

Q3 2024 Earnings Call

Company Participants

- Christian P. Illek, Chief Finance Officer
- Hannes Christian Wittig, Senior Vice President and Head of Investor Relations

Other Participants

- Adam Fox-Rumley, Analyst, HSBC
- Akhil Dattani, Analyst, JPMorgan
- Andrew Lee, Analyst, Goldman Sachs
- James Ratzer, Analyst, New Street Research
- Joshua Mills, Analyst, Exane
- Ottavio Adorasio, Analyst, Bernstein-SG Group
- Polo Tang, Analyst, UBS
- Siyi He, Analyst, Citi
- Steve Malcolm, Analyst, Redburn Atlantic
- Usman Ghazi, Analyst, Berenberg Bank

Presentation

Hannes Christian Wittig {BIO 4033762 <GO>}

Good afternoon and welcome to Deutsche Telekom's Q3 2024 Conference Call. As you can see, with me today is our CFO, Christian Illek. After our grand recent CMD, we keep it short and sweet today. Christian will first go through a few highlights. And afterwards, he will talk about the quarterly performance and our group financials. After this, we have time for Q&A. And before I hand over to Christian, please pay attention to our usual disclaimer, which you'll find in the presentation. And please also note that this conference will be recorded and uploaded to the internet.

And with this, it's my pleasure to hand over to Christian.

Christian P. Illek {BIO 19077446 <GO>}

Thanks, Hannes -- from my side to our third quarter and first nine months results call. So we had another good quarter that was very consistent with the growth targets which we have outlined throughout the CMD, and also which allows us to upgrade our full year guidance on both sides of the Atlantic. I will not repeat what we have presented at the Capital Markets Day. You see the extended flywheel which we have shown roughly a month ago. You sure will remember our 4% to 6% EBITDA growth ambition or our 11% EPS growth ambition every year by 2027. You still will

also remember our shareholder remuneration proposal, which is a EURO.90 dividend, but also EUR2 billion share buyback program.

So my focus today is actually focus on the year-to-date results and then obviously also look into the third quarter. So if we're taking a look what you see on this chart on the performance, we had 4% service revenue growth, 7% core EBITDA growth, 28% free cash flow growth, and a 16% adjusted earnings growth over the course of the last nine months. So that's a pretty good performance also relative to what we basically have presented at the CMD.

We move to the next chart. What's actually pretty good is every segment contributed to the growth. You also see that the European segment is still contending with the US segment, who's going to be Number 1 on EBITDA growth. I like that one. And what you see is also that not only did we have good results on the group level with a 4% service revenue and 7% EBITDA growth, but also on ex-US, right. On service revenue, we grew at 3.5%, and on EBITDA, we grew at 4.1%. So that gets me to the very short section on networks and we have discussed this at length at the CMD, so I'll keep it really short. What you see over the past 12 months, we have passed another 3.5 million European homes with FTTH, now reaching over 19 billion homes. Germany is well on track to receive its target of beyond 10 million homes by the end of the year. And good news is also that the two joint ventures in the US have been improved by the DOJ. So this is all good. If it comes to mobile, I think we are leading across the board being at the US, being at Germany, or the variety of European countries where we're operating in. So very, very strong performance here.

Next page. Customers, what you see is there's strong growth on both sides of the Atlantic. We're going to postpaid growth. It's actually slightly higher on a year-on-year basis, both in the US but also in the ex-US business with 4.1 million and 1.5 million customers. TV net adds are up, obviously supported by the retirement of the rental privilege in Germany. And broadband is coming down, but still growing on a constant basis.

Let's go to ESG. On ESG, I think the main takeaways from the current performance over the past 12 months is that despite that data, growth is actually increasing. We're able to reduce both CO2 emissions, but also energy consumption by 5% and 3% respectively. And what we said also in previous calls, but also at the CMD, we want to be as rigid in fulfilling those ambitions relative as we are rigid with our financial commitments. So that gets me to the guidance and the guidance update. What you see is the US has already increased its guidance for EBITDA and free cash flow by EUR50 million at the midpoint during their call [ph]. We will also increase our guidance in the European business from EUR14.4 billion to EUR14.5 billion, so by EUR100 million, which leads us to a group result of EUR43 billion by the end of the year, coming from EUR42.9 billion in the previous quarter.

What we also see is that we keep the free cash flow basically at the same level as we set it in Q2. And same holds true for the adjusted EPS, we still expect beyond EUR1.75 and I think we're pretty good on track in order to get there. So that gets me actually to the operational performance review, and let me start with the US and the financials here. So what you see is service revenue growth has accelerated on a Q-by-Q basis to 5.1%. The core EBITDA is very strong at a robust 9% growth. And this is all driven by the customer performance which the US team is actually driving. So we had 1.6 million postpaid phone customers coming from a 1.2 million in the previous year, in the third quarter, a stunning phone net add share of 865,000,

and that led actually to the to the guidance upgrade when it comes to phone customers. So postpaid has now been increased to 5.6 million to 5.8 million customers expected by the end of the year, which is an increase of roughly 150k at the midpoint.

So what you also see is a very strong performance on high-speed internet, again another 400k net adds. So that gets us to a total of 6 million customers, which we are currently servicing, or a increase of 1.8 million over the course of the last 12 months. Brings me to Germany and let me start with the financials. So what you see is, again, another quarter, the 32nd consecutive quarter of EBITDA growth. You see that the organic revenue is at 2.5%, while the organic EBITDA is actually at 3.5%. The sequential acceleration, especially on EBITDA is obviously due to the phasing of the wage agreement which we had last year where we had to -- which we had in the last quarter where we had to pay the one-off payment in Q2. And that basically brought down the EBITDA performance. Overall, we're feeling actually fine with the guidance which we have given, which is EUR10.5 billion.

So let's move on to total service revenue. I think on total service revenue, the number you have to remember is 2.1%, 2.1% in total, 2.1% in mobile service revenue, and 2.1% in fixed line service revenues. The 2.1% is obviously significantly lower than what we have seen in Q2, but we indicated that we expect a slower growth because the comp relative to last year's performance is actually much tougher for Q3 and also for Q4. So we are still absolutely fine with our guidance which we have given, which is 2% and 2.5% as an average mobile service revenue growth.

So what you also see on fixed revenues, the fixed revenues have further improved to 2.1%, as we anticipated in the Q2 call. And let's take a closer look to those numbers. So what you see is both on retail but also in excess revenue, we see growth. There's a sequential slowdown in the broadband revenues. And this is basically through a release of an accrual in the last quarter -- quarter three in '23, which actually makes it difficult. If we would basically adjust for this, that growth number would be about 0.3% higher. So -- and we also expect for the fourth quarter a sequential rebound relative to what we've seen in Q3. So as you can see, we have guided 3% to 4% on broadband revenues. This is absolutely in line with our expectation and we continue to follow this guidance. The wholesale excess revenue, the 2.6% which you've seen here is not volume driven, it's output driven, which is why this number is continuously improving.

So let's move on to the fixed KPIs. And what you see is obviously the broadband customer performance is pretty stable over the past three quarters, roughly 40k. The TV customer growth is still elevated but it's below the peak quarter in the second quarter due to the retirement of the rental privilege. But it's still 50% higher than it was in Q3 '23. What we also added is the number of OTT non-access related TV customers which haven't been increased over the past nine months by 300k. So -- and what you also see on the fiber performance and we're really happy with this, we have given you an indication that we're targeting a number of net adds of 450k. The recent quarter was 131k. And if you basically add the first three quarters up, you're close to 340k. So we're well on track meeting that target.

So let's get to the commercials in mobile. See a very stable performance with 327,000, consistent with the prior quarters despite a quite promotional activity in the German market. And you also see there is no impact on churn with the 0.9%, pretty much flat. Why do we

believe we're continuing with that performance? Because we have a strong brand, we have the best network, we have an effective segmentation and the family plans are simply working well.

Let's get to the European Financials. Strong organic revenue growth of 4.2%, still below the previous quarter. And this is driven by IT revenues but also by wholesale revenues, margin-empty wholesale revenues, I must say, from the Greek business, and also, the effect of the price increases is kind of narrowing out a bit. So this is what we're seeing in the third quarter. But you don't see this in the EBITDA performance with another 8% increase year-over-year. We had a slight benefit from lower energy prices, which accounts for roughly 0.5%. And we expect there's going to be a headwind in the fourth quarter, but still a very stunning performance. So we will see who's going to be coming in as Number 1 on the EBITDA performance across the different segments. So commercials, very strong, very robust across all categories, so let me move to T-Systems.

T-Systems posted another solid quarter. So on a 12-month basis, order entry has increased by 18%, revenue has increased by 3.3%, and this is also driven by a very high level of customer satisfaction. Actually T-Systems scored a record high in TRI M, basically as a feedback from its customers, so quality pays out. If we're also taking a look at the organic EBITDA, obviously on a Q3 over Q3 performance comparison, you see that 19% on a year-to-date performance EBITDA was up 7%.

So that brings me to an end of the operational review and let's take a look to the financials. I think not a lot to explain here. You're seeing growth across the board EPS is up 4% in this quarter, but 16% in the first nine months. We have now an adjusted EPS per share of EUR1.43, of which EUR0.03 are non-recurring effects, which are related to the pension fund and -- oops, some derivatives. All good, all good. Free cash flow is up by 32%. And also what you see is, we have an absolute reduction of net debt with or without leases, but I'm getting to this in more detail.

So on Page 20, on the next page, you see basically the free cash flow performance. So it's an increase of roughly EUR1.5 billion, very much driven by EBITDA increases but also by lower cash special factors, and obviously, the planned reduction of CapEx in the US, which brings us to the strong growth figure.

On adjusted net profit were up 3%, the positive effect is obviously the strong EBITDA performance which we're showing. But this is partly offset by two factors. One is the financial result. This is negative effects on the pensions, but also higher interest cost. And obviously, given the strong performance of the US segment, there's also, let's say, a higher leakage to minorities which gets us to the 3% overall.

So let's move on to the next chart on net debt. And what you're seeing is net debt is actually down, including leases by EUR8.4 billion, excluding leases, which you see on that chart by EUR4.6 billion. And this is very much driven by the free cash flow development of the business, but also supported by weaker dollar, we have to be fair on this one, and a lower-than-expected share buyback volume in the third quarter. So that gets us now to a leverage ratio of 2.18 or 2.64. So this is within the range. But be aware, there's quite a bit of sensitivity whatever is

happening to the dollar and the dollar right now is around \$1.06 and not \$1.12 where it has been at the end of Q3.

So pretty much that brings me to the end of my presentation and I hand it over to Hannes. Thank you.

Questions And Answers

A - Hannes Christian Wittig {BIO 4033762 <GO>}

Excellent. Thank you very much. Here we go. Thank you very much, Christian. Now we can start with the Q&A part. (Operator Instructions) And so let's start. And I can see the -- a bunch of questions already. So we start with Polo at UBS, please.

Q - Polo Tang {BIO 3059030 <GO>}

Hi, thanks for taking the questions, and I have two. The first one is just on the US election outcome. In your view, how will this affect T-Mobile US? And does it make you think differently about the drivers of growth for the business going forward. Second question is just on German competitive dynamics. Given results from your peers, there have been some concerns about rising competition in the German market. So can you give your perspective and comment on what you're seeing in both the German broadband and the German mobile market? Thanks.

A - Christian P. Illek {BIO 19077446 <GO>}

Look, on the US election, obviously, this is very early to tell, so let me give you my first hypothesis and I would call them slightly positive because if you compare, for example, the election programs between the Republicans and the Democrats, obviously, I think I don't expect any kind of tax increases. I would actually expect more a slight decrease, at least if they're behaving according to what they promised. We know that regulation is not -- is less onerous if we have a Republican-led FCC, at least it has been in the past. So I can give you a clear direction going forward. I think we're pretty immune against the tariffs because we're producing in the same country as we're selling our services.

So import taxes will potentially only -- have an effect on us limited -- on a limited basis. But this is very early indication. So if I'm wrong, don't quote me on that one. This is this a couple of days after the election. What you see right now obviously is that the Republican administration is much better prepared than they used to be in 2016, given the announcement which I have already made. So I expect that the administration, whenever they're taking over in January, will be very operational from day one onwards.

So on the German competitive results, look, the competitive pressure which we're seeing especially from the guys sitting in Munich has actually started in January. So we're dealing with this over the course of that year, and therefore it's not new. Also what you see on the Vodafone, which have improved their tariff mix and all this stuff, we also have done that to be fair, right. So I think we're still absolutely in line with what we said at the Capital Markets Day. We expect these 2% to 2.5% because that was all existing as we basically communicated our mobile

service revenue growth, and I think it's been supported also by the figures you have seen so far in the year.

So there's a lot of promotional activity, there's a lot of complaint out there that there's too much promotional activity. But what I said earlier on what drives us is the brand, is the superior network, and the family plans are simply working out nicely, and congstar is also working out nicely and they're competing head-to-head against 1&1. So I'm not concerned about the future.

Q - Polo Tang {BIO 3059030 <GO>}

Clear. Thank you.

A - Hannes Christian Wittig {BIO 4033762 <GO>}

B2B is also doing well. So next question is from Adam at HSBC please.

Q - Adam Fox-Rumley {BIO 16453399 <GO>}

Thank you very much. I'd like to ask about the macro backdrop in Germany at the moment. At least we know there's going to be an election in February. When you're looking at your order book, talking to customers and thinking about demand in general, are you picking up any sense in which demand is being held back. And similarly, does it make any difference to your plans to invest? And then secondly, just on TV dynamics in Germany, you obviously had a very strong Q2. The Q3 net adds fell down to earlier levels. So I just wondered should we have expected that to be a little bit stronger given the regulatory change or I guess, if you could just have a bit of a comment around that, that would be helpful. Thanks.

A - Christian P. Illek {BIO 19077446 <GO>}

On the macro backdrop, we had similar question throughout the COVID crisis. We don't see a lot of correlation between GDP growth and service revenue growth. So we're pretty much unaffected by this except for two factors. One is bad debt, so we're seeing a elevated level of insolvencies. Obviously, that has an impact on us, which we don't see right now. And the second one is we have kind of a early warning sensor in our portfolio, which is T-Systems. And T-Systems is still performing quite well according to what they're seeing in the market. There may be a risk popping up. We don't see it right now. Obviously, you have some sectors like automotive who are struggling quite a bit and you have tough negotiations, but across the board, we don't see a macro impact on our business yet.

And the second question on TV dynamics, look, I think in the second quarter, we had kind of a perfect positive storm, right. We had the retirement of the rental privilege, plus the European Championship, which brought us to 114,000. I view the 76,000 actually as positive. If you compare it to the previous year, it's a 50% increase. And there is a couple of things which are holding us back. Look, you've seen what Vodafone has reported and they lost obviously 3.6 million lines on TV, but they didn't disconnect them. So what is the impulse for a customer if he's still getting the service not being disconnected, but not charging to go to somebody else? And this is why we're advocating that these lines have to be basically canceled in a way, so that this creates a trigger point for customers to buy TV services ideally from us, or alternatives.

A - Hannes Christian Wittig {BIO 4033762 <GO>}

If I can add, also the 300,000 that we see as additional OTT customers are what you would normally compare to the (inaudible) or so of this world, right. And so that's a comparable intake, which is pretty strong. And it's quite likely that many customers instead of quickly moving on to a triple play proposition of telecom will move to an OTT proposition. And I think the 300,000 is a very good result and we are quite happy with it. And by now, much of the churn, if not all of the churn, related to the European Championship will have happened. So we could probably look at this as an incremental gain at this point.

Q - Adam Fox-Rumley {BIO 16453399 <GO>}

Thank you.

A - Hannes Christian Wittig {BIO 4033762 <GO>}

So with that, we come to next question, and it's from Josh at Exane, please.

Q - Joshua Mills {BIO 17873641 <GO>}

Hi, guys, and thank you for taking the questions. It's somewhat related to the macro question, but more on the political side. And (inaudible) we can see there's going to be some turbulence in German politics over the next six months. But just it'd be interested to hear in what ways, if any, you think that could impact Deutsche Telekom. I guess, the ways I would think about it would be potential government contracts, regulation, and then obviously, the potential for stake sale in the future. Are those the right areas to be thinking about? Are they not impacted at all? And if there's any other things we haven't talked about there, it'd be great to hear your views. Thank you.

A - Christian P. Illek {BIO 19077446 <GO>}

Look, the point is, let me start with what hasn't changed. I think that sets the basis for the discussion. We haven't seen a change in the BNSR [ph]. So we have the same guy leading an independent institute at the BNSR [ph]. I think the new telecoms law has been introduced in 2022, so it's very new. So from this perspective, I don't expect a lot of changes. And if you take a look, what is our strategy, I think -- and by the way, that was developed as we had the great coalition between the Social Democrats and the Conservative Party. It is building out fiber at a rate of EUR2.5 million. Nobody's against that one. It's obviously upgrading the mobile network. Everyone is in favor of that one. And obviously, we are leading the pack. So from this perspective, we don't see any indication that the regulatory or political environment is going to change soon. Obviously, they don't have a lot of time right now to discuss with us business opportunities or something like this. Obviously, they are a little bit distracted on that one. But we'll see whether this plays out.

On the stake sale, look, this is only what I heard throughout the hallway talks. There is no official statement other than they don't want to go below 25%. The way how I experience the government is they always have kind of a buffer in between. So they will ever go to 25.1% or something like this. At least, this is not my expectation. And they're right now at 27.8%. So given

that we have absorbed a sale of EUR3.2 billion in this year, I think it doesn't weigh a lot on the share price. Anything to add?

A - Hannes Christian Wittig {BIO 4033762 <GO>}

Thanks, Christian. And with that, we move on to Andrew from Goldman, please.

Q - Andrew Lee {BIO 20488813 <GO>}

Yeah, good afternoon. Just had two questions. So first question, you obviously had a huge number of questions. Trying to work out your preference for TMUS stake build versus Deutsche Telekom share buyback at the CMD, but just wanted to ask a question on your preference for those in the here and now. I mean, since the CMD, obviously, Deutsche has been relatively strong versus the European telco sector, but definitely its improvements have been outstripped by what TMUS has been doing. So could you just give us a sense of your ability to be flexible and dynamic in terms of your approach to TMUS stake build and buybacks in the here and now and how you're thinking about that?

And then just a second question, just following up on Polo's question, given hopefully maximum fear on the German telco competition this week from -- heightened by some of your competitors, you mentioned that the competition has been going on for some time from your peer in Munich. I guess what Vodafone was flagging was a spilling over of that low-end mobile products competition into higher end products, which may be a bit more punishing for DT given your quality premium. Have you not seen anything in terms of competitive intensity that's made you even slightly more nervous about the competitive backdrop over the last month or two? Thank you.

A - Christian P. Illek {BIO 19077446 <GO>}

Okay, so look with the, let's say, the users of the surplus, I think we said at the Capital Markets Day we want to be flexible for the very simple reason. If you take a look how the share price of T-Mobile US has developed over the past weeks and what is the implication on the stock valuation, obviously, we went down to a single digit billion number on the stock valuation. Potentially, it has increased today a bit. So we want to keep that flexibility and taking a look what is from a financial point of view the better return for the buck, but we also will always factor in some strategic elements and therefore, I think it's going to be that matrix and what we are going to do is we have now line of sight on the share buyback for '25. We will explain to you whatever we have decided but I don't want to give you an indication of something I don't know right now.

So I think we got the EUR2 billion share buyback for '25 and we're performing well on the '24 share buyback but I can't tell you right now Andrew how we basically want to spend the money. In the first place, you heard from Tim, if we would -- everything put on the -- on T-Mobile US, we would be at 56% or 57%, we will see how this pans out. And on the mobile environment, look, it is too early to tell. What you're seeing is our commercial performance remains above 300k and I would say the first brand is performing well. We have to see whether there's any kind of spillover effect, but we are well segmented, right. We have the premium with the first brand, we have congstar which is head-to-head competition against 1&1. I can tell you their performance

was much better than 1&1's performance without displaying the effect of not number and obviously, we have a B2B environment which is a constant stream of growth for us.

So again, we're still confident absolutely on the 2% to 2.5% despite the fact that there's always something going on in the German market and what I took away from the calls is that people are pretty much, let's say, cautious that we're not becoming too promotional. So it's on them to basically react and there was one competitor which was highly. I think it wasn't us and therefore, I think it's on them also to decide whether they want to continue with that game, yes or no. But we're playing our game and I think so far so good.

Q - Andrew Lee {BIO 20488813 <GO>}

Thank you.

A - Hannes Christian Wittig {BIO 4033762 <GO>}

Maybe just on that note, since I had a question from Stephane Beyazian at Oddo if we are worried about German MS, mobile service revenue deceleration in 2025 and potentially, therefore a shortfall to our EBITDA target, I think I should go back to what Christian said earlier, that of course, when we issued our mobile service revenue targets and our EBITDA targets for Germany for the period through 2027, we of course anticipated and were aware of the developments in the market and therefore, it's important going to go back to this simple point that the famous competitor in Munich, for instance, has been aggressive since the beginning of the year and personally, I haven't seen this much escalating recently. There have been a bunch of moves, but they went in overall balanced direction, I think at a, let's say, aggressive pace overall, but surely no news to us and therefore the guidance stands.

Now, next, we move to Akhil at JPMorgan, please.

Q - Akhil Dattani {BIO 7190509 <GO>}

Yeah, afternoon. I've got two questions, if I can, please. Christian, firstly, you mentioned in your comments about the robustness of the German mobile performance a number of levers, but one of them was the family plans that you're pushing in the market. I was just keen to get a bit of color in terms of exactly what you're seeing in terms of take up and success on that, just to understand the way in which that's helping you. And I guess some of the things I'd be interested in understanding is to what extent is that contributing to what's been obviously a nice acceleration of net adds in the last four or five quarters and then any color you can give us on mix in terms of what sort of plans are we seeing taken up? Is it two SIMs, three SIMs [ph], anything like that to help us better understand what you're seeing.

And then the second question was just on EBITDA growth. You made a couple of comments around, we'll see at the end of the year whether US or Europe does better. And I guess in the context of that, if I look at the upgrade to your ex-US guidance at the midpoint, it implies quite a slowdown for Q4. For the ex-US business, you've done 3.5% EBITDA growth year-to-date. The implied for Q4, if we took it literally, the guidance, it would be 1%. So just maybe if you could outline for us, are there specific factors that would lead to Q4 slowing down or could that just be a little bit of prudence. Thanks a lot.

A - Christian P. Illek {BIO 19077446 <GO>}

Okay, so on the family plans, look, we don't display to what extent this traction is happening on the second or the third card, but this is obviously the main source of growth. And why is this the main source of growth, because we are addressing segments which we couldn't address with the first card in the first place, right. And I think the combination of having a first card associated with a second or third card is actually driving that whole growth.

A - Hannes Christian Wittig {BIO 4033762 <GO>}

Incremental growth.

A - Christian P. Illek {BIO 19077446 <GO>}

The incremental growth, yeah. I don't know. I'm not a native speaker, come on. And I think we got to be fair on this one. This is why these plants are working out fine. And the others were trying to do this, but obviously they didn't get the same amount of traction. And on the EBITDA growth, look, I indicated on the European segment there's going to be some headwind on the energy cost, so we had tailwind in Q3 but there's going to be headwind in Q4. But I just wanted to do basically disseminate the way on how we were thinking, right. And if Dominique is there, she's always looking how is the US doing, because she has never been in a situation that they were chasing the US when it comes to EBITDA performance. And this is kind of a -- let's say, the competitive mindset we have in the group. But other than that, I would say what you have in your model is prudent.

Q - Akhil Dattani {BIO 7190509 <GO>}

Thank you.

A - Hannes Christian Wittig {BIO 4033762 <GO>}

Okay, next we have Siyi He at Citi, please.

Q - Siyi He {BIO 18642317 <GO>}

Hello and good afternoon. Thank you for taking my questions. I have two please and one on mobile, one on broadband, both in Germany. I think on mobile, I think in your Capital Markets Day, you showed that you have been very successful in mobile post-paid adds. I know -- I think you showed that you're getting 45% of market share in net adds compared to your 35% on market share in mobile. Obviously, it's a strong proof point of the successful strategy. But as an incumbent in a market where you actually see the rivals have various reasons to need to maintain or grow the top line, I mean, if the competition, let's say, gets worse for longer, I was wondering if there is a role that you could play to calm down the market. This question is on mobile. And on the fixed side, I see your net adds is about 40,000, but obviously one of your donors has -- in the market has shown improvement in the net losses. But I'm just wondering if you can comment why you cap the 40,000 net adds if there is any -- if the market underlying is improving. Thank you.

A - Christian P. Illek {BIO 19077446 <GO>}

So let me start with the broadband performance. So what you've seen is that we have basically a lower growth rate since three quarters. And this is for various reasons. Obviously, competitors are improving their game. But what we also see is that we have a slower household growth in the German market. We have a higher broadband penetration which basically brings down the overall market growth and therefore, I think we shouldn't replicate or we shouldn't anticipate to replicate the performance of 60% to 70% which we had in the past two to three years into the future. What we are completely paranoid about is we don't want to lose market share. So the 40% is basically craft in stone and therefore, we're always tracking whether the 40k is in line with the 40%. It is. It is above the overall net adds share in the -- it's above the 40% net add share in the market. But I think this is the way how we're looking into this, because the other two factors, especially the two external factors, we cannot change.

And I think we got to be fair, the alt nets are also improving their game because they changed their strategy to a higher connection rate and therefore, obviously, they monetize at a faster speed than they used to do it in the past. So I don't know what's going to be the new normal, but I don't expect any kind of 60% to 70% being the new normal in the future. And --

A - Hannes Christian Wittig {BIO 4033762 <GO>}

Just to add in terms of moving factors, don't forget on the more positive side that we also -- and that was part of your question, that we're also accept accelerating the fiber penetration and we are investing at a high pace and now we have, as Christian has mentioned, 50% more customers this year than last year. And in terms of taking them to fiber, we want to further accelerate our fiber take up from 450,000 a year to 1 million by '27. And that should normally in the competitive environment be an advantage for us. And it has been to the extent that it has happened. So maybe that I pass back to you on --

A - Christian P. Illek {BIO 19077446 <GO>}

So -- and on mobile, to be honest, we have a strategy which is working. I think the others were trying to copy us without getting a significant traction with that. Why should we change? We continue and we're playing our game and we're not making room. Would you ever ask that question to T-Mobile US? It's like you would you make room for the others for a Verizon and AT&T? They'd probably would give you the same answer, we're playing our game and then we see how the consumer is going to decide.

A - Hannes Christian Wittig {BIO 4033762 <GO>}

And of course, Srini [ph], would take issue with the classification as incumbent. So that's only the category but not the behavior, I think so, but with that we move on to Steve at Redburn, please.

Q - Steve Malcolm {BIO 16520365 <GO>}

Yeah, thanks. Thanks, Hannes and Christian taking the questions. A couple of questions. I just want to come back to Steve's question, if I could maybe ask it slightly differently and I get the TMUS analogy, but if TMUS saw AT&T and Verizon slashing prices, they may not react in quite

the same way. I just want to ask if you're sort of -- if any part of the group is worried about inherent instability in the German market? You're doing incredibly well, that's very clear. But it seems ever more apparently your three competitors are doing sort of worse and worse. 1&1's growth has almost completely disappeared. Vodafone is going backwards at pace. Telefonica Deutschland losing lots of wholesale revenue. I think the answer is probably no, but just curious to know if any part of your strategic thinking sort of talks to that -- those problems facing your peers?

And then just going to Europe, clearly great performance, but there's sort a couple of standout markets that I looked to it this quarter. Your peers have sort of uncovered an Hungarian NVIDIA. Revenue is growing 15%, EBITDA 25%, I think, in the quarter. Czech, I think revenues declined and EBITDA grew by 20%. Just curious to know, I think in the world of telcos, I tended to sort of believe in gravity with what goes up must come down. DT is disproving that. But as you look into '25 and '26, should we be worrying about any sort of hard landing from these sort of very, very sort of super-normal growth rates in one or two markets, and particularly in Czech where the revenues are sort of at odds with EBITDA would be great to hear. Thanks.

A - Hannes Christian Wittig {BIO 4033762 <GO>}

Okay, I'll just start on the German piece and then Christian is going to dive deeper on the European side. But surely when you refer to instability, I think political instability is an element, competitive instability may be an element. But as we said before, there's not really as much of a development in our awareness of the situation as it may be in, let's say, the awareness of observers who have started taking a note this week. And therefore, I would just go back to the simple point that when we gave guidance at the Capital Markets Day, we took we think appropriate account of the developments and the expected outlook for the German market. As always, there are some risks and some opportunities in the end, you don't -- we will not land exactly where you expect to land. There will be movers and shakers, but we think it's a balanced plan. We believe in our guidance. And that's all we really can say to it at this point.

A - Christian P. Illek {BIO 19077446 <GO>}

Look, and on Europe, I think you picked up a great point. We will not see the same growth rates in the Hungarian market over the next years. And this is why we have given you a guidance on EBITDA growth of 4% to 5%, not 8%, right. So there's going to be rollover effects. But bear in mind, not every country has increased prices, i.e., Greece. There's a big fiber rollout happening in Greece, which can support us. So we're feeling fine with the 4% to 5%. But to have kind of the same growth rate as we've seen it over the past three quarters of 8% of EBITDA growth, I think, would be completely unrealistic and this is why the guidance is only 4% to 5%.

Q - Steve Malcolm {BIO 16520365 <GO>}

You're not concerned of any sort of hard landing in those markets where you're seeing those very elevated growth rates? We can -- they can continue to grow at kind of 3%, 4%, but there's no coming in '25 and '26?

A - Christian P. Illek {BIO 19077446 <GO>}

No, we don't because what we're seeing is pretty symmetric competitive behavior, right, so everyone is rising prices. So the tide is rising for everyone. It's not like one is increasing price, the other one is lowering it. And I think that is obviously sort of a protection where basically people behave rational in those markets, and therefore, we don't see this right now. Can I give you kind of security for the long term? No. But this is what we have seen in the -- throughout the price increase in the European segment.

Q - Steve Malcolm {BIO 16520365 <GO>}

Thanks. Thanks very much.

A - Hannes Christian Wittig {BIO 4033762 <GO>}

And in Hungary, we will also see some further tax relief next year. So that will be a tailwind that will help the specific market. And with that, I move on to James at New Street, please.

Q - James Ratzer {BIO 2442169 <GO>}

Yes, good afternoon and thank you very much indeed for taking the question. So you've obviously got a very, very nice problem at the moment, which is the significant increase in the T-Mobile share price. And I was flagging, I was just trying to think about how this increase in the share price, up 14% since the CMD, starts to influence your thinking specifically around the T-Mobile buyback at this kind of level. So my understanding is, in Q2 -- sorry, Q3, you held back on some of the buyback at T-Mobile because of the increase in the share price. It's actually gone up even further. And this quarter, you maybe could do a EUR3 billion buyback there versus only EUR550 million in the prior quarter. So just in the near term, how are you thinking about phasing that buyback, given the significant ramp we've seen in the share price?

And then over the medium term, now you are seeing that material ramp in the share price, how do you think about the IRR you are getting as the controlling shareholder in T-Mobile and controlling the Board from doing a buyback? Is that still the best use of T-Mobile's capital at this kind of level? Could it make more sense to pivot to a dividend strategy to get cash back to Deutsche Telekom or maybe even considering more M&A, especially if we -- now we have a Republican regime there? Would just be interested to hear on those topics how you're thinking given the material ramp we've seen in the T-Mobile price. Thank you.

A - Christian P. Illek {BIO 19077446 <GO>}

Look, on the share buyback in Q3, this increase of the share price of T-Mobile US happened much faster than we anticipated it to be and that led to a situation where this -- we didn't foresee in the 10b-5 plan, I think is right, 10b5-1 plan or whatever, so we were locked in, and we have changed the approach. And I think Peter said it on the quarterly call that we have changed the approach so that we're not basically pricing ourselves out of the market. And I think you should take a look at the share buyback program as a total and not in a given quarter because we have bought for \$25 [ph] billion shares back. And obviously, we haven't bought them below -- above \$200.

On the IRR question, look, we recently have increased the dividend to \$0.88 [ph] a quarter, right. So this is a significant increase. And still, the US folks believe they are a growth company and they're saying a growth company is not known for very high dividend payout. So therefore, we want to have the flexibility. By the way, if we need the flexibility, we can immediately stop the share buyback and use it for other purposes. So the only competing factor right now is, so what is the return on the share buyback vis-a-vis returning that debt, right. These are the two competing elements right now. And there, the share buyback is still accretive relative to returning back debt.

And bear in mind, the \$50 billion [ph] shareholder remuneration, which the US has announced throughout the Capital Markets Day does in -- they are coming on top \$10 billion [ph] of planned acquisitions, and I talked about the fiber JVs, and there's a buffer of \$20 billion [ph] in the outer years. So there is still also kind of, let's say, gas in the tank to use it for different purposes. And I sense the share buyback always, as a tool that we -- as long as it is accretive and as long as we don't need it for better purposes, right, we continue with the share buyback. But if there's a big, let's say, reindeer at the horizon, which I don't say, then obviously you have the flexibility to pull back, which is not the case if you have a big dividend commitment out in the market.

Q - James Ratzer {BIO 2442169 <GO>}

Got it. Clear. Thank you.

A - Hannes Christian Wittig {BIO 4033762 <GO>}

Okay. So with that, next, we move on to Ottavio at Bernstein, please.

Q - Ottavio Adorisio {BIO 2134369 <GO>}

Hi, good afternoon. I've a couple of question on my side. The first one is on -- to Christian, it's on the free cash flow, particularly for Germany. In the first nine months, you almost fulfilled full year guidance. So clearly, there should be some moving parts in the fourth quarter. So if you can just give a bit of granularity what to expect why the cash flow will be almost 0? And particularly on the leases, I've seen the pleasant surprise that actually you are one of the few telco where their leasing costs are going down in cash terms rather than going up. And this is despite the underlying inflation. So if you can tell us what has driven the reduction this quarter and if that could be structural?

The second one is on the SoftBank lockup. If I'm -- basically my memory is fine, you should -- that lockup should expire in December when you swapped your TMUS shares for your Deutsche Telekom shares. So effectively, it could be a placing at some stage. Now you have an ongoing buyback. I remember you comment on the buyback to be used when there was a placement from the stake. But that was difficult for a number of reasons for -- because of the way which it was executed. I was wondering if SoftBank decides to place to basically monetize the stake, what sort of freedom you have with the buyback? Do you have to -- basically, if you -- could you prioritize some shareholders compared with others, so effectively, you cannot do anything to offset any particular pressure?

A - Christian P. Illek {BIO 19077446 <GO>}

Okay. Let me maybe start with the SoftBank question. Thanks very much for asking this because I think it is important to clarify the situation a bit. So as you may recall, SoftBank acquired 225 million Deutsche Telekom shares as part of a share swap in September 2021. But a month later, this was followed by a delta hedge placing of 91 million shares. You may also recall the shares were below EUR17 back then, and they have gone up by about 75%. Now I encourage you to look at the mechanics and others to look at the mechanics generically of delta hedge placings and/or the -- call it securitization that is at the basis of this. And it is quite likely that, that overhang is not there anymore. But we cannot disclose details of this arrangement because we don't know it and it's not our arrangement. But simply the mechanics of the way these securitizations work is that you would have seen this kind of mechanic. So could we, in principle, accelerate our share buyback? Yes, because we are not going at the maximum rate. If we go at EUR2 billion, we go about at 15% of the maximum rate. So generically, this is possible. In terms of free cash flow leases, maybe I start with the free cash flow. Can we prioritize some shareholders over the others?

A - Hannes Christian Wittig {BIO 4033762 <GO>}

No.

A - Christian P. Illek {BIO 19077446 <GO>}

No, we cannot.

A - Hannes Christian Wittig {BIO 4033762 <GO>}

No, we cannot.

A - Christian P. Illek {BIO 19077446 <GO>}

We had the same discussion, Ottavio, with the German government, where they were contemplating to lower their shareholding and we'll figure that one out that we -- you always have to go over the open market or through the open market. And bear in mind, we are a great investment, right, on both sides. T-Mobile US for SoftBank is a great investment and also DT is a great investment. Remember how they bought -- at what price they bought the shares and where we are trading right now. So the other one was?

A - Hannes Christian Wittig {BIO 4033762 <GO>}

On the free cash flow, I think we are not managing free cash flow on a quarterly basis. So the EUR3.5 billion is our guidance. Obviously, it's good to have EUR3.3 billion at this point in time. And in some quarters, you have a bit more, you have a bit less. It depends on shifts in working capital and the phasing of CapEx, restructuring costs, et cetera. But overall, we are happy with our full year guidance, and --

A - Christian P. Illek {BIO 19077446 <GO>}

Let me explain. Let me give you another point, Ottavio. If you go to Page 29, we had exactly the same question last year, right, where we had, after nine months, EUR3.2 billion of free cash flow. So obviously, from this perspective, I think you always have to factor in that this is only an incremental increase of EUR100 million and we're guiding EUR3.5 billion. So in last year, that was in the same vicinity. So probably you should expect a similar behavior of how we applied it last year. And on leases, I don't have the answer for this. Does anybody have the answer for this?

A - Hannes Christian Wittig {BIO 4033762 <GO>}

It's to do with T-Mobile leases. But we have to get back to you on this, what exactly drives it.

Q - James Ratzer {BIO 2442169 <GO>}

Thank you.

A - Hannes Christian Wittig {BIO 4033762 <GO>}

Currency effect as well, but --

A - Christian P. Illek {BIO 19077446 <GO>}

Maybe, maybe.

A - Hannes Christian Wittig {BIO 4033762 <GO>}

Okay. Let's move on to next question and that is a question for Usman -- from Usman at Berenberg, please.

Q - Usman Ghazi {BIO 15041671 <GO>}

Hi, everyone. Thank you for the opportunity. I've got two questions, please. One is on German mobile again, but this time kind of focusing on the business segment because I think that is driving around a third of the net adds that you're getting at the moment. Can you maybe talk about what is driving, A, do you feel that you're gaining market share in that segment? And if so, what is driving that? And can you talk about the health of the market as well? I mean, is that end of the market growing because companies are making phones available to their employees more and more or something like that? Yes, just context around German mobile performance in the business segment, please?

And then the second question, just going back to free cash flow, and this time, it's -- I know that currently, 1&1 is paying these advanced payments on the FTTH wholesale deal that was struck a few years ago as they've migrated their ADSL base to VDSL and that's come with an upfront payment. But those -- and if you look at the 1&1 disclosures, they're quite significant at around EUR200 million per annum. But I understand that those will -- those payments are coming to an end. So I mean, that potentially creates quite a big headwind to your cash flow for next year. It could be EUR200 million, it could be EUR150 million or whatever it is, but on a base of EUR3.5 billion of cash, that's potentially quite significant. And I just wanted to understand what

mitigation measures do you have in place, whether they'd be higher dividends from the TowerCo, et cetera? Any kind of color on that would be helpful. Thank you.

A - Hannes Christian Wittig {BIO 4033762 <GO>}

Yeah. On the German mobile B2B question, well, we're not disclosing the exact share. Surely, we are growing with B2B as well. You've seen also at the Capital Markets Day that we are happy with our mobile growth. But this kind of performance has been very steady and has been going on for years. So there's nothing particularly new or changing this quarter. And frankly, we also have no reason to think that there will be any change in the trends in the coming quarters and years. I mean, we outlined these targets at the Capital Markets Day. Especially in the German enterprise market, B2B market, there are still opportunities for us that we see. And network quality leadership is a very important factor. And our distribution capability plus our ability to bundle products is highly appreciated.

So I think this is -- nothing new to report here. In terms of the contingent payments that have been made by 1&1, there has been some front-loading, you are right. It's not new this year. It's part of our overall financial planning. And surely, we appreciate that 1&1 is committed to the Deutsche Telekom fiber platform. So that's a good thing. And I would say this is part of the overall phasing in our financial planning. There are lots of moving parts. We will have EUR2 billion EBITDA growth between now and 2027 -- '23 to '27 as per guidance. And there are other things that are moving. So this is part of it.

A - Christian P. Illek {BIO 19077446 <GO>}

Yes. And we haven't given guidance for '25 yet, right? So we cannot explain how it looks like.

A - Hannes Christian Wittig {BIO 4033762 <GO>}

Yeah, or the moving parts. But we have given guidance for 2027. And you know that this guidance adjusted for interest payments would have also been very -- not just consistent, but actually favorable relative to the consensus expectation. So I think that's the end of the Q&A today. So a bit shorter than our CMD. I hope you forgive us. And if you have any further questions, please contact the Investor Relations department. Thank you for participating. We are looking forward to hear from you again soon. And have a good rest of the day, and speak soon.

A - Christian P. Illek {BIO 19077446 <GO>}

Have a good day. Thanks. Bye.

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