 16 perspective. So, you see now both perspectives from our side. If you're taking a look at our leverage ratio, in the classical IFRS 16, so including leases perspective, I would say, Q-over-Q, there hasn't been a lot of change. It remains basically at 2.64, which is still at the upper end of the corridor, 2.25 to 2.75.

If you take leases out and adjust the EBITDA by the leasing impact, then we would be in the old world where our ratio was 2.0 to 2.5, and then the leverage ratio would be 2.36. So, and finally, aside the leverage perspective, let me repeat again that we're super happy that we refinanced the US merger bridge in April, that we immediately got

Q1 2020 Earnings Call



the €8 billion intercompany loan back here, which helps us to basically cover our maturities outside the US until the end of 2021.

Let me now go into the operational performance of the businesses. So, let's start with Germany as usually. So, EBITDA AL again was growing by 2.7%, and you see this is very much in line, a notch higher than the growth rates which we have seen in the previous four quarters, but we're really happy with the EBITDA growth performance in Germany. The total service revenue growth again accelerated to 1.4% and that was basically supported by three things: one is higher broadband net adds; the second one is strong performance in mobile; and the third one is a reduction of line losses relative to the previous year, so that supports that growth.

Moving to the next page, you see our mobile service revenue growing by 1.7% this quarter and that was including whatever kind of roaming effect you would include in the Q1 number and that is, obviously, including all the regulatory impacts. Without regulation, that growth would have been 2.4%. Fixed revenues improved to a growth rate of 1.2% and that compares to a basically flattish development in 2019, and it was very much driven by wholesale performance, but also by a very strong broadband net add performance which we have seen in Germany.

If we go on to the next chart, you can see our commercial performance in mobile. Again, our net adds, own branded net adds are pretty much at the same rate as they have been the year before, it's 141,000 net adds which we're seeing. MagentaOne is now covering 80% of mobile contracts. Our churn has sequentially come down to 0.8% in the first quarter and we see a healthy growth in mobile data usage of 61% which, obviously, will support our more for more strategy. And just given additional information, we have now 3.3 million customers on StreamOn, which is an increase of 8% since the start of the year.

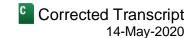
Moving over to the fixed performance, and let me start with the broadband net adds. So, the broadband net adds in Q1 were 83,000. This is the best performance since eight quarters and that actually gives us a net add share in that given quarter of more than 40% and you know this is our aspiration, we want to have a 40% net add share. There is actually two reasons for this, obviously, one reason is the end of the mass market IP migration and you can see that also on the line losses where I'm getting into, but also customers relying on the incumbent throughout the crisis and that, obviously, helps in our performance.

If we're taking a look at our line losses, line losses came down to negative 113,000 and that compares to 211,000 in the previous year. So, as we said to you earlier, once we have finalized the ATM migration, you will see a significant lower line loss number and we expect exactly that behavior will stay there for the remainder of the year. We added roughly 390,000 new fiber connections, of which more than 250,000 were coming from the retail part. The slowdown in wholesale I think is due to two effects, one is we have a slower geographic expansion, but we also can see that Vodafone is, obviously, moving customers from our network on to their network if there is an overlap. And we're happy with the TV net add growth as you can see in Germany with a plus 60,000.

So, going to the financial figures, you can see that the fixed revenues grew by 0.5%. We're happy with the broadband growth. Revenue growth is at 4.3%. Also, wholesale was supporting and is in line with their midterm guidance. So, overall, we're really happy with the development of the fixed line business. But bear in mind, I told you there's one, I would say, COVID-induced impact which is out of bundle revenues which, obviously, supports that result as well.

Moving over to the US, and I think the US have given their results already. So, probably, most of you are totally aware of this. The stunning EBITDA growth of 14.5%, that was obviously supported by a very strong service revenue growth of 5.9% and has been adjusted for merger costs and corona-related special factors, these were

Q1 2020 Earnings Call



€170 million. But even if you exclude those two impacts, EBITDA would have been ahead of consensus. What we can see in the US is, obviously, that the net adds number has come down significantly. This is due to the closure of their shops.

The revenues, and that's on the next page, remain generally stable and also in the US, a very, very strong network performance. On spectrum, we acquired about 700 megahertz nationwide millimeter-wave spectrum, which gets us to a total of now well above 1,000 megahertz of millimeter spectrum. So, now we have a very nice position which is low band, mid band and millimeter wave, and we're super happy with that position, and of course, we closed the Sprint merger as of the April 1.

Now, the team is really working full steam ahead and I think the US team has given you a positive outlook on the merger synergies. And at the end of the day, you can see the immediate impact of the merger right now, because T-Mobile has basically added roaming capabilities to Sprint customers and they're supporting those customers now on their network. We have actually signed a three-year spectrum lease agreement with Columbia Capital and we started to light up 2.5 gigahertz spectrum on the T-Mobile network and many markets, including New York. So, and what helps obviously is that 80% of the Sprint customers do have a handset which can be supported by the T-Mobile network. So, we're really confident and optimistic on the development of the US.

So, let's move over to the preliminary performance and I'll keep this short, because Braxton has basically reported this to you. So, that would have been pro forma 2019 figures and the combined entity would have €71 billion in revenues, roughly €24 billion in adjusted EBITDA, and €81 billion in net debt, of which €20 billion is coming from operating leases. But please, it's important that you treat those figures as indicative and we will give you more precise numbers at the end once we've closed Q2 and communicated those results.

Moving over to Europe, results in Europe again very good. We're really happy with the development of the segment. Revenues were up 0.4%, EBITDA AL 1.9%. On an organic basis, revenue grew by 2% and EBITDA by 3.4% this is coming from a weakness in some of the Eastern European currencies and remember that we have deconsolidated Albania out of the equation.

So, if you're taking a longer perspective on the development of the European segment, they have now shown an EBITDA growth in nine consecutive quarters. So, and the growth is – which I really like, is coming from two angles. It's coming from service revenue, but also continuous cost reduction and I think that is the most stable way on how you can drive EBITDA performance up. Second, look at the customer numbers, contract net adds mobile up 110, broadband net adds up 50. FMC net adds up 240, but we have now more than 50% of all households in the European footprint enjoying a convergence offering from our company. So, and the TV net adds are pretty much in line with the previous quarter and they're being dragged by Romania performance.

Key systems, I think on key systems, we're making progress on the transformation. You can see that we're seeing on the last 12 months basis, an increase in the order entry of 3.4%. Revenues are generally flat year-over-year, but we're seeing an improvement of the EBITDA performance and that is largely due to the cost transformation. As we have informed you already, we're transferring the telecommunications piece of the T-Systems portfolio into the German segment. This is planned to be finalized by the mid of 2020 and we're confident that we're going to deliver on those. And we're seeing some very, I would say, positive signs especially on the public cloud growth, as you can see, which grew by 28% in the first quarter.

Group development, very strong performance both in revenue growth and EBITDA growth – revenues up 3.8%, adjusted EBITDA up 5.5%. This is very much fueled, and you can see that on the next page, by the very strong underlying performance, especially of the T-Mobile Netherlands business. They grew their mobile net add base by

Q1 2020 Earnings Call



67,000. Mobile service revenues on an organic basis grew by 5.5% and we still have a healthy broadband business. So, that gets you all up to a growth rate of almost 11% on a year-over-year basis.

So, GD Towers, I think the story continues. We have added 1,800 sites, physical sites in the last year. We're continuing to grow our recurring rental revenues. We're trying to move down the cost in order to drive EBITDA. So, all up, I think we're really happy with the tower business how it evolves. Although, we're seeing right now in the COVID environment that the anticipated 2,000 sites which we wanted to build in Europe – I'm sorry, in Germany, are a bit too optimistic, because we are being delayed by regulatory delays, and therefore, we have to review that number and what's going to be the final outlook.

So, let me close out on page 31 on the free cash flow. So, here you see the bridge. So, the free cash flow, obviously, we have a negative impact coming from cash flow from operations, which is negative €500 million, but bear in mind, there is a €700 million reduction of factoring being included. Overall, our interest costs have increased by €1.5 billion. That includes the repayment of zero-bond of €1.6 billion and this is why you see that number is being taken out of that bridge. We have slightly lower CapEx in the footprint, that's basically attributed to the US and also to Germany, and we have some other effects, which basically gives us the number of €1.3 billion. As I said earlier on, if you take in the factoring out of the equation, that free cash flow after leases would have been in the vicinity of €2 billion this year. So, therefore, as I've said we're confident it's being baked in, in our €8 billion guidance and we're confident that we're getting there as we've said for this year.

So, on net debt, net debt, you basically see the IFRS cash flow effect which is €2.3 billion. That is prior to the repayments of lease liabilities. They account for roughly €1 billion. So, what you see is that the repayment for leases and the newly acquired leases are basically netting themselves out. It's €1 billion on each side. Obviously, we have to reflect for the millimeter spectrum acquisition in the US. We had, I would say, two nonoperational effects, I would call them. The US has basically secured, prior to their refinancing, €9.6 billion, they have secured the interest-free interest rate, and we basically signed up for forward-payer swap that has moved in a different direction, especially from Q4 into Q1 this year. So, that basically puts the burden on €1 billion on us and there is a free cash flow effect, and there is also a negative effect coming from the embedded derivatives out of the T-Mobile US loans, which accounts for roughly €400 million.

So, I would say, I'll leave it where we are right now, where we're talking about the leverage ratios which are still in the corridor, which is 2.6, and I open it up for questions.

QUESTION AND ANSWER SECTION

Hannes C. Wittig

Senior Vice President, Investor Relations, Deutsche Telekom AG

Α

Thank you, Christian, and thank you, Tim. Now, we can start with the Q&A part. [Operator Instructions] So, I start with Akhil at JPMorgan.

Akhil Dattani

Analyst, JPMorgan Securities Plc

Hi. Good afternoon. Thanks for taking the questions. I only have got two. So, first is just on COVID and the, I guess, bigger picture around how this could and is impacting the business. Tim, you mentioned at the beginning that COVID has been highlighting the critical role companies are playing. You've highlighted the strong demand that you're seeing on your network. I guess I'm just keen to understand how you're thinking about how this could develop and evolve the relationship you have with regulators and politicians. Obviously, it's been a big talking point for you over recent quarters. Keen to see whether you think this can and will evolve that thinking.

And then the second thing, on the ex-US free cash flows, you were very helpful to get that data today. In the slide that you've presented, if I understood it correctly, you're showing that you generated a relatively similar sort of €3 billion between 2017 and 2019 per annum if we add back the factoring impact. Obviously, this year, there's quite a big step-up to €4 billion ex the factoring, which is obviously what the target rate is for 2021. Can you just help us better understand what the moving parts are there to give us that sort of acceleration? Just to help us better understand and think about what the trajectory might be going forward. Thanks a lot.

Timotheus Höttges

Chief Executive Officer, Deutsche Telekom AG



Akhil, thank you. Look, let me highlight this COVID situation. And the first moment, and we should not say that, but we saw that as an opportunity to reposition our business, especially in the political environment and in society. And therefore, we immediately, after 1 or 1.5 weeks, we launched these big initiatives around Webex for free, about Disney+ for free, about the 10-gig for every customer. So, we said, we make your life easier with digitalization, with our networks during that crisis. On top of that, we had initiatives like 10,000 smartphones for the closed elderly houses and elderly homes, so to keep this people in contact with their spouses. And this was highly regarded, well regarded in society here in Germany.

In my office, and I haven't started with that yet, but in my office, I have a list of all the appreciations and thank yous which we have got from politicians, from the industries, from big customers. Some of them really had trouble, because they were not prepared for the crisis. They had not sufficient VPN services, they didn't have the Webex tools intact and the like, and our organization was unbelievable fast in the way of delivering. You can write the question, well, this is not the normal time to market in normal times, but it is interesting to see how society and companies are working when there is a big societal purpose to be handled.

Now, I can tell you, I just saw another ratio around the DAX companies and there were people asked about what they think about the service orientation of the company and Deutsche Telekom moved up at 14 places, 14 places in that crisis. So, I think there is something – some credit-cum-capital we build up on this one.

Q1 2020 Earnings Call



Now, to be honest, today, I would not praise any regulator or any politicians. Our criticizers are very, very quiet. They're not showing up, but they are there and we know that. There's people who always know things better and they're only looking for their political selfish interest or they've looked for lower consumer prices. They're still alive, but they're very, very quiet these days in our markets.

So, we haven't seen a big change in the political landscape. I think I will use this new normal to address the relevance of infrastructure and the need of this superior infrastructure networks, because we know one thing, the new normal is not going to be the old situation. It's going to be totally different. We expect to seek plenty more home-workers, so we need new products and skills for home-workers. We would see more relevance for network infrastructure. I think Deutsche Telekom has proven how reliable our networks were. I always stress the issue of how much money was invested in the past and that is now proving the right thing.

We have no need for extra capacities. Our networks were never, in any region, at the limit of its capacities. So, I think it's a great start. Our political leaders are on another topic. I had very intense discussion with Thierry Breton, for instance, which were very encouraging, because he understands the industry and he understands the language of what our problems and challenges are. I get a lot of, let's say, positive feedback from Berlin, but nevertheless let's see whether they're taking actions afterwards. This acceleration law is on its way. The IT security law is on its way. It's getting approved soon, with regards to the vendors we are using for our 5G build-out. So, there are decisions coming soon, but I would say the sentiment is much better, but action hasn't been taken.

Christian P. Illek

Chief Financial Officer, Deutsche Telekom AG

So, Akhil, on the free cash flow question, and this is roughly out of what's in my head, between 2017 and 2018, why have we seen basically a negative development. Remember, we didn't have the same growth in EBITDA as we have seen it in 2019. And secondly, remember in 2018, we had peak CapEx. And that was the reason why we said, okay, we have to come down from that level. From 2018 to 2019, I think we're seeing a stronger EBITDA growth. We obviously stick to our CapEx guidance, but in 2019, we had a lot of special factors which impacted our free cash flow growth and we hope that this basically plays out in a more even way in the future.

Hannes C. Wittig

 ${\it Senior \, Vice \, President, \, Investor \, Relations, \, Deutsche \, Telekom \, AG}$

Thank you. Next question is from Polo at UBS, please.

Polo Tang

Analyst, UBS AG (London Branch)

Hi. I've got some few questions. The first one is on COVID-19, but asking it maybe in a slightly different way, because bigger picture, if we fast-forward 12 months, what do you think the longer-term impact will be on the consumer side? So, do you think it will be easier to put through more for more increases, because people will be more focused on network quality and reliability? Alternatively do you see a risk of consumers spinning down to cheaper tariffs and newfound just given economic pressures? That's the first question.

And the second question is really just about, now that the Sprint deal is complete, can you clarify the dividend policy going forward and talk about your deleveraging profile? I'm just asking, because you've obviously been a lot more explicit about your ex-US free cash flows. So it's €3.3 billion this year, €4 billion next year, but this more than covers the dividend and minority payments, which are about €3 billion a year. On top of this, you also have

Q1 2020 Earnings Call



your share of the new [ph] T-Mobile (00:43:28) US cash flows. So, therefore, how should we think about dividend going forward and your deleveraging profile? Thanks.

Timotheus Höttges

Chief Executive Officer, Deutsche Telekom AG

Look, Polo, what we see today is very clear. People are very happy if they have a good service, a good network and they stay with it. I think they will question how they can improve their home office skills and their tools at home office. We are just using a fraction of what home-workers can use. Just to give you an example, I'm sitting at home, not in front of my pet or my small screen, I have a big screen. I have the Webex conference, by the way, not so expensive with a big 4K screen, where I can share documents. I have whiteboard, where I can collaborate with people. I have - I could easily collaborate in a way with people working from home. Now, not everybody has these capabilities. We have to learn this new tool, Slack and others, to better collaborate and to find solutions in the way how we are operating.

Now, I think people within the next 12 months much more think about what they can do to improve their home office environment, because people like to work from home. By the way, we see that that moment, while taking people back into the office, it's interesting that, especially the middle management, they don't want to come back. There's a lot of people who like the situation which they are in, no commuting, more productive time, maybe even sharing a bit more of their private life.

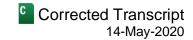
So, anyway, this is something which is coming and we will build products around this because Deutsche Telekom is perfectly positioned for that one. We have the supermarket share on B2B. More than 50% of the traffic is on our network which worked nicely. We have hardware and software components on our hand, which we can easily use, and we have the skills, which we use internally as well.

The second question is with regards to the B2C side. On the B2C side, what we see is the strength of brands. And by the way, we have always had that, it's nothing new. In this crisis, the strong brand with a clear proposition, and in our case, service proposition behind is what matters. And I'm very happy that Magenta and Deutsche Telekom is perceived in most of the markets number one position, and that's what we see. We have almost no churn. We get great customer feedback and that helps us a lot. And therefore, I don't believe there might be techs here and there that people think with lower prices, they can just convince customers to move. But I can tell you, this is not affecting us long-term, because this is a fraction of the market, the biggest one is on reliability, affordability and the image of the brand. And the most important part for that one is superior network. That's our total conviction before the crisis and that matters right now.

Do you want to sit at your home and having a home office where you're constantly at network problem? Yeah, no. No way. I saw a lot of, let's say, incumbents or other players who had big network issues during the crisis, we didn't, and I can tell you this is - we see it already, this is something and the customer satisfaction which will significantly help us to move up. A committed service for us as well. I know incumbents here or players in Europe, who had in the first week 25% sickness rate of their field forces. In our case, due to the commitment to the brand, the people had a higher health rates, so lower sickness rate since the beginning of COVID. It's less than 1%, 1.5% and unbelievable. Now, this is the German civil servant, the moment he know he gets a societal task, he moves like a machine, I'm sorry to make that joke, but there's some truth in it, but this is working nicely.

So, my answer is, honestly, this is a big opportunity for us. I see that - I don't see that there's time for slashing prices. I think there's time for better quality of infrastructure. We are best positioned in this one. Just mention the European drive test where we became number one in Europe with a big distance to the others, and therefore, this

Q1 2020 Earnings Call



is - and the brand and our Magenta brand is very strong these days. So, I think we are well positioned for growth in this area. And fixed line sees the recovery on top of that in the B2B sector, which gives us opportunity as well.

Christian P. Illek

Chief Financial Officer, Deutsche Telekom AG

Polo, Christian here. Although, you asked the question only on consumer, but let me flash in another point of view when it comes to B2B in public sector. I think that crisis is an eye-opening event for them that they have to rely way more on digitalization and infrastructure than they have in the past, and that applies to B2B customers. And we can see that also how many customers basically subscribe to new video services, but also when it comes, for example, to public sector investments, i.e., digitalization of schools. I think our schools here in Germany are not equipped in the way how they have to be, if you want to go to a remote schooling system and that, obviously, offers a lot of opportunity.

Timotheus Höttges

Chief Executive Officer, Deutsche Telekom AG

On the dividend side, look, I think it was a very strong commitment. I remember Orange and other companies still cutting, for political reasons, the dividend. It would have been an easy one to say, look, there's lot of, let's say, opportunity for us to cut the dividend as well, but we want to be reliable. We want to be that you can rely on us. We have promised the €0.60, we went for the COVID situation and there were lot of arguments against it, but I think we earned the dividend and we have a high income increase even in the first quarter, we see good outlook for the year, and therefore, we said we are committed to the €0.60. And that is what we do and which we're going to recommend to the Annual Meeting at the 19 of June. So, that's what we're doing. I think this has a long-term value for long-term investors. That's my – that is our, Christian's, my conviction that this was the right thing to do.

Now, with regards to the next dividend increase, we have a policy in the market and we're trying to fulfill always what we're promising, but it's not now the time, the first quarter to talk about, let's say, what we're paying next year. I hope that all our developments and growth prospects are getting accomplished.

Hannes C. Wittig

Senior Vice President, Investor Relations, Deutsche Telekom AG

Okay. Thanks, Tim. And next is Andrew from Goldman Sachs.

Andrew Lee

Analyst, Goldman Sachs International

Hey. Good afternoon. Thanks. And I wanted to ask a couple more questions on the European free cash generation. The slide 15 you gave and also on slide 31, great help in enabling us to understand the underappreciated strength of your European business that you've flagged for a while. And slide 15 shows you appear on track, as has been mentioned in previous questions, to get to your €4 billion European free cash flow quide for 2021, in 2020 if we strip out the factoring headwind. So, first question, how should we think about your scope to deliver 2021 free cash flow above your guidance? And specifically, what elements of the free cash flow can be better than expected?

And then the second question is, your free cash flow, your European free cash flow hasn't covered the dividend when we strip out spectrum spend and other costs that you don't include in your free cash flow definition. But do you think that this could be the case in FY 2021 or are there any other, other costs or risk we should be aware of in the next couple of years, and specifically, what factoring headwind should we expect in FY 2021? Thank you.

Q1 2020 Earnings Call



Christian P. Illek

Chief Financial Officer, Deutsche Telekom AG

So, on the free cash flow guidance on 2021, look, I think it's always been our philosophy that we want to basically deliver promises and aspirations, and that's the €4 billion. But if we're performing better, we're performing better and you can see that in the revenue development and the EBITDA development, over the past years. So, I will not rule it out, but I will not basically increase now the guidance for 2021.

And on the other factors, are there any extraordinary factors in our free cash flow 2021, I don't – I'm not aware of this. I don't know whether anybody is aware of this, but Hannes?

Hannes C. Wittig

Senior Vice President, Investor Relations, Deutsche Telekom AG

I would add, if you think about other factors, spectrum, Germany had a big auction in 2019, and Germany has big auctions basically every five years. Europe has a bunch of auctions coming up, but they tend to be smaller. We had Hungary done. In terms of factoring, well, I think the word headwind in the context of factoring is wrong. I think although it may be, let's say, confusing factoring, but factoring – we reduced the factoring this time. So, the outstanding factoring balance we did not need to do this. There was no need to do this. There will be no need to do that going forward, right. So, this is just a choice that we made and it is cash flow management and you don't have to worry about it. Okay?

Next is Christian from HSBC.

Timotheus Höttges

Chief Executive Officer, Deutsche Telekom AG

Let me say one word. I want to stress again how proud I'm on what Srini Gopalan did in Europe. Eight consecutive quarters, he's now growing his EBITDA, he's growing his free cash flow – sorry, 10 quarters already – or nine, sorry, whatever. So, Christian says nine quarters now. He is delivering on a consecutive EBITDA AL and free cash flow growth, which is now materializing in the numbers which he showed you for Europe and the strong contribution we get from him for dividend and for the investments.

Second, he has not lost market share, he has gained market share, except from every single market, and on top of that, the customer service and the Net Promoter Score, TRIM as we call them, have improved significantly as well. On top of that, he found a way that we are going to cover the entire footprint with fiber-to-the-home in the converged markets up to 50% within the next years. So, I think this is an impressive result, it's not on the expense of customer satisfaction, the opposite is the case and we have created a flying wheel here which I find very impressive, which is materializing in the free cash flow statement.

Hannes C. Wittig

Senior Vice President, Investor Relations, Deutsche Telekom AG

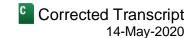
Thanks, Tim. So, next, again is Christian at HSBC.

Christian Fangmann

Analyst, HSBC Trinkaus & Burkhardt AG

Yeah. Thank you. I have two questions. One is actually on the US which is going to be your most important market going forward. Just high level, how do you actually – so, what's your view now that you have grip on the Sprint asset? The value of the customer profile, the churn rates overall, I mean were you – what surprised you positively maybe or negatively, would be interested in that. And related to that, I'm a bit worried about the bad

Q1 2020 Earnings Call



debt going forward in the US, given the unemployment rates we've seen in the US. So, what is your expectation on the US markets when it comes to bad debt?

My second question is actually on Germany and B2B. It's clearly an important part of your business and around 30% or so. So, what are you seeing in terms of the impact on the business or project delays, fiber-to-the-home delay, so whatever you can share in that respect would be helpful for us to model. Thanks.

Timotheus Höttges

Chief Executive Officer, Deutsche Telekom AG

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So, with regard to the T-Mobile US guidance and integration, I think the best thing is just to go back to what the US folks said last week. And I think they have given a clear guidance also on customer numbers as well as some financial figures which also include bad debt and the assumption and the implication of the COVID crisis. On the German B2B, first of all, what we're seeing right now is especially a large customers project delays. And the question is whether these project delays will basically move into, they're going to kill the project or are they just postponing it.

The second one is on the infrastructure business on the rollout of our FTTH infrastructure. We don't see a lot of impact right now. So, we had a very explicit discussion with our Head of Technology and he said, on FTTH, I can deliver my numbers as I promised, I don't see any kind of indication that I have to basically take down that number. That is different for provisioning of new mobile sites as I said earlier on. So, the 2,000 sites which we basically indicated at the beginning of the year, they are not in reach right now and we're working together on a new forecast on this number.

And other than that, I think what we're seeing on the German B2B, especially on the infrastructure side, very robust business so far. And as we have furlough in Germany that helps you also on your bad debt number, we don't see any impact on bad debt so far in the German business. But I have to admit, this is a bit early to make that assessment, because that takes a longer period of time until it kicks in. But given the fact that we have furlough, you will see a lower unemployment rate in Germany and you will see lower insolvencies. These are things which may impact bad debt. So, so far so good and this is the reason why we're basically keeping our EBITDA guidance stable at €13.9 billion.

Hannes C. Wittig

Senior Vice President, Investor Relations, Deutsche Telekom AG

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And we're also keeping our CapEx guidance stable. So, we're not taking out CapEx in order to achieve any free cash flow number. So, that's not the idea at all. And next is Steve at Redburn, please.

Steve Malcolm

Analyst, Redburn (Europe) Ltd.

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Yeah. Good afternoon, guys. Can you hear me okay? Can you hear me?

Timotheus Höttges

Chief Executive Officer, Deutsche Telekom AG

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Yes. We hear you well.

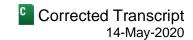
Christian P. Illek

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Chief Financial Officer, Deutsche Telekom AG

We can hear you.

Q1 2020 Earnings Call



Steve Malcolm

Analyst, Redburn (Europe) Ltd.

Yeah. Hi, there. So, just I've couple of questions, one is on 5G, firstly, your comments on sort of speed of coverage rollout. Could you help us just understand what proportion of your contract mobile base is on sort of the higher usage LTE tariffs at the moment that might be interested in a 5G offer and what's your plan around this? Are you hoping to take market share from Vodafone and test here the high end through this accelerated rollout? Is it more about defending the existing base?

And then, second question on the pension which is slightly boring, but I noticed your pension provision went up by €1 billion in the quarter. Obviously, you put the BT stake in there. That's grown quite a long way. You've just lost a couple of hundred million euros of dividend. How worried should we be that more of your cash that will get consumed by the pension going forward given those movements? Thank you.

Timotheus Höttges

Chief Executive Officer, Deutsche Telekom AG

Look, first thing is, I said it I think last time already in our quarter results, we are very confident about our network leadership on 5G in Germany, and this is due to the spectrum position which we are holding, this is due to the sites advantage which we have in our country, and especially as well with the speed and the commitment our organization has in these days with regard to the rollout, big advantage. We are now refarming and deploying 2.1 gigahertz, which helps us a lot from the propagation of the network. So, we are not only covering the cities where we are anyhow, but we have even a good coverage across the country where we are strong, and the second one in the cities with 3.6, we are going to be able to increase the speed significantly.

Now, I'm not giving all the details about the rollout, because this is the quarter results and this is not the market launch. But I promise you we will give you more detail in summer around this thing here, a detailed plan about pricing, about handsets, about rollout and about the cities where we are. What we know is that we have four times more coverage of German citizens than Vodafone who is our biggest follower in the German market. Now, this gives us confidence from speed and from a spectrum position to be there.

When it comes to the acceptance of this new product, who's better positioned for the early adopters than Deutsche Telekom? Tell me one other player in Germany, there is none, because the B2B basis is, by far, was the big advantage at Deutsche Telekom. All the big corporates, all the big Mittelstander with Deutsche Telekom, we have a super advantage here on our market share. And when it comes to the high valuable customers, due to the early start with the iPhone, which we had for two years now or even longer, on exclusivity basis, we have this high-value customer base and all other things.

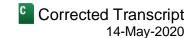
35% of all our customers are on M tariffs and 15% are on L tariffs. So, these are the ones who will probably immediately where the early movers are sitting. So, I think we have the good upsetting opportunity within our base, that's definitely the case. And we hope we get early adopters from who are not with us as well in this regard. So, I'm quite confident that our existing base is the right thing to address this new opportunity.

Christian P. Illek

Chief Financial Officer, Deutsche Telekom AG

So, on the on the pension funding, so our coverage in the pension fund is roughly 50%. So, we are well funded and there's no risk to be expected. On the other side, obviously, we're not happy with the performance of BT, which basically came down by €1 billion. I think Ströer, which is also on the pension funds recovers to a certain degree in the pension funds and in the other assets as well. And, obviously, we're also dependent on the IFRS

Q1 2020 Earnings Call



interest rate in the pension fund. But we have a well enough funding from a coverage ratio in the pension funding. However, one has to acknowledge that obviously the dividend decision which BT has taken obviously impacts us on future cash flows on this 12%.

Hannes C. Wittig

Fred at Bank of America, please.

Senior Vice President, Investor Relations, Deutsche Telekom AG Okay. Thank you, Christian. And you know that's in the context of the €4 billion, but that we reiterated today. So,

Frederic Boulan

Analyst, Bank of America

Hi. Good afternoon, team. A couple of questions on my side. So, firstly, on Huawei, so you mentioned some clarification coming from - in June. Can you update us on what's going on in Germany? Is there any political pressure post the current crisis to restricting potential user of Huawei? And if you can give us a bit of sensitivity and potential risk if there were to be restrictions?

And then, secondly, I think you commented on Germany and on the fixed strategy. You comment from February where I think that you were not losing sleep over Vodafone pushing harder, gigabit speeds, et cetera. And you were also talking about requiring some regulatory clarity before pushing a bit faster in cyber. So, if you can base this on your thinking right now, you mentioned BT, I mean they followed now others in pushing harder on fiber. At the same time, Q1, you had very solid net adds. Tim, you mentioned a few times, you're delivering superior network quality. So, you seem to be pretty comfortable with the current hybrid strategy and the current 2 million homes a year, so a bit of an update on that would be useful. Thank you.

Timotheus Höttges

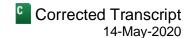
Chief Executive Officer, Deutsche Telekom AG

Okay. Thanks, Fred. Good question. The Huawei issue is – look, for us and we always say that security is of the highest priority for us. And having seen the common approach from the EU commission on this one, we welcome this data factsheet, which they brought out with regard to the 5G. So all vendors, everybody has to commit and to sign up to security commitments and we need only that from one single vendor, we need that from all vendors, because a lot of components are not only coming from the three network or four network providers, but as well from software companies and others. So banning a specific company I think doesn't make sense. We want to have competition in this regard.

Now, we follow the political recommendation. So far in Germany, it's not ready or it has not been made. It was scheduled for Q1. Due to COVID-19, that got postponed. But today, the news is full that the government came to a conclusion which they will announce within the next days. So, they came up with an idea.

Now, on the US, we anyhow have no exposure to this one so we are talking Germany and our European markets, where we pursue our multi-vendor strategy going forward. And yes, there are always very critical voices, who just want to ban every Chinese vendor in the core network and as well in the RAN network. And then there is even a more moderate approach, which is focusing very much on the security functionalities of the infrastructure. Now, our position has been that we say first, we always follow recommendations. Second, we are working towards a Chinese free core network infrastructure. That is where all the application is taking place and that is what we are willing to commit and this is the – for us, the most the relevant thing.

Q1 2020 Earnings Call



The second one what we are doing is, we are highly lobbying for an open RAN approach because we believe open RAN the software which is giving us the opportunity to combine any kind of access nodes in the infrastructure with all the different bands, which we are using from the spectrum position, is the way going forward. It makes us commercially and as well from a security perspective, more independent. This is something which we are highly lobbying and which we are committing to. So, having a legal enforcement on this one, we will heavily support.

And I think this approach including a very balanced multi-vendor strategy, is the way going forward and recent discussions in Berlin showed me that this is very much in line what they are going to be – going to rectify within the next days. So, I do not see an additional political risk or any kind of this for us, but let's see.

Now, coming to the German fixed strategy and coming where we are on this one. Now, first, I'm getting now tired of telling everybody, wasn't this a super smart idea from Hannes to say let's go for vectoring and supervectoring. I remember he was one stormed me for hours on this one, when I wanted to go into fiber. And then, I hired him and I put all the money behind vectoring and supervectoring. Now, we are covering more than 80% of the households with bandwidth up to 250 megabit per second. And this was the backbone for the COVID-19 crisis, which made Germany workable throughout this difficult time. Fantastic. I think it couldn't have worked better out. But this rollout is coming to an end. Money is free. And you know that we have to push harder on full fiber, so fiber to the home.

I do not go into every detail, but there are areas where we can regain market share from cable. There are areas where we should now only build the newer technologies. And there are areas in the B2B sector, which are in the school or education and governmental area, where we are deploying fiber now with an accelerated momentum. Yes, we are up to 2 million. This requires we call it the fiber factory. So, a highly productive BSS and OSS system, a totally new-built environment in our IT and in the delivery. This is up and running. I'm very encouraged about what's there.

And so, now it's time to roll up and to improve our FTTH rollout. I'm not worried by BT or other companies are at that point. I don't want to commit long-term numbers. Let's now see how we are finding the right spots, where we are making the right profitability and take-up rates with customers. Let's scale up productivity in this regard and then move forward in the German environment. That's our approach and there is money sufficiently available to get up to this 2 million run rate.

Christian P. Illek

Chief Financial Officer, Deutsche Telekom AG

And from an operational point of view, let me add just one observation. I think many of you were concerned as Vodafone introduced their 1 gigabit offer at €40 here in Germany, that this may be a start of a new price war or that they're taking massive share from us. I think the quarter one has proven that this is not true. I think our net add share is higher than Vodafone's net add share. And I think it's also a good explanation that competition is more than just speed. It's speed, it's reliability of a network, it's the service quality which you're providing, and it's overall the brand. I think there are many components playing into this and it's not only just about speed.

Hannes C. Wittig

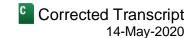
Senior Vice President, Investor Relations, Deutsche Telekom AG

Thanks, Christian. Next is Jakob at Credit Suisse.

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Q1 2020 Earnings Call



Jakob Bluestone

Analyst, Credit Suisse Securities (Europe) Ltd.

Hi. Good afternoon. Thanks for taking the question. I'll keep it to one question. You kindly provided quite a lot detail, particularly on the revenue side of the impact of COVID-19. I was wondering if you can maybe just expand a little bit more on some of things you've seen on the cost side. So, maybe a little bit more color on what's happened with your commercial costs over that period. Maybe some commentary around your outbound, how big the impact was from lower outbound roaming. So just any color around that would be quite useful. Thank you.

Christian P. Illek

Chief Financial Officer, Deutsche Telekom AG

So I'm struggling a bit with the question, because we don't want to give too much detail. Obviously, what we're saying is the COVID impact is negative on us and you can see it in our list. And we have mitigation measures in place, which basically make us confident to keep the guidance. On the roaming cost, I think there are two elements on roaming. I can answer that question specifically. There's, obviously, the wholesale side and there's the retail side where we're talking about the scope of the retail side.

On the wholesale side, basically, the net revenue position which we're having is almost zero. So, we're basically balancing visitor roaming and roaming costs out. And that was proven in Q1, that's proven in the last months, and this is how we want to run the business. And obviously, on the project delays, there's also CapEx associated and cost of goods sold associated with this. But I think it's all baked in into our guidance number of €13.9 billion. And I don't want to go now into a component level and explain what is going to be kind of every cost element, which we can also save on top.

Timotheus Höttges

Chief Executive Officer, Deutsche Telekom AG

But, Christian, maybe some more flavor. On the roaming side, we are not talking about the roaming in Europe because this is part of the tariffs and data volumes anyhow. So, the interesting part of the roaming impact which we are seeing is coming from outside of the roaming here in Europe, so more the amount of travel which is going outside of this territory.

Now, the question is this is something which is hopefully coming back then by the end of the year. When it comes to the handset revenues, I think there's significantly less more handsets, both on volumes and on price, which is helping us. But the lower churn from the profitability is even better for us on this regard. We are learning a lot about travel. And I can tell you one thing, I will travel less. We should make more road shows with you guys per Webex than rather being stressed from London or other places and running between the offices. So this is definitely something which is an example of how the world is going to change.

So we will see significantly less travel expenses. Some cost recoveries, yes, definitely, but not the entire one. We're sitting here and discussing as well about a hybrid organization. So there will be changes coming that we might don't need all the office spaces, which we have today, and that we have more home office available. So we will work in hybrid structures going forward. I do not know what the impact on the retail structure is going to be. We anyhow decided to reduce our shop floor, our shops prospectively. And there are a lot of events which we had in the past, which we're going to either cancel or which we put in digital formats.

Our Digital X is taking place next week, fully digital already. So by the way, please feel invited to this conference for our B2B capabilities, but this conference we put into digital, and they have a high productivity. So we have a

Q1 2020 Earnings Call



constant discussion about how we're shifting cost at that time in the organization, and it's helping us a lot to

compensate for shortfalls on the revenue side.

Hannes C. Wittig

Senior Vice President, Investor Relations, Deutsche Telekom AG

Thank you, Tim. And I do want to add that on the commercial side, I think others have already highlighted, you anyway have IFRS 15. But the bigger point for us is we haven't seen that much loss of business because we have compensation. For instance, one thing that people need to realize is call centers are a big channel for customer – for connecting with customers. So we have had actually very little on and we have the page in the presentation that shows a very little drop in gross adds, right, even at the time of maximum shop closures. So, that doesn't give us a lot of cost recovery, but the cost recovery is always, let's say, lots of little things rather than one big thing here. Okay.

Next is George at Citi, please.

Georgios Ierodiaconou

Analyst, Citigroup Global Markets Ltd.

Good afternoon and thank you for taking my questions. The first one is around on regulation and I know you addressed the vendor point. I just wanted to follow up and ask whether the interface - opening of the interfaces for open RAN. Is that something you expect to only get on 5G or whether it could be retrospective and therefore, allows for a much more dynamic migration?

And on the same point on regulation, there was also concerns a few months ago that perhaps Drillisch could call in Bundesnetzagentur in the event that our roaming arrangements were not met. It appears that maybe toning down that rhetoric now, but I'd be interested to hear if you think there is any risk in your view that would get into these protracted kind of processes.

And then my second question is around capital allocation. And I appreciate that already a lot of things have been done in the US, Netherlands, Austria, and the balance sheet may not be as flexible as it was a few years ago. But I just wanted to ask a question based on your framework on returns of capital employed, whether you see opportunities, whether it's just German fiber or whether there are other opportunities where you think it can create value. Thank you.

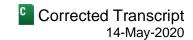
Timotheus Höttges

Chief Executive Officer, Deutsche Telekom AG

Look. On open RAN, the good thing is that there were two – remember two initiatives in our telecommunication industries in the past, O-RAN and open RAN. They were not the same, by the way. And they are now all aligned and all the big telcos are working on these initiatives going forward. And this open RAN initiative is not stopping and not be limited to just the integration of 5G. It should be enabling us to entire disaggregate, the entire RAN infrastructure going forward. So, this is the way we are approaching.

Now, on this way, technically, there will be steps. So, if we can open it up for 5G first, that would be great. That's the first milestone, which we need. And then going forward, I think for all barriers, this is the way how we are addressing it. Now, there will be anyhow a total different way of how the infrastructure is going to be designed in the future. Full disaggregation, cloud-native infrastructure, where we are differentiating between classical infrastructure or network access and where we have all the applications or services on top of that, and they will be always software-based and cloud-based.

Q1 2020 Earnings Call



So, this is, let's say, the way how we are reshaping the networks as an industry, not only Deutsche Telekom. And we need this open interfaces. We need this kind of open-sourced APIs to manage the vendors in a new way. That is what we are driving. That is what we are pushing strategically, what we do anyhow. And getting regulatory support on this one to become independent from single vendors, I think this is highly appreciated.

On the regulation?

Christian P. Illek

Chief Financial Officer, Deutsche Telekom AG

Let me try to give an answer and it's based on our part of this. If it's related to national roaming, obviously, we're in good faith talks with one on one as prescribed in the German auction obligation. You will hopefully understand that we don't disclose the current status of the talks. We always said that we're in principle. We're open for third-party business at reasonable commercial terms. But what we don't like is free-riding. And I think that is the cornerstone of that current discussion.

And again, as we said also prior to the 5G auction, there is no legal obligation to provide national roaming. And this is still the status. There is only an obligation to consult and to negotiate in good faith.

Timotheus Höttges

Chief Executive Officer, Deutsche Telekom AG

And I think with regard to the capital allocation, there are always – the capital allocation and portfolio management is always part of our story. It has been and it will be. And opportunity in German fiber, look, I think it's not a capital or a money issue, which we have. It's not a funding issue. It is more a commercial situation and a regulatory situation where we feel challenged.

Germany, with a built-on obligations, gold-plated networks, 120 meters deep in the ground, all the construction, planning requirements, approval phases, plus the labor force, on top of that the construction costs. Then, the question about the layer of our infrastructure costs in the houses who is taking care of that one, then, the regulatory environment of wholesale access for everybody. This is very much in big time challenging the commercial logic of this fiber rollout. And we have to learn how we make this a profitable one.

And there is no need to rush into something stupid. We take the opportunities which we see in the market. And it's not a money issue. It is more of a question about finding the right keys to unleash the value in the services. Unleashing as well more value, I think, yes. Look, openly, we know that we have this Dutch situation where we always thought it might be a potential IPO. We're sitting on the best tower portfolio in Europe, which — where is nothing new which we can comment on today. But we are totally aware about this market and the business which we have on hand. So there are still opportunities in our portfolio which gives us ways to unleash value beyond the operation.

Hannes C. Wittig

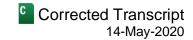
Senior Vice President, Investor Relations, Deutsche Telekom AG

Thanks, Tim. And the broad outline is, of course, what we showed in the Capital Markets Day 2018, and including the capital allocation that was provided there in 2018. James, New Street next, please.

James Ratzer

Analyst, New Street Research LLP

Q1 2020 Earnings Call



Yes. Thank you very much indeed. Good afternoon. I had two questions. So, firstly, I mean, congratulations on I mean great set of results. I wanted to like – actually, follow up on that capital allocation question with a specific point. I mean, SoftBank have talked about a \$41 billion asset disposal program and clearly, some of their shares in T-Mobile could well be part of that. I mean do you feel you have the balance sheet strength at the moment to be able to buy additional shares in T-Mobile, if they wish to sell to you?

And then, second question, just be really interested to hear a bit more about the kind of current impact you're seeing in Germany on SMEs and B2B. I hear what you're saying about 80% of T-Systems revenues for this year being already contracted. But if we see economic weakness I mean persisting, do you feel this starts to have an impact on the way T-Systems will be reporting their numbers going into 2021? Thank you.

Timotheus Höttges

Chief Executive Officer, Deutsche Telekom AG

Yeah. I can make SoftBank. So SoftBank currently owns 24.7%, we own 43.6%. SoftBank is subjected to lockups, which are public, so you know them. So, there are different phases. The first year, they cannot sell any shares and 5% in the year two and 10% in year three and then the remainder. So, we are TMUS' committed shareholder. We have control of this company. We have a guaranteed control of this company of 67%. So, it's a great business to have. Big attractive opportunities going forward, so we believe into the stock. But now going beyond that and speculating about, let's say, whether the stock coming to the market or – this is the deal which we have just been made and, therefore, I cannot speculate on anything around this M&A talks.

Christian P. Illek

Chief Financial Officer, Deutsche Telekom AG

On the B2B side, James, especially when it comes to bad debt, just to explain the difference in Germany, I think we have this furlough system where you basically support people that they're not going to unemployment, and we also have a lot of state aided help especially, for small companies. So, that is quite different to many other countries, so that we don't expect these amount of insolvencies which you may see in other markets. Simply right now, we don't see anything. But as I said earlier on, on the bad debt, it is just too early to make a clear prediction because we basically went through one paying cycle and now we have to see whether there's kind of degradation in numbers.

What the business segments are basically reporting back to us is very limited increase. But what we have done is we have run some stress tests and said, okay, what if it takes three times that duration, what if the impact is going to be bigger. So this is something at least which is in our equation, but right now we don't see anything and that is, in Germany, different relative, for example, in the US.

Hannes C. Wittig

Senior Vice President, Investor Relations, Deutsche Telekom AG

Thanks, Christian and Tim. We take three more questions now. We start with Emmet at Morgan Stanley please.

Emmet B. Kelly

Analyst, Morgan Stanley & Co. International Plc

Yes. Hannes, thank you very much for taking my question. Just in the interest of time, I'll just keep it to one question. Tim, just a big picture question for you, please, about fixed line. I remember when you were CFO under René 10 years ago, you used to say you saw no reason why the fixed line business couldn't be a grower into perpetuity and that's where we are now. And when you look at the COVID crisis, it feels like many of the applications, much of the data volume growth, the demand is coming through from fixed line, in particular. So you

Q1 2020 Earnings Call



see the e-schooling, you see the work from home, the entertainment in the evening, it all seems to be quite fixed line-centric. And then as you look at your line losses, these have slowed hugely now. If I rewind the clock 10 years ago, line losses were running about 300,000 or 400,000 lines a quarter. Now, it's 100,000 lines. Can you say a little bit about what you think maybe the long-term impact of this crises on your fixed line business, maybe whether we've reached a final turning point and that fixed line revenue growth could actually become quite a bit more positive than it has been?

Timotheus Höttges

Chief Executive Officer, Deutsche Telekom AG

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So you gave the answer in your question already. Look, what I see is I see a very strong development on fixed line. I see that business customers really appreciate the service which we are offering. They need us. I see that most of the services which we're having on great VPNs and secure already and we can now expand significantly in this area into the mid-sized companies in Germany and in other areas across the globe with new technology and new software.

So, we are working with Microsoft and some others and Cisco on some new propositions we're going to bring to the market very soon. So, yes, I see the prospects. Look, the issue on the consumer side is – if you would ask me, what do you believe more, today, a fixed mobile substitution, so our cost cutting for mobile, renaissance of the fixed line infrastructure, I would make my bet on the renaissance of the fixed line side. And that's what I see for the future.

And the only thing is every market gets what it deserves and what it's asking for. And I think they have soft the issue around our European markets. I think the question about how do we improve the rollout of the German FTTH rollout prospectively, that's an open question, which I'm debating heavily. I can tell you one answer. Cable is not the answer. That's for sure because that's a shared medium. I think it's anyhow a fake news that they call it a gigabit network, it's not. I just saw the very important Connect net test. It was mentioned in the net test that they said, better to have a reliable 250 megabit of Deutsche Telekom than a lost promise on 1 gig from Vodafone. And, therefore, I think there is a way of higher bandwidth which we can provide with FTTH, but it has to play and take place in an environment where it's worth investing, and we will not invest in something which is not paying off.

Hannes C. Wittig

Senior Vice President, Investor Relations, Deutsche Telekom AG

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Great. Next is Simon at Barclays, please.

Simon Coles

Analyst, Barclays Capital Securities Ltd.

Hi. Thanks for taking the question. It's just about the factoring. I guess we've seen a lot of players actually increased the use of factoring. So just wondering why you've decided to reduce it this year, last year, and the year before. And I guess linked to that as well, if we look at free cash flow before reducing factoring, it actually covered the previous dividend, so I'm just wondering if you have any thoughts on that. Thank you.

Hannes C. Wittig

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Senior Vice President, Investor Relations, Deutsche Telekom AG

So, on the – the question is to – did we actually – could you hear Tim answering the last question because he's not sure he had the microphone on? That was Emmet's question.

Q1 2020 Earnings Call

Corrected Transcript 14-May-2020

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Analyst, Barclays Capital Securities Ltd.

Yes, we did.

Hannes C. Wittig

Senior Vice President, Investor Relations, Deutsche Telekom AG

You did? Okay. Good. For Simon, you can answer that. Thank you.

Timotheus Höttges

Chief Executive Officer, Deutsche Telekom AG



On the factoring question, that's very simple. We saved a lot of money by reducing the factoring and that supported obviously our cost base. And if we can afford it, we have taken that opportunity and will continue to do so. On the second question, what is – I don't get the second question, sorry. Free cash flow?

Hannes C. Wittig

Senior Vice President, Investor Relations, Deutsche Telekom AG



Can you repeat the question, please, Simon?

Simon Coles



Analyst, Barclays Capital Securities Ltd.

Oh, yeah. Just looking at free cash flow, if you hadn't reduced factoring, it looks like it would have covered the previous €0.70 dividend. I'm just wondering, in hindsight, obviously a wonderful thing, but any comments around why you made the moves that you did?

Christian P. Illek



Chief Financial Officer, Deutsche Telekom AG

I think we have to go back to the communication as we changed in the dividend communication, that was back in November, and we said we had a totally uncertain situation in front of us. We were, prior to beginning of the state's trials and we said, okay, there is no clarity on whether we're getting the deal through or not. And in order to give you more guidance, we basically decided to change our dividend communication also the payout from €0.70 to €0.60. And at the same time, basically, said €0.60 is a new minimum. So, I think that was the rationale and it was not the rationale that we couldn't foresee whether we can cover it with the free cash flow.

Hannes C. Wittig

Senior Vice President, Investor Relations, Deutsche Telekom AG



Thanks, Christian. And next is – and final question is from Ulrich from Jefferies, please.

Ulrich Rathe

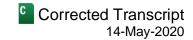
Analyst, Jefferies International Ltd.



Well, thanks. My first question is you alluded to conversations you're having at Berlin at several points. What is your current expectation on the Telecom Act in terms of timing, but also on the three key issues if you have views on that on the limitations to contract length on the service cost privilege - the given cost and privilege and service provider obligation? Do you have strong views on what will be in there?

My second question is, you talked about the shocks and the impact. Now, you almost have a laboratory experiment, so seeing the impact of closed shops on the business, handset sales down 80%. Would this change

Q1 2020 Earnings Call



your plans that you talked about in January of closing a fifth of the German shops? I think you were talking about closing 100 shops. Is the learnings from the lockdown, does that mean you might have to scale it back or accelerate it or how do you look at that? Thank you.

Christian P. Illek

Chief Financial Officer, Deutsche Telekom AG

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Ulrich, let me pick up the second question when it comes to the shop closure, first of all, the shutdown of 100 shops, that program remains intact. But what we're going to do is, once we're moving into more normal territory again, we will basically sit together and take a look at what is the most optimal channel distribution strategy because what we're seeing at the shop closure was that traffic was nicely picked up by our call centers, as well as our online channel. And I think this is a picture which we're actually seeing across the board. So, that's not only true for Germany. And obviously, these learnings have to be factored in. But as we have just finalized the negotiations on the German shop, Gazelle shop, we continue to execute against this one, and then we have to see whether we have to change the channel distribution going forward. But it is too early to tell right now, but we have seen a very nice response, as I said early on, as we had to close the shop from the call centers and the online channel.

Timotheus Höttges

Chief Executive Officer, Deutsche Telekom AG



Ulrich, by the way, I think there no sharp end. Our idea is to be very close to our customers. Our concept is regionalization. Our team is first-time resolution and a very sharp ways to surrounding around the – where the customers are living. I think with our footprint, we are covering this. That is, by the way, not only true for Germany, it's true for the US and other markets as well. So, I think there is an impact. But we will see. We always adopted it. I think it was meant bigger in the press than it really is. And commercially, we always look on whether it makes sense or not.

With regard to the first question, maybe to bring everybody into the loop, end of January, two federal ministries, they came up with their own legislation draft related to shortened contract durations and easing the determination options for customers. And there's this ministry for verbraucherschutz, I don't know what that is in English.

Hannes C. Wittig

Senior Vice President, Investor Relations, Deutsche Telekom AG

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Consumer protection.

Timotheus Höttges



Chief Executive Officer, Deutsche Telekom AG

Consumer protection, which aims to shorten contract durations to 12 months. The ministry for economy asked them who's actually responsible for this decision wants to stick to the 24 months. We expect to learn more details during the revision of the German Telecommunication Law, which is the reference and what you're mentioning which is expected by mid of next month. It's a little bit delayed because of the COVID situation. If implemented, this needlessly complicated current subsidization plans, as you know, which have high customer acceptance and we would have to develop an alternative to that one. But you have to note that already today's consumer has the right to conclude a contract with a minimum contract period of 12 months, if required.

So, I think the EU court, which is required for this as well, explicitly allows the conclusion of long-term installment contracts with end users for the construction of physical infrastructure, so therefore, we have the capability of doing so. And according to the new EU court, the automatic renewal of 12 months will no longer apply and the

Q1 2020 Earnings Call

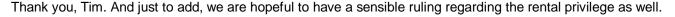


notice periods will be reduced to one month. This is already anticipated in our plans. So, look, at the end of the day, we have opportunities for prepaid services. We have contract periods of 12 months, if required, and we have the 24 months contract. What customers very much like, are the handset prices being low or being allocated for all the periods and therefore, the 24 months duration makes a lot of sense.

So, look, I think – our hope that at the end of the day, customers are considered and not some administrative decisions here, and I don't see us so threatened on this one, but the discussion is out, and we will – trying to convince them in the direction of how the market is developing this right now.

Hannes C. Wittig

Senior Vice President, Investor Relations, Deutsche Telekom AG



Hannes C. Wittig

Senior Vice President, Investor Relations, Deutsche Telekom AG

And with that, our conference call today is now ending. Thank you, all, for participating from the home office presumably in most cases. And should you have further questions, please contact us at the Investor Relations department. Have a great day. Keep safe and speak to you soon.

Operator: We'd like to thank you for participating at this conference. We are looking forward to hear from you again. Goodbye.

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