

# 2020

Telkom SA SOC Ltd

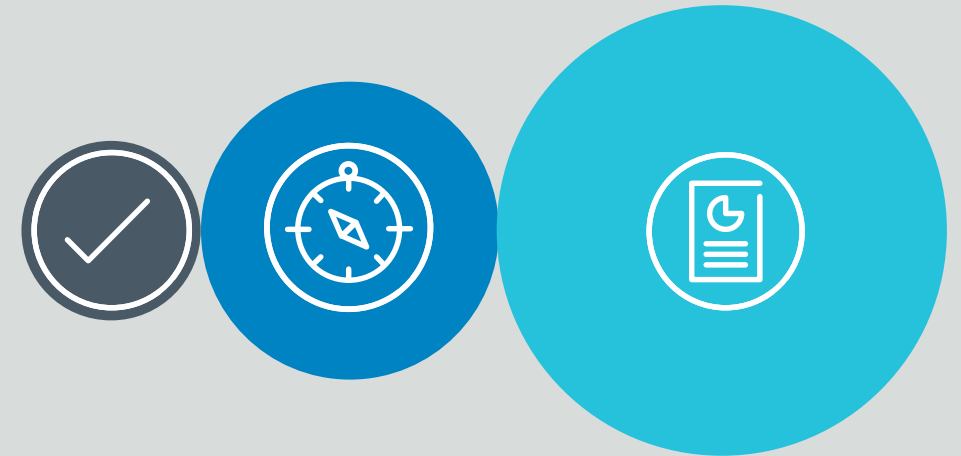
## Annual Results Presentation

for the year ended  
31 March 2020



Telkom

# Tough trading environment



## Macro-economic environment

- Technical recession
- Customers under pressure
- Exchange rate volatility
- High unemployment rate

## Competitive environment

- Fixed voice revenue under pressure
- Pricing pressure in Enterprise
- Pricing pressure in mobile

## Regulatory environment

- Data Services Market Inquiry
- Mobile Broadband Inquiry
- Information Memorandum submission
- Temporary licensing of spectrum

# COVID-19 response



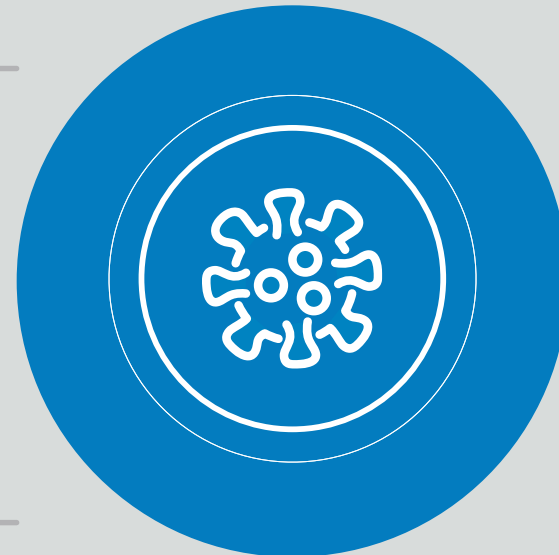
Employees

Network &  
Infrastructure



Customers

Contribution  
to SA Inc



A decorative graphic consisting of two overlapping lines, one blue and one white, forming a jagged, wave-like pattern in the top left corner of the slide.

# Business highlights

# 2

# Solid operational performance



**Mobile  
customers**

**↑ 23.9% to 12m**



**Mobile data  
traffic**

**↑ 69.9%**



**Cloud services  
in data centres**

**↑ 10%**



**Fixed line broadband  
traffic**

**↑ 11.4%**



**FTTH connectivity  
rate**

**48.2%**



**M&T tenancy  
ratio**

**1.32x**

# Key strategic themes underlying performance

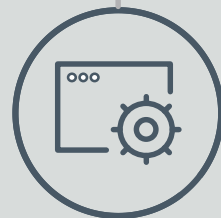


**Infrastructure investment**



**Broadband leadership**

**Evolution of fixed business**



**Sustainable mobile business**



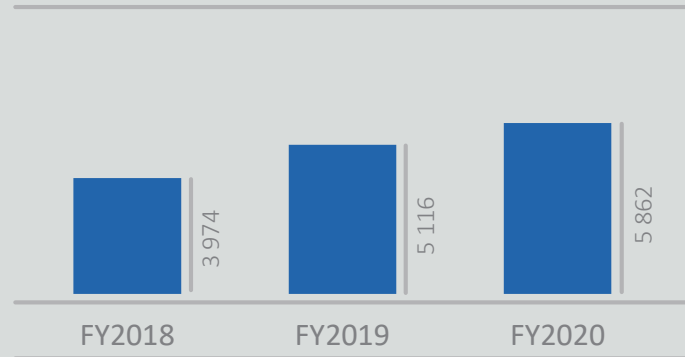
# Infrastructure investment

# 3

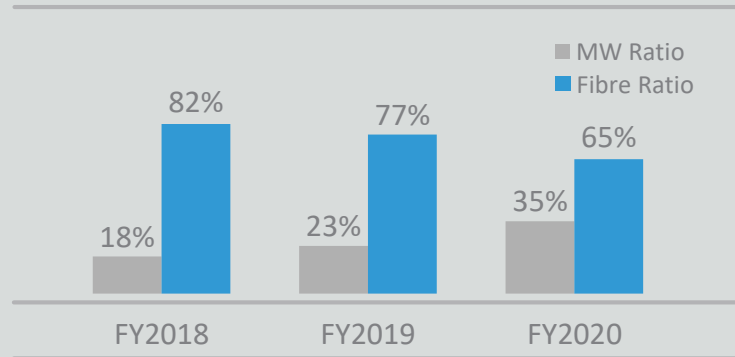


# Data-led network

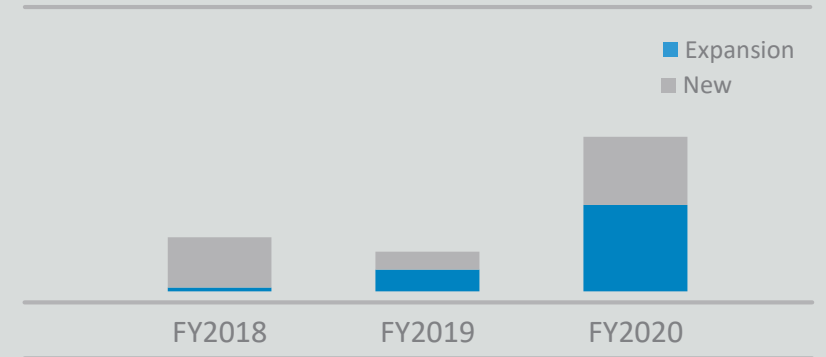
## Mobile sites integrated



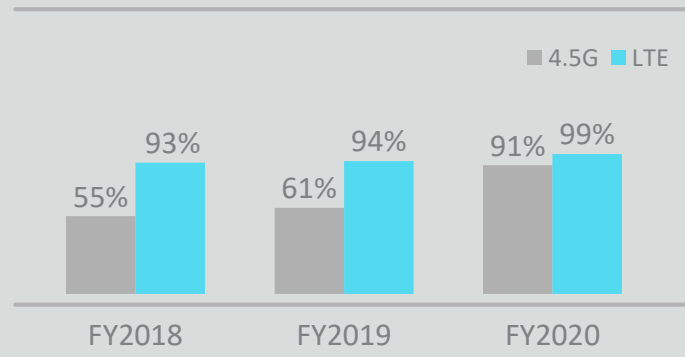
## Site Backhaul



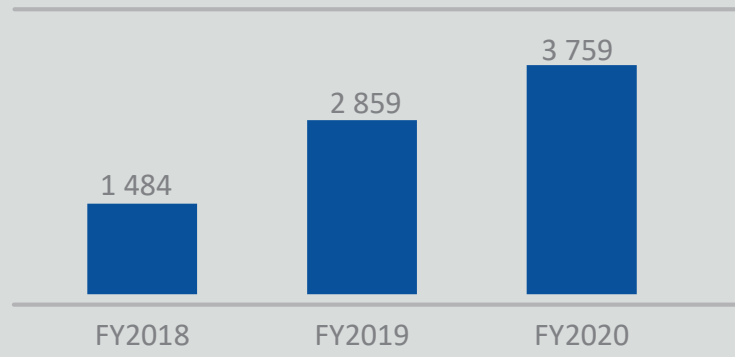
## Mobile Core Expansion & New Elements



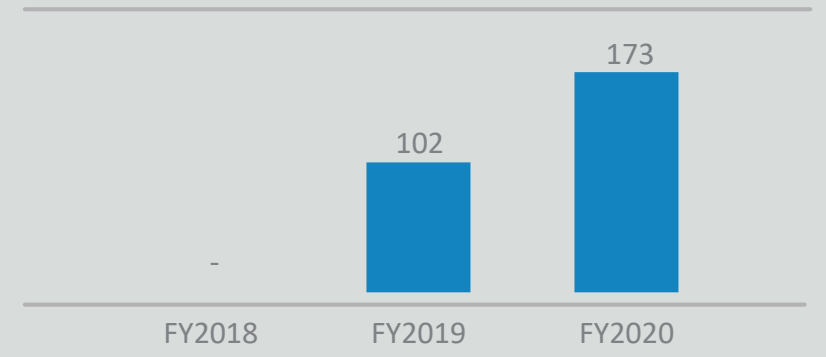
## Site Type



## 4.5G Integrated Sites



## Massive MIMO Upgrades





# Spectrum utilisation

## Effective Spectrum

	Existing	Temporary	Effective
3500Mhz	28Mhz	12Mhz	40Mhz
2600Mhz	-	40Mhz	40Mhz
2300Mhz*	60Mhz+ 27Mhz	n/a	87Mhz
2100Mhz	30 Mhz	-	30Mhz
1800Mhz	24Mhz	-	24Mhz
800Mhz	-	20Mhz	20Mhz
700Mhz	-	20Mhz	20Mhz
<b>Total</b>	<b>169Mhz</b>	<b>92Mhz</b>	<b>261Mhz</b>

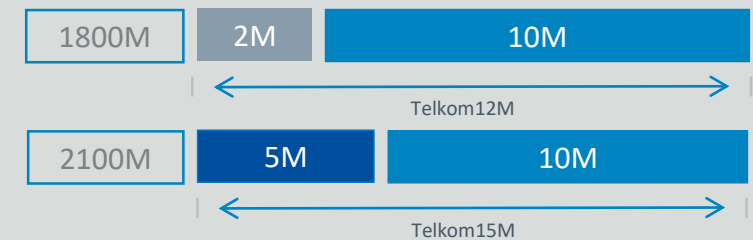
## Spectrum utilisation



**Ubiquitous coverage**  
L700/800  
MBB



**Primary capacity**  
>80% Connections  
GU 1.8G / UL 2.1G  
Low level HBB & MBB



**Ultimate performance**  
80% Traffic bearing  
2.3G + 2.6G + 3.5G (5G)  
HBB & High level MBB



\* Existing: 60 MHz TDD + 27MHz re-farmed from FDD  
Temporary: 20MHz overlaps re-farmed spectrum and it is unlawful



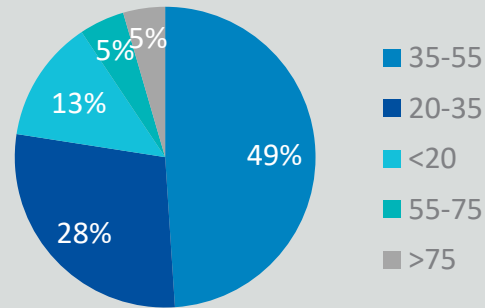
# M&T portfolio

Total M&T of 6500



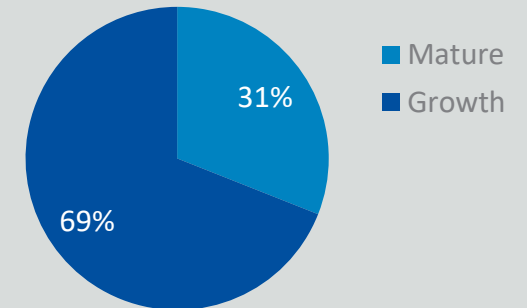
Note: <sup>1</sup>Tenants/towers, <sup>2</sup>(Tenants + addons)/towers

## Tower height (meters) (%)

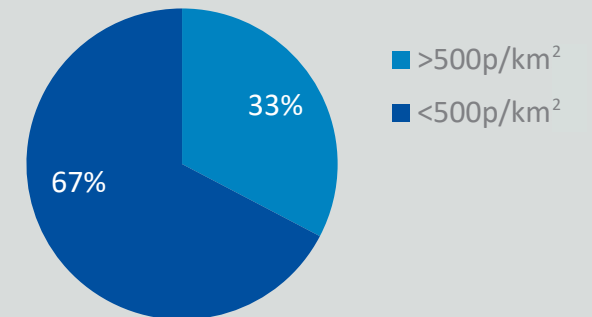


	Tenancy Ratio <sup>1</sup>	Loading Ratio <sup>2</sup>
Overall	1.32x	1.48x
Mature	3.56x	4.03x
Growth	0.33x	0.36x

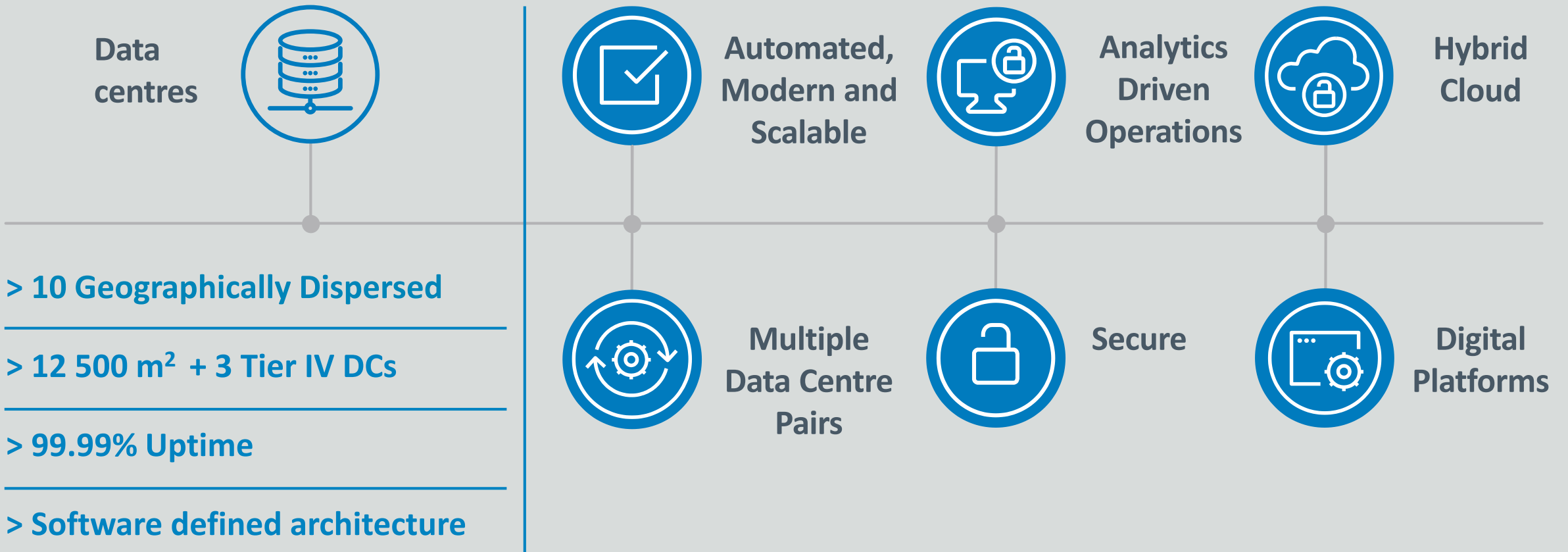
## Growth vs. mature towers (%)



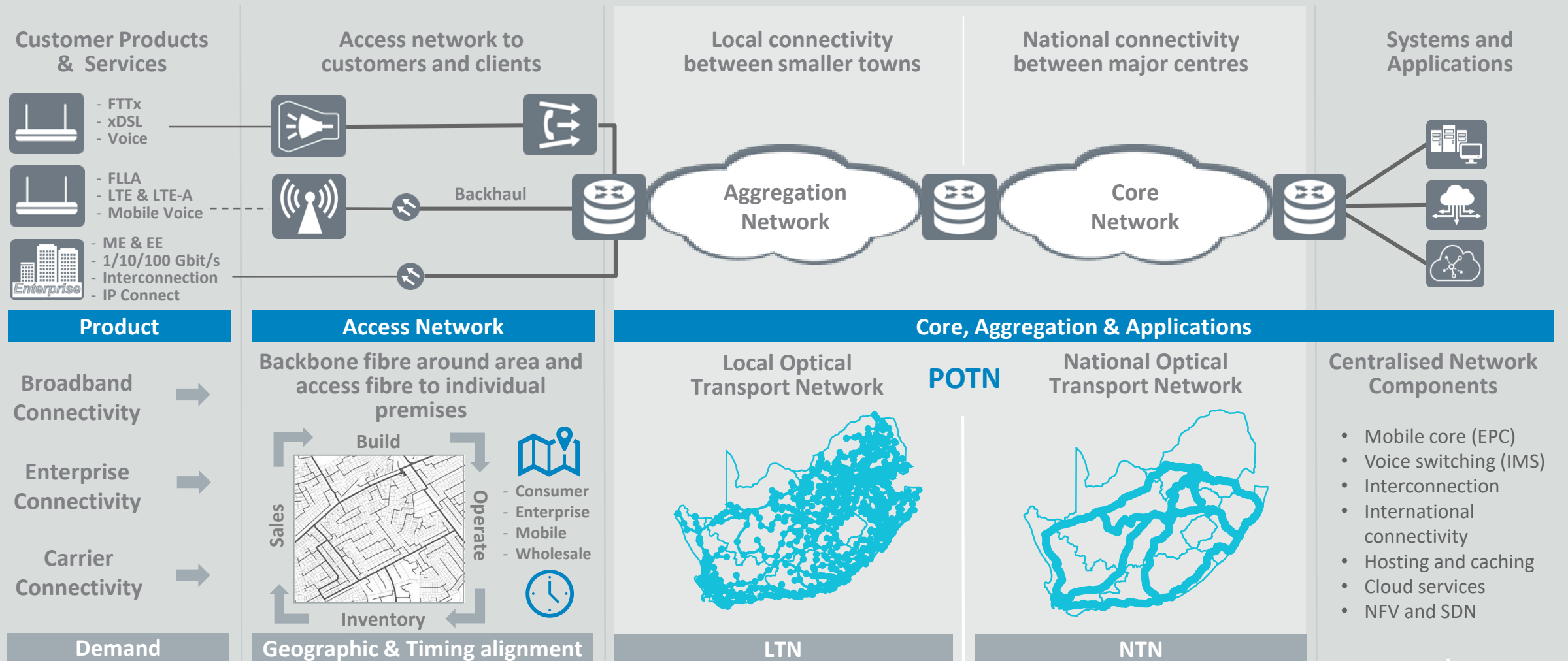
## Tower split by population density (%)



# Data Centre Infrastructure



# Resilient network



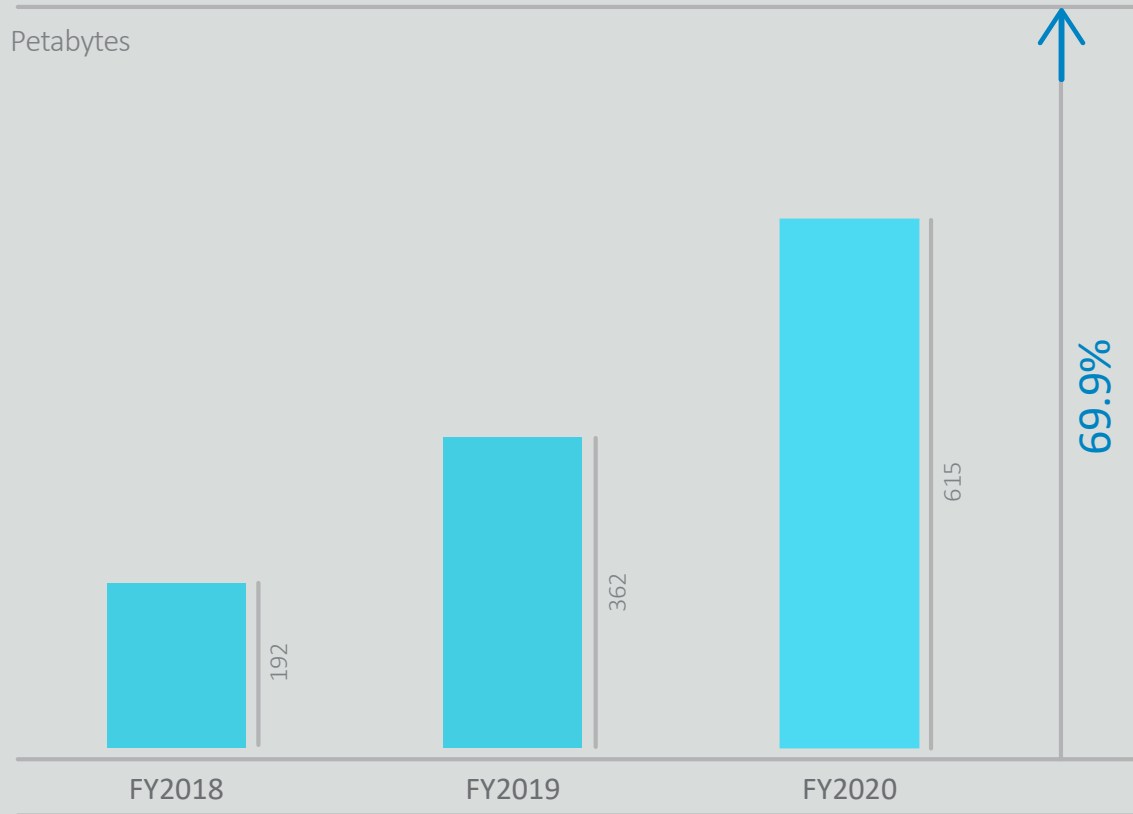


# Broadband leadership

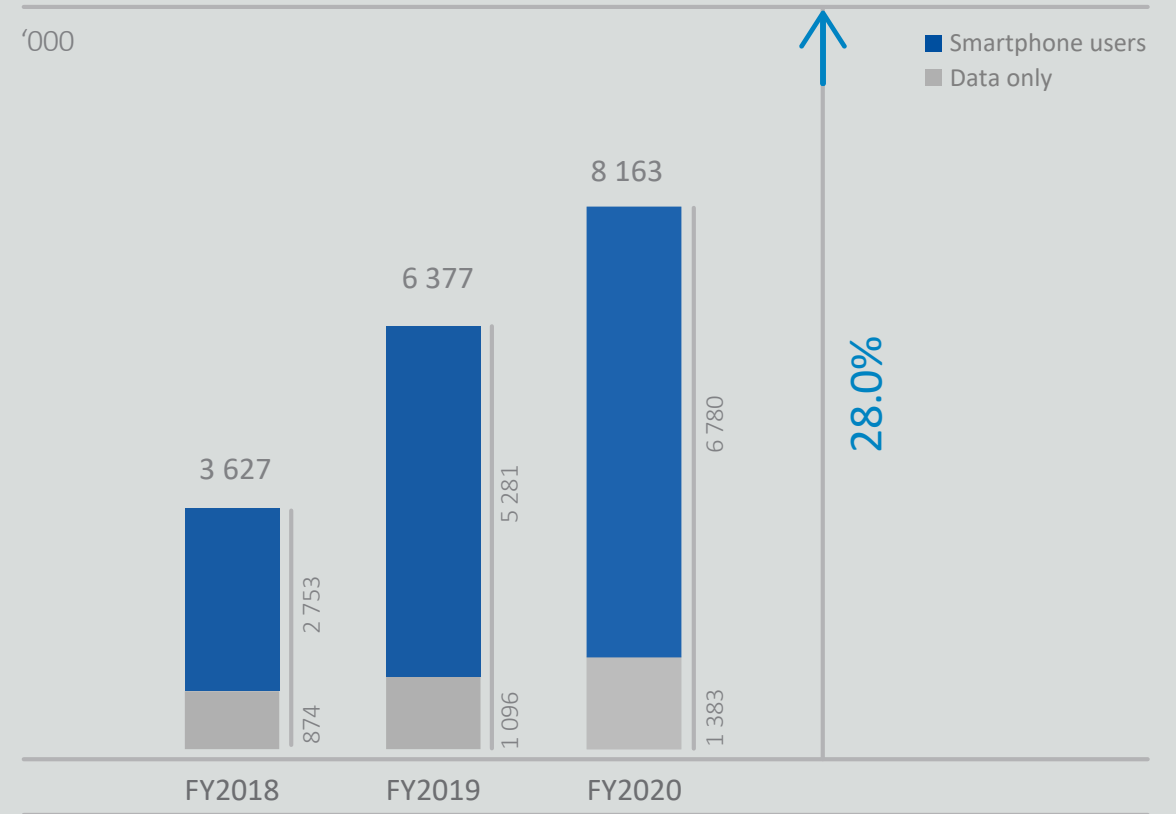
# 4

# High-speed broadband – wireless

## Mobile broadband traffic

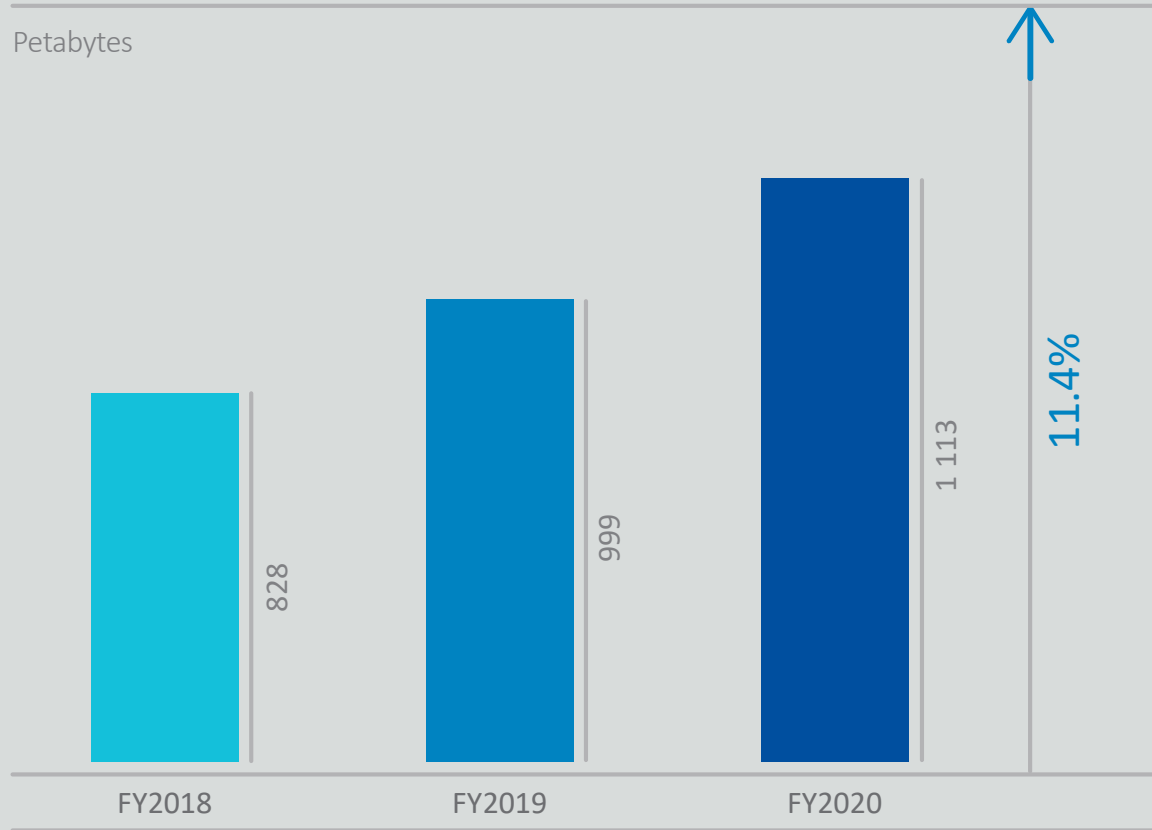


## Mobile broadband subscribers

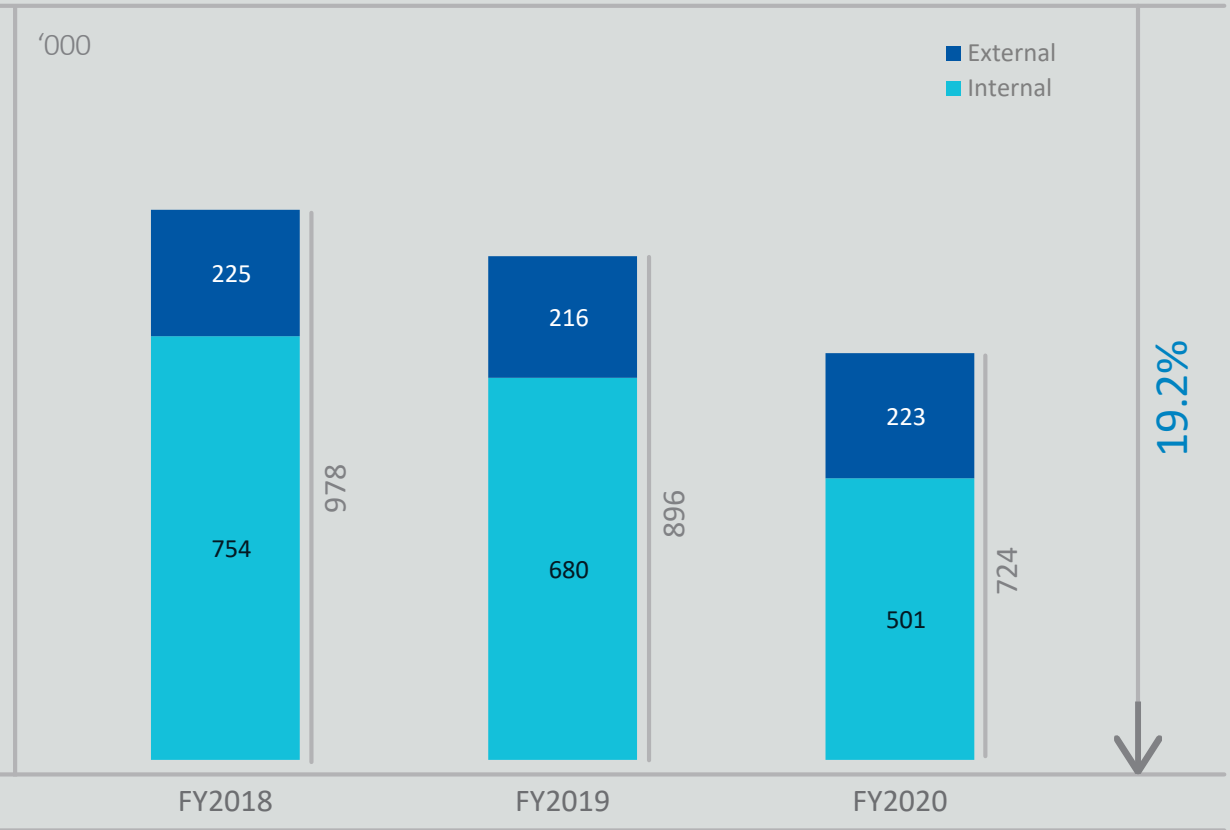


# High speed broadband – fixed

## Fixed line broadband consumption<sup>1</sup>



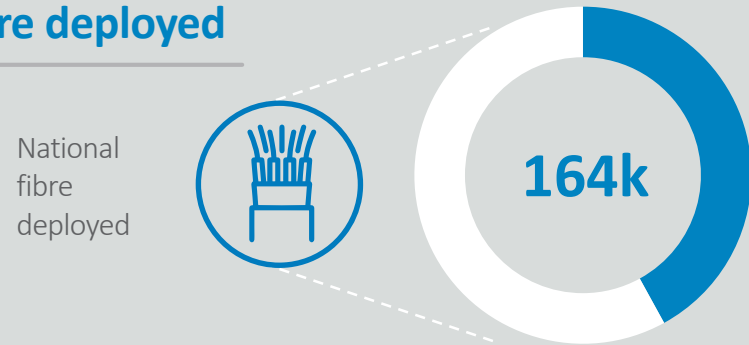
## Fixed line broadband connections<sup>2</sup>



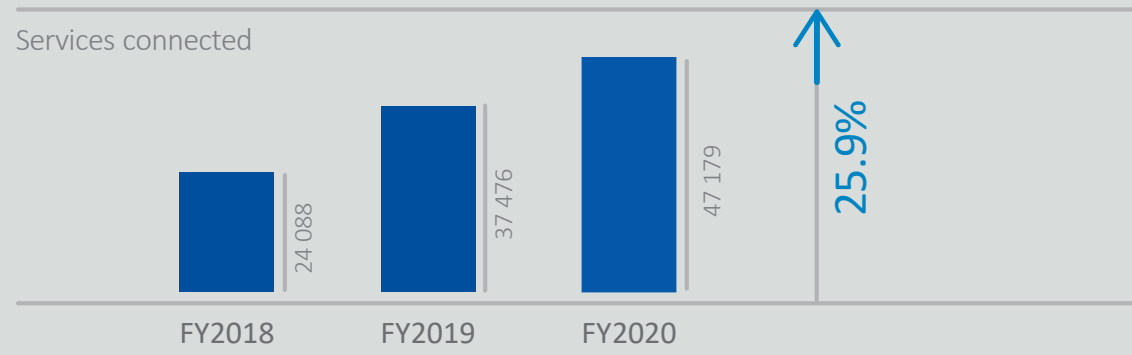
<sup>1</sup>Access links  
<sup>2</sup>Inclusive of fibre and copper

# Fibre ecosystem

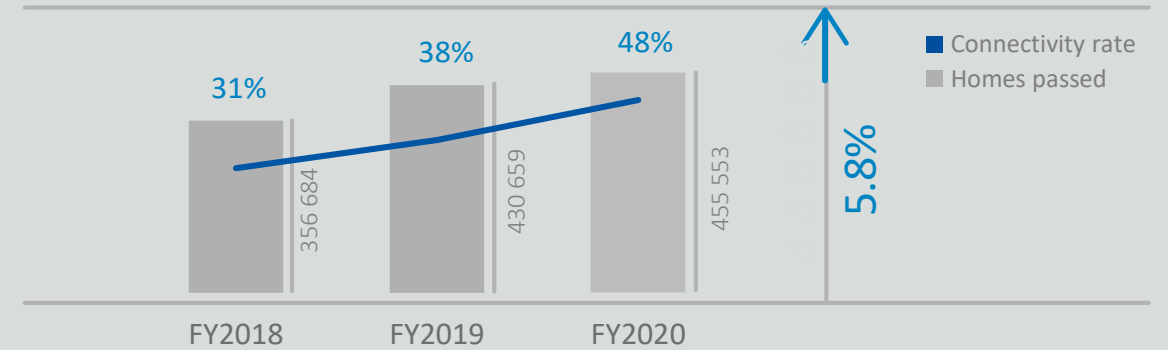
## Fibre deployed



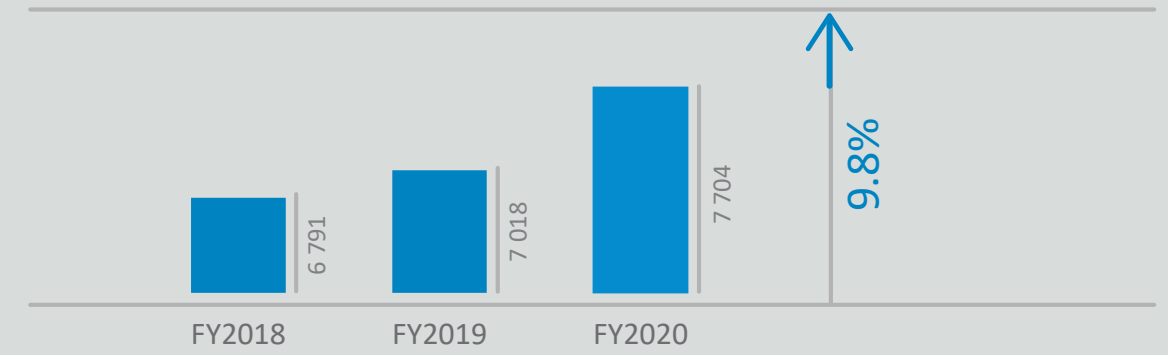
## Fibre to the business



## Fibre to the home



## Fibre to the base station







# Evolution of fixed voice business

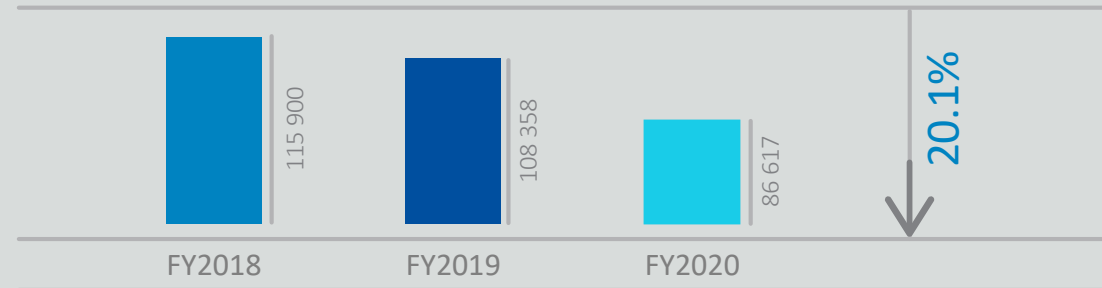
# 5



# Evolution of technologies

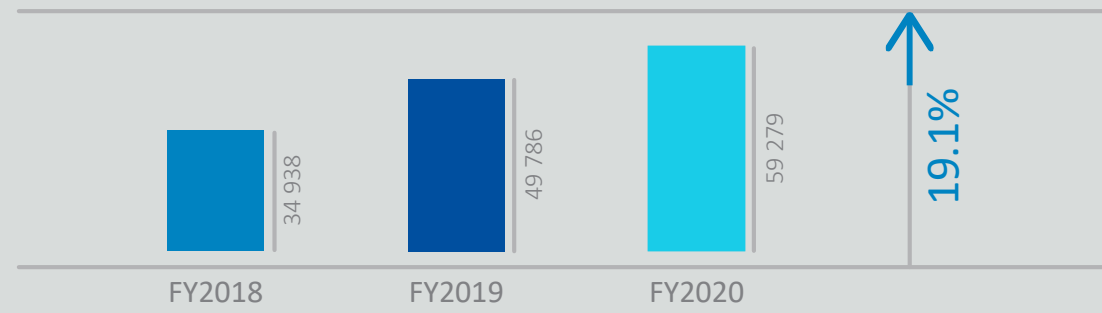
## Data solutions evolution

Legacy technology  
Services



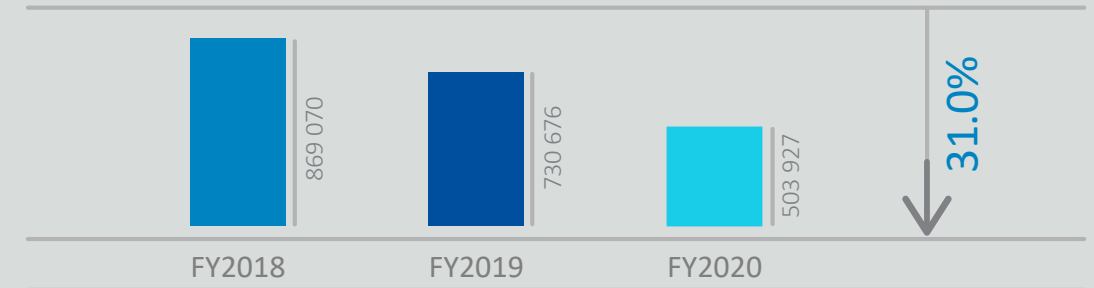
## Next generation ethernet technology

Services



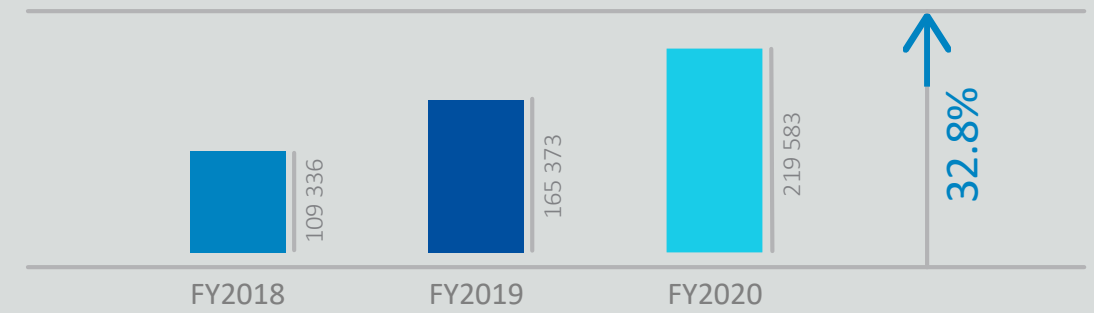
## Broadband connection evolution

Copper access<sup>1</sup>  
Connections



## Fibre access

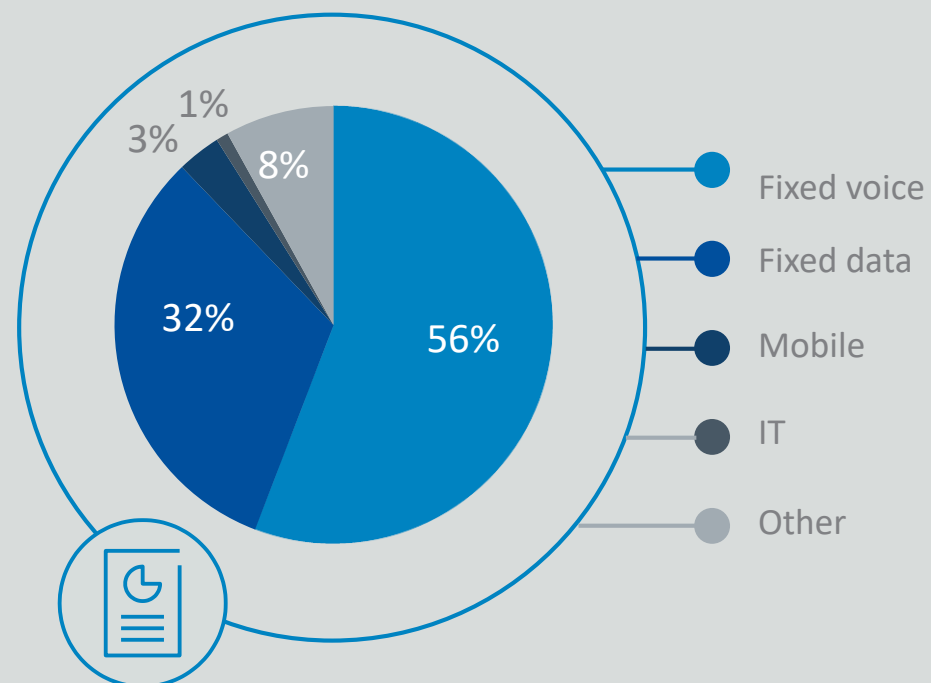
Connections



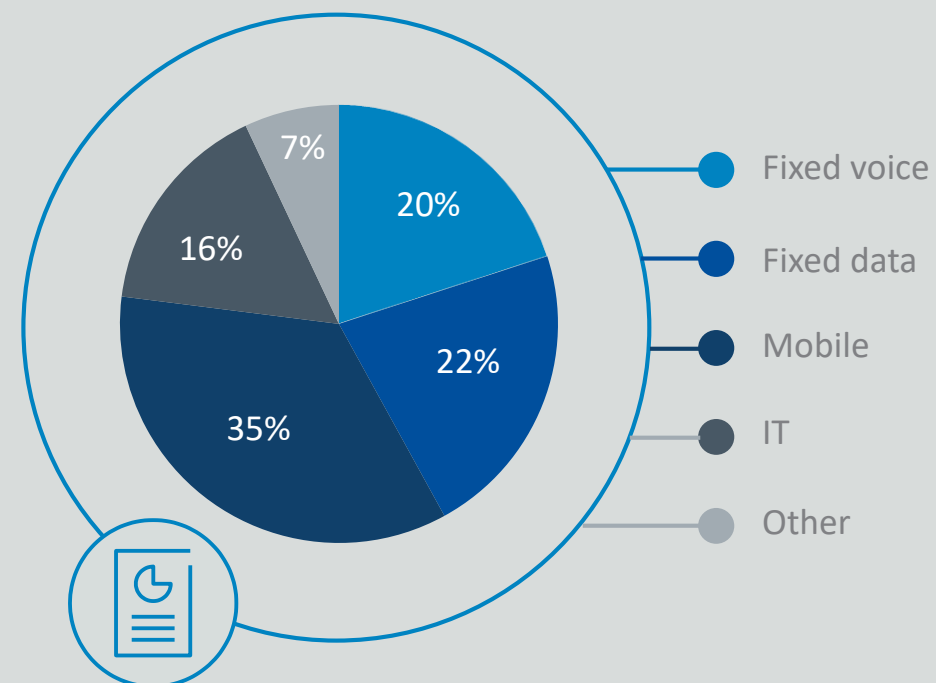
<sup>1</sup>Inclusive of DSLAM and MSAN access technologies

# Evolution of revenue mix

## FY2013



## FY2020



# Evolution of skills – No retrenchments in FY2020

## Restructuring program

- > 2 271 employees VSP/VERP

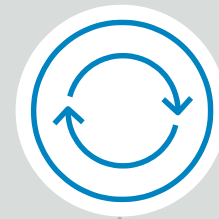
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- > 75% of employees took VERP

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- > R1.2 billion restructuring cost

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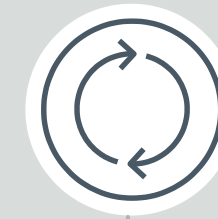



Phase 1



**Telkom**  
Consumer

**Telkom**  
Small & Medium  
Business



Phase 2

**Telkom** **BCX**

- Head Office
- Support functions across Telkom Group





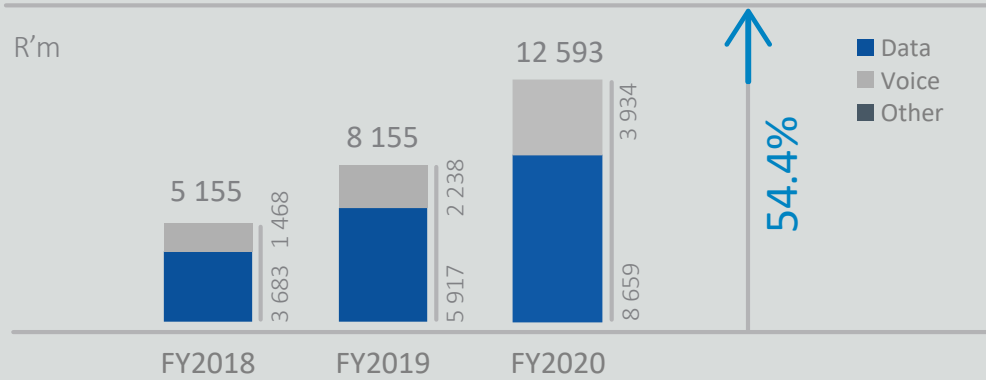
# Sustainable mobile business

# 6

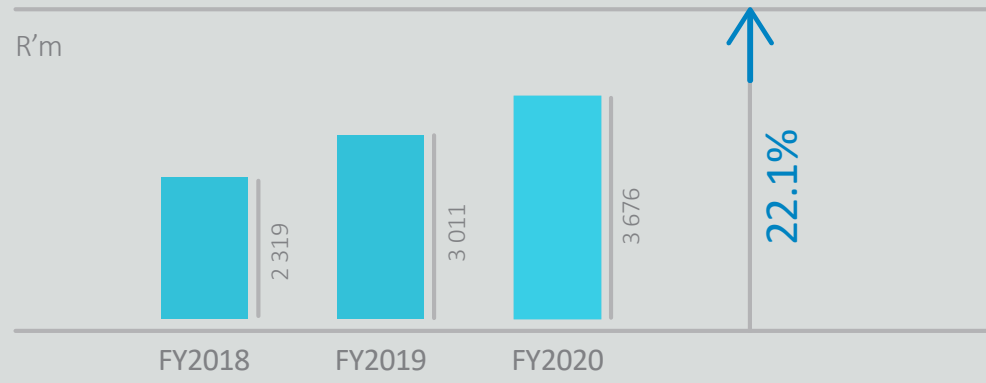


# Sustained financial performance

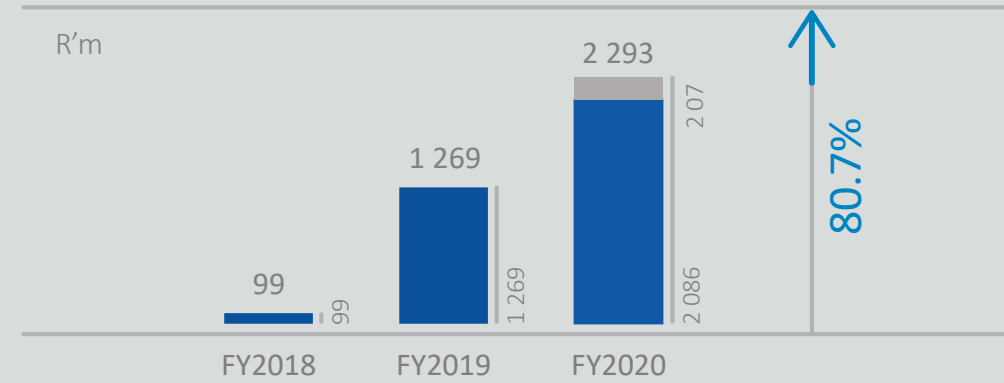
## Mobile service revenue



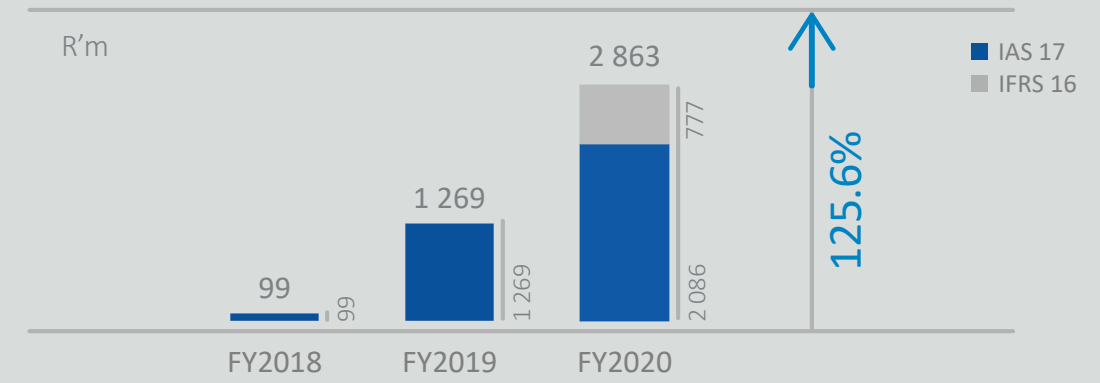
## CAPEX spend



## Mobile EBITDA (IAS 17)

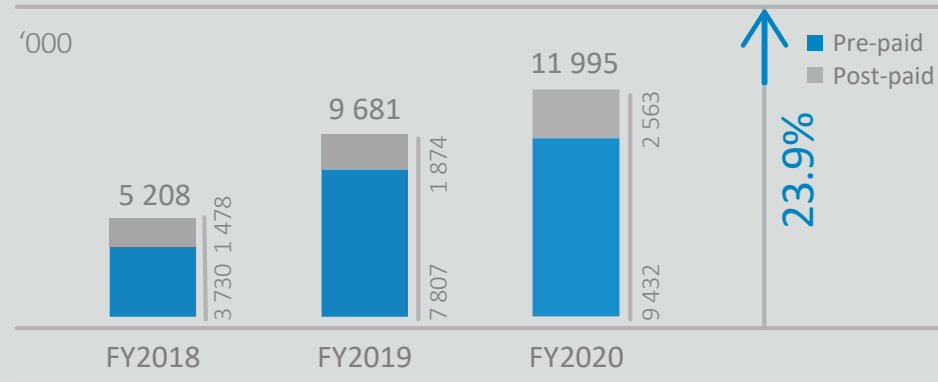


## Mobile EBITDA (IFRS 16 impact)

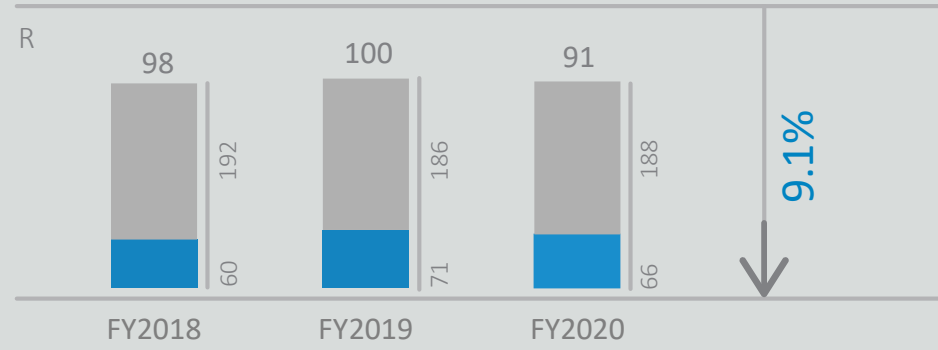


# Good quality customers

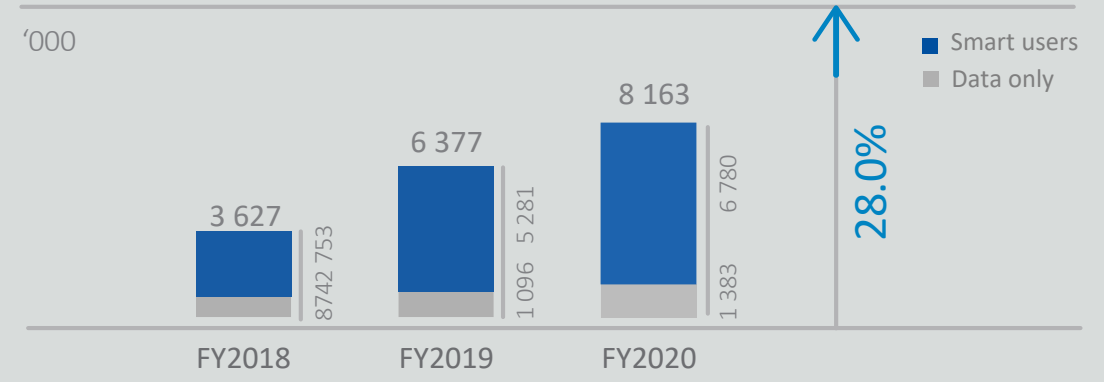
## Subscriber growth



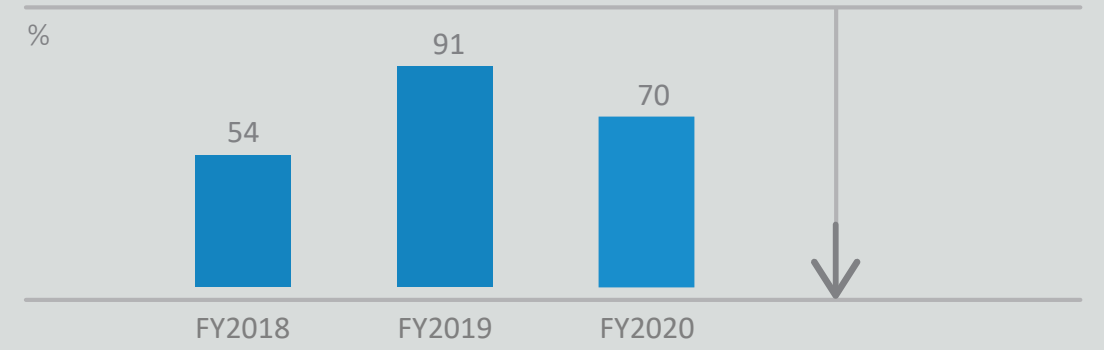
## Blended ARPU



## Mobile broadband subscribers



## Incremental Mobile voice traffic



# Mobile business strength- data! data! data!







# Financial Overview

# 7

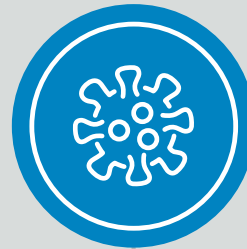


# Exceptional items impacting performance



IFRS 16

**+ R1.1  
billion**  
on EBITDA



COVID-19

**- R626  
million**  
on EBITDA



Restructuring  
Program

**- R1.2  
billion**  
on EBITDA

# Salient features of financial performance



**Strong mobile service  
revenue growth**

**54% ↑**



**Decline in fixed  
voice revenue**

**22% ↓**

**Improved mobile direct  
cost to revenue ratio**

Improves from  
52%

**48% ↑**



**Improved Free  
Cash Flow**

Up >200% **R2.0bn ↑**



**Disciplined  
capex allocation**

Capex to  
revenue ratio **18.0%**



**Strengthened  
balance sheet**

Net debt to EBITDA  
ratio improves  
from 0.8x

**0.7x ↑**  
1.3x (post IFRS16)

# Group performance impacted by fixed voice decline

Rm	FY2020 (IFRS 16)	FY2020 (IAS 17)	FY2019 (IAS 17)	%
Operating Revenue	43 043	43 043	41 774	3.0
EBITDA	9 602	10 330	11 309	(8.7)
Headline earnings per share (cents)	208.1	504.6	722.4	(30.2)
Capital investments	7 755	7 755	7 674	1.3
Free cash flow	1 782	1 957*	534*	266.5
Final dividend (cents)	50.1	50.1	249.4	(79.9)

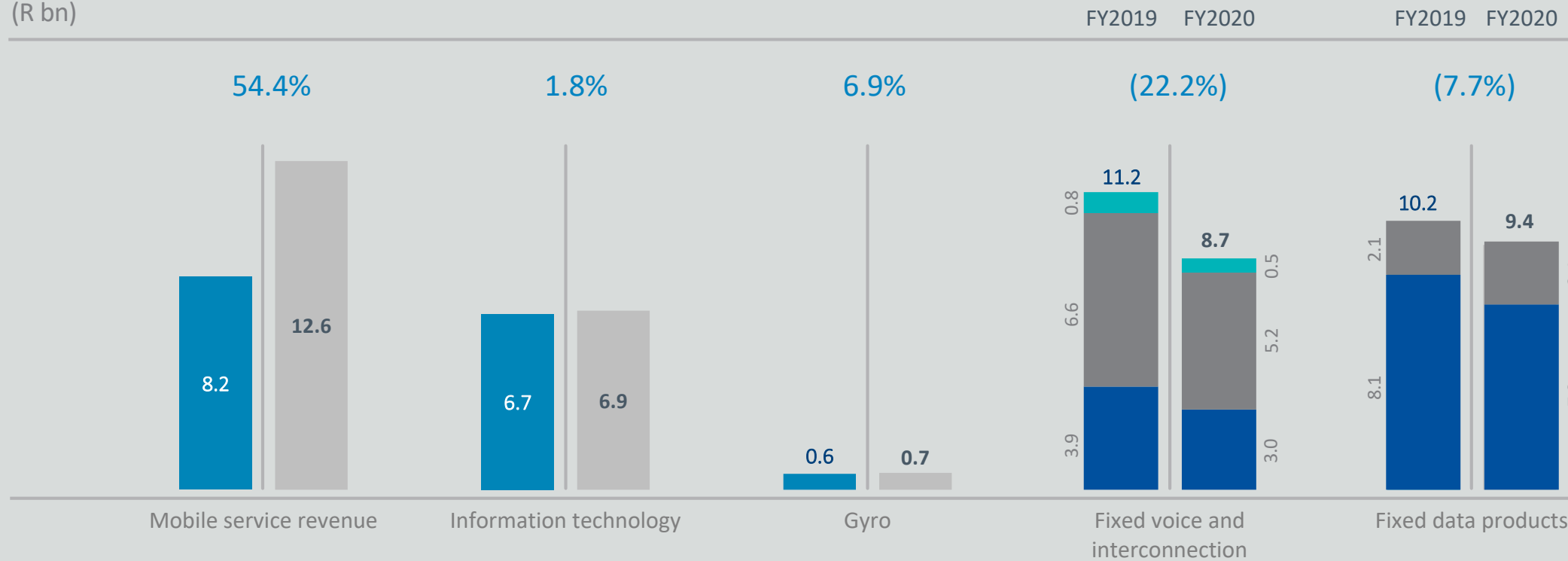
All commentary, messaging and indicators in this presentation is based on a pro forma IAS 17 basis and exclude VSP/VERP package costs of R1 186 million and the related tax impact of R332 million and the additional provision relating to the impairment of accounts receivable and contract assets as a result of COVID-19 of R626 million and the related tax impact of R175 million. FY2019 excludes VSP, VERP and section 189 costs of R728 million and the related tax impact of R215 million.

\* Free cash flow excludes R175 million paid for VSP, VERP and section 189 costs during FY2020 and R566 million in the comparative year.

# New revenue streams offset decline in traditional fixed

## Revenue by product line

(R bn)



■ FY2019  
■ FY2020

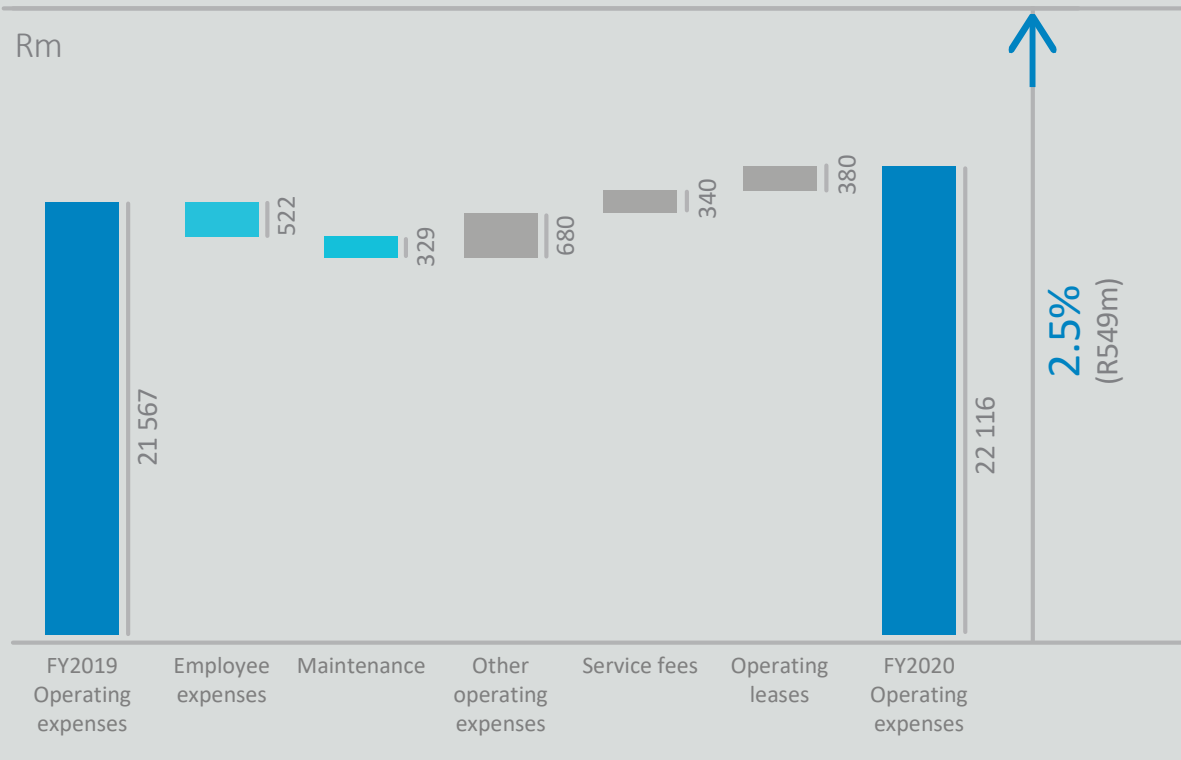
■ Interconnection  
■ Subscriptions  
■ Usage

■ New  
■ Traditional

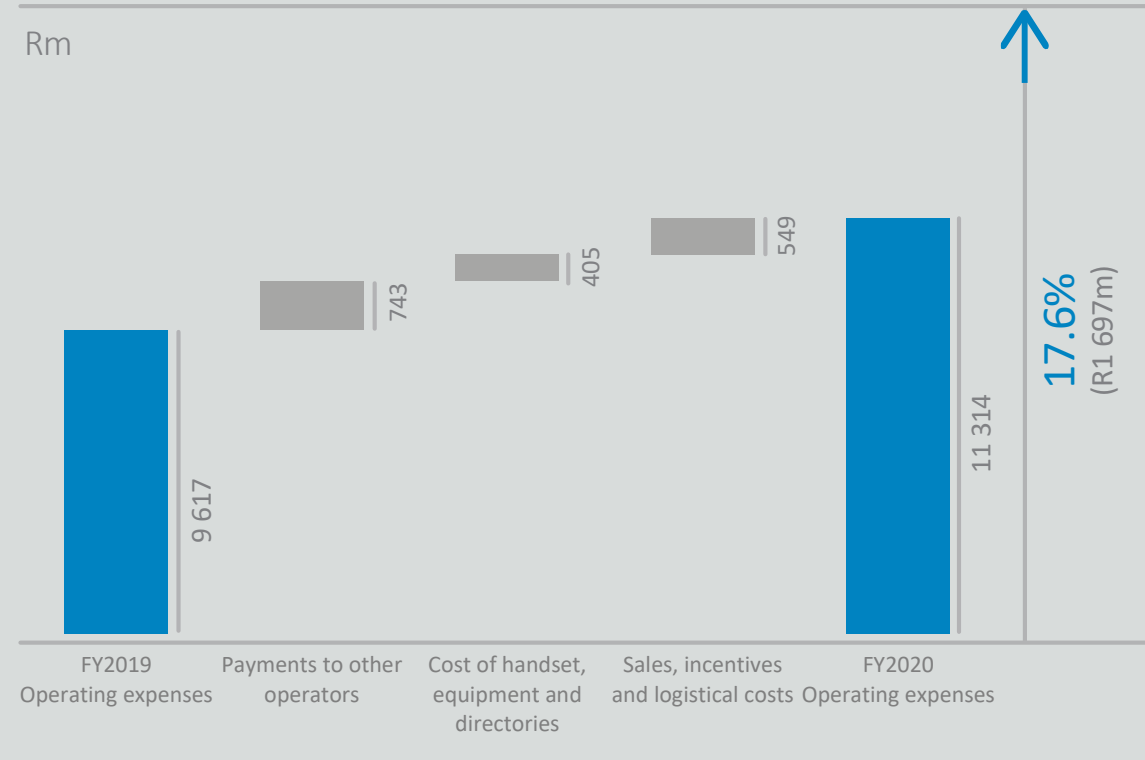


# Effective Cost management

## Operating expenses growth at below inflation

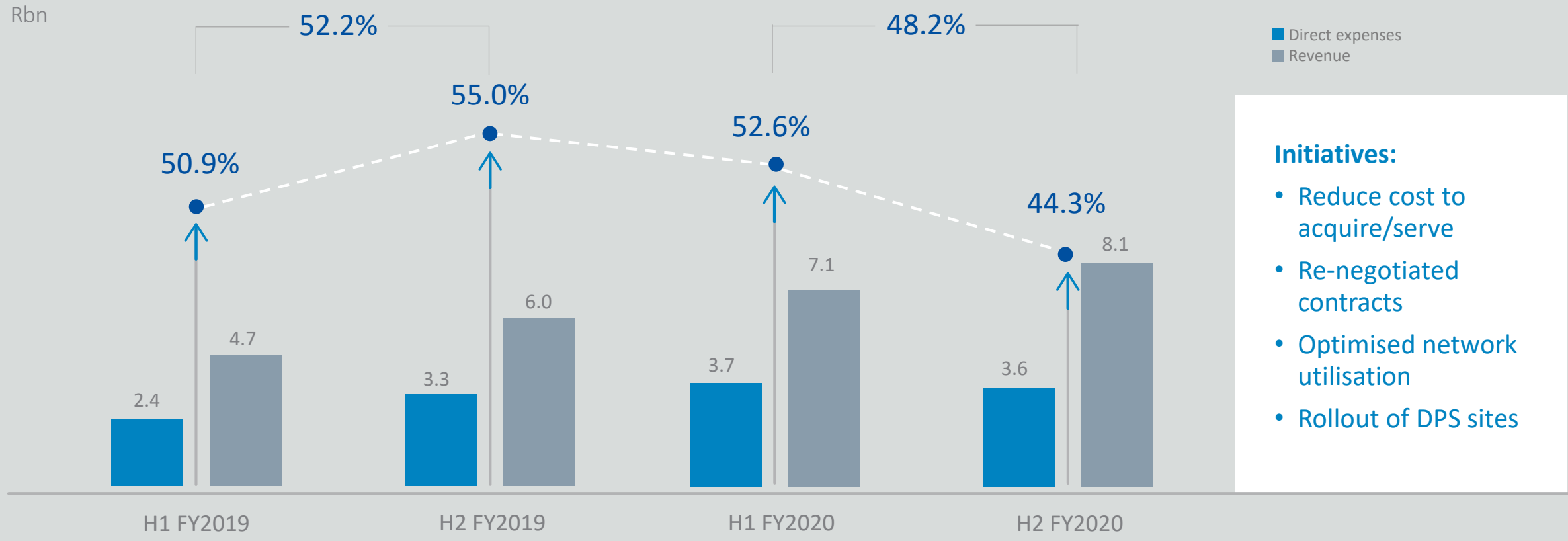


## Direct expenses in support of mobile growth



# Relentless focus on mobile direct costs in H2

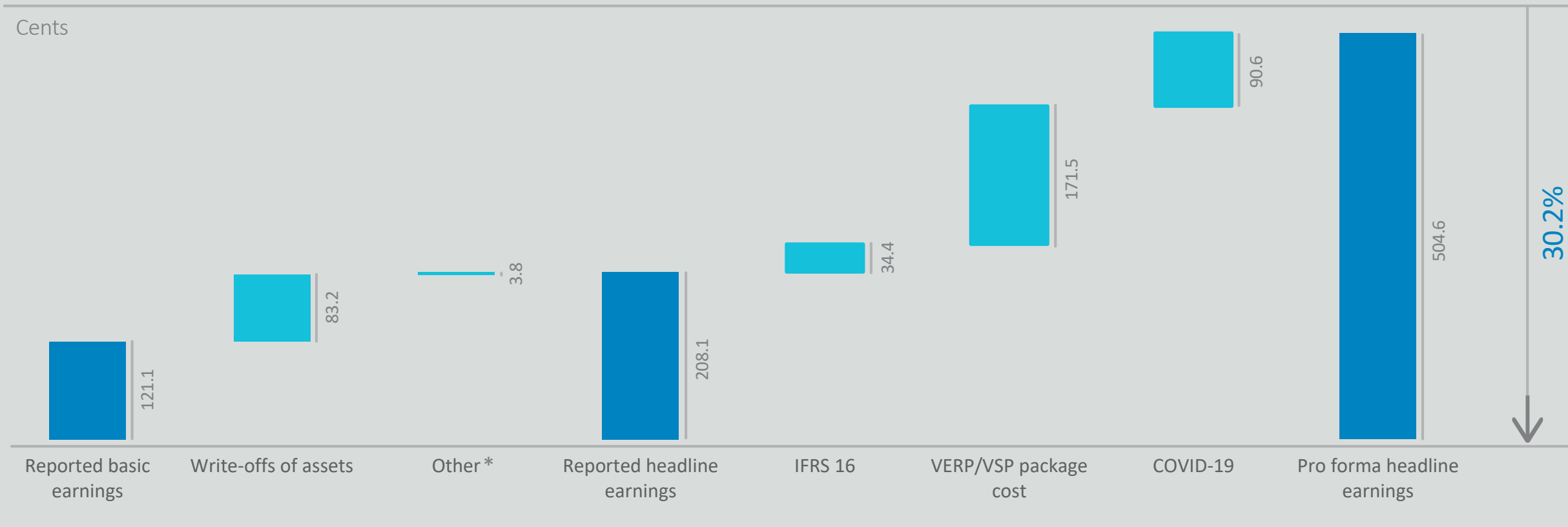
## Mobile direct expenses to revenue ratio



### Initiatives:

- Reduce cost to acquire/serve
- Re-negotiated contracts
- Optimised network utilisation
- Rollout of DPS sites

# Reported headline earnings impacted by exceptional items



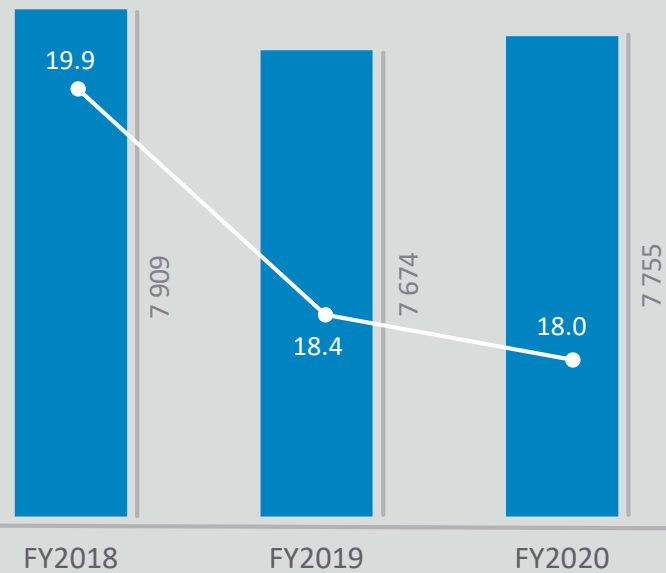
\* Translation of the net investment in foreign operations, gain on remeasurement on non-current assets held for sale, profit on the disposal of assets, subsidiaries and associates and the tax impact on the adjustable items.



# Capital expenditure remains within guidance

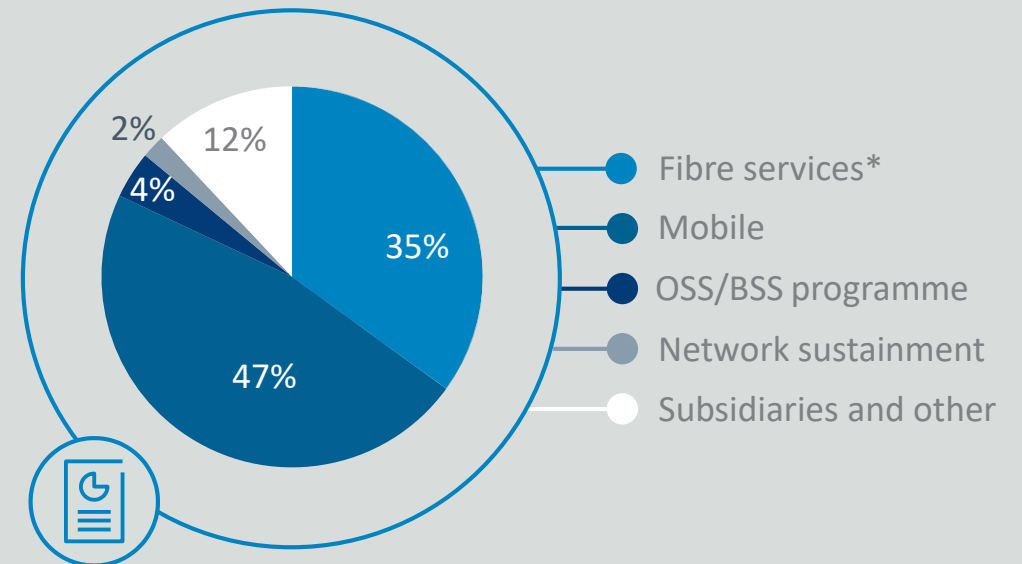
## Capex intensity in support of key growth areas

Rm



## Capex allocation

(%)  
FY2020



\*Fibre services include FTTH, Core network and Service on demand

# Free cash flow improves threefold

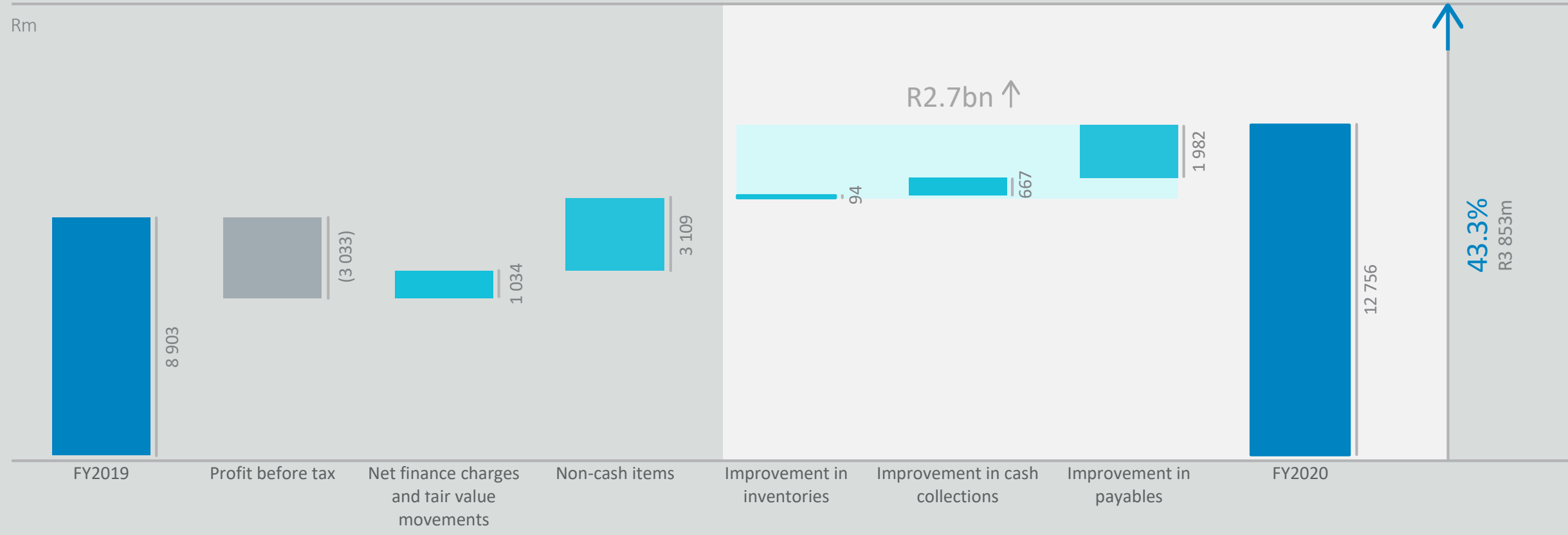
## Free cash flow (FCF) movement

Rm

	FY2020	FY2019	%
Cash generated from operations	12 756	8 903	43.3
Repayment of lease liability	(1 148)	–	(100.0)
Interest received	212	441	(51.9)
Finance charges paid	(1 006)	(847)	(18.8)
Taxation paid	(1 320)	(945)	(39.7)
<b>Operating free cash flow before capital expenditure</b>	<b>9 494</b>	<b>7 552</b>	<b>25.7</b>
Cash paid for capital expenditure	(7 712)	(7 584)	(1.7)
<b>Free cash flow</b>	<b>1 782</b>	<b>(32)</b>	<b>5 668.8</b>
VSP, VERP and section 189 costs paid	175	566	(69.1)
<b>Adjusted free cash flow</b>	<b>1 957</b>	<b>534</b>	<b>266.5</b>

# Excellent working capital management

## Cash generated from operations movement



# Improved balance sheet

Group net debt	IFRS16 FY2020	IAS17 FY2019	%
Bank and cash balances	4 726	1 428	231.0
Gross Debt	16 780	10 241	63.9
<b>Net debt</b>	<b>12 054</b>	<b>8 813</b>	<b>36.8</b>
<b>Net debt/EBITDA (times)</b>	<b>1.3</b>	<b>0.8</b>	<b>0.5</b>
<b>Net debt (excl leases)</b>	<b>7 279</b>	<b>8 813</b>	<b>(17.4)</b>
<b>Net debt/EBITDA (excl leases) (times)</b>	<b>0.7</b>	<b>0.8</b>	<b>(0.1)</b>

Group net finance charges	IFRS16 FY2020	IAS17 FY2019	%
Interest received	79	185	(57.3)
Finance charges	1 202	885	(35.8)
Interest on leases	368	-	(100.0)
<b>Net finance costs</b>	<b>1 491</b>	<b>700</b>	<b>(113.0)</b>
Fair value movements	233	62	275.8
<b>Net finance charges</b>	<b>1 724</b>	<b>762</b>	<b>(126.2)</b>
<b>Average cost of debt (%)</b>	<b>8.8</b>	<b>9.6</b>	<b>0.8</b>

A decorative graphic consisting of a white line that starts on the left, dips down, then rises to a peak, and finally dips down again, ending on the right. The peak of the line is highlighted in blue.

# Outlook Weathering COVID-19

# 7.2



# Financial resilience in a depressed economic environment



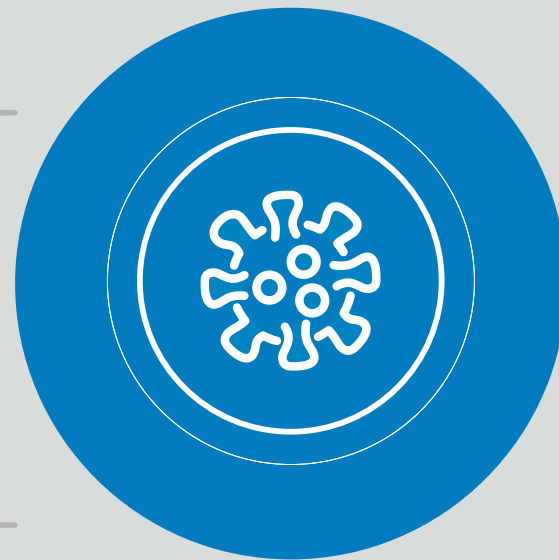
**Sustainable cost management**

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**Financial risk management**

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**Cash Preservation**

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**Disciplined capital allocation**

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# Focus areas



**Sustainable cost management**



**Target**



**Cash preservation**



**Target**

- Reduction in fixed costs
- Reduce cost to serve/acquire
- Fixed term contracts review
- Third party contracts review
- Optimize network utilisation
- Aggressive rollout of DPS sites
- Various opex initiatives

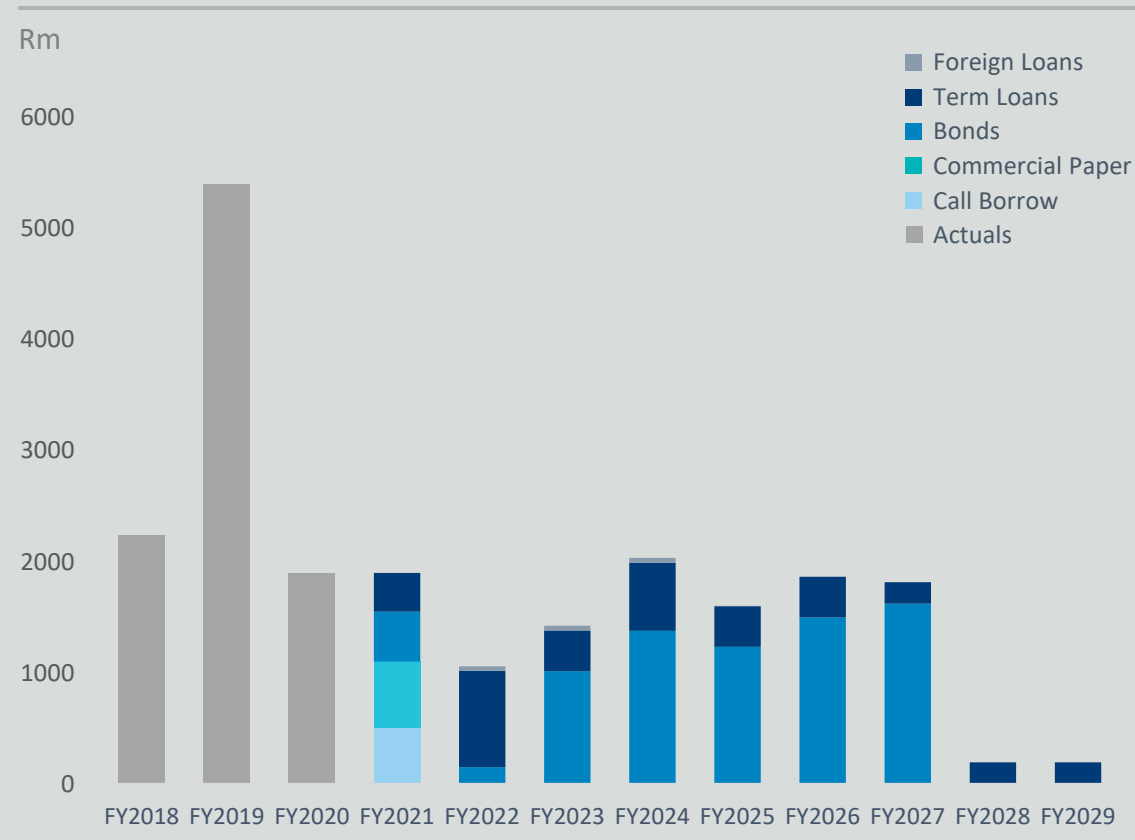
Savings	R1bn-R2bn
Opex growth	below Inflation

- Supply Chain financing
- Handsets Receivables
- Disposal of non-core assets
- Working capital improvement
- Improve liquidity

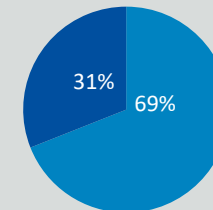
Positive free cashflow	R700m - R1bn target in cash release
Cash balance	Above R1.5bn

- Positive Free cash flow excludes phase two VSP costs and spectrum acquisition costs.

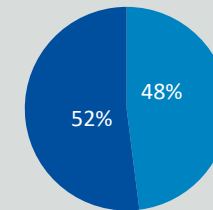
# Mitigating re-financing risk



## Interest



FY2019



FY2020

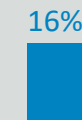
- Floating
- Fixed



## Debt profile



FY2019



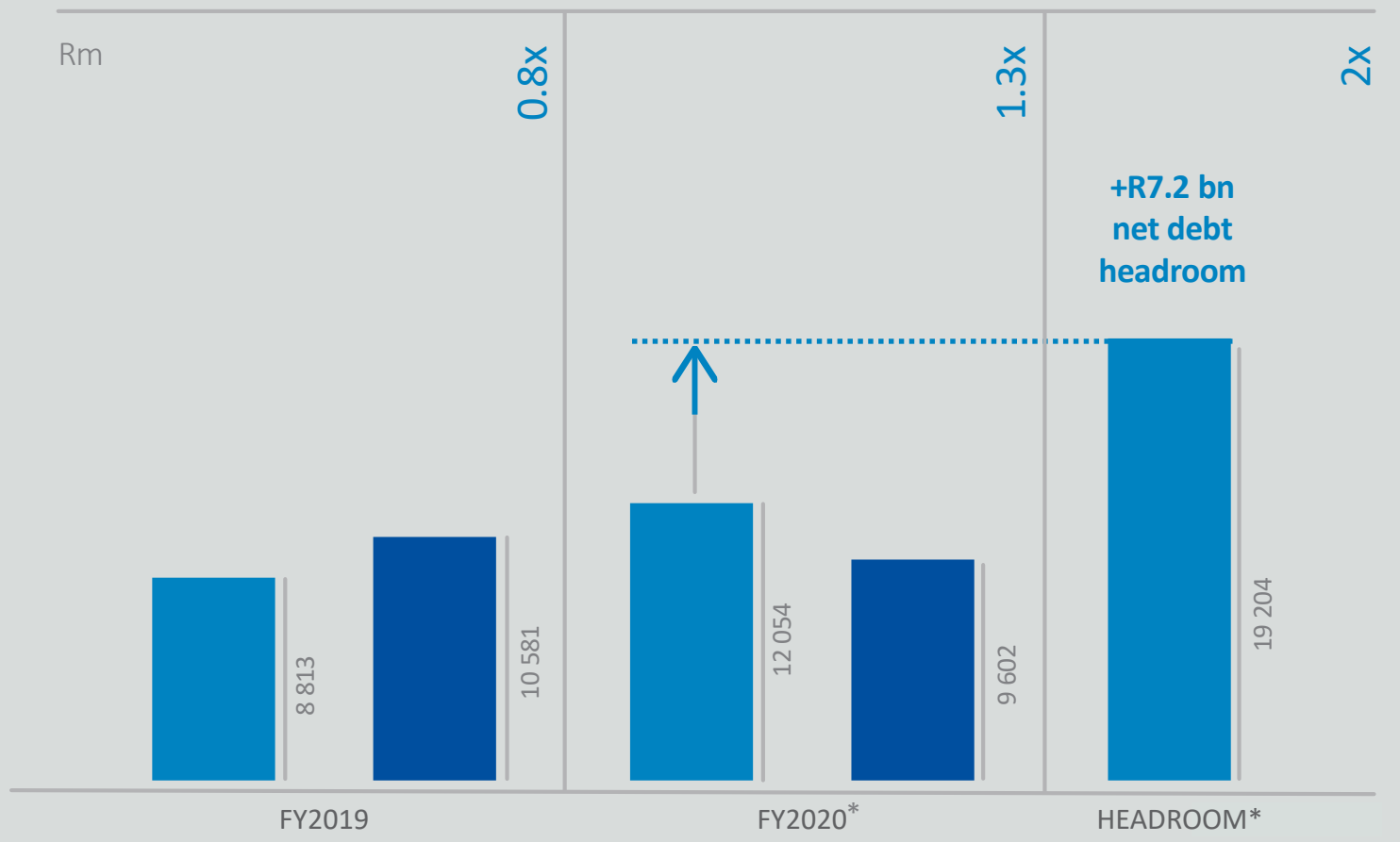
FY2020

- Long-term debt
- Short-term debt

Total gross debt R12.1 billion (FY2019 R10.2 billion)



# Adequate headroom in a volatile environment



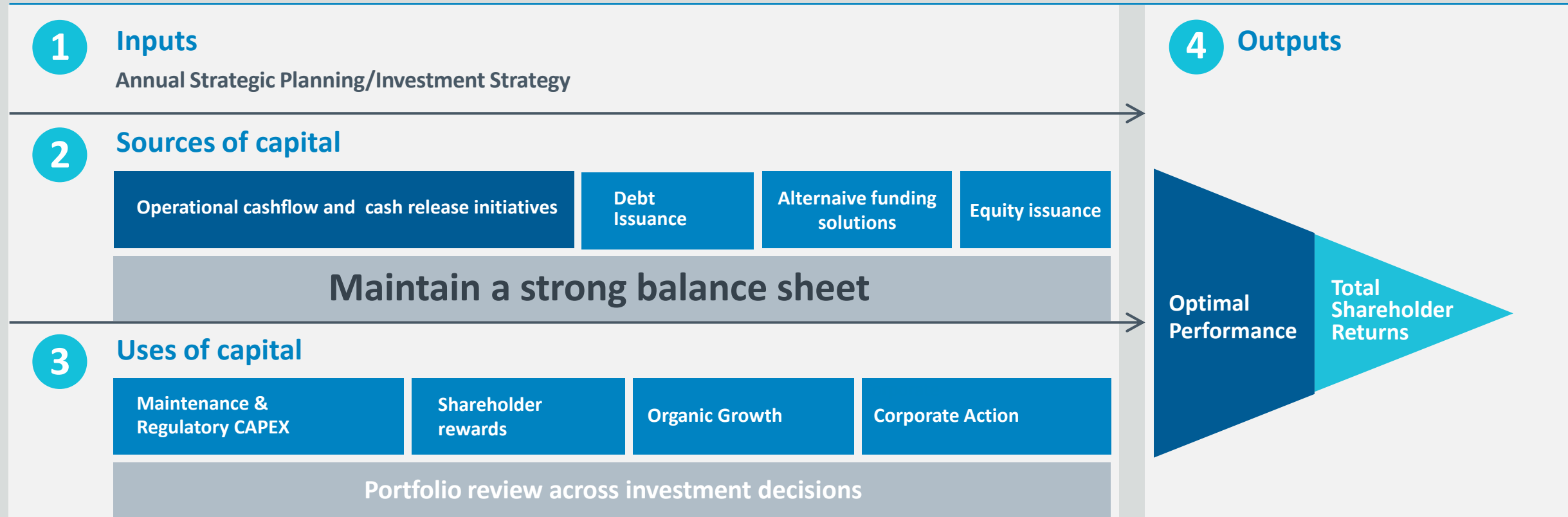
■ Net debt  
■ EBITDA

\* Based on IFRS 16

**Facilities available**

<b>R5.7bn in committed facilities</b>	<b>R0.25bn in uncommitted facilities</b>
<b>DMTN limit increased from R10bn to R15bn</b>	<b>ECA funding secured</b>





# Capital allocation framework



Dividend policy was reviewed and will be suspended for the next 3 years

\*Selective M&A and spectrum

# Progress against guidance

	FY2019 – FY2021 Medium term guidance*	FY2020 Actual	FY2019 - FY2020 Actual (CAGR 2yrs)
 <b>Operating revenue</b>	Mid-single digit	3.0%	4.2% ✓
 <b>EBITDA</b>	Mid-single digit	(8.7)	(0.4%) ✗
 <b>Capex to revenue</b>	16% - 20%	18.0%	18.2% ✓
 <b>Net debt to EBITDA (times)</b>	≤ 1.5X (post IFRS 16)	1.3x (post IFRS 16) 0.7x (pre IFRS 16)	1.3x ✓

Market guidance suspended for FY2021



# Small Medium Business

# 8



# SME's are the future of the economy

## Scaling SME's through a digital platform ecosystem

### Launched

- **Yep! brand** that seeks to rally the brave into a new Digital digital ecosystem
- **Yep! eMarketplace** launched with over 500k SME's with a digital store front. Evolution of the current iYP platform
- Launched an **SME Portal** for the DSBD in response to COVID 19
- A new Telkom business **Online Platform** launched to simplify the purchase journey for Small Medium Businesses

### Evolution

- **Yep! eMarketplace** to evolve into a fully flagged **Digital Platform ecosystem**
- **Telkom business Online** to evolve into a fully flagged **digital self service platform**

### Financial solutions

- **SME Lending propositions** launched in June
- Followed by **Telkom Pay** solution in Q2



# Our Digital Platform ecosystem

yep!

## MARKETPLACE

An online platform for small businesses to **BUY** and **SELL** products & services, and **BID** for new business opportunities to grow their business

## GO TO MARKET

Sell, Buy and Bid for new work

Telkom

## BUSINESS

Telkom Business Online allows you to buy all the things you need to **start, manage and your grow your business**

### GET CONNECTED

Telkom connectivity products

### GET PRODUCTIVE

Software, Hardware & Payment solutions

### GET CUSTOMERS

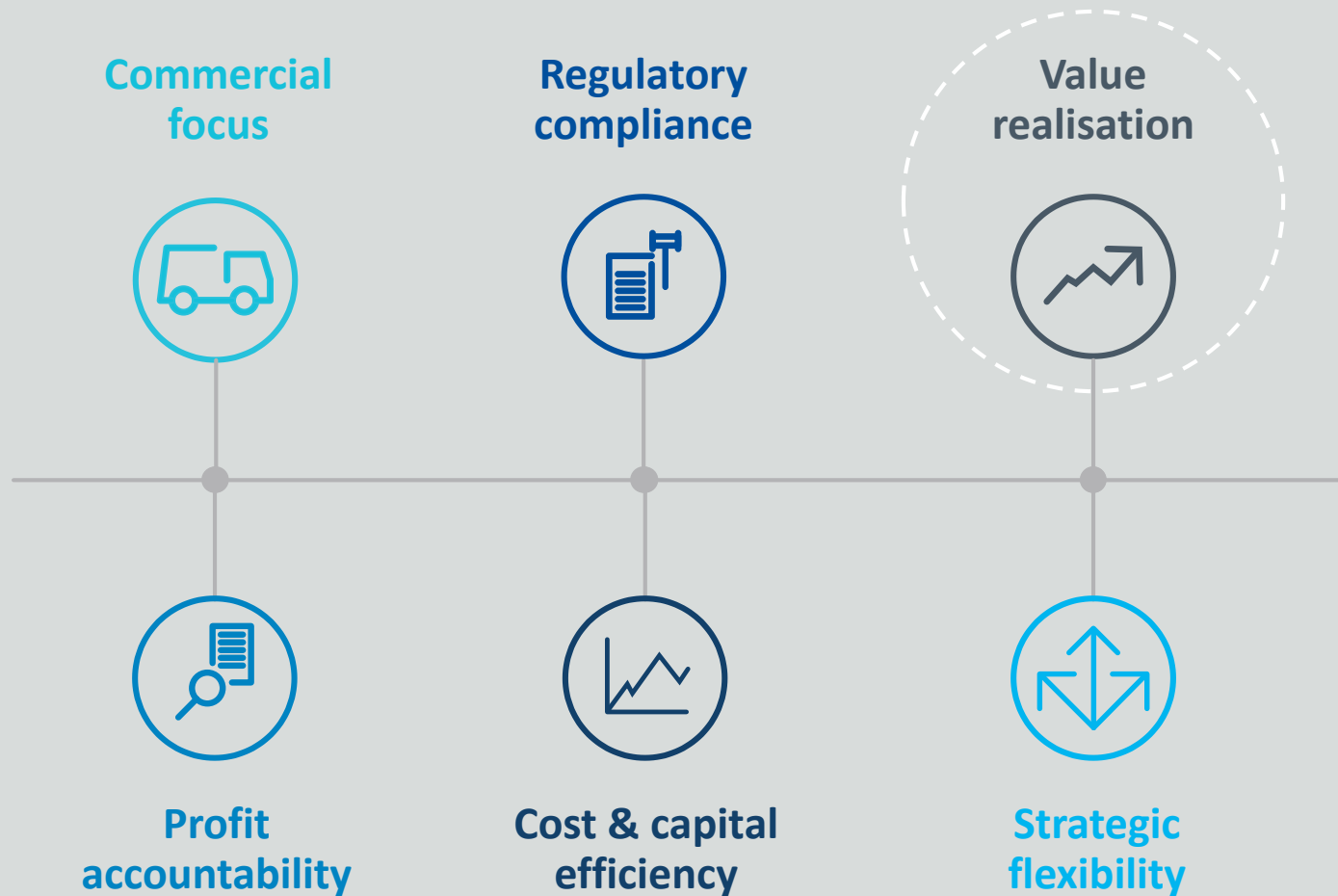
Yellow Pages & Partner products

# Value unlock

# 9



# Operating model journey



Functionally separated

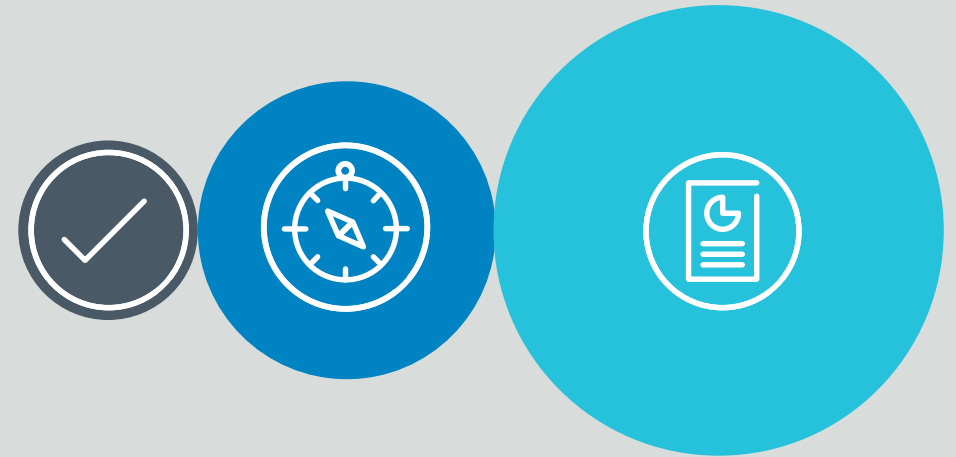
Telkom Consumer | Telkom Small & Medium Business | open serve

Structurally separated

BCX | Gyro



# Value unlock rationale



## Valuation gap

- Trading at telco multiple
- Sum of the parts not recognized
- Underlying infraco assets not recognised

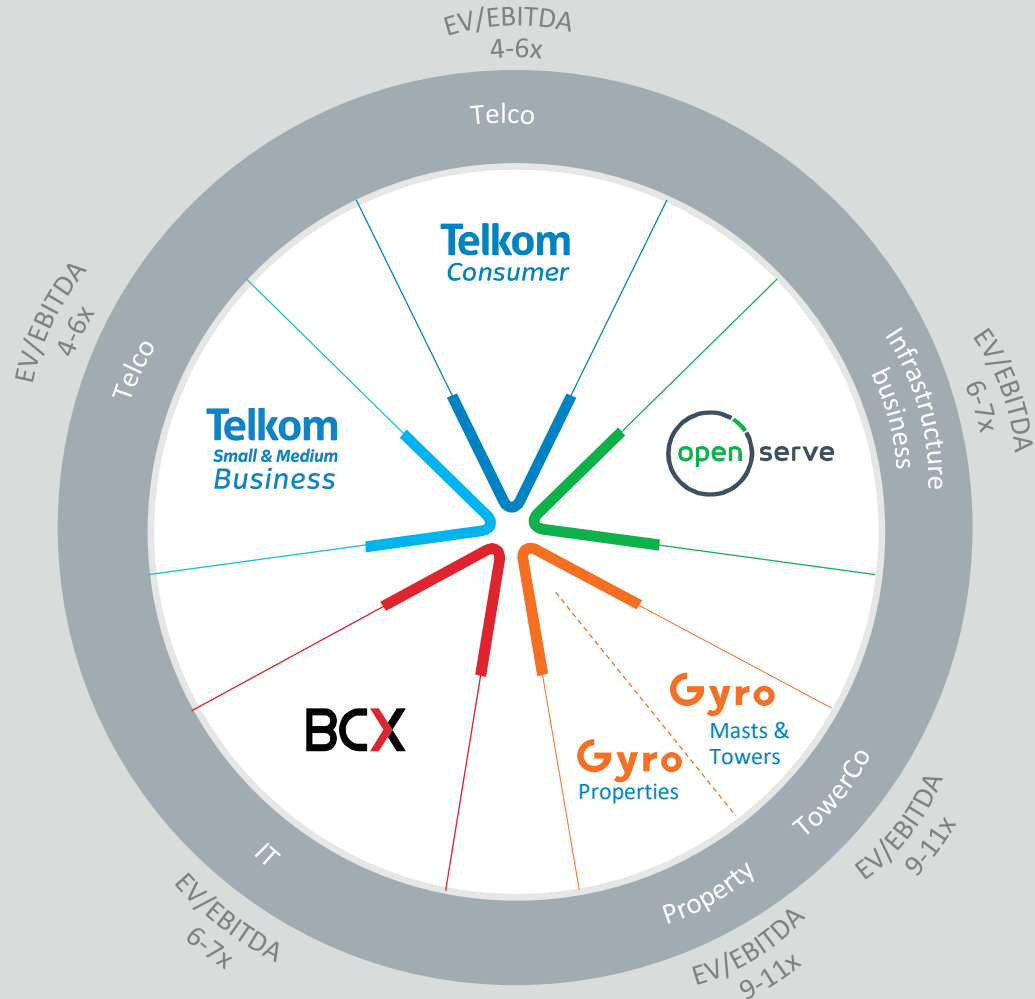
## Strategic imperatives

- Scale
- Capability
- Growth

## Capital allocation

- Limited capital
- Generate capital

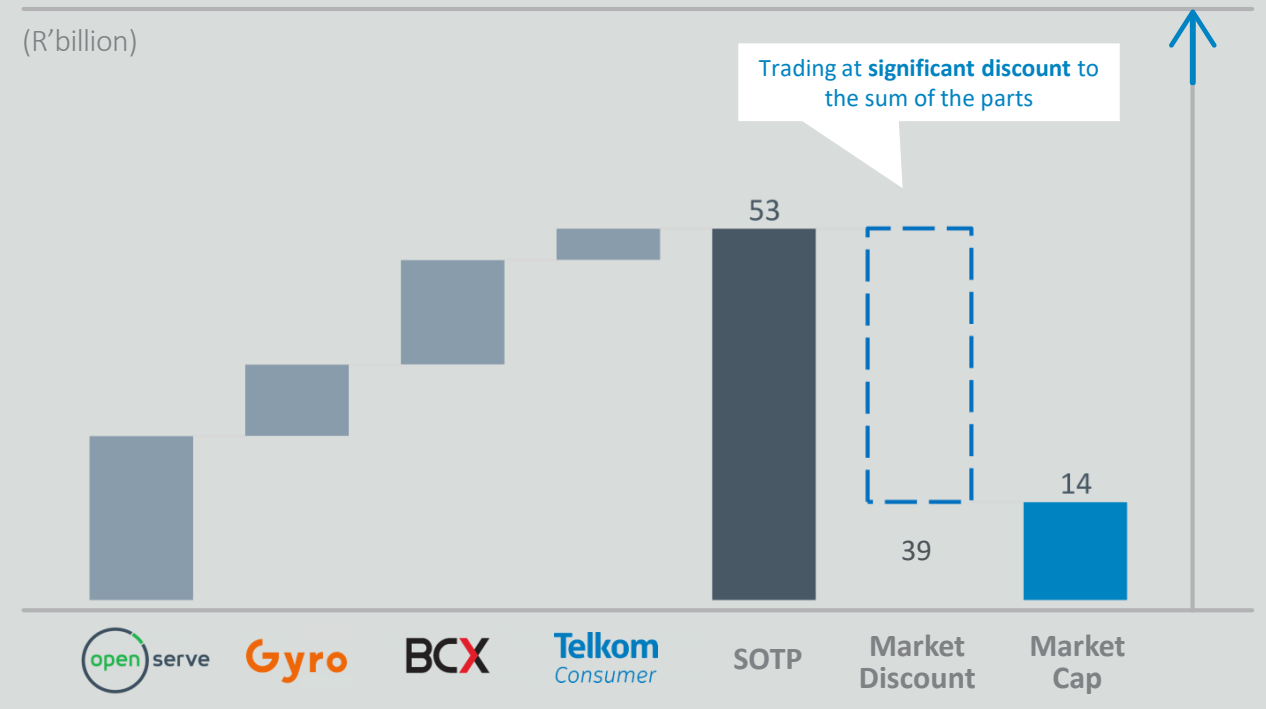
# Valuation gap – indicative value



Potential multiples  
Market cap of R14 billion as at 19 June 2020

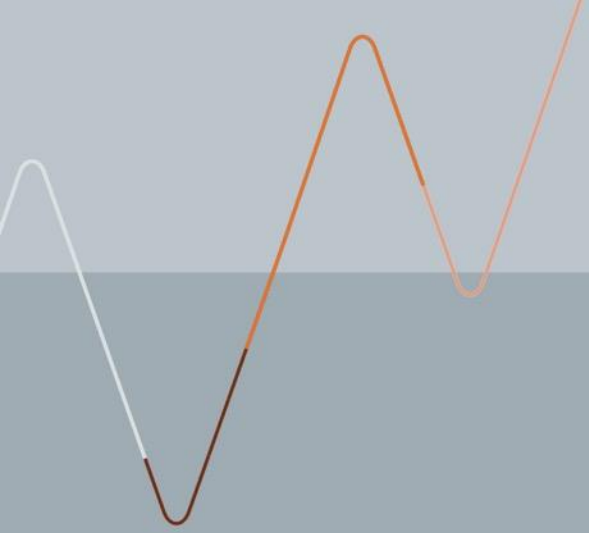
## Sum of the Parts valuation

(R'billion)



FY2020  
underlying  
EBITDA





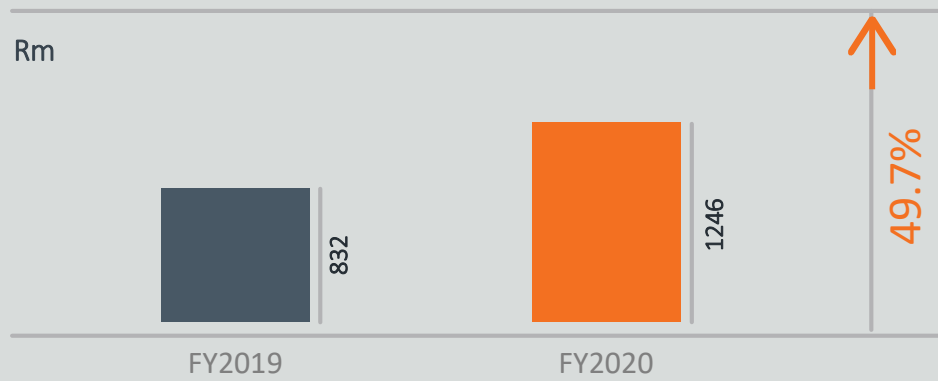
M&T value  
unlock  
opportunity

10

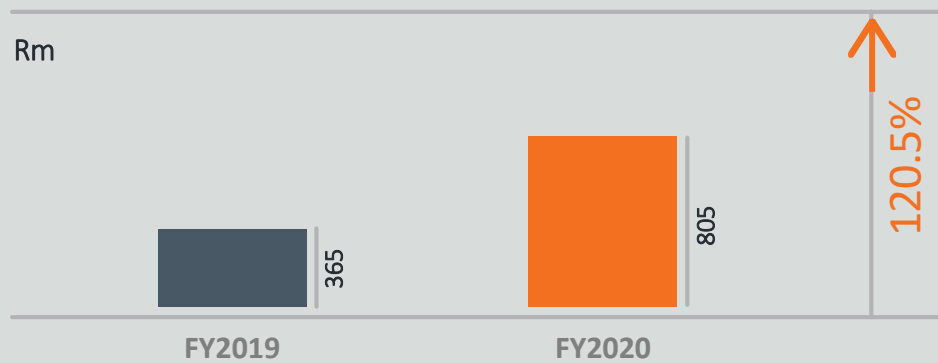


# M&T Portfolio performance

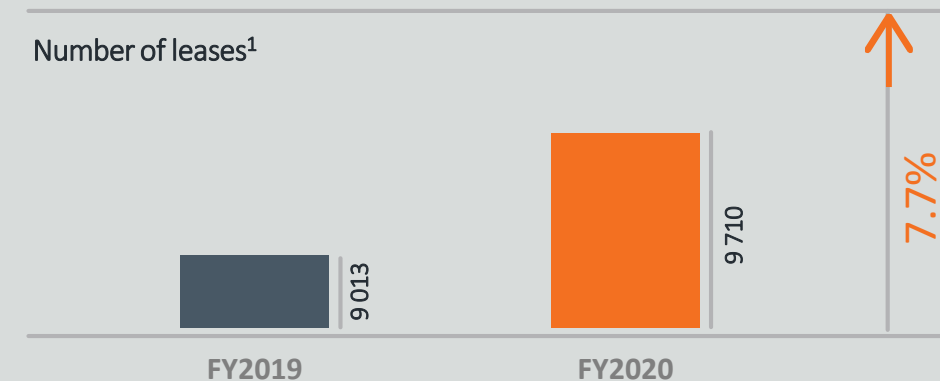
## Revenue



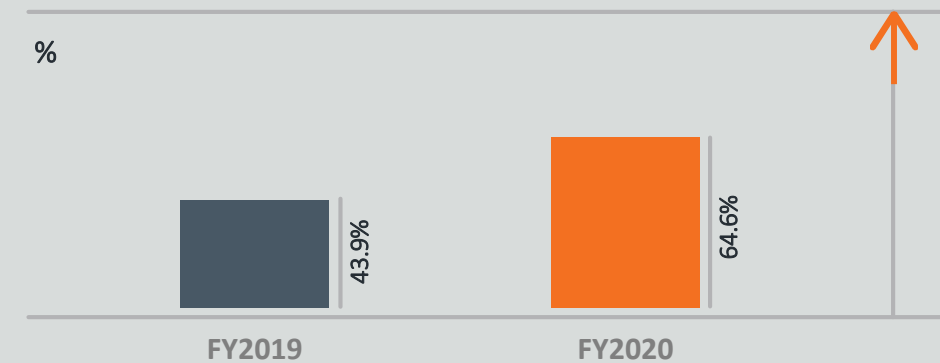
## EBITDA



## Total tenant growth



## EBITDA margin

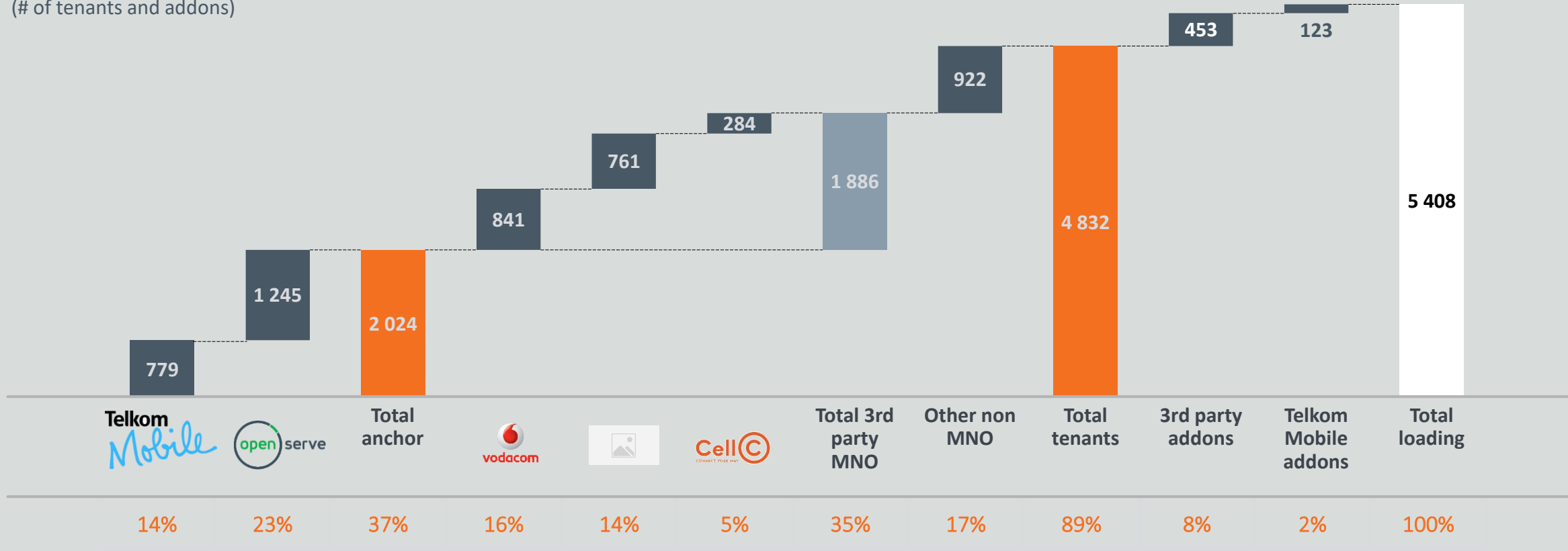


Note: <sup>1</sup> External and Telkom Mobile tenancy only (Openserve not included)

# Anchor tenants represent 37% of total tenants

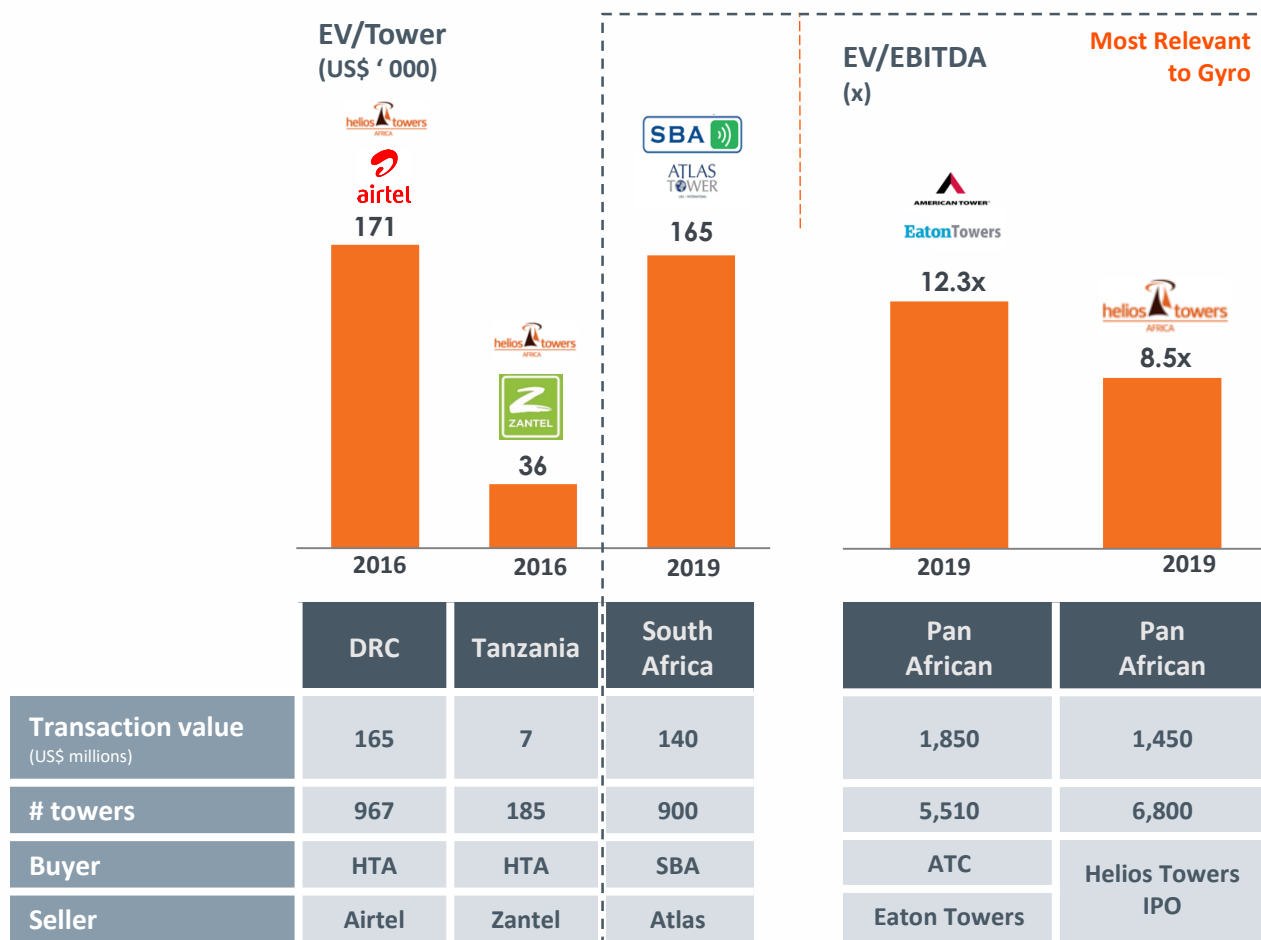
## Overview of tenants and addons

(# of tenants and addons)

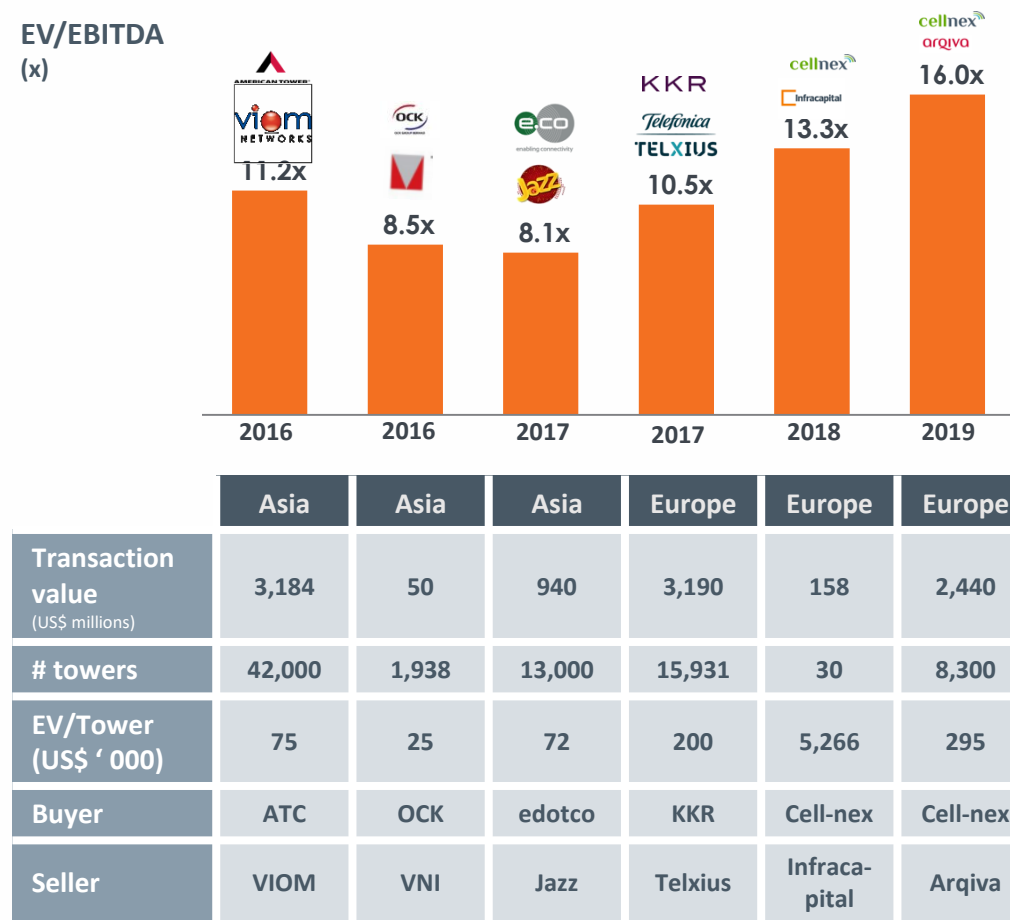


# Tower precedent transactions

## Precedent transactions in Africa



## Precedent transactions internationally



Source: CapitalIQ, Bloomberg, TowerXchange, TMT Finance

# Investment case



## Unique business model

- TowerCos have a proven and scalable business model which has translated into extraordinary shareholder returns of **>100% over the past 5 years**



## High quality assets

- High quality tower portfolio of **~3,650 sites with a tenancy ratio of 1.32x**, and is well positioned to capture future demand
- **Build-to-suit pipeline** from anchor tenants



## Organic growth opportunities

- SA expected to show strong demand **for towers (12,000 towers over the next 10 years)**, driven by attractive telecom fundamentals, increasing data consumption and the introduction of new technologies such as 5G



## Inorganic growth opportunities

- **Inorganic opportunities for growth in South Africa and emerging markets** given that a large portion of towers are still MNO-captive



## Robust majority shareholder

- Backed by Telkom SoC, **a strong shareholder** committed to Gyro Towers expansion strategy

A decorative graphic consisting of a white line that dips and then rises, with a blue line segment forming a peak in the center.

Telkom SA SOC Ltd

**Thank you**  
**Q&A**

