# Management Presentation Q1/2013 Results

8 May 2013

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# Today's speakers

**Christoph Vilanek,** Chief Executive Officer

- Management positions in Direct Marketing and Media 1991 - 2001
- Consultant for telecommunication with McKinsey&Company since 2001
- Management positions at debitel AG since 2005
- CEO of freenet AG since 2009

**Joachim Preisig,** Chief Financial Officer

- CFO of $O_2$ since 1996
- CFO of T-Mobile/Head of Group Controlling at Deutsche Telekom AG since 2002
- CFO of debitel AG since 2006
- CFO of freenet AG since 2010

# Strong first quarter supports guidance for 2013 and 2014

## Q1/2013 results

- **Group revenue** increase by 18.1 m€ from 757.2 m€ to 775.2 m€; top line contribution from GRAVIS and MOTION TM initial consolidation
- Increase of **gross profit** by 3.6% to 172.8 m€, gross profit margin of 22.3%, driven by mobile segment
- **Group EBITDA** of 85.3 m€ at previous year's level
- Significant rise of **group result** by almost 50% to 61.1 m€ mainly due to lower depreciation on intangible assets from the debitel purchase price allocation
- **Free cash flow** at 56.4 m€ below Q1/2012:72.4 m€ due to a structural value date effect corrected in Q2

## Main KPIs in Q1/2013

- Further year-on-year rise of **customer ownership** by around 315,000 to 8.47 million customers:
  - + 106,000 postpaid customers
  - + 209,000 no-frills customers
- Decrease of **postpaid ARPU** quarter-on-quarter by 0.4 € to 22.4 € due to the continuing price competition in the German market
- **No-frills ARPU** year-on-year went down by 0.4 € to 3.5 €, but stabilised compared to Q4/2012
- **Prepaid ARPU** stabilisation at 2.8 €

**Executive Board confirms two-year guidance for financial years 2013 and 2014**

# Clear agenda for 2013 on the path towards digital lifestyle

| Q1/2013 | Q2 - Q4/2013 |
|---|---|

**Q1/2013**

- Adjustments in the flat rate portfolio mirroring the market development, e.g. inclusion of SMS flats, relaunch of $O_2$ tariff plans
- Acquisition of 51% of MOTION TM at the end of the quarter

**Digital lifestyle**

- Acquisition of GRAVIS; closing and consolidation as of 1 February 2013, kick-start of integration program
- Roll out of „Smart Home“ to all shops (monthly commitment of 7.95 €)
- Roll out Norton Anti Virus as a paid service for 1.99 € per month
- TV campaign includes digital lifestyle proposition

**Q2 - Q4/2013**

- Further extension of tariff portfolio in all segments e.g. Vodafone Full Flat, Telekom counter offer
- Inclusion of roaming packages in voice and data
- Roll out of dealer acquisition project „Frodo“ to win another 100 exclusive dealers or franchisees

**Digital lifestyle**

- Integration program GRAVIS targeting to build shop in shop modules in almost all mobilcom-debitel shops and with selected third party dealers
- Launch of additional services e.g. cloud, music streaming, games flat rate etc.
- Launch of additional home automation solutions e.g. surveillance camera, security etc.
- Establishment of integrated digital lifestyle monitoring and steering across all sales channels including third party

# GRAVIS acquisition is a milestone on the path to digital lifestyle

**freenet became largest independent retail partner of Apple in Germany**


mobilcom debitel

GRAVIS

### Situation

- GRAVIS addresses about five million Apple addicts with in total 28 shops and strong online presence
- Cooperation over more than 12 months indicated synergies
- As a result of combined management synergies in sourcing, sales, promotion, advertising and shop management will be exploited

### Transaction

- Acquisition of 100% shares of GRAVIS as of 1 February 2013
- freenet acquisition criteria met:
  - ✓ Positive EBITDA
  - ✓ Positive free cash flow
  - ✓ Supporting strategy and core competencies of freenet Group

### Strategic outlook

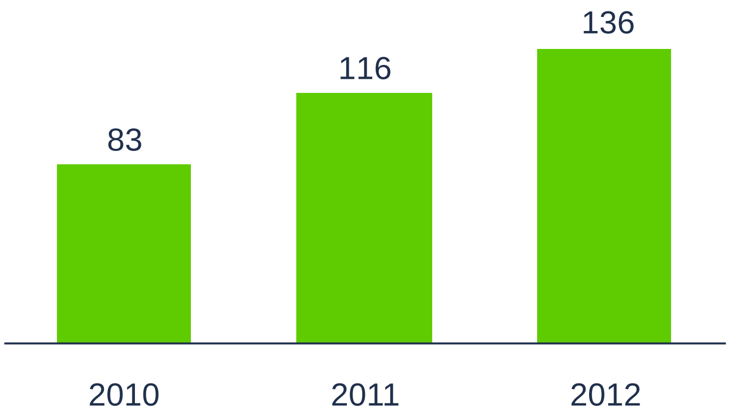
- GRAVIS competence as digital lifestyle dealer transferred to all md shops
- Enlargement of sales platform in both directions (mobile, devices)
- Stepwise integration of other brands in GRAVIS hardware portfolio

# Extension of proprietary or fully steered points of sale

## Extending platform to national coverage

- mobilcom-debitel Shop GmbH successfully transformed its revenue and business model towards a digital lifestyle provider
- Revenue share of other than mobile contracts increased to 30% over the last 3 years and will supposedly continue to grow
- The concept leads to sustainable revenue streams and gross margins
- The concept is now offered not only for franchisees but also for independent dealers that are ready for mobilcom-debitel exclusivity

## Sales Performance Index (SPI/shops and month)




- The existing dealer loyalty scheme was extended in order to address partners even more exclusively – to make them „Greener"
- After a testing period in Q1/2013 during which 9 partners were convinced, the program is now rolled out and aims for about 100 new partners for the scheme



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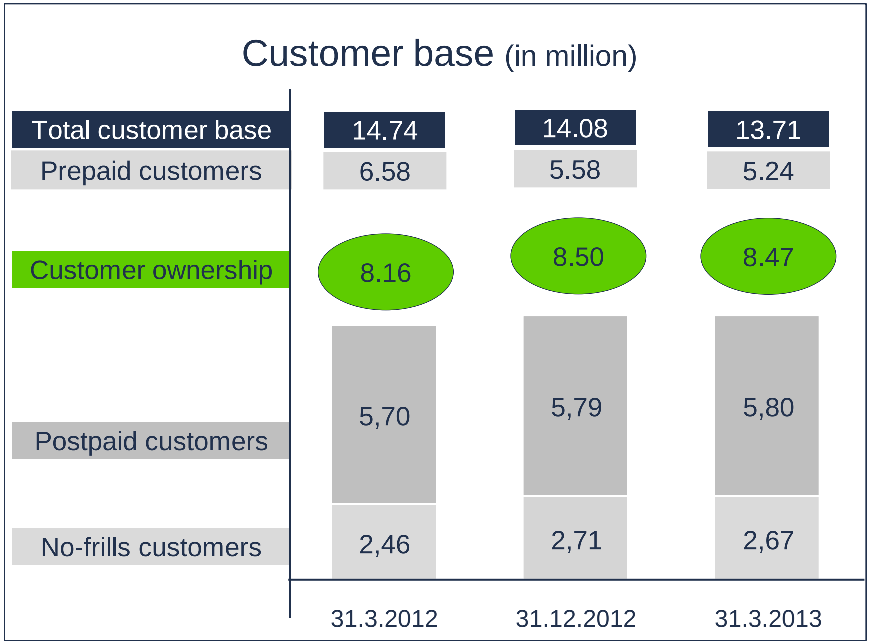
# Strong customer ownership despite declining total customer base

## Development of the customer base

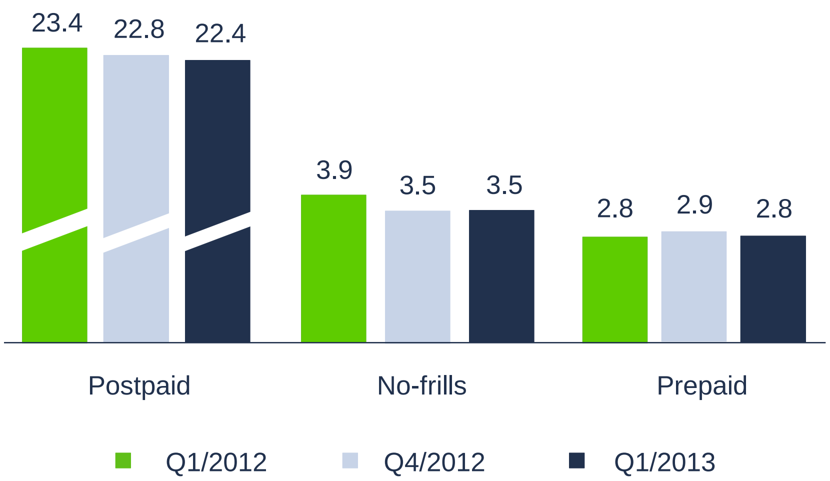



- **Customer ownership** (Postpaid + No-frills) was increased by 314,000 year-on-year; slight decrease compared to 31 Dec. 2012 (-30,000 customers)
- **Postpaid customer base** went up by 106,000 customers year-on-year, slight increase of 12,000 compared to 31 Dec. 2012
- **No-frills** recorded a growth of 209,000 customers (+8.5%) year-on-year 2012 but a slight decline compared to end of December 2012
- Sharp decline of **prepaid customer base** continued (-1.3 million) due to further technical churn

# ARPU development

## Average revenue per user (ARPU)

ARPU (€ / month)




- **Postpaid ARPU** at 22.4 € (Q1/2012: 23.4 €), slight decrease compared to Q4/2012
- **No-frills ARPU** at 3.5 €, thus 0.4 € lower compared to Q1/2012
- **Data revenue** share still growing to 22.6% of postpaid ARPU in Q1/2013
- klarmobil 24-months-commitment-plans not counted in no-frills ARPU explaining negative development
- **Prepaid ARPU** stabilisation at 2.8 €

**Slight decrease in ARPUs but expected stabilisation at around 23 € for 2013/14**

# Financial statements – income statement

| In € million | Q1/2013 | Q1/2012 adjusted[1] |
|---|---|---|
| Revenue | 775.2 | 757.2 |
| Gross profit | 172.8 | 166.9 |
| EBITDA | 85.3 | 85.1 |
| Depreciation and amortisation | -14.2 | -37.1 |
| EBIT | 71.1 | 48.0 |
| Interest receivable and similar income | 0.5 | 0.8 |
| Interest payable and similar expenses | -10.4 | -11.2 |
| EBT | 61.1 | 37.6 |
| Taxes on income | - 0.9 | 3.1 |
| Group result | 60.2 | 40.6 |
| Earnings per share (€) | 0.47 | 0.32 |

- Revenue increase generated in high value sectors and by GRAVIS and MOTION TM inital consolidation
- Gross profit margin of 22.3%
- EBITDA at the same level as in the first quarter of 2012
- Sharp decline of depreciation and amortisation as well as tax income due to lower depreciation on intangible assets from the debitel purchase price allocation
- Second best quarterly group result in freenet‘s history with an increase of nearly 50%

1) Adjusted due to the change of an accounting method



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# Financial statements – balance sheet

## Assets

in € million

| | 31.3.2013 | 31.12.2012 adjusted |
|---|---|---|
| Intangible assets | 354.0 | 356.5 |
| Goodwill | 1,123.5 | 1,116.7 |
| Trade accounts receivable | 503.7 | 492.4 |
| Cash and cash equivalents | 203.8 | 204.6 |
| Other assets | 333.7 | 308.5 |
| Balance sheet total | 2,518.7 | 2,478.7 |

## Shareholders‘ equity and liabilities

in € million

| | 31.3.2013 | 31.12.2012 adjusted |
|---|---|---|
| Shareholders‘ equity | 1,239.2 | 1,177.6 |
| Borrowings | 625.3 | 656.6 |
| Trade accounts payable | 410.4 | 412.9 |
| Other liabilities | 243.8 | 231.6 |
| Balance sheet total | 2,518.7 | 2,478.7 |

## Comments

- Equity ratio increased from 47.5% (31 Dec. 2012) to 49.2% (31 March 2013)
- Reduced net debt of 421.4 m€ as of 31 March 2013 (31 Dec. 2012: 451.9 m€)
- Retrospective adjustment of 2012 financial year balance sheet figures due to the change of an accounting method

# Financial statements – cash flow (CF) statement

| In € million | Q1/2013 | Q1/2012 |
|---|---|---|
| Cash flow from operating activities | 59.0 | 74.7 |
| Cash flow from investing activities | -17.1 | -1.6 |
| Cash flow from financing activities | -45.5 | -42.1 |
| **Change in cash and cash equivalents** | **-3.5** | **30.9** |
| | | |
| **Free cash flow[1]** | **56.4** | **72.4** |

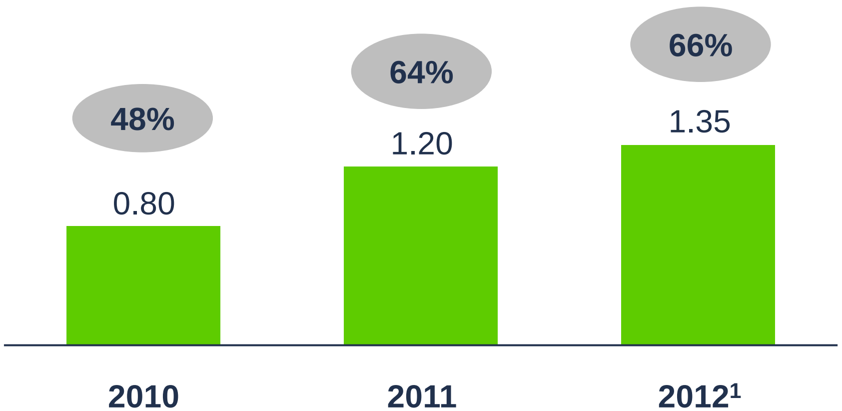
- Decline of CF from operating activities results from increased working capital due to bonus payments by a network operator received after the reporting date (technical effect)
- CF from investing activities mainly affected by payments for company acquisitions (GRAVIS, MOTION TM) and the deconsolidation of freeXmedia

1) Free cash flow is defined as cash flow from operating activities, minus investments in property, plant and equipment and intangible assets, plus proceeds from the disposal of property, plant and equipment and intangible assets.

# Attractive dividend policy for financial years 2013/14 to increase shareholder value

**Focus on increasing shareholder value, based on an attractive dividend policy and adequate financial resources to remain flexible for future growth**

**Development of dividend payments (€ per share) and free cash flow pay-out ratios since 2010**




- Increase of target corridor for dividend pay-out ratio to 50 - 75% of free cash flow[2] (formerly: 40 - 60%)
- Increase of attractiveness of freenet share for long-term and value-oriented investors
- Dividend proposal by Executive Board and Supervisory Board of 1.35 € per share (66% of free cash flow) for financial year 2012 to the Annual General Meeting 2013

1) In line with the Executive and Supervisory Board's proposal to the Annual General Meeting 2013
2) Free cash flow is defined as cash flow from operating activities, minus investments in property, plant and equipment and intangible assets, plus proceeds from the disposal of property, plant and equipment and intangible assets.



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# Confirmation of sustainable two-year guidance

| | Results 2012 | Guidance 2013 | Guidance 2014 | Comments |
|---|---|---|---|---|
| Contract customer base | +41,000 customers | ↗ | ↗ | Slight increase in contract customer base expected for 2013/14 |
| Postpaid ARPU | → | → | → | Postpaid ARPU stabilisation at around 23 € in 2013 and 2014 |
| Group revenue | 3,089 m€ | ↗ | ↗ | Revenue increase anticipated for 2013 and slight rise for 2014 |
| Group EBITDA | 358 m€ | 355 m€ | 360 m€ | Stabilisation of Group EBITDA in 2013 and 2014 |
| Free cash flow (FCF)[1] | 260 m€ | 255 m€ | 260 m€ | Stabilisation of free cash flow in 2013 and in 2014 |
| Dividend | 40-60% of FCF | 50-75% of FCF | 50-75% of FCF | Corridor for dividend pay-out ratio increased for 2013/14 |

1) Free cash flow is defined as cash flow from operating activities, minus investments in property, plant and equipment and intangible assets, plus proceeds from the disposal of property, plant and equipment and intangible assets.



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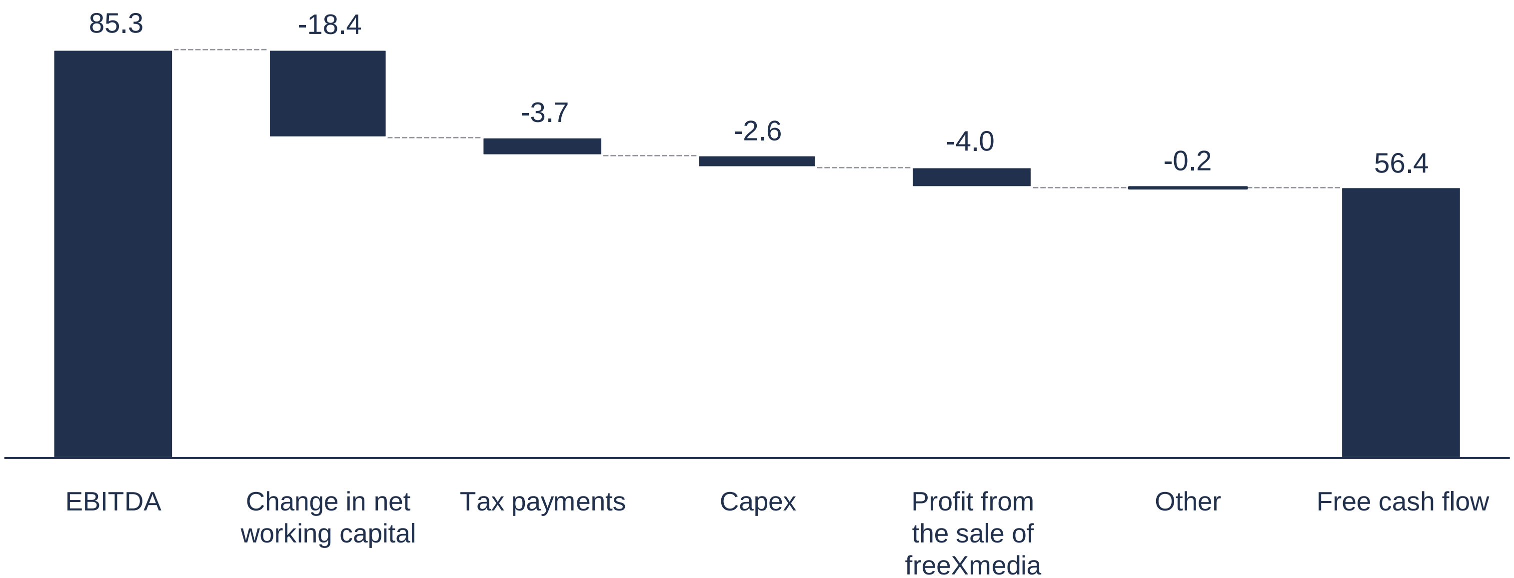
# Detailed bridge from EBITDA to free cash flow

## Free cash flow bridge Q1/2013

in € million




| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Financial year 2013e** | **355** | **~ -45** | **~ -35** | **~ -20** | **-** | **~ 0** | **255** |
| **Financial year 2014e** | **360** | **~ -45** | **~ -35** | **~ -20** | **-** | **~ 0** | **260** |



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# Summary

- Strategic move into digital lifestyle opens new windows of growth opportunities
- Comprehensive and independent customer experience as well as focus on high-value customer relationships results in a strong customer ownership despite declining total customer base
- Strong business performance in Q1/2013: second best quarterly group result in freenet‘s history achieved
- Confirmation of sustainable two year guidance
- Dividend proposal by Executive and Supervisory Board of 1.35 euros per share to be voted on the Annual General Meeting on 23 May 2013

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