

# Finance

Christian Illek

CAPITAL  
MARKETS  
DAY 2021



# Disclaimer

This presentation contains forward-looking statements that reflect the current views of Deutsche Telekom management with respect to future events. These forward-looking statements include statements with regard to the expected development of revenue, earnings, profits from operations, depreciation and amortization, cash flows and personnel-related measures. You should consider them with caution. Such statements are subject to risks and uncertainties, most of which are difficult to predict and are generally beyond Deutsche Telekom's control. Among the factors that might influence our ability to achieve our objectives are the progress of our workforce reduction initiative and other cost-saving measures, and the impact of other significant strategic, labor or business initiatives, including acquisitions, dispositions and business combinations, and our network upgrade and expansion initiatives. In addition, stronger than expected competition, technological change, legal proceedings and regulatory developments, among other factors, may have a material adverse effect on our costs and revenue development. Further, the economic downturn in our markets, and changes in interest and currency exchange rates, may also have an impact on our business development and the availability of financing on favorable conditions. Changes to our expectations concerning future cash flows may lead to impairment write downs of assets carried at historical cost, which may materially affect our results at the group and operating segment levels.

If these or other risks and uncertainties materialize, or if the assumptions underlying any of these statements prove incorrect, our actual performance may materially differ from the performance expressed or implied by forward-looking statements. We can offer no assurance that our estimates or expectations will be achieved. Without prejudice to existing obligations under capital market law, we do not assume any obligation to update forward-looking statements to take new information or future events into account or otherwise.

In addition to figures prepared in accordance with IFRS, Deutsche Telekom also presents alternative performance measures, including, among others, EBITDA, EBITDA margin, adjusted EBITDA, adjusted EBITDA after leases, adjusted EBITDA margin, adjusted EBIT, adjusted net income, free cash flow, free cash flow after leases, gross debt, net debt after leases and net debt. These alternative performance measures should be considered in addition to, but not as a substitute for, the information prepared in accordance with IFRS. Alternative performance measures are not subject to IFRS or any other generally accepted accounting principles. Other companies may define these terms in different ways.

# Key messages

01

## Delivery

We delivered on what we promised at the last CMD, and will do so again

02

## Growth

We will deliver strong growth in all key metrics (Revenue, Adj. EBITDA AL, FCF AL, adj. EPS, ROCE)

03

## Costs

Our earnings growth is supported by €1.2 bn adj. indirect cost AL savings (ex US) and merger benefits (US)

04

## Leverage

We will be back in our comfort zone of 2.25x–2.75x by end of 2024

05

## Shareholders

€60 c delivered through peak investment period. Going forward, we are moving to 40–60% payout ratio of adj. EPS while retaining €60 c minimum

06

## Bondholders

We are very well funded, and remain committed to unrestricted access to credit markets

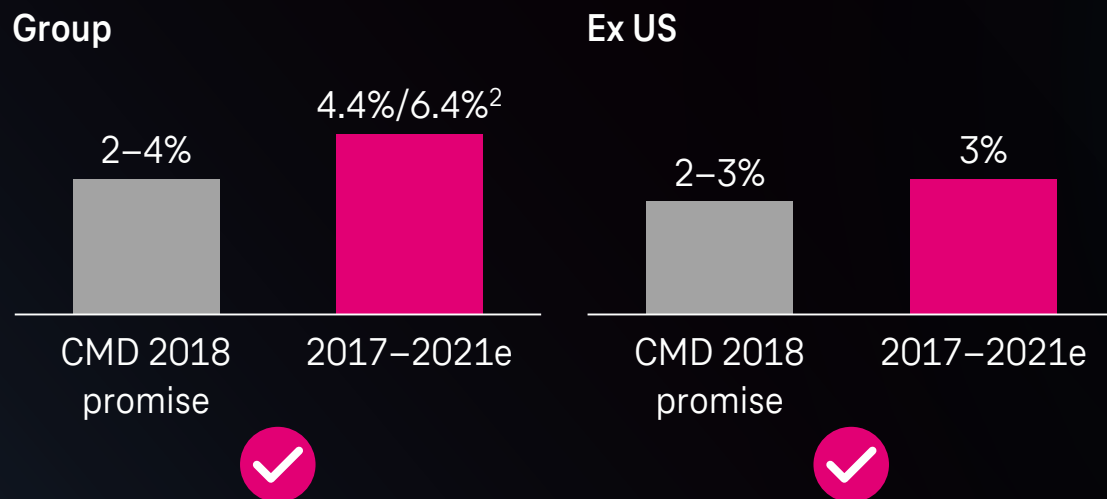
# Review 2017–2021



# EBITDA growth and cost savings better, Capex in line

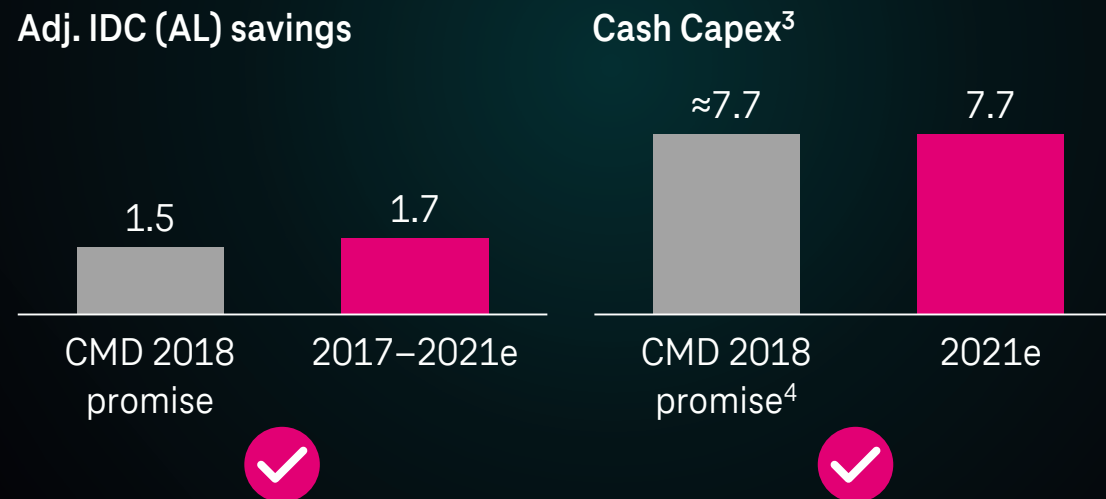
## Adj. EBITDA (AL) growth

CAGR<sup>1</sup>, %



## Adj. indirect cost (AL) and Cash Capex ex US

€ bn



▪ Ex US EBITDA AL growth 14 quarters in a row

▪ Strong contribution from all segments

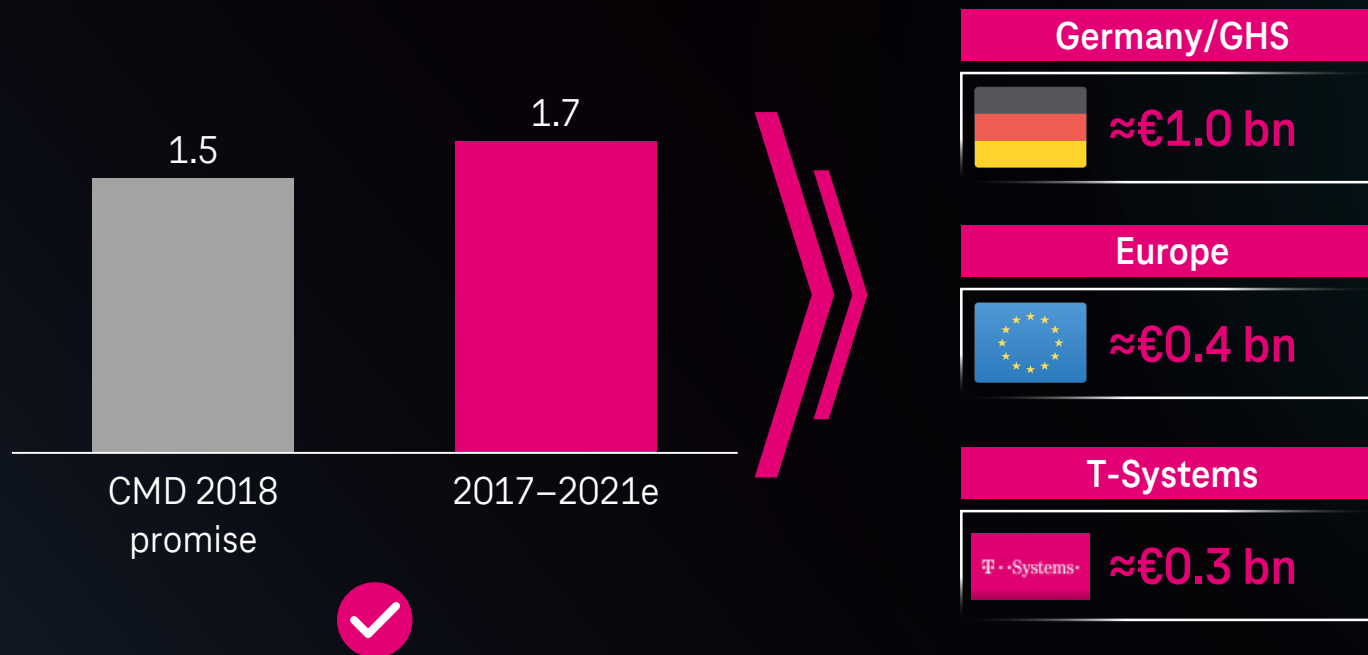
▪ Promise kept in each year

<sup>1</sup> CAGR based on annual growth rates on a like-for-like basis   <sup>2</sup> Corrected for handset leases "Core EBITDA"   <sup>3</sup> Excl. Spectrum   <sup>4</sup> On a like-for-like basis

# Indirect cost savings target will be overachieved

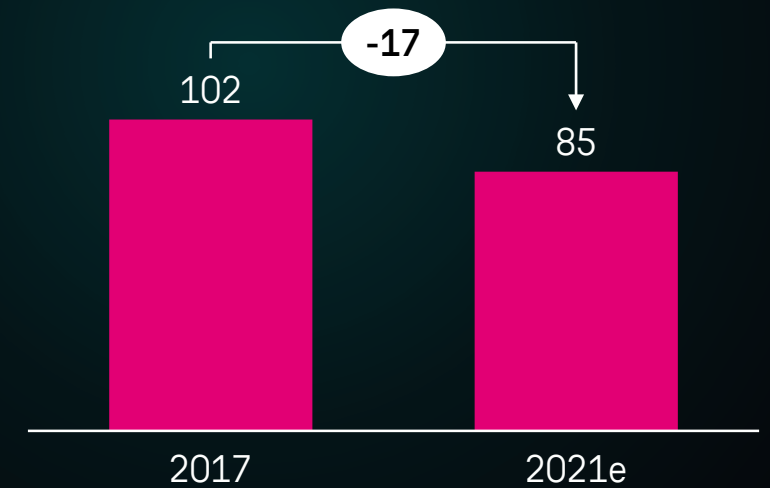
Adj. indirect cost (AL) net savings ex US

€ bn



FTE in region Germany

thousands



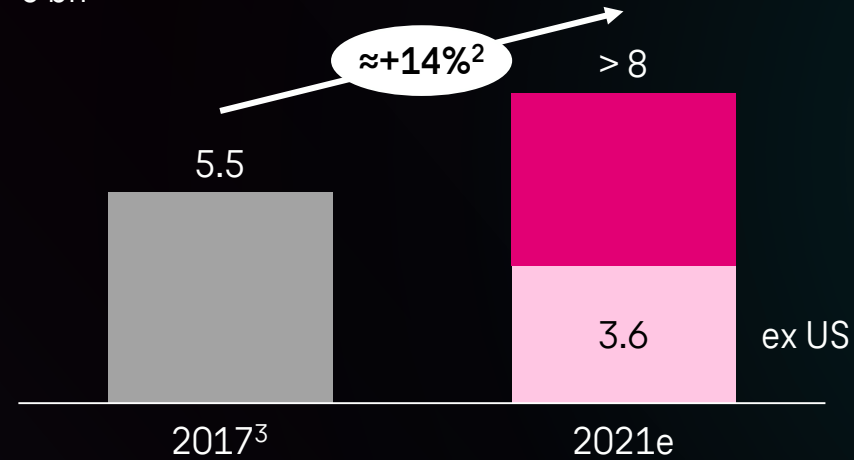
# FCF and EPS at the upper end of merger scenario

## CMD 2018 promise

- FCF (AL) > €8 bn in 2021, ex merger (CAGR +10%)
- Adj. EPS ≈€1.20 in 2021, ex merger
- Merger to dilute for up to 3 years

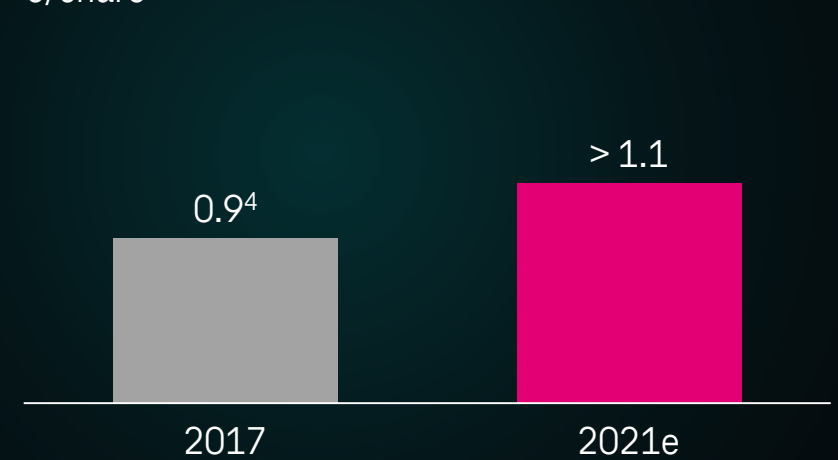
## FCF (AL)<sup>1</sup>

€ bn



## Adj. EPS

€/share



- Ex US FCF shortfall (€0.4 bn) can be explained with non-operational effects

- FCF (AL): \$2.5–3 bn merger related OPEX in 2021

<sup>1</sup> Before dividend payments and spectrum invest <sup>2</sup> CAGR based on annual growth rates on a like-for-like basis <sup>3</sup> On pre IFRS 16 base <sup>4</sup> Excl. US tax reform effect (≈€35 c)

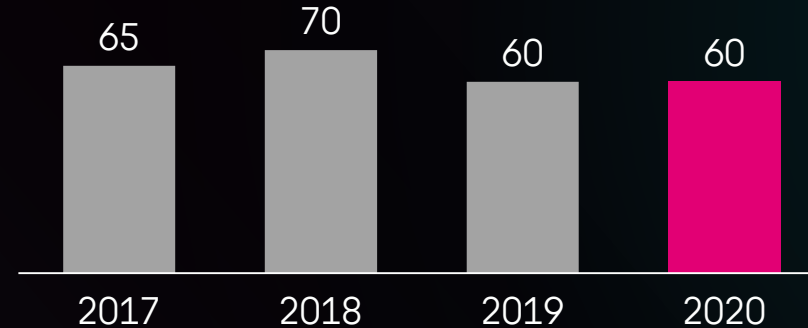
# Operational performance and reliable dividend lead to clear TSR outperformance

## CMD 2018 promise

- Dividend to reflect growth in adj. EPS
- Minimum €50 c

## Delivery

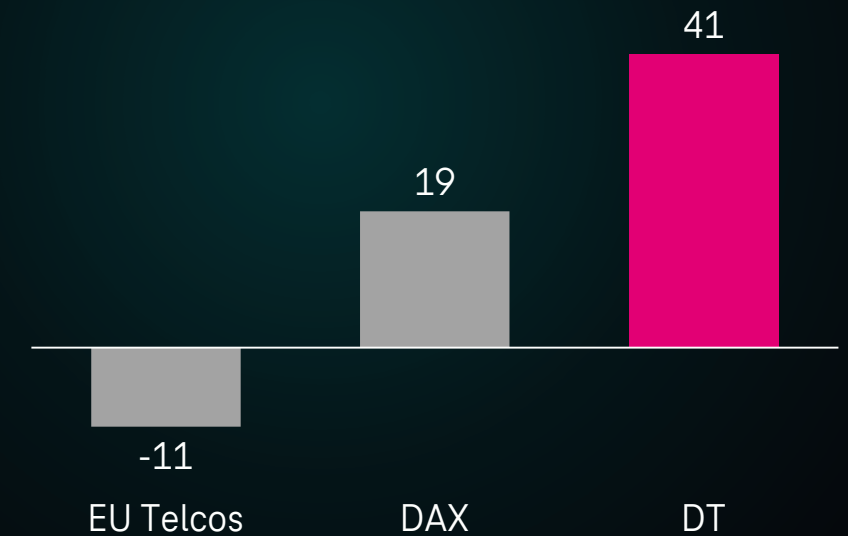
Dividend, € cent/share



- In 2019: €60 c as new minimum

## Market view

Total Shareholder Return since CMD 2018<sup>1</sup>, %



<sup>1</sup> Source: FactSet, as per May 14<sup>th</sup>, 2021



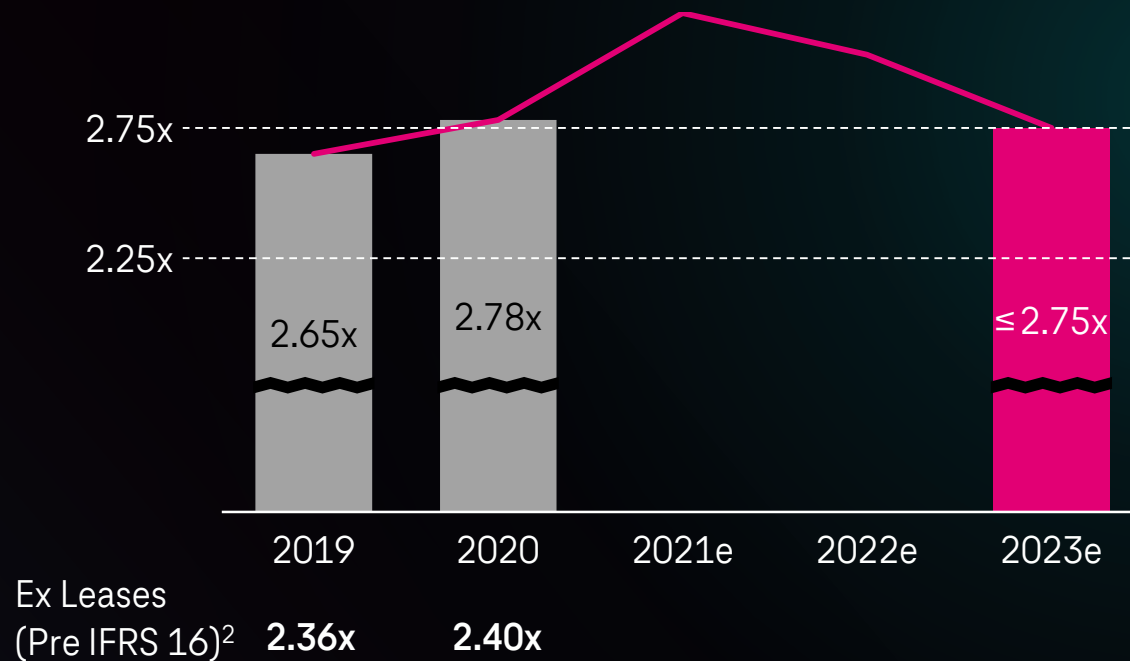
# Leverage ratio in line with expectations

## CMD 2018 promise

- Back into **comfort zone** **3 years** after merger close
- Rating of **A-/BBB**
- Leverage ratio (pre IFRS 16) of **2.0–2.5x**

## Leverage outlook<sup>1</sup>

### Net debt to Adj. EBITDA



## Impacted by

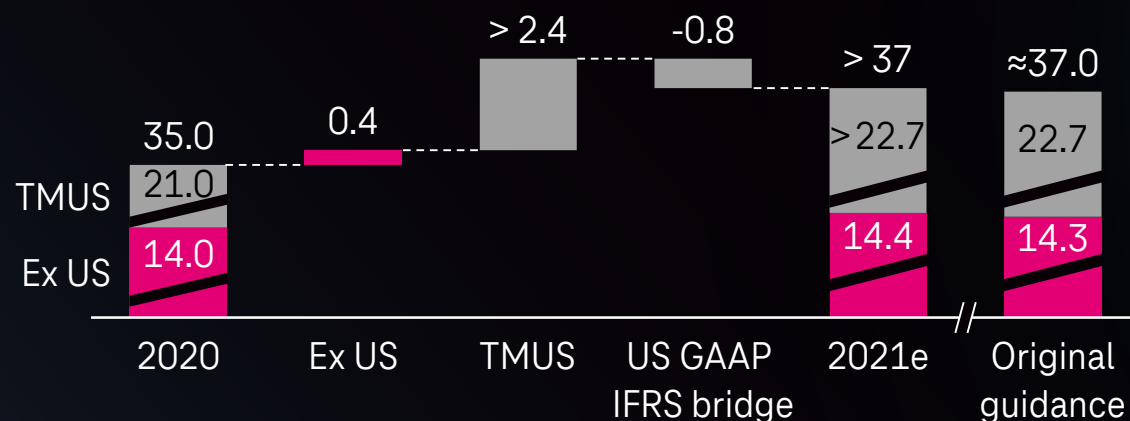
- Introduction of IFRS 16 led to adjusted leverage corridor: 2.25x–2.75x
- Merger closing delayed to April 1<sup>st</sup>, 2020
- Despite headwinds (ATC deal, C-Band auction) returning back into comfort zone still feasible by end of 2023

<sup>1</sup> Prior to TMUS share buyback <sup>2</sup> Net debt w/o lease liabilities to Adj. EBITDA AL

# Updated guidance 2021 reflects improved Q1 outlook for TMUS and DT ex US

## Adj. EBITDA AL

€ bn<sup>1</sup>



## FCF AL<sup>2</sup>

€ bn<sup>1</sup>



- TMUS EBITDA included at midpoint of US GAAP guidance of \$26.5 bn to \$27.1 bn, adjusted for estimated bridge of €0.8 bn.

- US FCF included at midpoint of US GAAP guidance of \$5.1 bn to \$5.5 bn.

<sup>1</sup> Based on constant exchange rates (average exchange rate 2020 of €1 = US\$1.14) <sup>2</sup> Before dividend payments and spectrum invest, in 2020 also before Payer Swap & Zero Bond

# CMD 2018 commitments: Strong delivery

	Ambition 2017-2021e	Achievements 2020 <sup>1</sup>	2017-2021e <sup>3</sup>	Merger Impact
Revenue CAGR	▪ 1-2%	▪ 3.0%	●	
Adj. EBITDA (AL) CAGR	▪ 2-4%	▪ 6.4%/7.7% <sup>2</sup>	●	
Adj. EBITDA (AL) CAGR (ex US)	▪ 2-3%	▪ 3.3%	●	
FCF (AL) CAGR	▪ ≈10%; 2021: > €8 bn	▪ 9.6%	●	▪ Dilutive
FCF (AL) (ex US)	▪ 2021: ≈€4 bn	▪ €3.3 bn	●	▪ Dilutive
Adj. EPS	▪ 2021: ≈€1.2	▪ €1.2 (€1.05 ex SB options)	●	▪ Dilutive
ROCE	▪ ROCE > WACC	▪ 4.6% > WACC	●	▪ (Dilutive)
Cash Capex (ex US)	▪ Stable	▪ Stable	●	
Adj. indirect cost (AL) (ex US)	▪ €1.5 bn (net savings)	▪ €1.4 bn	●	
Dividend	▪ To reflect growth in adj. EPS; €50 c floor	▪ €60 c in 2020	●	▪ (Dilutive)

<sup>1</sup> On a like-for-like basis, actual results 2017-2020, or respectively actuals 2020 <sup>2</sup> Corrected for handset leases "Core EBITDA" <sup>3</sup> Merger impact taken into consideration

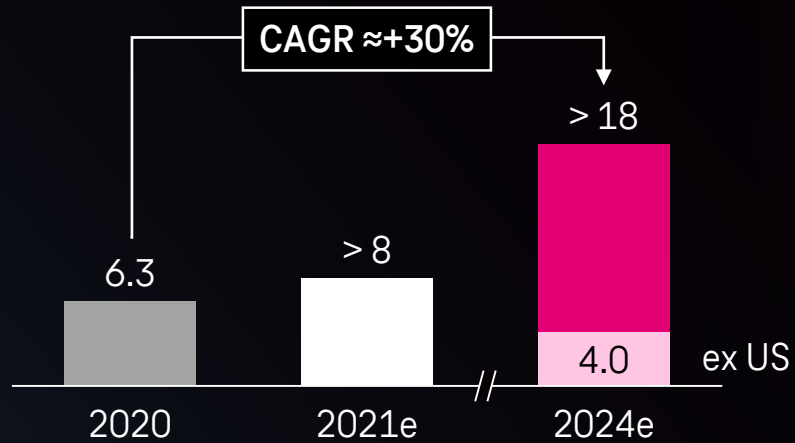
# Strategy 2021–2024



# We will strongly grow the bottom line

## FCF AL<sup>1</sup>

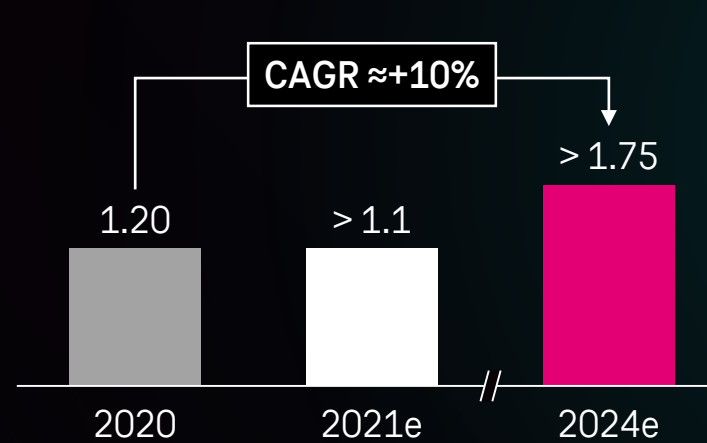
€ bn<sup>2</sup>



- US merger integration as main driver

## Adj. EPS

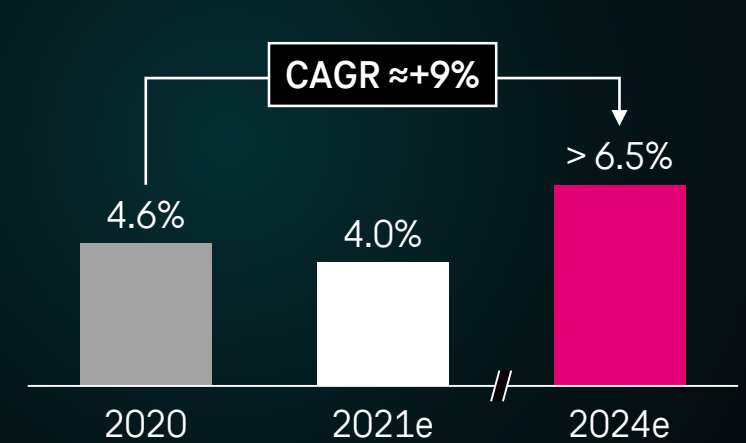
€/share<sup>2</sup>



- Steady growth from 2021 onwards

## ROCE

%<sup>2</sup>



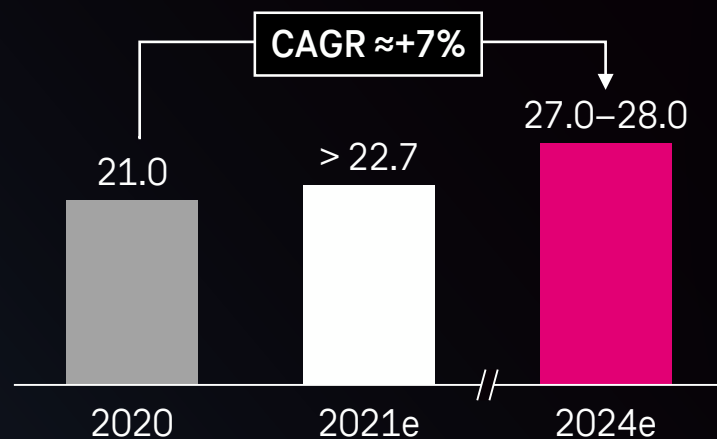
- ROCE growth on both sides of the Atlantic

<sup>1</sup> Before dividend payments and spectrum invest, in 2020 also before Payer Swap & Zero Bond <sup>2</sup> Based on constant exchange rates (average exchange rate 2020 of €1 = US\$1.14)

# TMUS with strong EBITDA and FCF growth

## Adj. EBITDA AL

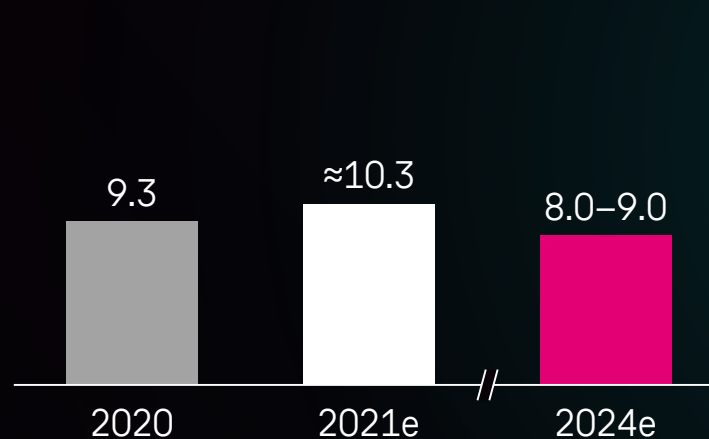
€ bn<sup>1</sup>



- Core EBITDA CAGR 2020–2024: ≈10%

## Cash Capex<sup>2</sup>

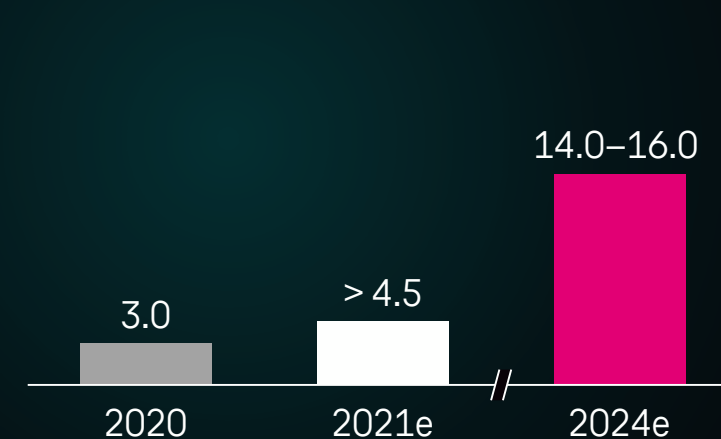
€ bn<sup>1</sup>



- Integration spend peak in 2021
- Network migration to be finalized by mid 2022

## FCF AL<sup>3</sup>

€ bn<sup>1</sup>



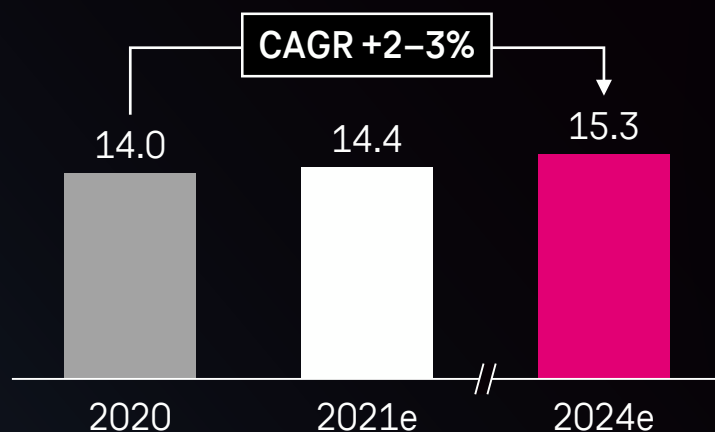
- FCF growth accelerates once network buildout is finalized

<sup>1</sup> Based on constant exchange rates (average exchange rate 2020 of €1 = US\$1.14) <sup>2</sup> Excl. Spectrum <sup>3</sup> Before dividend payments and spectrum invest, in 2020 also before Payer Swap & Zero Bond

# Ex US EBITDA growth funds both accelerated Fiber build-out and FCF growth

## Adj. EBITDA AL

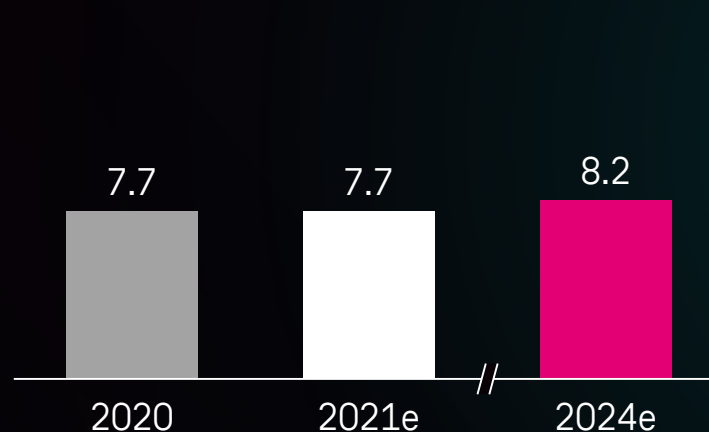
€ bn



- EBITDA growth due to net margin growth and indirect cost reduction

## Cash Capex<sup>1</sup>

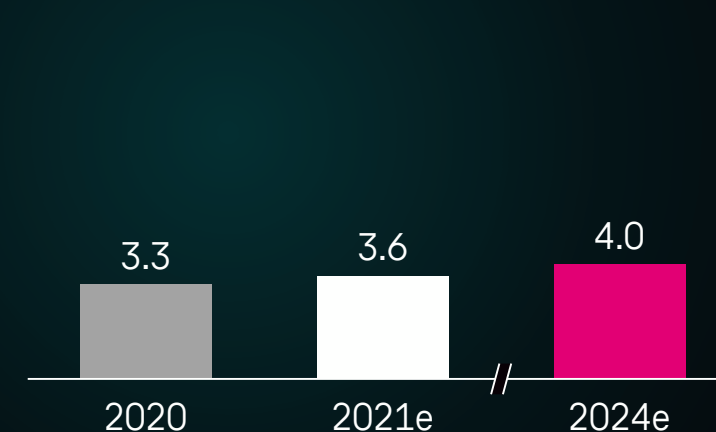
€ bn



- Increased Capex umbrella to achieve 2.5 mn HH run rate in German Fiber build out

## FCF AL<sup>2</sup>













€ bn



- Driven by growing OpCF
- Other drivers<sup>3</sup> steady and overall, broadly net neutral in 2021-2024

<sup>1</sup> Excl. Spectrum <sup>2</sup> Before dividend payments and spectrum invest, in 2020 also before Payer Swap & Zero Bond <sup>3</sup> SF cash, asset sales, interest, taxes, working capital

# Ex US EBITDA growth massively supported by digitalization efforts

	Digi KPIs	2020	2024e
Digital touchpoints	App penetration 	56% / 62%	73% / 80%
	eSales share (all channels) <sup>1</sup> 	24% / 13%	30% / 25–30%
	Share of calls shifted to digital 	30%	> 40%
	Non-sales contacts 	baseline	-25%
	Share of chat interactions 	12%	29%
Broadband experience	First time right in provisioning 	92% / 92%	≥ 95% / ≥ 95%
	First time right in fault repair 	53.7%	≥ 55%
	Reactive truck rolls (per 100 customers) 	34	< 29
Network & IT	Share of cloudified workloads (in core NW) 	9% / 7%	67% / 42%
	Time-to-market (months) 	3.5 / 1.7	2.0 / 1.0
	Releases (per month) 	≈700 / 190	≈1,200 / 500
X-functional	Share of digital experts 	13%	17%

>>> EBITDA AL impact: > €300 mn

<sup>1</sup> Includes Fixed line and Mobile postpaid

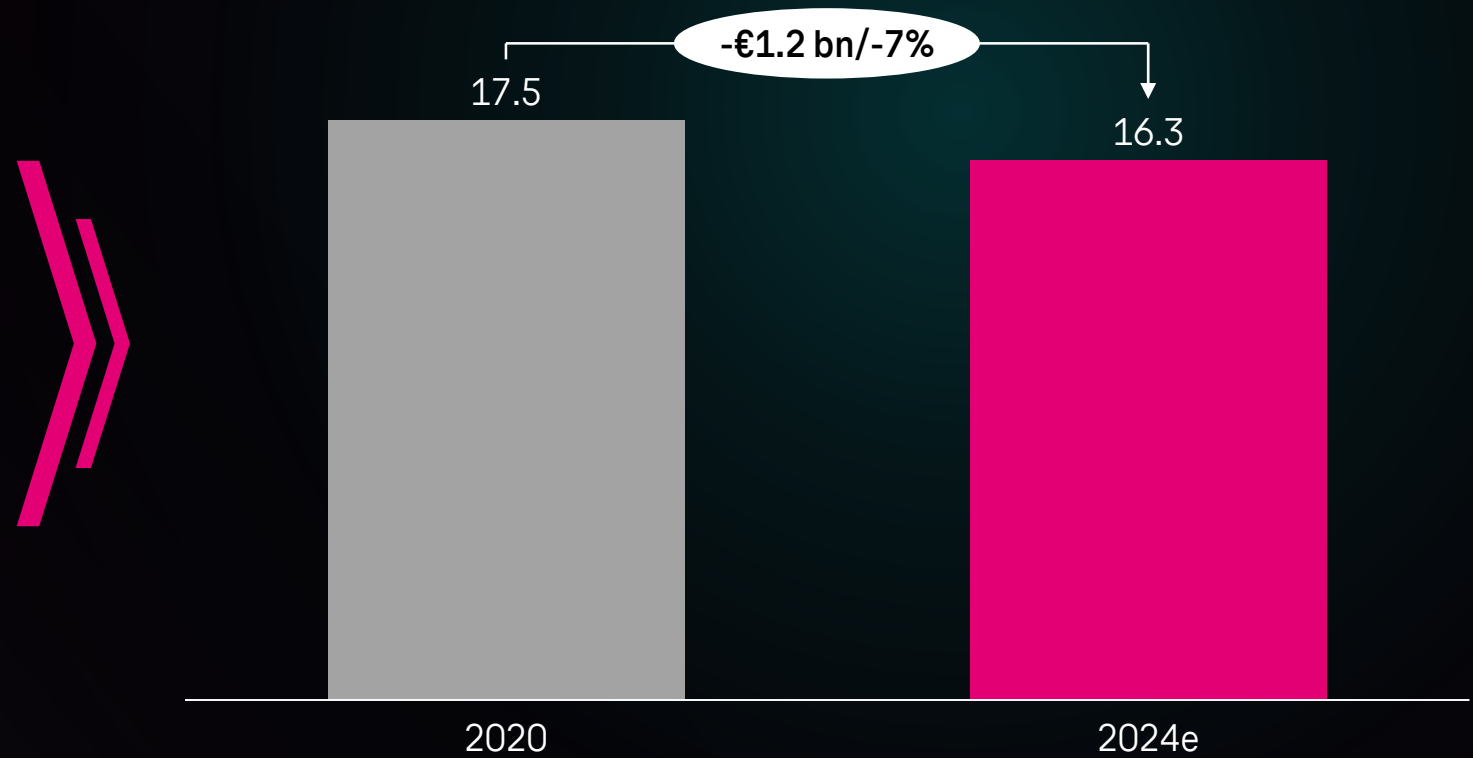


# EBITDA growth supported by €1.2 bn adj. IDC AL net savings



2020–2024e adj. indirect cost AL ex US

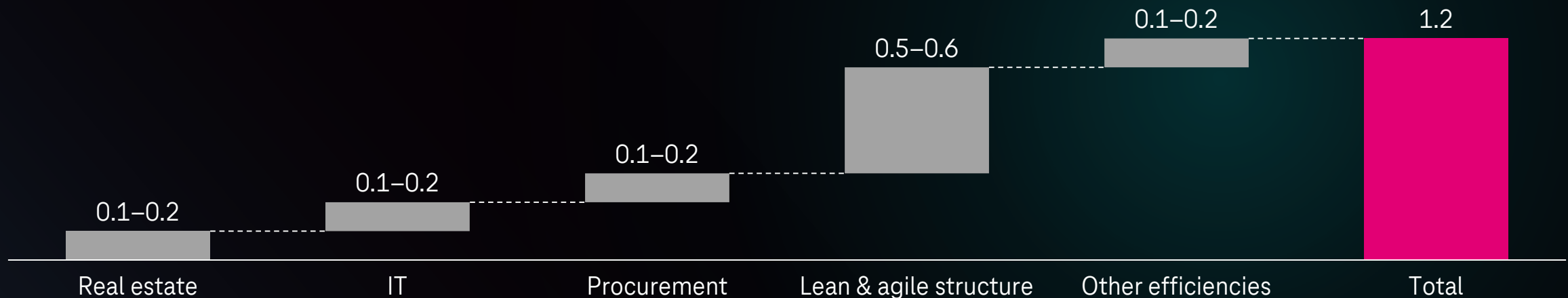
€ bn



# Cost reductions from multiple levers

Incremental adj. indirect cost AL savings ex US (2020–2024e)

€ bn



- Rightsizing office space

- New optimization opportunities

- Value-chain digitalization

- Cloudification & automation

- Leveraging scale through BuyIn

- Smart sourcing & spend analytics supported by AI

- Future oriented skill management

- Transformation towards softwarized telco & full automation of operational tasks

- Energy optimization

- Discretionary spend (travel, consulting)

# Financial strategy remains intact

## Equity

- **Dividend:** Evolved  
Dividend policy based on adj. EPS payout ratio
- **Share buybacks:**  
To be taken into consideration

Reliable shareholder remuneration policy

## Leading European Telco: ROCE > WACC

### GROW

Lead in customer experience

One connectivity & perfect service

Lead in technology

Integrated gigabit networks

Lead in business productivity

Secure ICT solutions & big IoT

Save for growth investments

Simplify, digitalize, accelerate & act responsibly

## Debt

- **Net debt/Adj. EBITDA:**  
2.25x–2.75x
- **Equity ratio:**  
25–35%
- **Liquidity reserve:**  
Covers maturities of next 24 months

Undisputed access to debt capital markets

# Dividend policy further evolved towards adj. EPS payout ratio

## Dividend

### CMD 2018

- Dividend reflects growth in adjusted EPS<sup>1</sup>
- Floor at €0.50/share<sup>2</sup>



- Dividend remains based on adjusted EPS
- Payout ratio of **40–60%**
- Floor at **€0.60**/share

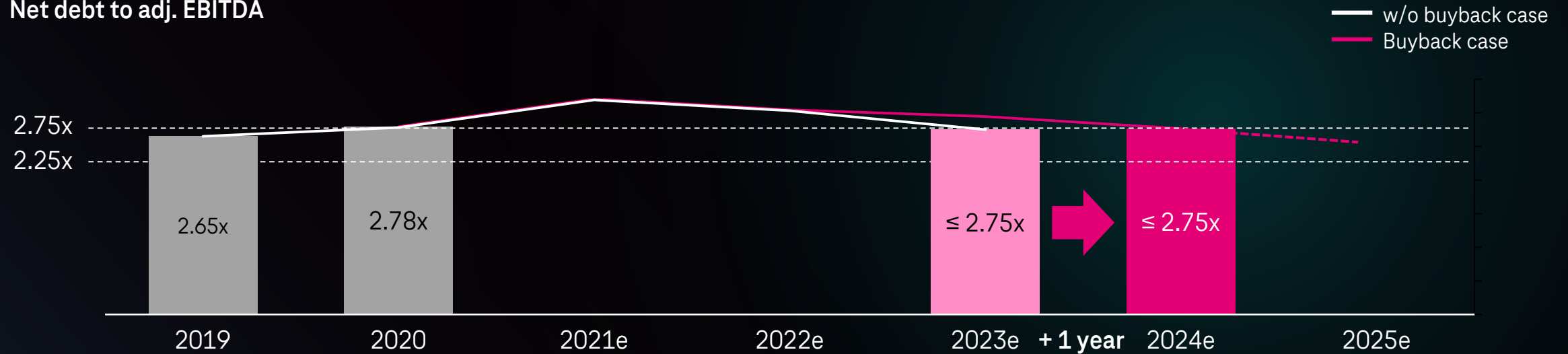
### CMD 2021

<sup>1</sup> Adjusted earnings per share 2019 as starting point    <sup>2</sup> Changed in Q3 2019 to €0.60/share

# TMUS buybacks and securing US majority will postpone our return into the comfort zone until end of 2024

## Buyback case

Net debt to adj. EBITDA

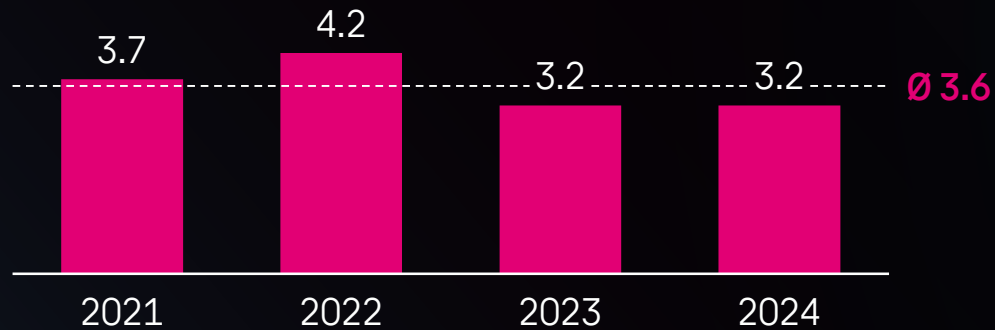


Leverage policy remains unchanged: 2.25x–2.75x

# Well balanced maturity profile with strong liquidity reserve

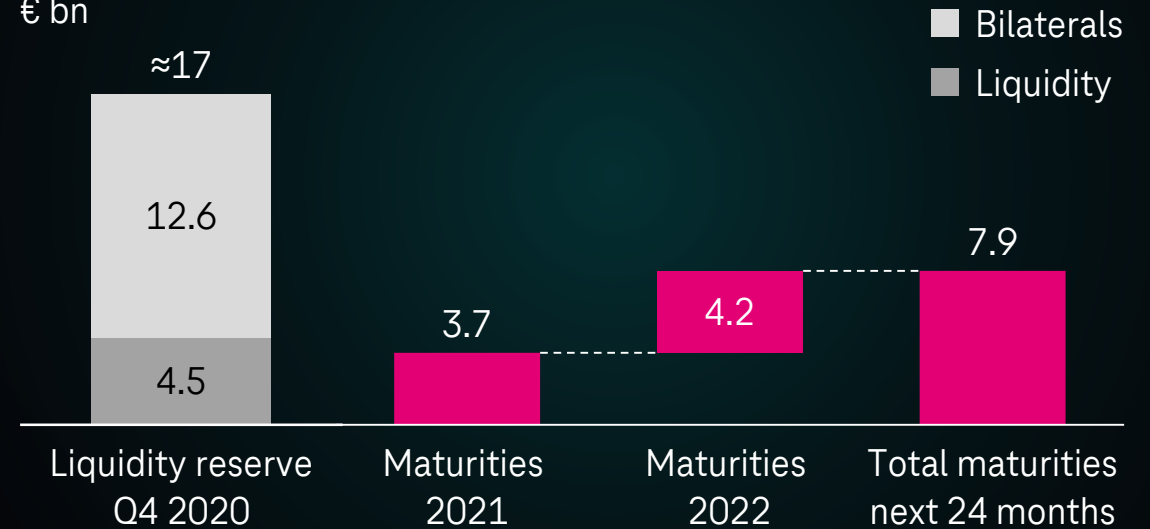
DT (ex US) bonds maturing

€ bn



Ex US liquidity position

€ bn



- Additional \$4.75 bn of outstanding TMUS shareholder loans (repaid by 2028 at the latest)
- Well balanced maturity profile will carry on beyond 2024
- Strong liquidity reserve with ≈€14–15 bn in the next years

# ESG: Our contribution from Finance

## Sustainable Finance Approach

### Sustainable Finance

- ESG will have a stronger **impact on our procurement decisions** (Sustainable procurement strategy)
- Option of **sustainability-linked bonds** has become part of our bond framework
- Highly transparent **corporate responsibility reporting** and **impact measurement**
- First steps in the **implementation of TCFD and SASB standards**
- DT Pension fund and DT trust geared towards **ESG investing**



Risk Rating 16.8 (Low ESG risk),  
Telco sector #8 (out of 212)



Score 89% (#1 = 91%),  
Telco sector #5 (out of 78)



Score B, Sector #3 (DT Group)



Reporting Rate 98%,  
Telco sector #3 (out of 40)



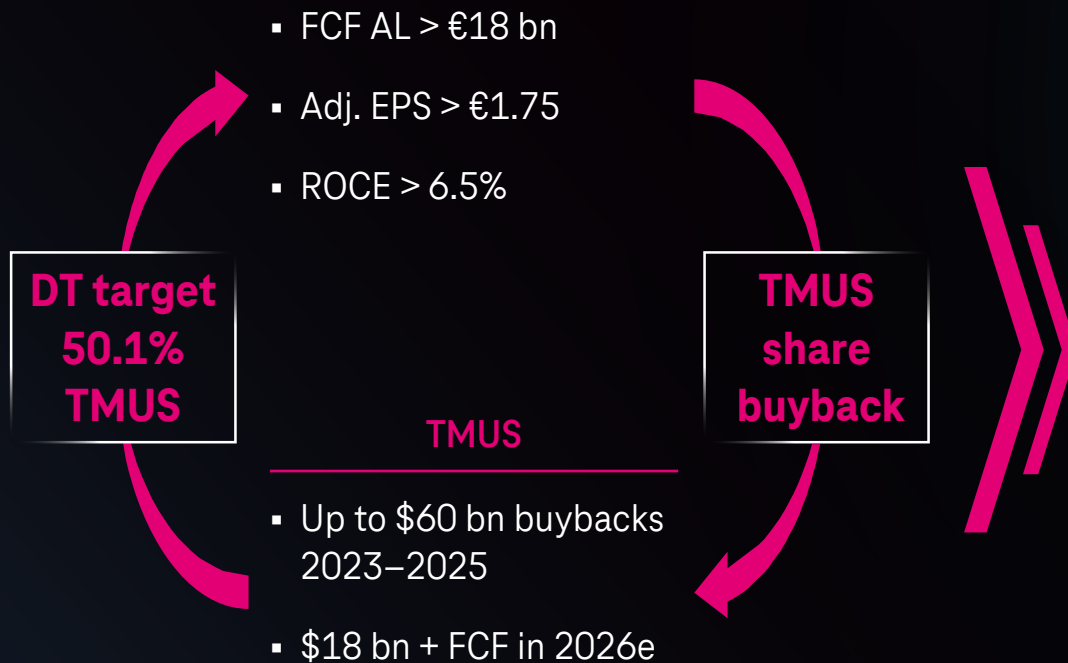
Climate "A" list (A = top 7%),  
Supplier "A" list (A = top 7%)

### ESG Ratings<sup>1</sup>

<sup>1</sup> Data as per May 14<sup>th</sup>, 2021

# Financial strategy remains attractive and reliable

## Group 2024e



## Equity

- Dividend remains based on adjusted EPS
- Payout ratio of 40–60%
- Floor at €0.60/share

## Debt

- Rating corridor remains unchanged: 2.25x–2.75x
- Rating bands remains unchanged: A- to BBB
- Back in comfort zone by end of 2024
- Liquidity: Covers maturities of next 24 months



# Midterm ambition level



# Midterm ambition level

	Midterm ambition level <sup>1</sup>	Year
Revenues	<ul style="list-style-type: none"> <li>▪ Group: CAGR +1–2%</li> </ul>	<ul style="list-style-type: none"> <li>▪ 2020–2024e</li> </ul>
Total service revenues	<ul style="list-style-type: none"> <li>▪ Group: CAGR +3–4%</li> </ul>	<ul style="list-style-type: none"> <li>▪ 2020–2024e</li> </ul>
Adj. EBITDA AL	<ul style="list-style-type: none"> <li>▪ Group: CAGR +3–5%</li> <li>▪ Ex US: CAGR +2–3%</li> </ul>	<ul style="list-style-type: none"> <li>▪ 2020–2024e</li> <li>▪ 2020–2024e</li> </ul>
Adj. Core EBITDA AL	<ul style="list-style-type: none"> <li>▪ Group: CAGR +5–6%</li> </ul>	<ul style="list-style-type: none"> <li>▪ 2020–2024e</li> </ul>
FCF AL	<ul style="list-style-type: none"> <li>▪ Group: &gt; €18 bn</li> <li>▪ Ex US: €4 bn</li> </ul>	<ul style="list-style-type: none"> <li>▪ 2024e</li> <li>▪ 2024e</li> </ul>
Adj. EPS	<ul style="list-style-type: none"> <li>▪ &gt; €1.75</li> </ul>	<ul style="list-style-type: none"> <li>▪ 2024e</li> </ul>
ROCE	<ul style="list-style-type: none"> <li>▪ &gt; 6.5%</li> </ul>	<ul style="list-style-type: none"> <li>▪ 2024e</li> </ul>
Cash Capex	<ul style="list-style-type: none"> <li>▪ Ex US: ≈€8.2 bn</li> </ul>	<ul style="list-style-type: none"> <li>▪ 2024e</li> </ul>
Adj. indirect cost AL	<ul style="list-style-type: none"> <li>▪ Ex US: -€1.2 bn (net savings)</li> </ul>	<ul style="list-style-type: none"> <li>▪ 2020–2024e</li> </ul>
Shareholder remuneration policy <sup>2</sup>	<ul style="list-style-type: none"> <li>▪ Adj. EPS payout ratio 40–60%, Floor €60 c</li> </ul>	<ul style="list-style-type: none"> <li>▪ 2021–2024e</li> </ul>

<sup>1</sup> Based on constant exchange rates (average exchange rate 2020 of €1 = US\$1.14) and no further changes in the scope of consolidation    <sup>2</sup> Subject to necessary AGM approval and Board resolution