



# Acquisition of Liberty Global's operations in Germany, the Czech Republic, Hungary and Romania

9 May 2018



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- under "Forward-looking statements" and "Risk management" in the Vodafone Plc's annual report for the year ended 31 March 2017; and
- under "Other Information - Forward-Looking Statements" in Vodafone Plc's trading update for the quarter ended 31 December 2017.

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# Transaction summary

**Vodafone to acquire**  
Liberty Global's operations in  
**Germany, the Czech  
Republic, Hungary and  
Romania for €18.4 billion**



Vodafone becomes the **leading next generation network owner in Europe**, accelerating our convergence strategy









**Creating a converged national challenger** to the dominant incumbent in Germany and **transforming our fixed-line position in CEE**



Significant potential value creation, with **>€7.5 billion NPV of estimated synergies**



# Transaction with a strong strategic and financial rationale

1	<b>Accelerates Vodafone's converged communications strategy</b>	 <ul style="list-style-type: none"><li>• Vodafone becomes the leading next generation infrastructure owner in Europe</li><li>• Accelerates Vodafone's position as Europe's leading fixed-line challenger</li><li>• Bringing together leading talent in the mobile and fixed-line/TV sectors</li></ul>
2	<b>Creates a fully converged national challenger in Germany</b>	 <ul style="list-style-type: none"><li>• National cable coverage in Germany, merging non-overlapping regional assets</li><li>• 30.8 million mobile customers, 10.0 million broadband connections and 14.0 million TV households</li><li>• Vodafone intends to deliver Gigabit speeds to around 25 million German homes by 2022</li></ul>
3	<b>Transforms Vodafone's fixed-line and convergence strategy in key CEE markets</b>	 <ul style="list-style-type: none"><li>• Highly complementary to existing mobile operations in the Czech Republic, Hungary and Romania</li><li>• Adds 6.4 million homes passed, increasing Vodafone's coverage to 39% of total households</li><li>• 15.8 million mobile, 1.8 million broadband and 2.1 million TV customers</li></ul>
4	<b>In-market consolidation with significant synergies</b>	 <ul style="list-style-type: none"><li>• Estimated annual cost and capex synergies of approximately €535 million<sup>1</sup> by year 5 post completion</li><li>• Total NPV of cost and capex synergies of over €6 billion<sup>2</sup></li></ul>
5	<b>Significant potential to accelerate growth</b>	 <ul style="list-style-type: none"><li>• Revenue synergies from cross-selling to the combined customer base</li><li>• Net present value of over €1.5 billion<sup>2</sup></li></ul>
6	<b>Financially attractive transaction</b>	 <ul style="list-style-type: none"><li>• FY2019E multiples: 12.5x OpFCF<sup>3,4</sup> and 8.6x EBITDA<sup>3,4</sup>, adjusted for year 5 cost and capex synergies and before integration costs, 10.9x EBITDA<sup>4</sup> pre synergies</li><li>• Accretive to Vodafone's free cash flow per share from the first year post completion and double digit accretive from the third year post completion<sup>5</sup></li></ul>

## Notes:

1. Before integration costs

2. After total integration costs of approximately €1.2 billion over the first 5 years post-completion

3. Adjusted for year 5 cost and capex synergies before integration costs

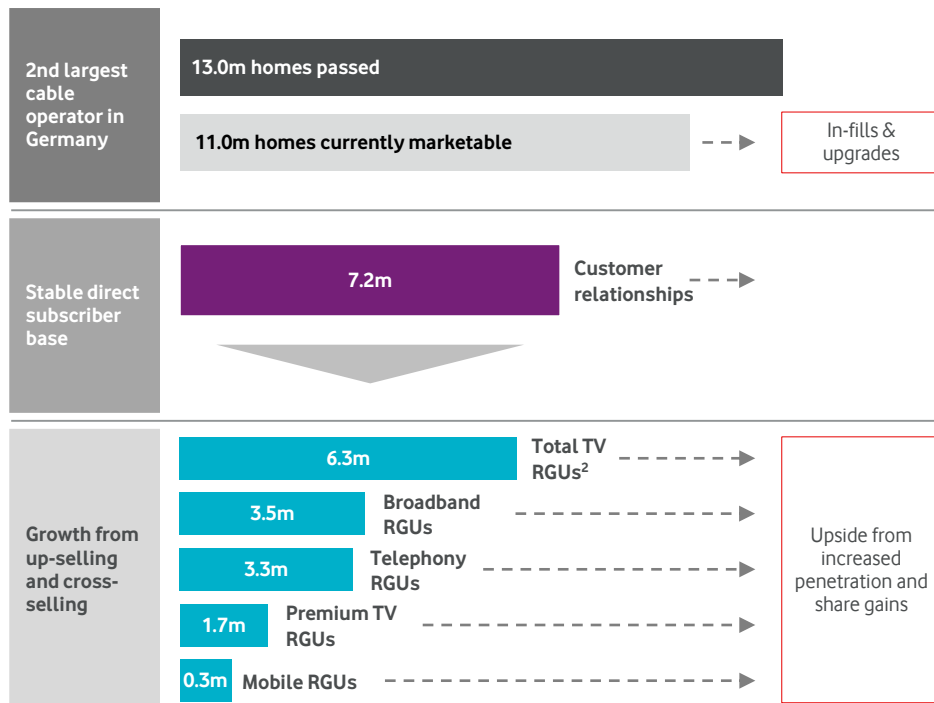
4. Based on consensus forecasts for Unitymedia and Liberty Global's estimates for Liberty Czech Republic, Hungary and Romania. EBITDA calculated post duct leases, TSA charges (opex) and share based compensation

OpFCF calculated as EBITDA (as per previous definition) less TSA charges (capex), excluding new build capex. EV calculated as total transaction enterprise value excluding NPV of incremental net operating losses estimated at €183 million

5. Based on free cash flow after normalised spectrum costs and assuming buyback of MCBs

# Unitymedia – A highly complementary, attractive asset

Highly attractive standalone business with upside potential<sup>1</sup>



Source: Company filings

Notes:

1. Data as of 31 December 2017
2. Includes 4.0 million multi dwelling units and 2.4 million single dwelling units

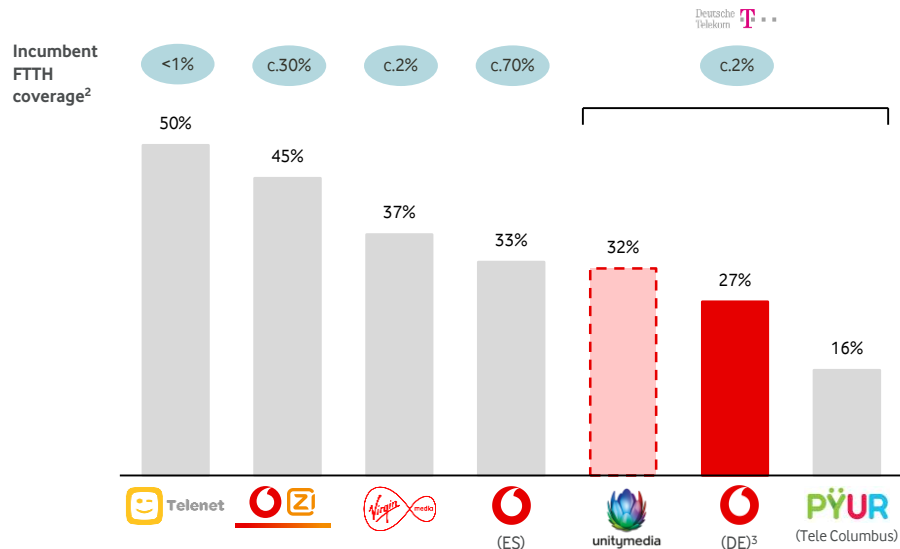
Complementary to Vodafone's existing footprint



# Unitymedia – Significant standalone growth potential

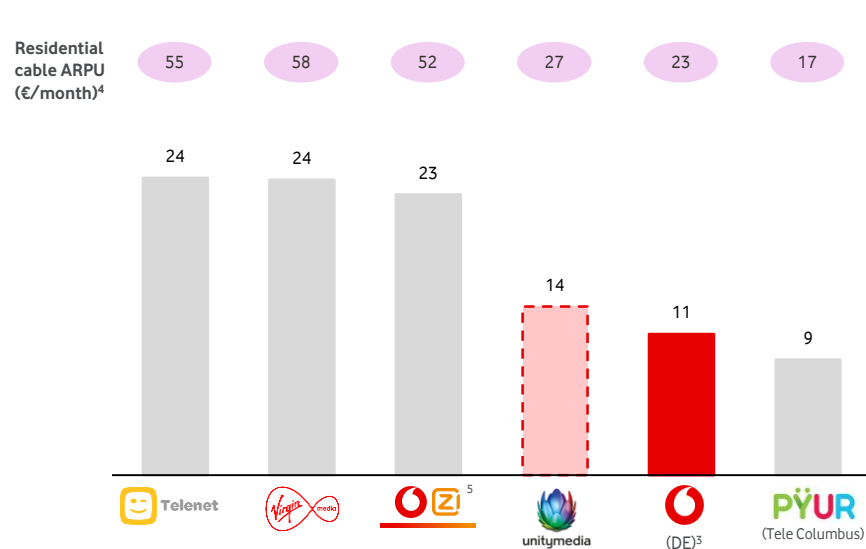
## Opportunity to increase BB penetration in UM's footprint

CY17 cable broadband penetration in own footprint (%)<sup>1</sup>



## TV ARPUs are low

CY17 TV blended ARPU (€/month)<sup>4</sup>



Speed advantage to enable ongoing broadband growth, with low TV ARPUs limiting cord-cutting/shaving risk

Source: Company filings, Globalcomms database, BAML Research, Morgan Stanley Research

Notes:

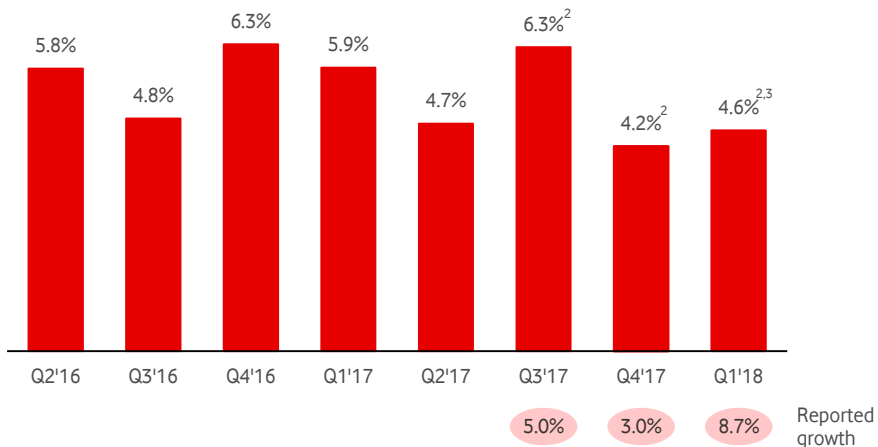
1. Calculated as cable broadband RGUs / homes passed; KDG, Unitymedia and Vodafone ES (Spain) based on marketable homes passed
2. Based on Broker Research estimates; does not include FTTC/B
3. Excludes DSL; data as of FY17
4. Calculated as residential cable revenue / average unique customers
5. Based on CY16 data

# Unitymedia – Consistent mid-single digit growth

## Strong revenue...

YoY revenue growth (%)

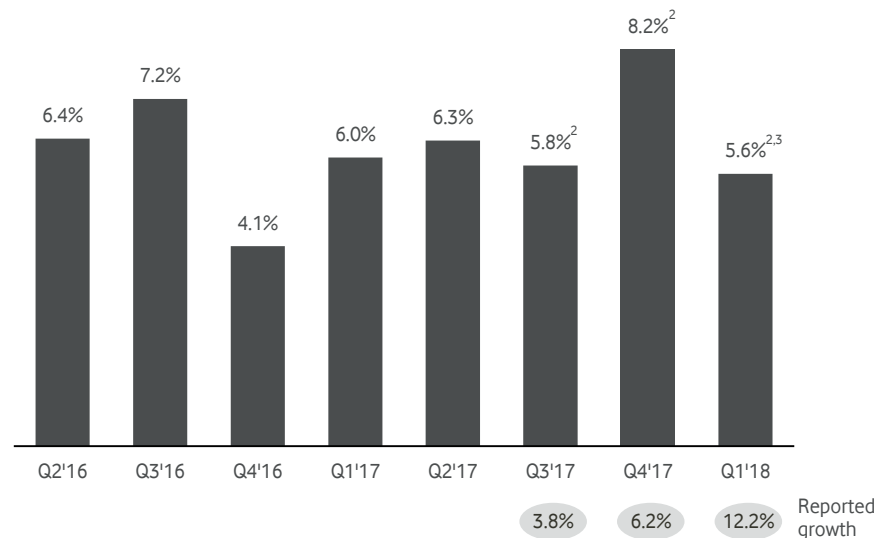
CY17 2 year CAGR: 4.7%



## ...and EBITDA growth

YoY segment EBITDA growth (%)<sup>1</sup>

CY17 2 year CAGR: 5.1%



Source: Company filings

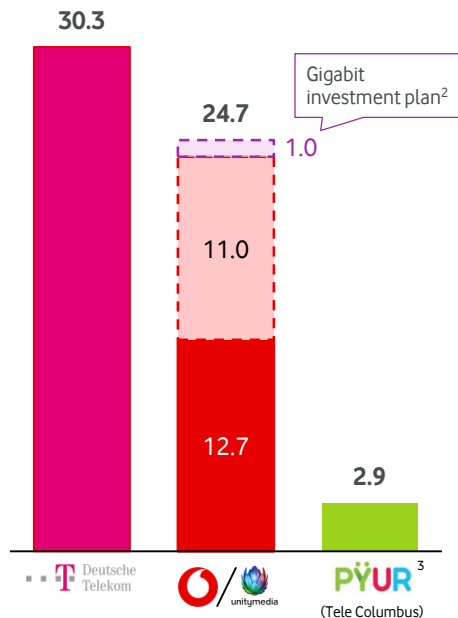
Notes:

- Adjusted segment EBITDA per Unitymedia IFRS, defined as EBITDA before share based compensation, provisions and provision releases related to significant litigation, impairment, restructuring and other operating items and related party fees and allocations
- Adjusted for €7m per quarter reduction of carriage fees from the analog video switch-off in mid-year 2017
- Q1'18 growth also adjusted for one-off settlement of €31.2m related to prior year fees with public broadcaster ARD

# Creating the leading fully converged national challenger

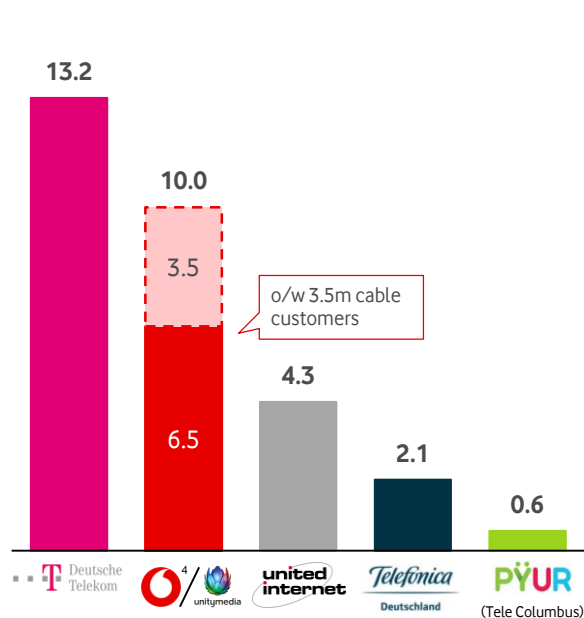
## DE – NGN marketable homes (m)

CY17



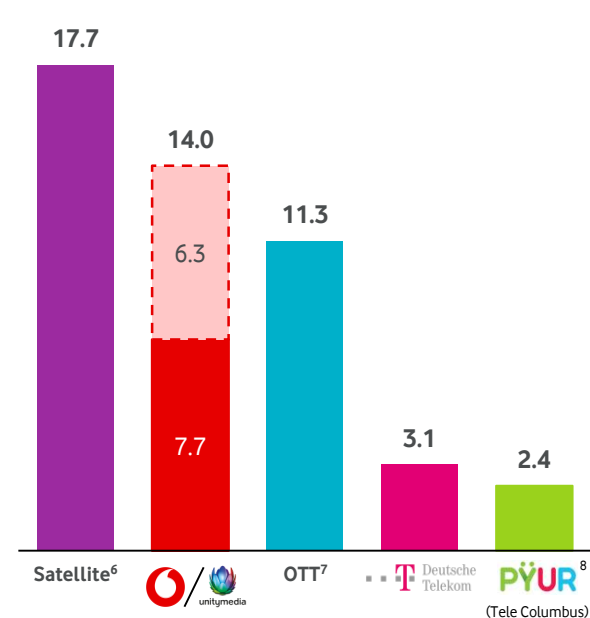
## DE – Fixed broadband customers (m)<sup>1</sup>

CY17



## DE – TV customers (m)<sup>1,5</sup>

CY17



Source: Company filings, Ofcom International Communications Report, DT Statista, Astra TV-Monitor, Exane BNP Paribas Research

Notes:

1. Total access lines assumed as total customers for DT and TEF DE
2. Represents success-based targeted roll-out not CY17 actual
3. Own network
4. Includes DSL and cable

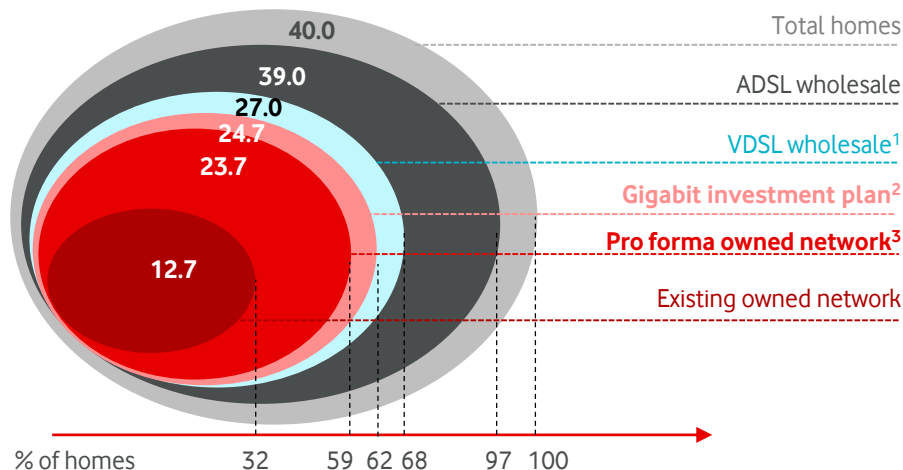
5. Digital Terrestrial TV represents a further 1.8m customers
6. Represents number of homes connected by satellite technology
7. Broker Research: subscriber data for Amazon Prime Video Germany, Netflix Germany and Maxdome
8. TV customers defined as CATV



# Enabling the Gigabit Society in Germany

## Gigabit infrastructure leader

PF Vodafone marketable homes post transaction as of December 2017 (m)



- Accelerating investment to enable around **25 million** Gigabit homes by 2022
  - compares to limited national FTTH coverage currently

## Gigabit investment plan

### Giga-Business

- Targeting **100,000 companies** in around **2,000 business parks** in co-operation with strategic partners or self build
- **€1.4–1.6 billion investment**

### Giga-Municipality

- Partnering with local municipalities to reach around **1 million rural homes**
- c.25% of HH without access to >50Mbps<sup>4</sup>
- **€0.2–0.4 billion investment**

Creating a strong second national provider of digital infrastructure in the German market

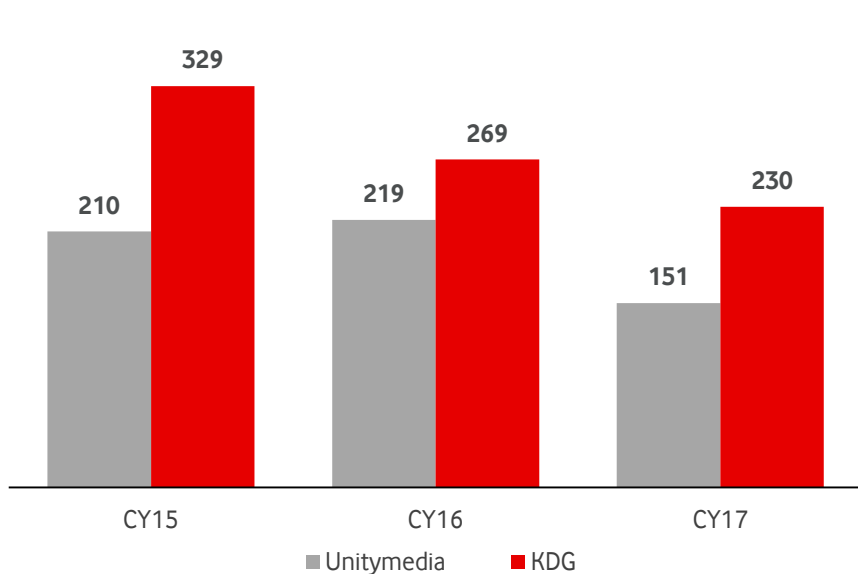
Notes:

1. Deutsche Telekom VDSL marketable at end CY17
2. Represents target roll-out, not CY17 actual
3. Homes currently marketable
4. Vodafone projections based on BMWI Breitbandatlas

# Vodafone & Unitymedia – Significant cross-selling opportunities

## Under Vodafone's ownership, KDG has grown faster

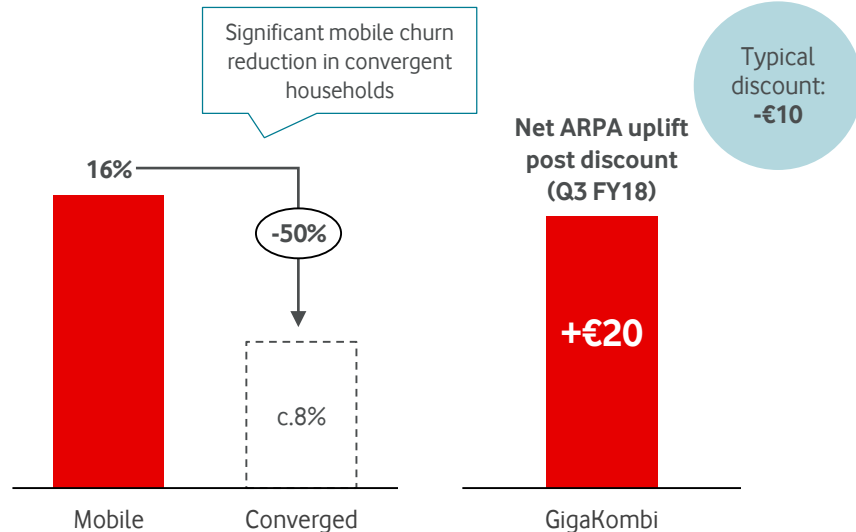
Broadband net adds excluding active ULL migrations (000s)



## Converged customers have lower churn and higher Net ARPAs

Q3 FY18 customer churn reduction (%)

Q3 FY18 Net ARPA uplift



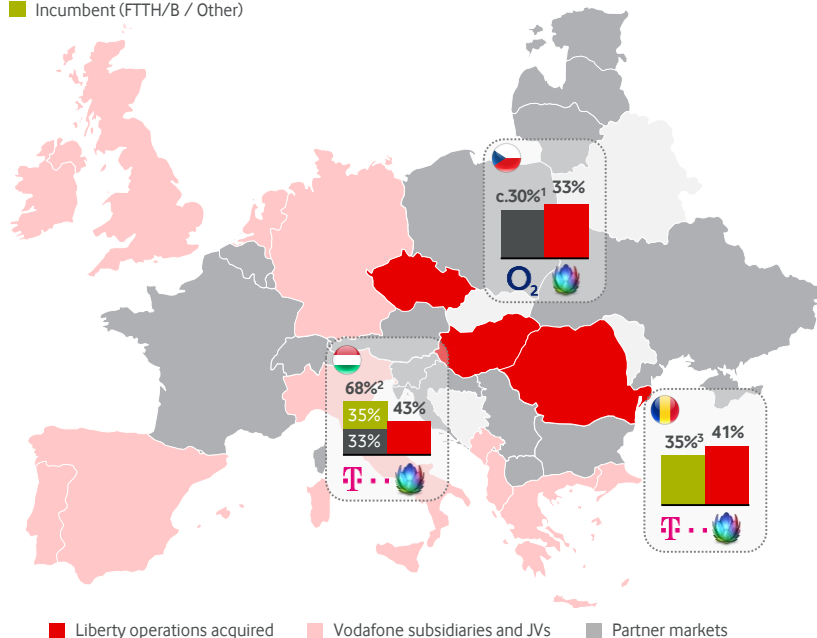
Leveraging Vodafone's brand, national retail footprint and marketing scale to cross-sell additional services

Source: Company filings, management estimates

# Transforming our CEE assets into fixed/converged challengers

## CY17 in-country NGN coverage versus incumbent (m)

- Liberty (cable)
- Incumbent (VDSL >30 Mbps)
- Incumbent (FTTH/B / Other)



Source: Company filings, Eurostat, OTE, Vodafone estimates

Notes:

1. O2/CETIN: c.30% NGN fixed network coverage, of which c.1% FTTH based on Vodafone estimates
2. DT Hungary (Magyar Telekom): 35% FTTH / ED3 coverage; DT data as of December 2017
3. DT Romania: 35% FTTH/B coverage; OTE data as of December 2017
4. Excluding SoHo. TV based on Basic + Enhanced RGUs
5. Shown on constant currency basis
6. Includes IoT connections

CY17 (m, unless stated)	Czech Republic	Hungary	Romania
<b>NGN homes passed</b>	1.5	1.8	3.1
<i>% of HHs</i>	33%	43%	41%
<b>Customers</b>	0.6	0.8	1.0
<i>penetration of HP</i>	40%	47%	32%
<b>TV subscribers<sup>4</sup></b>	0.5	0.7	0.9
<i>penetration of HP</i>	33%	38%	29%
<b>BB subscribers<sup>4</sup></b>	0.5	0.7	0.6
<i>penetration of HP</i>	31%	38%	18%
<b>Liberty revenue growth<sup>5</sup></b>	8.0%	9.7%	6.7%
<b>Vodafone mobile customers</b>	3.8	2.8	9.2
<i>market share</i>	25%	25%	35% <sup>6</sup>
<b>Vodafone total comms revenue market share (before / after)</b>	15% / 20%	17% / 24%	21% / 25%

# Unlocking substantial cost and capex synergies

Area	Description	Year 5 (€m)
Network & IT	<ul style="list-style-type: none"> <li>Merge national and regional backbones</li> <li>Consolidate and simplify IT &amp; billing platforms</li> <li>Reduction in leased line and mobile backhauling costs</li> <li>Closure of central offices</li> </ul>	c.115
ULL	<ul style="list-style-type: none"> <li>Save ULL and bitstream fees from migration of Vodafone's fixed-line customers to cable infrastructure</li> </ul>	c.105
Other	<ul style="list-style-type: none"> <li>Procurement, property and central costs</li> <li>Combined marketing &amp; advertising</li> <li>Integrate overlapping functions</li> </ul>	c.315
<b>Total cost and capex synergies (pre integration costs)</b>		<b>c.535</b>
<b>NPV of cost and capex synergies (net of NPV of integration costs)</b>		<b>&gt;€6.0bn</b>
<b>NPV of revenue synergies (net of NPV of integration costs)</b>		<b>&gt;€1.5bn</b>
<b>Annual synergies expected to continue to grow meaningfully beyond the fifth year</b>		

Note:

1. After integration costs of €1.2 billion, 75% of which are spread over the first 3 years

# Greater synergy potential than successful KDG integration

## Synergy estimates compared to successful KDG integration

Cost and capex synergy estimates in Germany (€m)<sup>1</sup>

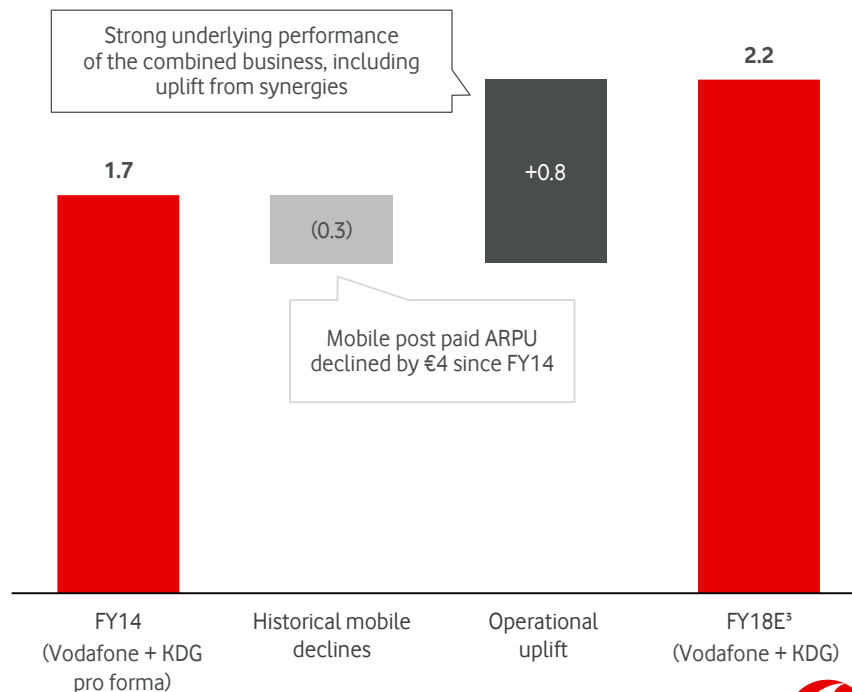
Area	KDG Y4 actual	Unitymedia Y5 est.	Comments
Network & IT	>75	c.65	<ul style="list-style-type: none"> <li>• Lower backbone integration potential</li> <li>• Higher IT synergy potential given opportunity to simplify and migrate to Vodafone platform</li> </ul>
ULL	>105	c.105	<ul style="list-style-type: none"> <li>• Similar potential to KDG</li> </ul>
Other	>190	c.255	<ul style="list-style-type: none"> <li>• Additional benefits of cable-to-cable merger</li> </ul>
<b>Total C&amp;C synergies</b>	<b>&gt;370</b>	<b>c.425</b>	

Notes:

1. Pre integration costs
2. Calculated as EBITDA less capex
3. Based on consensus estimates

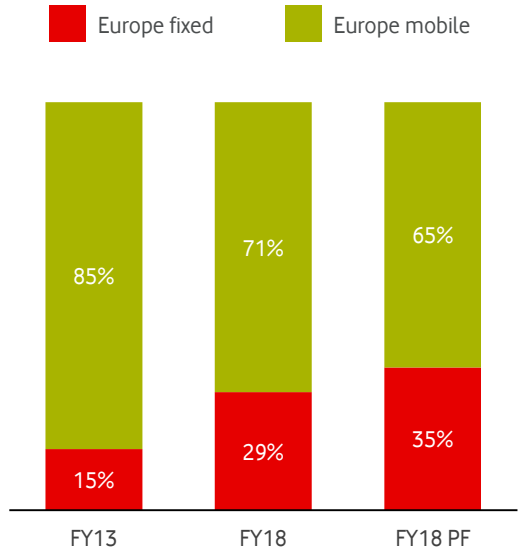
## Successful synergy realisation offsetting mobile ARPU pressure

Vodafone Germany OpFCF (€bn)<sup>2</sup>



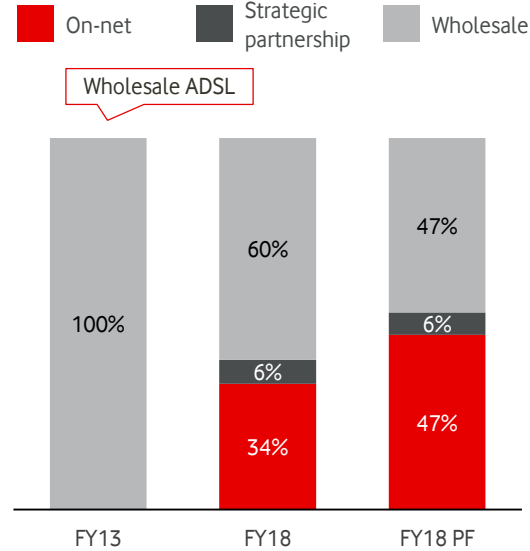
# Increasing proportion of growing and resilient converged revenue

## Europe service revenue mix



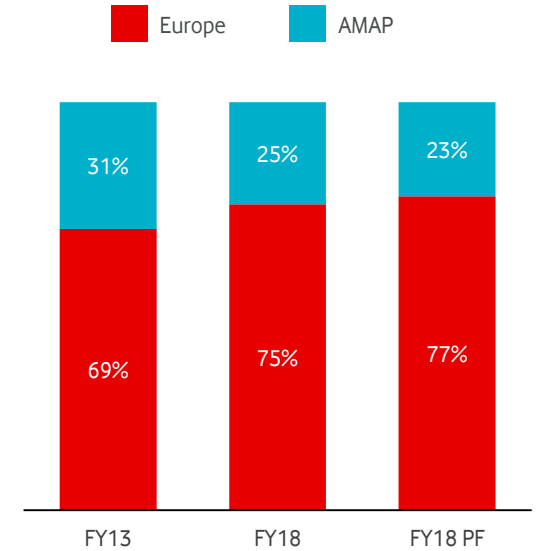
More fixed/converged

## Europe NGN homes coverage mix<sup>1</sup>



Infrastructure owner

## EBITDA mix<sup>2</sup>



More focused on Europe

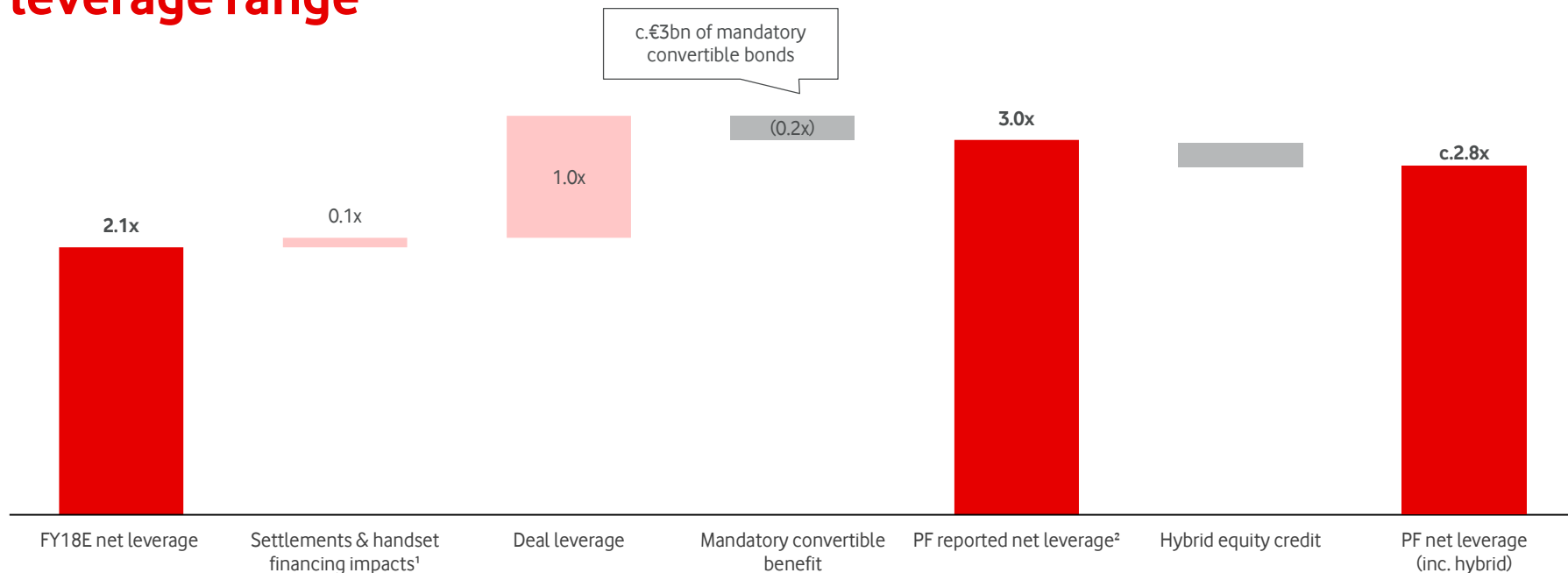
A converged European infrastructure leader

Notes:

1. Includes VodafoneZiggo
2. Europe includes common functions and eliminations



# Maintaining a solid investment grade credit rating, within a 2.5-3.0x leverage range



**Intending to achieve approximately €5-7 billion of equity credit from credit rating agencies**

Notes:

1. Includes UK handset financing and regulatory settlements
2. Based on consensus for Unitymedia and Liberty Global estimates for Liberty Czech Republic, Hungary and Romania (after adjusting OCF for TSA charges (opex), SBC and duct leases), totalling c.€1.6 billion

# Significantly value accretive transaction

## Attractive return on capital

- Transaction value of €18.4 billion, implying 12.5x FY2019E OpFCF<sup>1,2</sup> post year 5 synergies
- The returns from the transaction are expected to exceed the estimated cost of capital for the acquired operations within 5 years<sup>3</sup>

## Financial effects

- Accretive to Vodafone's free cash flow per share from the first year post completion and double digit accretive from the third year post completion<sup>4</sup>

## Unchanged dividend policy

- Intention to grow the dividend per share annually, further supported by the expected accretion to free cash flow per share

## Transitional Services Agreement

- For a period of time post completion, Liberty Global will provide certain transitional services to Vodafone in the relevant countries
- These services principally comprise IT and TV platform technology-related services, connectivity and other support services
- The annual opex and capex recharges to Vodafone for these transitional services would be equivalent to €57 million and €71 million, respectively, in FY2019E and on a pro forma basis

## Timetable & approvals

- The transaction will be subject to review by and approval from the European Commission
- The transaction is not subject to Vodafone or Liberty shareholder approvals
- Completion is expected to take place around the middle of calendar 2019

### Notes:

1. Based on consensus forecasts for Unitymedia and Liberty Global estimates for Liberty Czech Republic, Hungary and Romania. EBITDA calculated post duct leases, TSA charges (opex) and share based compensation. OpFCF calculated as EBITDA (as per previous definition) less TSA charges (capex), excluding new build capex. EV calculated as total transaction enterprise value excluding the NPV of incremental net operating losses
2. Adjusted for year 5 cost and capex synergies before integration costs
3. Based on unlevered cashflow from the target assets, excluding integration costs and new build capex
4. Based on free cash flow after normalised spectrum costs and assuming buy-back of MCBs



# Summary

- Vodafone becomes the leading next generation infrastructure owner in Europe, accelerating our convergence strategy
- Bringing together leading mobile and fixed-line/TV talent to strengthen our position
- Creates a fully converged national challenger in Germany
- Transforms Vodafone's fixed-line and convergence strategy in CEE
- In-market consolidation with >€7.5 billion of synergies, creating significant value



# Appendix



# Key financials of acquired assets<sup>1</sup>

€m	Unitymedia		Liberty Czech Republic		Liberty Hungary		Liberty Romania	
	CY16	CY17	CY16	CY17	CY16	CY17	CY16	CY17
<b>Revenue</b>	<b>2,295</b>	<b>2,394</b>	<b>146</b>	<b>162</b>	<b>211</b>	<b>233</b>	<b>131</b>	<b>137</b>
<i>growth (%)</i>		<i>4.3%</i>		<i>10.9%</i>		<i>10.5%</i>		<i>5.0%</i>
<b>EBITDA<sup>2</sup></b>	<b>1,343</b>	<b>1,419</b>	<b>78</b>	<b>87</b>	<b>86</b>	<b>94</b>	<b>35</b>	<b>39</b>
<i>margin (%)</i>	<i>58.5%</i>	<i>59.3%</i>	<i>53.4%</i>	<i>53.7%</i>	<i>40.8%</i>	<i>40.3%</i>	<i>26.7%</i>	<i>28.5%</i>
<b>Capex<sup>3</sup></b>	<b>(538)</b>	<b>(616)</b>	<b>(46)</b>	<b>(43)</b>	<b>(62)</b>	<b>(60)</b>	<b>(59)</b>	<b>(54)</b>
<i>intensity (%)</i>	<i>(23.4%)</i>	<i>(25.7%)</i>	<i>(31.5%)</i>	<i>(26.5%)</i>	<i>(29.4%)</i>	<i>(25.8%)</i>	<i>(45.0%)</i>	<i>(39.4%)</i>
<b>OpFCF<sup>4</sup></b>	<b>805</b>	<b>803</b>	<b>32</b>	<b>44</b>	<b>24</b>	<b>34</b>	<b>(24)</b>	<b>(15)</b>
<i>margin (%)</i>	<i>35.1%</i>	<i>33.5%</i>	<i>21.9%</i>	<i>27.2%</i>	<i>11.4%</i>	<i>14.6%</i>	<i>(18.3%)</i>	<i>(10.9%)</i>

Notes:

1. Based on Liberty Global reported results (prior to the impact of rebasing) after adjustment for Vodafone IFRS (primarily being treatment of duct leases and discounts)
2. Pre SBC and TSA costs; Based on US GAAP reported OIBDA from Liberty Global reported results for Unitymedia Germany and UPC Czech Republic, Hungary and Romania
3. Pre TSA costs
4. Calculated as EBITDA less capex



# Financial overview

	FY2019E (€m)	Multiple (x)
<b>Transaction enterprise value</b>	<b>18,400</b>	
NPV of net operating losses	(183)	
<b>Adjusted enterprise value</b>	<b>18,217</b>	
<b>Liberty DE, CZ, HU &amp; RO OCF (US GAAP)<sup>1</sup></b>	<b>1,820</b>	
Duct leases	(73)	
TSA charges (opex)	(57)	
Share based compensation	(11)	
<b>EBITDA (IFRS), pre synergies</b>	<b>1,678</b>	<b>10.9x</b>
Year 5 cost synergies <sup>2</sup>	434	
<b>EBITDA, post year 5 synergies</b>	<b>2,113</b>	<b>8.6x</b>
Capex <sup>1</sup>	(685)	
TSA recharges (capex)	(71)	
Year 5 capex synergies <sup>2</sup>	101	
<b>OpFCF, post year 5 synergies</b>	<b>1,458</b>	<b>12.5x</b>

Notes:

1. Based on current analyst consensus estimates for Germany and Liberty Global estimates for the Czech Republic, Hungary and Romania (where consensus estimates are not available), excluding new build capex
2. Pre integration costs

# Transaction sources & uses overview

Sources (€ billion)		Uses (€ billion)	
Acquired debt rolled over	4.5	Cash consideration	10.8
Mandatory convertible	3.0	Net debt, derivatives and accrued interest acquired <sup>1</sup>	7.2
New debt (including hybrid) & existing liquidity	10.9	Vendor financing & leases	0.4
<b>Total sources</b>	<b>18.4</b>	<b>Total uses</b>	<b>18.4</b>

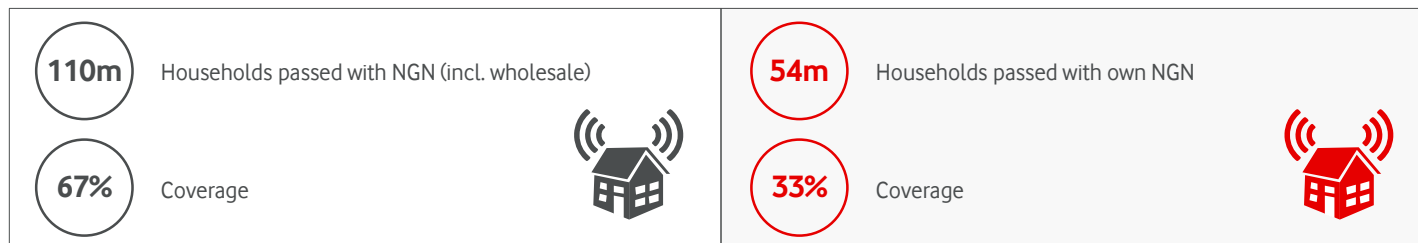
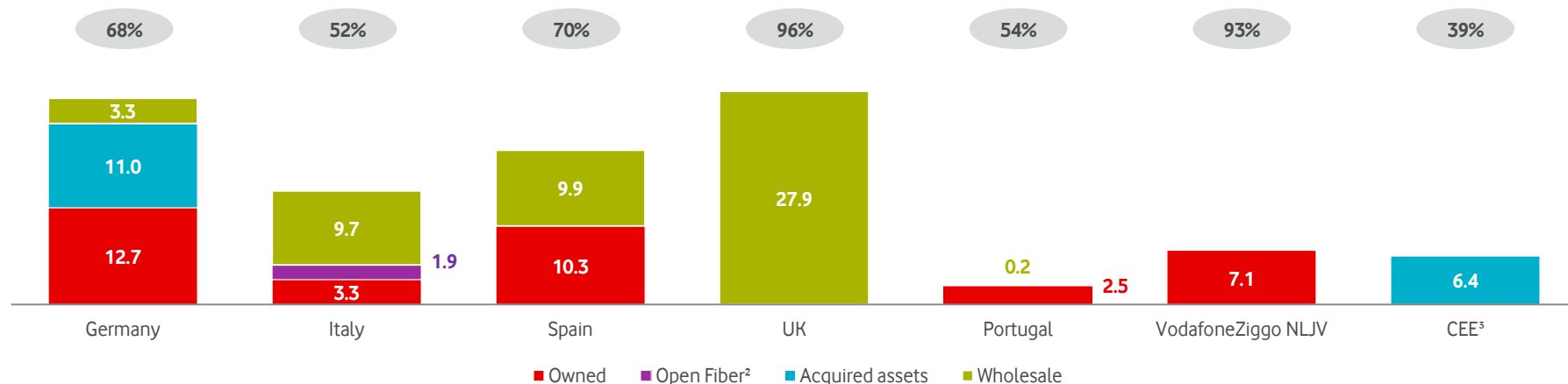
Notes:

1. Reflects mark-to-market and other adjustments



# Vodafone pro forma NGN footprint by country<sup>1</sup>

## Households coverage (m)



### Notes:

- As of 31 December 2017, excludes 3.7m wholesale & self built NGN homes passed in Greece and Ireland
- Of the 2.4m homes passed, 1.9m were marketable at the end of December 2017 (up from 1.75m at the end of September 2017)
- CEE includes CZ, HU and RO

