



Conference Call Transcript

21 July 2022

Q1 RESULTS

Operator

Good day, ladies and gentlemen, and welcome to the Vodacom Group Ltd results conference call for the three months ended 30 June 2022. Vodacom Group CEO, Shameel Joosub, will host the conference call. Before I hand the call over to Shameel, I would ask that you refer to and familiarise yourself with Vodacom's forward looking disclaimer. This is set out on page 15 of the trading update and can be located on www.vodacom.com. Alternatively, if you would like a copy of the trading update sent to you, please email investor relations website at vodacomir@vodacom.co.za. Shameel, over to you.

Shameel Joosub

Thank you. Good afternoon, everyone, and good morning to those joining the call from the US. I'm joined by our Group CFO, Raisibe Morathi, as well as our Head of Investor Relations, JP Davids. Our first quarter performance was set against a backdrop of heightened uncertainty about the global economy as a result of COVID-19 and the Russia Ukraine conflict. Inflation is accelerating in most of our markets where we operate, which is putting pressure on the consumer spend and our rate of growth.

To help our consumers stay connected, we are leveraging the power of our big data capabilities to deliver personalised nano pricing through our Just4You platform. Further, we are actively deploying the high demand spectrum purchased through ICASA's auction process earlier this year to improve customer experience and accelerate the rollout of high speed internet access in the country.

During the quarter we also made good progress in key pillars of our strategy called the system of advantage. Starting with towers in South Africa, we are making good progress in establishing a separate legal entity for the TowerCo and intend to announce an experienced TowerCo executive as the Managing Director shortly. This carve out is part of the broader agenda to optimise and maximise the opportunities of our assets and lower the cost to communicate.

From an M&A perspective our purchase of a 55% stake in Vodafone Egypt is expected to receive Egyptian regulatory approval in the near term as we await final regulatory signoffs. This is an



attractive asset, and we are eager to conclude the transaction as soon as possible. In the quarter Vodafone Egypt accelerated services revenue growth an impressive 19.2%, well above local inflation rates and our business trends.

Our acquisition of a 30% stake in South African fibre company, CIVH, with an option to increase the stake to 40% is going through the regulatory approval processes. ICASA held public hearings in July, and we expect the transaction to close in the current financial year. This is an important acquisition for us as the deal will help narrow the digital divide in South Africa by expanding the reach of affordable, high-speed connectivity. In addition to consumers benefitting, this is a win for the internet service providers who can access more fibre through an open market infrastructure.

In Ethiopia our greenfield operation called Safaricom Ethiopia will launch commercial operations from August. The rollout will cover 25 cities across Ethiopia in the coming months including Addis Ababa.

Financial services remain a clear strategic priority for the group, contributing R2.1 billion or 10.2% of Group service revenue. The mobile money levies implemented in Tanzania continued to weigh materially on the growth in the quarter. However, the good news is that the levies have been reduced by a further 43% from July 2022. This means that the levies are now down a cumulative 60% since implementation, a clear positive for the financial inclusion outlook and results in Tanzania. Despite the levies headwind, our platform continues to grow strongly. M-PESA transaction values processed over the last 12 months including Safaricom were \$340 billion, up an excellent 20.2%.

Supporting our financial service strategy is our VodaPay and M-PESA super apps. These are critical to building out our two sided ecosystem which brings together consumers and merchants. Additionally, the super app approach supports a major change in our partnership model as we expand from a few partners to thousands of service providers. Critically, the super app removes the barrier of physical limitations for both consumers and merchants, which can then extend well beyond their geographical boundaries and our addressable market.

At quarter end we had accumulated 2.8 million downloads and 1.9 million registered users on our VodaPay super app in South Africa. Across our M-PESA footprint our merchant play is scaling rapidly. International M-PESA merchants excluding Safaricom were up more than 200% to 84,250.



Switching then to our quarterly trading update, where the focus is on revenue and key performance indicators. As with prior quarterly results, Safaricom does not report on its performance, so we will focus only on our consolidated operations. Service revenue was up 5.2% to R20.2 billion, a good result given the challenging consumer backdrop. Our performance was supported by a resilient performance in South Africa and growth of our new services such as IoT and financial services.

We also benefitted from some Rand weakness in the quarter with normalised revenue growth of 3.3% compared to the reported revenue growth of 5.2%. Capex intensity this quarter was impacted by phasing. In the fourth quarter of the previous financial year, we accelerated spend as we captured the benefits of a stronger Rand and in anticipation of global supply challenges. We will step up spend in the remainder of the year and target capital intensity in the range of between 13% and 14.5%, consistent with our medium-term guidance.

At a product level we reported strong growth in our new service categories, reflecting our multi-product strategy. These new services which comprise fixed, IoT, digital and financial services reached 18.8% of Group service revenue, moving closer to our target range of 25% to 30% in the medium term. IoT revenue was up 16% supported by strong base growth. Our IoT customers reached 7.3 million, up 22.3%. Financial service revenue was up 9.3%. Adjusted for the mobile money levy in Tanzania, financial services were up an estimated 19.7%. This growth rate highlights an excellent growth outlook for the segment as we re-accelerate financial inclusion in Tanzania.

Shifting focus to South Africa, service revenue grew 3% to R14.5 billion and was supported by the improved performance in contract and a growing contribution from our new services. Our prepaid segment delivered a resilient performance despite the challenging macro backdrop of higher food and transportation costs as well as delays in social grants. It was in this segment that we leveraged our CVM capabilities extensively to support our share of customer wallet. The contract segment performed well with revenues up 5.8% supported by a 3% to 5% price up during the quarter.

New services contributed 14.7% or R8.4 billion of South Africa's service revenue. IoT revenue delivered excellent growth of 16.4%. The financial services revenue growth of 4.5% was supported by our insurance products with policies up 8% to R2.4 million. We advanced R3.1 billion in airtime during the period amounting to 44.7% of total prepaid recharges. The growth rate of Airtime Advance was subdued by bundle pricing changes in the quarter. Airtime Advance volumes did however improve towards the end of the quarter.



Vodacom Business growth moderated from high levels impacted by wholesaler revenue. We are now lapping the post-paid roaming deal with Cell C while Telkom has also optimised some spend. Data metrics remain strong. Data traffic accelerated 30.2% in the quarter. Smart devices on the network were up 11.5% to 26.4 million, and the average usage per smart device increased 25.2% to 2.7 GB per customer per month.

Staying in South Africa, the proposed acquisition of Telkom by MTN is clearly noteworthy. We are of the view that the announcement aligns with the broader global trend of in-market consolidation which we as a Group remain supportive of. However, in the interests of safeguarding competition, regulators will approve transactions of this nature subject to various conditions. Given the market dynamics in South Africa, we anticipate regulators would focus on ensuring spectrum equality and with significant remedies regarding open access to support lower cost to communicate and a competitive telco landscape.

Moving to our international operations, we reported service revenue growth of R5.9 billion, up 10.4%. On a normalised basis where we remove the impact of exchange rates, growth was 2.4%. The performance was supported by strong growth in data. Across international we added 946,000 customers in the quarter to reach a base of 42.7 million. Data revenue was up 23.4% on a reported basis and 14.9% on a normalised basis. We are seeing the results of our network investment in the prior year coming through with data traffic growth up 39.7% in the quarter.

M-PESA revenue was up 11.8% or 3.4% on a normalised basis. The mobile money levies had a 15ppt impact on M-PESA revenue growth, so understandably we are looking forward to lapping this impact in the coming quarter. Our new product areas within M-PESA such as lending are growing strongly. We granted loans equivalent to R1.8 billion in the quarter, up 71.2%. The growth was supported by Mozambique in particular in which we are leveraging the M-PESA Africa strategic and operational direction.

At a country level the DRC delivered double digit service revenue growth in US Dollars while Mozambique was impacted by proactive price transformation. We expect our pricing moves in Mozambique to support elasticity through the remainder of the financial year. In Tanzania, which reported service revenue decline of 4.3% in local currency, as already highlighted, the outlook for this market is more encouraging as we re-accelerated financial inclusion. Raisibe and I are now ready to answer any questions that you may have.



Operator

Thank you. Ladies and gentlemen, if anyone would like to ask a question, you are welcome to press * and then 1 on your touchtone phone or on the keypad on your screen. If you however wish to withdraw the question, you may press * and then 2 to remove yourself from the question queue. Ladies and gentlemen, if you would like to ask a question, you are welcome to press * and then 1. Our first question is from Jonathan Kennedy-Good of JP Morgan. Please go ahead.

Jonathan Kennedy-Good

Good afternoon. A couple of questions from me please on firstly the impact of load shedding in South Africa on network downtime. We've obviously been through a fairly rough patch of late and it must be fairly difficult to understand or forecast how the future might look with respect to further downtime. I'm just wondering if there are plans to invest in diesel generation or solar and what kind of capex and opex implications there are for the group. And then secondly, with the new spectrum deployment in the 2600 band, how is this benefitting the business? Do you observe immediate revenue and cost benefits? Any colour would be appreciated.

Shameel Joosub

Okay. So, Jonathan, a few things. Firstly, from a load shedding perspective, of course it is hugely disruptive. Nobody planned for eight hours, so I think that impact has been there. Funny enough, when power goes off, we get a positive impact on usage. I think you can see the acceleration in data growth. A bit of that has also got to do with load shedding giving a boost. That said, it only lasts for as long as the batteries last. And when you run out of batteries, you run out of batteries. Of course, we spent quite a bit of money in the last two years, R1.7 billion, on batteries, then on generators and so on.

So, what we've had to do is of course increase the hours of standby all the time on the different sites. During this period, we would have used more generator power. Fuel prices have gone up, so there has definitely been an impact on us in terms of cost. Now, fuel is not such a big cost for us, but it is increasing. So, for the year there will be at least R100 million impact from additional fuel cost I would say, fuel and diesel and generators. What we are doing is basically a couple of fold.

One is continuing to add batteries where we need to. That's one. And basically, taking more sites to six hours and eight hours. We could have used that capex somewhere else. It's frustrating, to be frank with you. And batteries also have a faster depreciation, so they do put an impact on some of the numbers. So that's one issue. The second part is we continue to optimise our utilisation at sites



using IoT.next technology and using all types of methods to make sure that we can reduce the amount of consumption per site.

We are doing pilots on solar. We are doing pilots on wind power and so on. Solar, by the way, is projected to get more expensive in the short term because of the shortage of panels now because of what's happening in Europe. So, we're doing trials both in Europe and here in terms of getting the solar model to work, but it's not yet at a point. It still has a five year payback in terms of deploying solar on site. So, what we are doing is we're doing wind power tests. We're doing solar tests. And we will continue to do that until we can get the optimal model where it makes sense.

What busy with a pilot with Eskom. It is still in negotiation. And they did share it in the presidential forum the other day. What we are doing with Eskom is basically we will sign power purchase agreements and basically that will then be added to the grid. And then Eskom will wheel it, and of course charge a fee for wheeling, but we will end up with a better rate. And they will do the credits for us, and they will pass us a credit at source so that we don't have to deal with all the municipalities. They will do that piece.

It is still in negotiation phase, but they see this as a clear opportunity to do it with us as a pilot but also to do it with broader corporate South Africa where essentially that will mean adding a lot more power to the grid. As business we've also had meetings with the presidency and all the ministers and so on, and they assure us that there is a plan to correct the power. And they shared with us their plan of how they're going to do it. I think this is an added measure that can bring success there.

So, where we are deploying solar is like on campus where we're busy with a big project to make the campus all solar. So, where you can do self-generation on a big site, solar makes sense. Solar at a base station level is not yet, unfortunately, at the point where it makes sense. We are also trying to see if we mix different technologies like wind power and solar if we can come up with a solution. So, both at a Vodafone level and at a Vodacom level, given the impacts in Europe as well, these steps are ongoing.

Raisibe Morathi

Maybe I can just add that to contain the costs we also have negotiated some discounts with some of the oil majors just given the volume of diesel consumption given the crisis situation. So, that is not only giving us a good pricing but also the security of supply. And that is something that we've done



in South Africa, and we will continue to explore in other markets as well where there are opportunities.

Shameel Joosub

On the deployment of the 2600, why you saw a little bit of a dip in the capex spend as we took advantage of forward ordering, and that's why the capex was on the higher level of our guidance last year. So, we brought some stock in at the good rates prior to March. And then in some instances we also swapped out radios where we basically sent back so that we could get more 2.6 radios.

Remember we've only just got it, we only got it from 1st of July. So, it's a bit early in fairness. But essentially what it does it provides us with a lot more capacity. Secondly, it gives us the ability to deploy both 4G and 5G at the same time. And if you've got ten resources, just to simplify, we can allocate one to 5G and nine to 4G. So, as the traffic on 5G picks up, that's beneficial to us. That does give us a benefit over some of our competitors who have got split spectrum.

Jonathan Kennedy-Good

Great. Thank you. That's very helpful.

Operator

Our next question is from Cesar Tiron of BofA Securities. Please go ahead.

Cesar Tiron

Hi. Good afternoon. Thanks for the call and the opportunity to ask questions. I have two. The first one would be on your roaming agreement with Telkom. What happens to it if Telkom gets acquired? Is there any provision to it? And also, is there any minimum commitment from the Telkom side in terms of capacity, what they need to pay you on a yearly or monthly basis? I will ask my second question after. Thank you.

Shameel Joosub

So, the agreement has got another two years or so to run. We are of course in discussions to see if we can extend the agreement. Telkom is still willing to consider that, or we're still in negotiations to look at further extensions to the agreement. So, I think those discussions are ongoing. Look, the regulatory process will take anyway two years plus, so I think we will probably run into the end of the agreement by the time the regulatory part comes up. What it does mean though is that either we will renew with Telkom, but it will be one of the remedies that we would want to see if an MTN and



Telkom deal came to pass. I think this is one of the markets that would be impacted, the wholesale market. The spectrum is one. Wholesale is another one. There are quite a few markets. Mobile is another one, and so on. They will all become part of this discussion.

Cesar Tiron

Thank you so much, Shameel. I just wanted to follow up on these remedies. Obviously, it's early days, and you have given a couple of examples. Are there any specific points that Vodacom would be uncomfortable with when looking at this type of in-market consolidation? Are there a couple of things that you would be demanding to regulators so that you are comfortable as a market participant with this type of in-market consolidation? Thank you.

Shameel Joosub

I have the stripes on my back from Neotel, right. The Neotel deal was very complicated, not because of buying into fibre and so on. Everyone was happy with that. But because of spectrum. And we spent two years on Neotel, eventually walked away, and we weren't even near the end of the process. It could have gone on for another two years. So, it's going to be a very complicated process with multiple stakeholders, us being of course one of the primary ones.

The first thing is that spectrum equality is key. So, if MTN is buying this, they have to give back the spectrum. So, that's the first part. Otherwise, there is no way we would ever accept it. We would then fight like hell to protect because spectrum equality is a given, not only in this market but globally. So, from a global perspective, that is extremely important.

The second piece that I think will be complicated for them is the unions and so on. You see articles coming up this morning already. The third part I would say is open access. Remember, Telkom's assets have never been subject to open access. Now we're going into a deal where we're going in with the principle that we're going to open access everything. At a minimum I think that would be required in this deal. So, that could be hugely beneficial for everybody, especially if they're going to open access.

Remember they never open accessed. The reason CIVH exists today is because Telkom didn't want to provide to dark fibre, let alone open access. So, those types of things now could become subject to a regulatory environment. And they would have to be open access fibre. They would have to open access national long distance and so on. So, for me there will be pages of regulatory parts not just for us but for the broader industry to be able to do it. Big picture wise of course, in-market



consolidation is good. Fewer players, more stability, more price stability, all of those types of things. So, in the big picture, it will be positive for the industry. It will be positive for us as long as the remedies are there.

Cesar Tiron

Thank you so much, Shameel. Very clear. Thank you.

Shameel Joosub

I think the other positive is let's say if the CIVH deal is not approved, there is no way in hell the other one is going to happen.

Cesar Tiron

Great. Thank you.

Operator

Our next question is from Georgios Ierodionou of Citigroup. Please go ahead.

Georgios Ierodionou

Yes. Hi guys and thank you for taking my questions. They are actually a couple of follow-ups on consolidation. Thank you first of all for clarifying the timeframe and also what you want to get out of the process. I just wanted to check whether there is any risk that the kinds of remedies the regulator will go for could be more disruptive for the market, like ensuring wholesale access for third parties. In mobile that could potentially damage pricing. If you don't mind just talking us through why you wouldn't expect this, or if you fear that could be also a scenario that we should be aware of. And the second question is around towers and how this consolidation process changes, if at all, from an operational and perhaps strategic perspective your thinking of progressing with your tower portfolio. Thank you.

Shameel Joosub

I think firstly on the remedies part, I think the reality is that the first complainant on all of this will be us. I think spectrum and those types of things will naturally have to be sorted out because you can't create an imbalance. ICASA has just gone through a process to equalise the spectrum through the last spectrum auction. They have also set a spectrum cap per operator, which will mean that immediately MTN will have double the spectrum cap. And remember, Telkom still has some legacy spectrum that's above that. So, you're going to land up having to give a lot of it back. That for us is the big issue.



The remedy in terms of open access I think will apply to the fixed network because that's where Telkom is really going to have an impact. In terms of mobile I think the ability for there to be MVNOs already exists. There is a requirement of course as part of the spectrum licensing to at least create one MVNO per operator. So those things are there. So, that will depend on whether people have the appetite and so on to be able to want to play in the service layer.

But the infra layer will change because you will have the networks, you will have Vodacom, MTN. Remember you had six players who will now reduce to five. So, you will have five players. But the combination of Telkom, which is the price instigator in mobile, will probably be the most topical. Personally, I would have made a play for the fibre piece, not the whole thing. But that's just me.

I think we will have to work through it. It's early days. I think what we're doing is a couple of fold. We are proactively making sure that we have a full list of all remedies and best practice from around the world. That will be the one, including leveraging off Vodafone in that regard. And then secondly, we will do a gap analysis so if it did come to pass, what gaps could there be. And then we will make sure that by the time the transaction comes to pass that we've done enough to try and close many of those gaps. And of course, the big thing will be mobile will be more or less the same size as us if the deal comes to pass, which I think is fine because that will create a lot more stability in the market in that respect.

In terms of the TowerCo we are proceeding with the separation of the TowerCo. Everything has been set up. No, it doesn't change our logic. We still want to run it like a business, and we still see the strategic nature for it. As you can imagine, because we have the largest towers in the country, everybody has been through here wanting to partner with us. So, there are many suitors including suitors which other operators sold their assets to. So, I think there is lots of opportunity around towers.

The MD starts soon. We have basically put the team together and so on. We will start to run it like a business and then of course look at opportunities around how can we increase tenancies and that type of thing. Interestingly enough, if the deal goes through, MTN will land up with towers after having sold their towers. That creates another interesting dynamic because they will have duplication of towers. So, what are they going to do with that? So, I think that also becomes an interesting piece in terms of value and what you do with the towers and so on.

Georgios Ierodionou



Okay. Thank you.

Operator

Our next question is from Myuran Rajaratnam of MIBFA. Please go ahead.

Myuran Rajaratnam

Good afternoon, guys, and thank you for the opportunity. The first one, I will see if I can elicit an answer out of you, Shameel. In terms of valuation, you have run your ruler over Egypt. You have run it over M-PESA, Safaricom, all these things. Surely you must have run it over Telkom as well. Where do you stand on that? You're getting fibre assets. You're getting IT assets. You're getting mobile assets. Perhaps spectrum. We don't know yet. But where do you stand?

Shameel Joosub

Honestly, look, I think my view is that Telkom's underlying assets were always under-valued in terms of what they have in the ground versus the revenue that they generate from it versus the EBITDA and the multiples. If you look at their assets, they've got some really good assets. There is no doubt about that. So, for me the trading is based on profits and EBITDA and so on. So, effectively all their earnings potential they have never fully managed to gain. Let's be honest about it. So, would you pay a premium on the current trading price? I think you would have to. Could that premium be big? Yes. I'm not going to put an exact number to it.

So, I do think there are underlying value in the assets, but I think it's how you manage it and also how you manage the legacy, which I think is important, and the ageing. So, there is a multitude of different things when you look at it, but it does have some good assets. The fibre play is roughly the same as Vuma. Vuma is slightly bigger than Openserve. So, there is value there. They have a lot of properties. They have never really been able to commercialise it, but they have properties. They have got backhaul fibre. They have got national fibre. They have got undersea cables. And then they've got business. So, it's a mix of legacy and new, the way I see it. I've always thought that there is more value in Telkom than what the share price reflects in terms of underlying assets.

Myuran Rajaratnam

Then you mentioned spectrum equality and the Neotel deal, and you've got scars.

Shameel Joosub

You will also appreciate we are also undervalued.



Myuran Rajaratnam

Okay. Well played. Well played. Neotel and spectrum equality, you mentioned you've got scars from Neotel. On that spectrum issue, that was a point in time, Neotel, maybe five or seven years ago. Has the industry, the regulations, the overall international markets have moved on from there, is it fair to say? Or is it still everyone is hung up on spectrum being not tradeable or sellable?

Shameel Joosub

I think it is an issue. We will always be hung up on spectrum. I think inequality in spectrum is a big issue, so you will always have that hang-up. In fact, to be honest with you, I think it's worse today with 5G, with 4G and so on. When we attempted it, I felt like we'd slide it through, but it didn't work.

Myuran Rajaratnam

So last question. You know I have to have one tongue in cheek. You keep saying spectrum equality, so that means all your African operations where you have extra spectrum, you're going to give it back to the regulator, right, because you really want to play fair in those markets too. Is that right?

Shameel Joosub

No, look, firstly we don't have the most spectrum in every market. It's a problem we're trying to address. The issue is that spectrum in these countries has always been subject to some kind of auction process. In South Africa spectrum was given as part of the original licensing process. And Telkom, being Telkom, had the biggest bunch of spectrum. And that was allocated in the time where Telkom was on the one side of the corridor and the Postmaster General on the other side. Then they walked from one office to another and allocated themselves what they needed.

Myuran Rajaratnam

Sure.

Shameel Joosub

A different context.

Myuran Rajaratnam

Thank you so much. It's always fun talking to you guys. Thanks a lot.

Operator

Our next question is from Nadim Mohamed from SBG Securities. Please go ahead.

Nadim Mohamed



Good afternoon. Just one question from my side. I'm just curious. When I look at the international performance, it looks like data revenue held up really well in an environment where you had a lot of pressure on consumer spending and a tough macro environment. I was wondering, what exactly are the strategies that you are employing there? Is it about 4G rollout or anything in that regard? It does look like data revenue has done better than voice and M-PESA in terms of holding up. In a more normalised environment, it could have been much higher than that. Your thoughts on that would be appreciated.

Shameel Joosub

A multitude of different issues I would say, I think the first one being just the normal demand for data. And as you're converting people to smartphones and the normal usage growth in data, that's there. So, you're getting more smartphones, more users, more data users. So, there is a natural path, and I think that natural path will continue for years to come. It's not so much the growth. The issue that you manage in all markets is not the growth of data. Data growth is there.

The issue is pricing and the stability of pricing. So, what has helped in this quarter is also some stabilisation in pricing. Regulatory price stability has been created in Tanzania as an example. That's one. The DRC is continuing to grow strongly on data. So, price stability plays a big role. And in Mozambique also the drop in pricing to be more competitive and our price transformation. We have taken a hit on the pricing perspective to ensure more competitiveness going forward. So, we constantly do the views, and we have pricing methodologies in each market. So, it is pure momentum in terms of coverage rollout, more capacity, and more 4G, more smartphones and the like.

Nadim Mohamed

Just to confirm, is the data price floor still in place in Tanzania now?

Shameel Joosub

There is. There is. That has been implemented.

Nadim Mohamed

Excellent. Thank you so much. Appreciate that.

Operator

Ladies and gentlemen, just a final reminder, if anyone else would like to ask a question, you are welcome to press * and then 1. We will pause a moment to see if we have any further questions. It



seems we have no further questions on the line. I would like to hand back to Shameel for any closing comments.

Shameel Joosub

Thank you for joining us today on the investor call. Please reach out to the investor relations team if you have any questions. And we will be meeting some of you as we do some of the investor calls and lunches and so on. Thank you very much.

Operator

Ladies and gentlemen, that concludes this conference. Thank you for joining us. You may now disconnect your lines.

END OF TRANSCRIPT