Vodafone Business Virtual Investor Briefing Live Q&A

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Introduction

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Welcome

Welcome everyone to the live Q&A session for our Vodafone Business Investor Event. I am Vinod Kumar, the CEO of Vodafone Business, and I am joined today by my colleague and CFO, Sateesh Kamath.

I hope you have had an opportunity to review the materials on the website. And if not, I would encourage you to visit those later.

Key takeaways

The following are what I hope you would have taken away from the presentations on the website.

First, there are five things that sets Vodafone business apart:

- Our scale is unrivalled in terms of geographic reach;
- Our strong gigabit networks in both fixed and mobile;
- Our partner market agreements; and
- Our technology depth.

We leverage and contribute to the scale of Vodafone Group.

Secondly, we have a balanced portfolio across three customer segments:

- SOHO;
- SME; and
- Corporate.

This breadth gives us resilience and also lets us learn from some of the most demanding customers in the larger corporate and multinational segments, and we apply these lessons across the board to the rest of our customers.

Thirdly, I would say we are a clear leader in IoT. I hope that we have established the position in the marketplace and we see significant growth opportunity for us and a clear room to differentiate Vodafone from our peers.

The other thing that is unique about us is our SME focus. We have a very strong presence in this space and we see opportunities for us as we focus on it much more than other telcos do, who tend to be more focused on the larger corporate segment.

And finally, in terms of what sets us apart, we are truly pan-European. We operate in markets which account for 60% of European GDP. And this positions us very differently both for our customers who need pan-European solutions, as well as partners who want to access those customers.

Additionally, this is creating new opportunities for us such as those being created by the EU recovery funds, which we will talk about a little bit later.

In terms of our implementation, we see four unique elements to our strategy.

- First our matrix organisation model. It really leverages central product and commercial expertise, which we combine very neatly with the speed and agility and customer relationships, which are managed at a local level.
- The second aspect of our execution is business and consumers operate in very similar locations. We have a symbiotic relationship with our consumer business, and together, we leverage the underlying assets that we have as Vodafone Group.
- Thirdly, our product development model leverages partners extensively. This again we will be talking about I am sure based on the questions you ask. But what this does is it reduces our CapEx needs, equally it also reduces the risk associated with launching new services since we can pick out what has already been proven and then deploy it in our markets. And most importantly, it gives us speed of deployment, which is extremely important in changing times.
- And finally, our shared operations and technology model really allows us to leverage the scale of the Group.

With that, I would like Sateesh and I to begin the Q&A session and take the questions you have. As a reminder, I would like to request you to say only one question per person please. We have many people who would like to ask the questions and we want to give everybody a chance. Over to you.

Q&A

Carl Murdock-Smith (Berenberg): If I compare the growth rates of the markets on slide four versus your growth rates on slide six, it looks like you are growing slightly slower than the markets in Mobile, Unified, Cloud and Security and IoT. Now, I appreciate that 2020 was somewhat of a special year. But in general, is that a fair observation? Why is that the case? And what can you do to ensure that you are growing at a similar rate to the markets going forward?

Vinod Kumar: Thank you, Carl. Really good catch. You have obviously been through the material well. Firstly, the growth rates that we have that we show are the CAGR for the FY21 to FY24 period, whereas what we have shown as growth rates is for the year that we are going through now, which has clearly been impacted by COVID.

I will just point out to a few things there in terms of our growth rates versus the growth rate of the addressable market, which I would like to point out that it is a €100 billion addressable market growing at a CAGR of 8%, which is a significant opportunity for Vodafone Business.

When we look at this year on Mobile, we are lower than the CAGR for the period of FY21 to FY24, largely because of the roaming effect. Roaming has declined nearly 75% this year due to business travellers not travelling as a result of COVID, so that has dampened our growth rate. However, if you take roaming out, we have actually still showing an improving performance.

In Fixed, you can see that we have grown at 3.9%, which is better than the growth rate that is projected. And that is because we have a lower legacy base in Fixed.

In IoT, we had a slower start to the year because of Q1 being a slow period as a result of COVID and automotive sector where we are very strong. Cars were not moving around on the streets. But as that has rebounded, we have seen IoT accelerate to nearly double-digit growth.

The other point I would like to clarify here is when we look at the IoT market in the future, including the solutions piece of the business, of the total IoT market, the connectivity piece of it is expected to grow around 8% to 10% and we believe that we will keep at that pace or grow faster than that. However, we see big upside opportunity as we start rolling out our IoT end-to-end solutions, which we have started doing this year.

One final point. When we look at Unified Communications, it is more of a definitional issue that I would like to point out to. We are growing by 4% this year. The market is growing at 12%. However, we are not including the collaboration SaaS services, which we report under Cloud and Security.

Net-net, I would say that the breadth of our portfolio, especially the recent expansion into Security, IoT Solutions and areas like Unified Comms will really help us outpace the market when it comes to Fixed and Mobile, and then grow at double-digit in the coming years, which will be at market growth rates.

David Wright (Bank of America Merrill Lynch): I guess, my question is, you are to some extent a challenger, and I state that versus the incumbents, who have a lot more perhaps legacy business with some of these customers. And of course, some of those legacy businesses carry very, very high margins on totally depreciated assets. So I am assuming they try and squeeze and sweat that customer base as much as they can. You are obviously coming in as a challenger. Do you find you are more sort of agile from a price perspective? Do you feel like you are winning market share because you come from this position where you do not have this kind of back book profitability to worry about?

Vinod Kumar: Very good question, David. Firstly, you are right in pointing out that we do not have much of a legacy business in our portfolio. In terms of competitors defending themselves using depreciated asset, that only works up to a point, to be frank, because there is a generational shift taking place in terms of technology, as well as enterprise architectures, where our business is, both large and small, are moving to the cloud. And therefore, there is a shift to cloud-based services away from traditional hosting type of services.

And then associated with that the network architecture has to change. And this is where the legacy architectures, which are more MPLS and IP VPN, are shifting to software-defined wide area networking (SD-WAN). This presents a real opportunity for us as a challenger to go in. But we are a challenger that has underlying assets which makes us quite strong, not just a pure over-the-top player.

So a combination of the fact that we have a strong SD-WAN portfolio combined with underlying assets, in many of the European markets, gives us a real strength. Further, we are leveraging both our Fixed and Mobile assets to build both speed the deployment and resilience. So when you take all these three things into account, the story of just trying to say I am going to reduce my prices on the legacy technology does not work because the customer has to make a shift in the architecture of their network to adapt to the shift of workloads to the cloud.

David Wright: Very clear. And if I could just follow-up on that. So you obviously ended up very well in SMEs. Do you feel like you are taking share now in SOHO and the corporate market?

Vinod Kumar: Yes. For different reasons, right. One is in the corporate market, like I just answered, there is an opportunity for us as a challenger with a strong portfolio in hybrid cloud management, as well as in SD-WAN and the next generation of Unified Comm Services, and in IoT, right? There is a lot of new technologies that we have which are right in the sweet spot of where the market is making the transition and moving to a new architecture. So that is allowing us to outpace the market in terms of fixed growth, like you see, we have grown by nearly 4% this year against a market which is flat or declining.

If you dissect the fixed growth market, actually the legacy services are declining by 6% and the new generation services grew by 6%. And our growth will come in that 6% of new services. So that is the story in corporate.

When it comes to SME, it is a little bit of a different dynamic. The SME market overall will grow by about 8% as we include in our slides. However, what we are doing is playing into an addressable market that we are involved by positioning ourselves as the trusted partner for SMEs beyond connectivity into all things digital.

SMEs, by and large, are a lot of digitalised compared to corporate customers. And this is the rising tide that we would be able to float up with. And we start with a very powerful base of customers and also a good market share in that space with a strong brand consideration to move into the spaces beyond connectivity. So slightly different dynamics.

In the case of corporate, it is sticking to our infrastructure strength, going into next generation connectivity and there is growth there. In SME, there is market growth but also that is coming through the broader perimeter because of the addressable market and the capabilities we have.

Polo Tang (UBS): I really just have a slightly different question about service revenues. So if you look at the business unit, you have obviously outlined it was able to grow 2% to 3% year-to-date excluding COVID impacts. But should we think about this as the normal level of growth for the unit going forward, or were there one-off benefits from recent account wins? And just sticking to service revenues, how should we think about COVID-19 impacts longer term? So for example, when government support ends, how should we think about SME revenue stream? And then as people return back to the office, how will this impact large corporates?

Vinod Kumar: Thank you, Polo. Very relevant question, given the period we are in. Firstly, if I look at the impact of COVID on us, I will focus on the three areas which were adverse and then I will come to why we grew. First is roaming revenue declined by 75% year-on-year. We see that will come back, but over a period of time. I can get into it later, if required, if we have time on nature of travel and so on.

The second is in the first half of the year, we saw project revenues being impacted because the larger customers even where we had projects, where we were awarded the business already, they have to put them on hold because of limited site access, concerns for health and safety, which were the right things to do both for them and for our employees. So we saw that slowdown in H1. Then we saw it coming back. We are beginning to see it come back in H2, because these are large digitalisation projects, which are important to our customers.

The third one was in Q1 and maybe part of Q2, we saw a slowdown in IoT. Remember, we have 33 million connected cars that we support. We are the largest player in the automotive space. And so the pace of adding new connections as well as the movement of the cars had slowed down. And these three things put together impacted us.

This was offset by a higher demand in fixed line and connectivity in pockets of our business, especially in the larger corporate and very significantly in the public sector space. The great examples, if you look at the videos on the website of what we have done in Spain with the health system there, what we have done with NHS in the UK. And this was an area where we saw a growth that offset some of the slowdown that I would describe.

And finally, we saw some upside from variable usage packages, which were driving up volumes, but this was not that big. So these, I would say, were the impact.

So in summary, yes, we had some slowdown, but the areas of our portfolio where we had created new capability allowed us to grow and led to the 3% growth. We do not see any of those factors changing even when we go back post-COVID because there will still be hybrid working. The movement of the cloud is going to continue with large corporates and SMEs will continue to digitalise, further aided by the EU recovery funds kicking in and both in creating opportunities with public sector digitalisation as well as SME digitisation.

The one thing that my team and I continue to keep our eye on is, what happens to macroeconomic factors? Will there be any slowdowns? What could be the impact potentially with SMEs as furlough schemes come to an end or other government support schemes wind down? So we are going to watch it carefully. But based on what we see, we feel that we have established good momentum based on the performance this year.

Maurice Patrick (Barclays): I have a question on the large enterprise. I mean, you show in the slides quite helpfully how large enterprise is going to be the fastest growing segment. And you also talk about partnership models to embrace that. But how do you position Vodafone as the partner of a choice with the large global companies in terms of penetration in the marketplace? And how sticky is your relationship with them? I know you have made a number of agreements already. How sticky are those agreements with the large partners as your partner in the space?

Vinod Kumar: Maurice, very pertinent question, because I think quite often the market is viewed in B2B space with the lens of large enterprise, because it is a big part of it and it is growing quickly.

What I would like to point out here is, first I will admit that it is a crowded space. But therefore, when we were crafting our strategy for large enterprise, it was very much about what we were not going to do, and then we spoke about what we are going to do. The things that we do not want to do, I will start with that, is we are not trying to be a systems integrator. We are not trying to be a full-fledged IT provider. We are not trying to be an applications company for these large spaces. But then we would be competing head on with systems integrators, with some of the other telcos who have created a lot of capability in the space but still working to get a return on it and with the IT majors.

Therefore, our strategy is very focused on leveraging our strength in Mobile, leveraging our strength in IoT and then growing from there into adjacent spaces. And it is about offering the next generation of connectivity services.

And in that, I would say that what is playing out really well for us now is edge computing, mobile private networks and the widespread deployment of IoT in these large enterprises. We obviously have an SD-WAN portfolio, which is strong, which also we play into.

Our strategy here is to focus on what we call gigabit for enterprise, which is about smart and next generation infrastructure and next generation connectivity. And this focus is where we believe we would be different from the others.

One last point on this space, here again, we do not do bespoke. We do not do a complex managed services. We do highly repeatable and modular solutions, which is where we get the real scale effect of Vodafone.

Jerry Dellis (Jefferies): I had a question really around Germany. Is it possible for you to clarify for us how fast you are growing in the German market, please? I mean what we observe looking at the disclosure is that Vodafone Germany service revenue trends are lagging rather behind those of Deutsche Telekom over a fairly prolonged period. And obviously the consumer offerings look pretty similar across the two brands. So I wonder whether there is a difference in momentum on the enterprise side between yourselves and Deutsche Telekom? Then it would also be interesting please for you to clarify for us how the cable network is coming into play and where that is useful for you? Do you really manage to leverage that mainly through the SME and SOHO? Or is that helpful on the large enterprise side as well, please?

Vinod Kumar: We do not disclose the growth rates at a market level, but let me try and paint the picture. Firstly, Germany is a large market, nearly €34 billion and growing. What we have seen this year is strong growth in the German market. And this has come on from all segments, to be honest, across the larger corporates, the Mittelstand companies, as well as public sector, where we have very strong relationships that are growing and will continue to be big contributors for growth.

We are fully leveraging the assets that we have in Germany. That includes, obviously, the mobile network, which I will come to in a second with 5G, and then also the fixed network, which we are expanding. And the cable network, like you pointed out, is relevant when it comes to SME customers and also some larger business customers, but it is more for SME and SOHO, where it is relevant.

I think in Germany, what I am really excited about is the IoT possibilities, in addition to the fixed growth that we are already seeing. Being the manufacturing giant that Germany is in the context of Europe and the leader in Industry 4.0, we have many examples already of 5G and MPN and dedicated edge being rolled out in our customers in Germany in the areas like manufacturing.

We are also working on connected hospitals with a great project in Düsseldorf, which showcases the capabilities of both 5G and edge, which we then will leverage in other markets as well.

And finally, in Germany, the automotive sector, which is a big part of that economy, we are a very strong player. And I think it is only the tip of the iceberg that we are experiencing, which is connectivity for software on the air upgrades to the car and so on. That is moving to internet in the car kind of use cases. And finally, it will lead to V2X and other connected mobility applications.

So we approach the market based on our strengths, and I see considerable opportunity for us to continue growing in the German market. And this year we have seen an acceleration.

Robert Grindle (Deutsche Bank): I saw that your existing market share is just 6% of Enterprise, which is good as that is where the biggest opportunity is. Is that 6% pretty evenly spread across the markets for say much higher in the UK due to the Cable & Wireless acquisition? And within the Enterprise, who are traditionally more demanding customers on quality, can you compete effectively for applications which need five nines of reliability? Or is that a journey you are still on to address the most critical applications for the largest customers?

Vinod Kumar: Thank you, Robert. So Enterprise, we have, as you said, 6% market share, but a market that is growing at 9%. So we have headroom. And that headroom is also be created by the increasing breadth of our portfolio over the last few years as well as the inflections I spoke about earlier in terms of the enterprise architecture changing and the opportunities resulting from more IoT being deployed by larger enterprises.

In terms of distribution, it is more or less the same. If I look at the geographies, UK is a little bit higher because of the Cable & Wireless acquisition, like you correctly pointed out. But the only other Spain corporate maybe a little bit lower, will be stronger in SOHO and SME. But not enough to call out a big difference other than in the case of UK.

And on your second question on demanding customers. We serve a lot of very demanding customers now, right? I would argue that what we do in case of IoT is actually in many ways much more demanding than some of the other areas that we are going into where there is no backup when it comes to IoT. There is one connection to one device, generally speaking, and it has to work. And we make this work across borders on a truly global basis more than anybody else. And we do it at a scale which is nearly twice as big as the next player. So we have that.

The second is we run critical national infrastructure for many large public sector organisations and other public-private organisations in the UK, in Germany, in Spain and Italy. So the land of demanding applications and demanding customers is not something that is unfamiliar terrain for Vodafone. So I do not think we are disadvantaged in any way at all.

It is just that we want to stay focused on what is modular and repeatable because we think that generates higher return on capital employed and also derisks the business considerably from having overlumpy revenue tied to just a few customers.

James Ratzer (New Street): My question really is about the European Recovery Fund, which you have mentioned a couple of times so far. I mean kind of eye-wateringly large numbers, €750 billion. I mean I estimate you are in markets where maybe €500 billion if those revenues are available, 20% goes to digital, that is maybe a €100 billion of potential opportunity. How are you thinking then about quantifying the impact and the opportunity of that that really is available for Vodafone to pitch for? And in the market growth forecasts that you have set out, does that include your estimates from the European Recovery Fund? Or could that be upside to those market growth rates you have set out?

Vinod Kumar: James, thank you for the question. And you are on top of the numbers as much as I am, so I would not repeat that. But it is a game-changing opportunity for the industry and a great opportunity for Vodafone. It is only now that is becoming clearer while we know the overall fund allocation over the last few weeks is becoming clearer as to which countries, what sectors will those monies be applied against.

Therefore, right now we have not fully baked it into the numbers, but we will have to wait and see how it plays out. But we believe that it will definitely be a contributor to our growth and potentially creating upside too.

I would like to focus on where the money is going and how it fits with our strategy, right? There is around SME digitisation, we believe is going to be a fairly big agenda item for the EU recovery funds, given the number of jobs that are created by SMEs in Europe. And this then contribution to GDP across all our major markets. From what we see already, there is about €14 billion of funds allocated to SME digitalisation. And I will come to what we are doing about it in a second.

The other area is on public sector digitalisation. And in some sectors, we have been caught a bit flat footed with the state of the infrastructure. And therefore, areas like e-health and e-education or connected education are going to be very high on the agenda. And we have seen clear sums of money being allocated to that.

The third area would be around smart cities and making sure that from an environmental standpoint, as well as public citizens' quality of life, there is an uplift. So we see that is the third area.

And then the last one I would call out is digital skills. And this is going to be an across the board spend that is made in all the major markets. Now this plays really well into where we have been building our capability. So when you talk about SME digitalisation, we have spoken about our presence and focus on SME, we responded immediately after COVID growth well before EU recovery funds were even announced, with a service called V-Hub. You can go watch the video about it on the website.

Very soon, I should say, we will have a million unique visitors to the V-Hub, which is an advisory service for SMEs on all things digital, including how to avail of the EU recovery funds. So we believe that this is a good area for us to play.

In e-health, we do a lot already with our Innovus Centre of Excellence in Greece for remote medicine, work that we are doing in Germany, as I mentioned, with the Düsseldorf Hospital. So great examples. We see opportunities here that fits into our strength.

IoT cuts across many areas, but the one I would call out is smart cities, where we have many solutions already that are being packaged and offered to various cities as they want to digitalise their platforms.

And finally on e-education, through our purpose agenda, which we care about very deeply, Vodafone Foundation has been connecting schools using advanced digital technologies, which are now evolving to the next generation of technologies, which will also position us well. So we believe that there is a lot of opportunity for Vodafone to both contribute to the recovery of Europe post-COVID, but also have some business gains as a result.

James Ratzer: I mean, you mentioned there €14 billion figure for SME digitisation. Do you have a similar figure for the public sector digitisation at this stage?

Vinod Kumar: I do not have those off the top of my head, but they are of a similar order of magnitude or even greater. There are 20% of the €750 billion is going to be used for digitisation. So the numbers are quite staggering to be honest. And not all of it will come as just pure connectivity. They will come in various forms which are driven by industry outcomes, which is important to know. And we are not chasing every opportunity.

We are looking at health, education, smart cities, SME digitalisation and overall skill transmission in the economies, which gives us enough room on the demand side of the EU recovery funds.

Georgios Ierodiaconou (Citigroup): I just have one question, which is more of a follow-up from some of the previous questions being asked. Well, it will be greatest to get an idea of the opportunities in different countries. A, in the legacy to modern network migration, which countries are more advanced versus others? And B, in what James just asked around the recovery fund? And whether, for example, having players like Swisscom in Italy makes it hotter there somewhere else? And then finally on the IoT side. Who do you consider to be your main competitors and which countries are the ones where you see the most potential?

Vinod Kumar: Yeah. There is a broad range of questions there. So I will try to go through them fairly quickly. Okay. We are not going to provide detail country breakdown. But what I can say is if you look at the €10 billion odd of Vodafone business revenues, about two-thirds of it, Georgios, comes from our EU4 countries. Obviously, Germany and UK are our biggest markets followed by Spain and Italy, which are roughly equal size. So that is two-thirds.

And then the remaining one-third is equally split between the rest of Europe. So it is the one-sixth. And then the remainder of it comes from Africa and the rest of the world. So we have presence in Asia and America and so on. So that is roughly the geographic split.

In terms of legacy to future, that is an interesting question. I do not think we are particularly exposed more than one market or the other. But naturally, because we have a higher fixed business and higher corporate business in the UK because of Cable & Wireless, we have a little bit more legacy there.

However, I must say that the team there has done a fantastic job of migrating customers of legacy to newer services. And some of this has actually happened at rapid pace during COVID, where customers are shifting to hosted contact centre solutions, which are cloud-based away from legacy captive deployments. And similarly, the cloud migrations we are leveraging the partnership we have with IBM and making sure that it is working really well. So I do not think we have a particularly risky exposure even in the UK on legacy.

Your next question on European recovery funds. It really is a pan-European opportunity, which we believe will play to our strength. There are obviously very national projects, but there are tenders which are coming out which are pan-European. And there is a consistency in the requirements that the way the EU will drive it for certain programmes, which we believe positions Vodafone really well, because we are present in more markets than any other player in Europe.

Also there are some projects which are likely to come, which are corridors between countries or along supply chains for which you need to be present in multiple countries, which again could be to our benefit.

In terms of IoT competition, I am not going to name names here, but seven years in a row we have been the leader in the Magic Quadrant from Gartner in the IoT connectivity space. And each year we have strengthened our leadership position. And I can say that we are nearly twice as big as the next player of 40% as big in terms of volume of connections, which is now at 120 million connections in total.

We have a global platform available in more countries than any other player. We have a platform that is an in-house platform, so the IP is ours. And we are able to create more features and capabilities. And this platform is also being used and integrated into our MPN solution portfolio, which is a big space we see for ourselves.

So IoT is something that we are very proud of. The team has built something fantastic and it is being used as a glue to bring together other parts of our product families as well. I have covered a lot of ground. Hopefully I have answered most of your questions.

Andrew Lee (Goldman Sachs): So I had a question on the structural opportunity for growth and sustained high returns that you have picked out today, particularly in Cloud and IoT. Particularly in a B2B space as European telco analysts, we are used to having being a drag on revenues for most players. And maybe if you can contextualise it. We have seen in B2B over the past decade, let us say, a combination of high pre-existing market shares, higher returns and a low marginal cost to compete for the challengers in a largely commoditised space translate to revenues and returns plummeting across European telco B2B. And so actually, I think a lot of people when they looked at [inaudible] years as people said really useful slides today, were positively surprised at what you are delivering. But I wonder if you can just talk about what is different this time, particularly for Cloud and IoT that stops those high returns being competed down like all the rest the returns in the space.

Vinod Kumar: Great question, Andrew. I am going to bring Sateesh at the end of this also to back it up with some numbers. But I think what differentiates our strategy from what you would normally see is the fact that it is a large spectrum of things you can do in the B2B space. There is obviously the core connectivity areas where there is a lot of competition. And in Mobile, of course, the quality of infrastructure matters a lot, which helps us with large corporates and MNCs, but there is a lot of price tension, I would say, in that space.

However, as you move away from that into Fixed, the dynamic changes a little bit if you do not have a legacy portfolio, which we do not. And therefore, we are able to play in the space as Fixed, which is growing at 6%, right? And that was important to dissect fixed into legacy and the future fixed. And the future fixed tends to be things like SD-WAN and maybe Sateesh will comment about the profitability profile of that. But there is growth there and that is the growth that we are playing into.

And then on the other end of it, a lot of players go, try to compete very far away from the core by trying to be managed services, systems integration, create a lot of industry-specific IP and so on. In Vodafone Business, we are not doing that. We believe that there is an opportunity, which is adjacent to the evolving Fixed portfolio which leverages 5G, edge computing, mobile private networks, our strength in IoT, modular security services and so on, which are highly repeatable. And therefore, both give us a revenue growth opportunity but also allow us to create a good return on capital because of our strategy of using partners, which I will come to in a second.

So our playbook is a little bit different from some of the others would either just compete intensely on the lower end of growth and margin only on connectivity or try to go too high end and try to be all things to all people. We are very focused on corporate connectivity, but advanced connectivity solutions.

And then the other thing what differentiates us is SME focus, right? SME, there is a good €6 billion upside in that market. We had a strong player across all the geographies in SME with good brand consideration. And SMEs by the way are the least digitalised of the spectrum of customers.

I will give you real data point. SME digitalisation, those SMEs that were digital during COVID actually managed to survive better than those who were not. So we have actually been advising a lot of customers through our V-Hub service of getting digital, going online, setting up the e-commerce and so on. And we have seen these companies thrive and grow, whereas those who have not been as digital, have not been able to do so.

We are laser-focused on this segment. We are going to help them by being a champion for SMEs in Europe and Africa by moving them through the digitalisation journey. And this is often overlooked segment of the market. So I can go on talking about why our strategy is different. But it is really about not getting seduced by the overall market, but looking at where the growth is coming from, and within that, looking at what is relevant to Vodafone, what is adjacent, where do we have brand permission and consideration to play and then selectively partnering to create services at speed and with lower CapEx.

Sateesh, do you want to give a numerical flavour to that?

Sateesh Kamath: Sure. Thank you, Vinod. Andrew, when it comes to profitability on IoT, there are number of benefits that work our way to start with scale is fantastic. And we are growing at a rapid pace. So the benefit of scale in IoT that we have is something that really translates into bottom line.

The second benefit, I would add on top of it, is the fact that we have got our own in-house platform, which significantly tilts the cost structure in our favour. It not only is beneficial from a cost perspective, as Vinod explained earlier. It is also significantly beneficial when it comes to the IP that we are creating around it. Given the fact that IoT is one of the growth areas, we see further profitability and return on capital employed coming in from that area.

If I move to Cloud now, we have got a good mix of businesses within Cloud. This reseller business that is very asset-light, where we make thin margins, but it is all in your cash, generating strong cash returns and better return on capital employed. So that is a portion of our Cloud business.

We also have cloud businesses which are with deeper engagement with the customers. Here we have got this excellent partnership that we have had with IBM, where we ride on IBM's infrastructure capability and our customer management capability, which again gives it asset-light, CapEx-light and gives great return on capital employed. I hope that answers your question.

Andrew Lee: Yeah, it does. I do not want to labour the point as long questions at the start anyway. But just you have highlighted how you pick the right waves of growth and you also highlighted how you are able to generate higher margins. Thanks for that. Just do you think it is easier or harder? Do you see more or less competition over the next 10 years in your growth areas than have been present in the last 10 years in the more core connectivity legacy areas?

Vinod Kumar: I think it will be more or less the same, if I had to pick an answer there. And the reason for that is we believe that the most important thing is customer relationship and building that intimacy with customers. Therefore, where we are spending our money and building IP and improving our digital experience is with the customer.

And we are choosing to do that over trying to go create new services ourselves, which we will selectively in IoT, MPN and so on. But in other areas, we believe that we are better served partnering and pick technologies which have been proven and then take it to our customers. So holding on to the customers is our focus.

And if you look at it from that lens, I think the competition will decline because we believe that we can really serve them well. We have improving NPS, and we will support that. However, there will be next generation players, people coming with software over-the-top solutions so on and so forth. But we believe we will pick the right partners. But we will defend our customers. So it is going to be two ways.

We will have more choices on who we take to our customers. But for the customer battle, it is tough to come and beat the six million customers that we have already that we serve on a pan-European basis. And keep in mind that the scale plays a big factor here because an SME customer in Italy is no different from an SME customer in Spain or in the UK.

So we are able to build once and deploy in many markets, unlike other players who tend to operate in just one country or a handful of countries not with the reach of Vodafone.

Jakob Bluestone (Credit Suisse): I was hoping you could flesh out a little bit your thinking around the major pricing trends that you see within B2B? Maybe if you can just sort of help us understand what is actually going on with pricing? I do not know if it makes more sense to look at it geographically, or by the sort of main product lines. But just to sort of help us understand typically when a customer, when a large enterprise is renewing, does your ARPU tend to go up or down? So just any sort of colour on the main pricing dynamics would be quite helpful?

Vinod Kumar: Thank you for the question, Jakob. The pricing question is a really important one, but it is very difficult to give a generic answer, but I am going to try because it really varies by segment, product and so on.

So obviously the SOHO customers tend to be the most price-sensitive, if you just compete for just the traditional connectivity services. However, SOHO customers do see value when you can give them targeted business add-ons to the core connectivity they buy.

When they do so, we see that the price erosion actually slows down and churn also comes down. But this is where the portfolio that we are building around SME is being leveraged in SOHO as well. So a traditional telco player used to give a SOHO customer some roaming or a premium customer service that works up to a point, but anyone can replicate that. But if you start adding to that a productivity application, a collaboration application and ERP SaaS solution, some advisory service, then the profile of churn and price erosion begins to change quite dramatically.

But they would, I would say, are the ones where you have the highest price erosion, where unless you have things to offer, you will see spend come down. That is the name of the game there.

I will go to the other end of the market with large corporates, very sophisticated buyers who know how to negotiate very tough terms. However, large corporates are realising, especially during COVID and even before that, I would say, the importance of connectivity for their business in terms of resilience continuity of supply chains and so on. And therefore, if you are able to discuss business outcomes and you are able to show value by new services, I think there will be unitary price reduction, but there is volume growth.

There is volume growth that is happening, both within the same service, so it is an upsell opportunity that generally presents itself, and quite often a cross-sell opportunity if you have a broad portfolio.

And the reason why we feel optimistic about our growth prospects is because our portfolio in the space for both large corporates and SME has expanded that although even there may be price pressure on some of our core offerings, we have new things that we can take to them. And based on the customer intimacy I spoke about, we can get them to maintain or grow this spend. And that is where our confidence comes from in terms of growth.

So price pressure in our industry, core connectivity, I would say, is a natural phenomenon. But we are changing what is addressable for us and redrawing the parameter.

Akhil Dattani (JP Morgan): I just wanted to maybe step up a bit and just think about how you consider and evaluate the merits of operating the business segment at a Group level rather than a regional level. And I guess, the things I was trying to think through and appreciate any kind of colour around is, if we look at your market shares, they are higher in what seemed to be more regional elements, SME and SOHO, which are customers that are actually very regional and they are not pan-European, whereas obviously your market shares are lower in the Enterprise segment, where there is a benefit to being pan-European. So I guess, I am just trying to understand how we think about that and how that plays into what you are doing. And I guess in a very similar way, generally it is the incumbent that has a high market share. And broadly speaking as much as the industry is declining that many sustained very high market shares over the last decade despite the fact they are very national. So I guess just trying to understand how that all plays out and how you think about your ability to differentiate? And I guess just one follow-up just in terms of understanding the way you run. How would you actually work with the local opco? So in terms of the Group level strategy versus the local strategy, how does that really work?

Vinod Kumar: Thank you, Akhil. All really good questions. Let me work backward from it, right? So first is unlike in our consumer business, we see an opportunity and we have been running Vodafone Business a bit differently. Of course, it is a matrix structure, but we run in a much more cohesive way. And the reason comes from who our customers are, what they buy and how they behave.

And we have done a lot of market research on this. If you go from a SOHO or a SME or a corporate or a multinational sector, we have found that what they buy, how they buy does not really change depending on which country they belong to. And we did a lot of research on this, because the strategy in a way leverage is there is a lot which is to say, okay, maybe a SOHO customer, which is a very local business, like you say. But what you can create for a SOHO customer in Spain can be taken to a SOHO customer in Italy and in the UK and Germany and so on. And we have real examples of that in our portfolio.

If you combine the common needs with then going and finding the best partner that we can get or build a solution once and deploy it against common platforms across markets, there is a scale benefit that Vodafone has that our peers do not have, right? And this is something that we are deploying and we see this playing out even more in the coming years, because we are leveraging this group scale much more through the way we are building our IT stack, the way we are looking at our marketplace platforms, the way we are building our product operating model and so on.

So SOHO is a very local business. So the feet on street, the channels to market need to be intensely local, no question about that, right? But what we take through those channels can be created once and deployed in multiple markets. And so that is why we believe that the scale effect is important and plays out more in the SOHO and SME space.

And you are right, in the larger corporate, in the multinational space being pan-European, in our case, being truly global helps a lot, because then you are able to offer solutions. Even off our footprint, we have large French companies choosing us because of the presence that we have around the world and choosing us for services like SD-WAN, because we approach it with very fresh thinking and with solutions that the incumbents may not always be willing to offer due to fear of cannibalisation. So the incumbents have a disadvantage when it comes to that.

Sorry, I am going to jump around a little bit in the interest of time. So your question on incumbents holding onto the market share. They are holding onto market share in the legacy areas through aggressive pricing. But when it comes to the newer services, we believe that there is a there is opportunity for us. I must admit though in the larger corporate segment in the last couple of years that the complexion and depth of our portfolio has changed a lot, right?

We were over-indexed on mobile. But I think what we have done with SD-WAN in the fixed space, what we have done with RingCentral in the Unified Comms space this year, what we have done with IBM in the multi-cloud and cloud management space has added capability. Similarly, what we have done with Accenture in the cybersecurity space has seen as really catapult our capability.

So we have a much broader portfolio in that space then, and we are beginning to see signs of that translating into growth, which is shown in the numbers even this year. So that is a kind of a quick summary. Hopefully, I have answered your questions. I think I have covered most.

Akhil Dattani: The only last thing was how you work on the local opcos?

Vinod Kumar: Okay. Yeah. That is really important. So we work in a matrix and we really work as a team across the markets and with the central functions. So the central functions are driving the product development and have centres of excellence that on commercial management pricing, service management, areas like which can be done at scale with real experts rather than generalists in the centre.

What we have in market are specialists in how to go to market, how to build the local market propositions, in channel management and so on. Of course, it is a matrix and we have to seek the input of the local markets when we are building products at a Group level. But that is really working well now and we have established processes, which are continuing to get refined.

And in the last set of announcement that Nick made on our operating model, you will see how that is also evolved quite a bit and is going to give us further opportunities to leverage the Group scale. But so for us, it is build expertise at the Group level and in areas like product development and new service creation and then push it into the market with local experts.

Sam McHugh (Exane): Kind of following up on a few questions from before. So your medium-term guidance to achieve above-market revenue growth in Mobile and Fixed and then double digits in the new services stuff. On my math, that implies somewhere in the region of 3% to 4% revenue growth, I guess, compared to the 3% that you are doing in Q3. So a bit of modest acceleration, I guess, is that kind of fair. Let me guess you maybe just answered this in the last response, which is the acceleration where do you see that coming from. Is this coming from better execution in the large corporates now you have added on those extra capabilities. Is that the business really changing here?

Vinod Kumar: Sateesh, you want to take the first one on growth profile?

Sateesh Kamath: Sure. Sam, thanks for the question. I would not be in a position to give you specific guidance for growth rates. But if I speak in terms of momentum in the business, on Cloud, we are having a very strong momentum. You would have seen this in the numbers that we have disclosed. We expect the momentum to continue, of course, depending on a number of factors.

Another business where we are seeing strong momentum is IoT, which last year was a tale of two halves where the first half saw a slow down because of COVID, and in the second half we have bounced back and are getting back to close to double-digit growth rates.

As far as core connectivity businesses are concerned, as Vinod explained earlier on, we have strategies to address specific sections and do believe that those strategies will yield better than market rate of growth.

Vinod Kumar: Thank you, Sateesh. And Sam, I do not want to repeat myself. I have answered quite a bit. But you are right, corporate will generate growth because of the new services, SMEs and other growth opportunity. Transversely, we see the opportunities created by IoT and MPN and edge computing being real differentiation for Vodafone business.

The other thing I want to call out, which is really important is during the course of this year, our teams around the markets have demonstrated the strength of our customer relationships. And so one of the reasons why we have outperformed many of our peers is because of the trading intensity, the customer intimacy and the engagement of our teams for which we are very grateful. And also that strength, I believe, will really see us beginning to keep the growth going but also hopefully accelerate in the coming quarters.

So great team on the ground who know what they are doing, who they have the relationship with the customers and they relentlessly execute.

Thank you very much for joining us today and thank you for all the questions. Sateesh and I really enjoyed this interaction. And we hope that through this Q&A session and also all the rich material that we have on the website, which I hope you will take the time to go and take a look at, especially the customer testimonials and the video case studies from our team, you will get a good idea of Vodafone Business, understand the uniqueness of our strategy and also accept and endorse that we can be a good contributor to Vodafone Group's growth and also contribute to and leverage the scale of the Group.

Thank you very much for joining us today. And I look forward to seeing you all in person hopefully. In the meanwhile, please stay safe. Thank you.

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