Vodafone Digital Services and Experiences Investor Briefing: Live Q&A

Wednesday, 29th September 2021

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Introductory Remarks

Alex Froment-Curtil

Chief Commercial Officer, Vodafone Group

Welcome

Good afternoon everyone and thank you for joining our live Q&A on digital services. I am Alex, Vodafone Group Chief Commercial Officer and I am joined today by Shameel, the CEO of Vodacom; Vinod, the CEO of Vodafone Business and Eric, our IoT Director in Vodafone Business.

I hope you have had some time this morning to review some of the presentation video materials we have published earlier on today, giving an overview of our digital services strategy.

Four key messages

Let me just highlight and recap the four main messages we have given out. The first is that we have systematically been improving loyalty in our customer base, through a programme of work centred around our digital expertise.

The second is that, in Europe, we are building digital services for our consumer customers. These services have, in their own right, attractive economic models but most importantly, we can see that they drive loyalty, higher satisfaction and engagement of our customers that is core for the connectivity business.

The third message is that, in Africa, we have built the largest FinTech capabilities and we believe that we will go from strength to strength in Africa.

Finally, we have built the world's biggest and largest IoT connectivity capability. Once again, we do see significant growth opportunities in this side.

The video we kicked off with, a few minutes ago, showed you some extracts of some of the case study videos we have put up on our website. I would just like to maybe highlight a few which I think are particularly interesting: one is around VodaPay, our SuperApp that has just launched in Africa; another is a couple of real use cases from our IoT business; the evolution of TOBi, our digital AI assistant and finally, how does Vodafone do digital-first marketing?

So, a lot of material for you to digest and go through. We would now be delighted to answer some of your questions.

Q&A

Nick Delfas (Redburn): I just have a couple of questions, one for Shameel first and then one for Vinod. The first one for Shameel is really around slide 50, where you talk about the various structures of the African FinTech business, the legal structures, that is. The question is: how do you see that developing and how do you think about valuation, or realising the valuation of those assets?

And then a question for Vinod is on the EU recovery funds, which I understand that you are in charge of, heading up the Vodafone push. When should we expect some kind of financial benefit from that fund for the Group?

Thanks very much.

Shameel Joosub: Okay, so let me take the first question. Firstly, I think what we have done in each of the countries is made sure that we can separate it into legal entities, some because of regulatory reasons and others just proactively so that it gives us optionality.

The first part for us to grow the business a lot more significantly and that is why we have created M-Pesa Africa, where we have a core build, where we are building the platform once and then replicating in the different markets. We build in the cloud and then the different markets plug into it. We are now building an international money transfer app, we are building out our merchant play more, we are building out more of our lending products, investment products. We see a big opportunity, as an example, on investments where we are sitting on tens of billions of dollars at any point in time in float. If we can move some of that into investments, that opens a big opportunity, an untapped opportunity, on mobile money in general.

So that is one of the opportunities. Then what we are doing is we run them as separate businesses. That is one of the prerequisites of creating the focus within financial services, making sure we have properly scaled up and so on. It also gives us optionality later on, should we decide to monetise a portion of the assets. However, we're not yet in that space. We still want to grow the asset base and so on. We more would like the market to give us more credit for what we have built and so we are doing a lot more disclosure, actually, on the assets and providing a lot more insights into the different services, the product make-ups, the growth, the transaction values, so you can see a lot more of the detail in there.

We do know that these assets trade at different multiples and we do hope that that does become reflected in our share prices.

Nick Delfas: Any view on timing, towards any further structural change?

Shameel Joosub: No, I think more what we have done is just built optionality for ourselves. I think at this stage what we are trying to do is to build it up. We want to get north of 100 million customers in the next few years. We are currently sitting on 64 million active financial service customers across the continent. We also want to get the SuperApps implemented everywhere, grow out the product life cycle and so on. Yes, I think that will also become reflected into our growth rates and so on, as well.

Nick Delfas: Thanks very much.

Vinod Kumar: Hi Nick, thank you for your question. Firstly, just to give the context, the EU recovery fund is €750 billion that will be spent on improving national infrastructure, as well as the underlying skills and competencies of countries across Europe.

The most important thing to notice: the €750 billion needs to be spent by 2026 and 70% of these funds need to be distributed by next year.

The stage we are at right now is we are beginning to see, well, the national plans are being developed and we are seeing a lot of progress in this area in countries like Spain and Italy, where we are seeing where the funds will be allocated, at least the first tranche of them.

We have been preparing really hard over the last 6–9 months to gear up for these various programmes. We will be focusing on a few areas, as Vodafone. Obviously one is on the infrastructure side. What I am driving is getting our capabilities ready in terms of our products and propositions around, firstly, SME digitisation, which is our top priority. It is very aligned with our Business 2025 strategy.

Second is around e-health. There is a real demand on governments across Europe to make sure that the health systems are upgraded and have the capacity to meet both the needs of any surges in demand, like what we saw but also to have the capability, leveraging technology, to cater to all sections of the population. So we are really well suited in that area, as we will cover later.

The third one is around smart cities, where our IoT leadership positions us well, with many different offerings.

The fourth is a broader bucket called Digital for Green. Again, the climate change agenda is really high on the EU priorities now. Therefore, how we can use technology to lessen the impact on the planet is again an area of focus.

The last one we are focusing on is connected education. This, again, is a need that surfaced during COVID. However, again, it is not just about connectivity. It is also about making sure populations get the skills that are required to remain competitive.

These are the five areas that we are very focused on. The good news is we are beginning to see programmes being defined and funds being allocated, although it is early days yet, in these areas of our focus.

To answer your question specifically, we should start seeing the results show up in our numbers by early next year. We are beginning to see tenders come out now. We are bidding for them. We are helping shape some of the policies on SME digitisation, for example, that are then being adopted in multiple countries, so early next year we will start seeing the results.

Nick Delfas: Brilliant, thanks very much indeed.

Vinod Kumar: A pleasure.

Maurice Patrick (Barclays): A question for Shameel, really. You made reference, in the presentation, Shameel, to leveraging AI and big data in the mobile money FinTech business and you showed the impressive transaction volume growth. I would love you to elaborate a bit more on Vodafone, Vodacom's 'System of Advantage', which you talk about on slide 42. You talk about the growth opportunity for M-Pesa itself and the SuperApp but you also talk about the impact on core churn and loyalty metrics.

I am just curious to know if you can manage to move that customer conversation away from just price and more towards what FinTech can bring, from the consumer perspective. Thanks.

Shameel Joosub: Perfect. I think the big part for us is really, with the 'System of Advantage', both in enterprise and consumer, how can we embed ourselves more into the lives of the consumer, where you are doing multiple activities with us and where you pay, lend, shop, save, get your connectivity from, both mobile and fixed? That is really the intent of what we are trying to build and achieve. It is similar in the enterprise segment as well.

How can we enhance the lives of a corporate or a SME? Or, not the lives but essentially give them an ability to change their businesses, sell more of their product and so on?

So, that was an important ingredient for us. What we have built, as well, is you have the mobile connectivity. We are now expanding into fixed and then, of course, a normal growth in data, data usage and so on.

I think what we have done really, really well is this personalisation part, with our platform called Just4You. There we have been using machine learning and artificial intelligence to present customers with personalised offers.

So, what we have done really well is 'nano-nised', as I call it, everything. So you can buy data for the hour, for the day, for the weekend, for the week, for the month. You can do it on music, you can do it on games, you can do it on loans. So that ability to be able to do this has created an advantage for us.

Within the financial services part, we are also creating more and more transactions that the customer is engaging with us on. I think the SuperApp gives us the ability to deepen those relationships and effectively create an even bigger hold on the customer because now you are shopping, you are using a single app to shop, you are using a single app to pay. You are doing money transfers from it. You are doing international money transfers. You are investing through the app. You are insuring through the app. So it has this ability of creating marketplaces for different products. I think that becomes really exciting.

Then separately, in the Alipay platform, are both certain AI capabilities and machine learning capabilities. You are learning from the behaviour of the customer and then, of course, directing better offers and promotional activities to each individual customer.

Separate to that, we have been building our own big data platform. The view that we have taken is: how do we build a 360 view of the customer? Today, on each of our customers, we know 760 things, about each of our customers. That then helps us to drive what we call 'next guest' activities and we feed that into a global recommender.

To give you an example, we extend credit to people on airtime. 47% of the time now, people lend airtime from us before they buy airtime from us. This is a very lucrative product for us because it increases active base but we are also seeing as much as a five-times uplift on ARPU on customers that are engaged in the product versus customers that are not.

So that has really, really become very compelling. However, using behavioural data analytics, we are able to extend credit to customers.

An example would be if you wake up between 05.00–06.00 in the morning, you are more creditworthy than if you wake up at 07.00. Now, this is a proven fact. Based on that, we can give you credit. Or the amount of base stations you drive through in a day is a lead indicator for insurance risk. If you think about it, the more base stations you drive through, the further you are away from home, so the more likely you are to crash your car, or to drop your phone.

Based on those, we can now provide personalised insurance offers to you that gives that. We are doing that with our own products, like device insurance. That is why we run the highest EBITDA margin and we are the fifth-largest insurer in South Africa already, right?

Those behavioural economics help us to be able to drive the 'System of Advantage'. On top of that we have built a behavioural loyalty programme which rewards behaviour. To give you an idea, we launched it in October last year. By December, we had 23 million active users. Basically, we are incentivizing different activities. If you do this, we will give you free data. If you do that, we will give you a coupon to use on Vodapay and so on and so on.

All of these activities together come together quite nicely in building a ring around the customer, with the logic that if you are doing multiple products from us, the likelihood of you churning because someone comes with 5–10% more discount, is very remote.

Maurice Patrick: Thank you.

Andrew Lee (Goldman Sachs): Hi guys. Thanks for doing the event today. Just firstly, one of the things analysts and investors are grappling with at the moment is the acceleration in German net add trends. I therefore had a question from your digital go-to-market perspective. What are the obstacles to you not being able to overcome the need for footfall to win customers in Germany? How do you overcome them?

The second question was just on customer net promoter scores. I am sure there is all sorts of anecdotal evidence that lots of people on this call get from their salesforce, or friends, about difficulties in dealing with TOBi or the online system. I understand that it saves money but how do you track the quality of the customer interaction with TOBi on an absolute basis and the quality of your customer interactions versus competitors? Thank you.

Alex Froment-Curtil: Thank you Andrew. Let me maybe first focus on your question around Germany. In Germany, we have had, over the last three years, a continuous decline in churn and a very compelling NPS progress. As you can know, during the pandemic, we have had a surge in traffic going on in our fixed line business across the world, as people are working from home. We have been really investing in the capacity of our network, particularly in Germany, to be able to cope with that surge in traffic. We are now confident, because we are seeing declining calls from customers, declining tickets, that the situation is very much under control.

So the focus for us has really been on our own existing customers, keeping them happy during these really tough times. We now need to regain our commercial momentum. Indeed, as you have seen in our Q1 results, the closure of shops in Germany has been a challenge. During this Q4/Q1 period, footfall in Germany was down 70% year on year, so really dramatic. Things have reopened since then, during the last couple of months. We are still, roughly, at 40% lower traffic than pre-COVID, so it is a different dynamic in terms of how customers are shopping with us. Nevertheless, we see opportunities to indeed regain that net add commercial momentum in Germany. So the retail reopening has helped us during summertime, as we went to the back to school period. Definitely, our marketing strategies have helped us. For those of who are maybe in Germany, or have seen in Germany, we have been very focused on our 'Cable Max' proposition, with some clever marketing to help customers take that step forward and upgrade from DSL to cable.

Finally, we are definitely leveraging our customer base. I think this is really something which is going to be important for us going forward. It is the ability for us to look at our mobile customer base and really talk to them about our fixed capabilities and vice versa: take our fixed customer base and talk to them about our mobile capabilities. This is a lever which I think is very much ahead of us. It is a lever that we control. It is an internal lever, if you wish, so we have a really good focus on this for the next quarters.

Andrew Lee: Sorry just to push but the question was really on why have you not been able to use digital to take out the middle man of shops, given that is clearly a bigger challenge for you guys in your commercial momentum, certainly, than Deutsche Telekom?

Alex Froment-Curtil: We definitely push digital strongly across all of our markets, including Germany and our digital share keeps on increasing. Over the last couple of years, of course COVID helping, we have seen really a significant boost to digital.

I think it is important for us with digital to differentiate what we mean by organic digital traffic, so demand that is latent in the market and we capture that demand and serve them through digital means. That is versus what I would call indirect traffic, I would say paid-for traffic, which may be ours through comparison sites, etc. We are very careful to grow digital in an economical way, right? An economical way is about really making sure that, in digital, our CPA is relevant and less in other channels. We are not going after digital for digital's sake. We want to do it with a cost-economic approach.

So we are very focused on that piece of the puzzle. In Germany, versus, actually, most of the European markets, the search trends for mobile and fixed broadband, so organic search, if you wish, have significant declined since January. We are monitoring that trend and trying to convert the maximum volume that comes to us on our channels.

We are focused on digital. We have teams in every market, including Germany, to really focus on that final capture. However, nevertheless, we are trying to do this in the most economic aspect.

You mentioned, then, a second question around NPS and anecdotal evidence, I guess. Specifically you mentioned TOBi; what is going on with TOBi?

Andrew Lee: The worst of all kinds, I get that, yes.

Alex Froment-Curtil: No, no, that is absolutely fine. Listen, I think, if you had not had the chance, I would just encourage you to have a look at our case study video on the evolution of TOBi.

TOBi started four years ago as an FAQ chatbot. Actually, TOBi is not yet consistently executed across all our markets. Depending on where you are calling us from, maybe you have that feeling that, 'Hey, this is just an FAQ chatbot, what is going on?' In our most advanced markets, TOBi is really a full-blown digital assistant, where you have cognitive conversations, either on chat or over the phone, through voice and it is really a fluent conversation that you have with TOBi.

As we move into the digital assistant, our vision is very clear. We want 100% of our contacts to go through TOBi. That only makes sense if TOBi is a high-quality customer service agent. The way we monitor that is twofold. First of all, in the resolution rate. When TOBi gets an interaction from a customer, are we resolving the customer question, the customer issue, or are we passing it on to a live agent? We want to make sure we're resolving the issue. That is, for us, the first sign of quality. The second way we really monitor it is through classic touchpoint NPS surveys to make sure of the quality of the customer feedback, post-transaction and the customer is satisfied and happy.

We now have, actually, evidence in our more mature markets that a conversation with TOBi, typically on chat, is actually a higher TNPS than a conversation with a live agent. That gives us the confidence that we have reached a certain level of quality on TOBi.

Customers call us for millions of different reasons and from day one, TOBi does not cover those million reasons. So we really, overtime, I would say, cover more and more journeys with TOBi. We want to make sure that each journey we can actually complete and resolve with TOBi is of high quality before we open up to the next.

Depending on the country that you are in, we are on that journey. We are moving as fast as we can away from FAQ chatbot, moving as fast as we can to really proper cognitive interaction on voice and chat. However, we want to do it in a way that, when we are opening journeys, they are of high quality.

What is interesting, actually, in those more mature markets, more advanced markets, is that we are now confident enough to move from a service model to a sales model. So we are now seeing a high volume of sales happening through TOBi. A classic example would be you ask for your bill to TOBi and at that point we would recommend a data add-on. Or, you are coming to the end of your contract, TOBi will renew your contract, not an expensive, indirect channel. TOBi will do it.

I hope that gives you a sense of how we are approaching it.

Andrew Lee: Thank you.

Sam McHugh (Exane): Hi guys, two questions, if I can. Just first on slide 12: you have some great NPS data splits and give us some insights. I have always thought there is a lot of confirmation bias in these, though. Obviously, happy customers are maybe more likely to take more products from you. I guess, can you back-test, or have you back-tested, this to see if underlying customer NPS is improving, for those who do not take more services, necessarily?

Then, secondly, on the global IoT business, we have obviously seen supply chain issues this year, there is a huge push for green energy and emission reductions across the world. In my mind, you would think that there might be some structural acceleration in IoT demand in the next five years.

Then, just looking on slide 65, I think the incremental dollar amounts of growth each year are forecast to be pretty stable. Do you think that could be conservative and is there a lot more upside, maybe, in global IoT? Should Vodafone be doing more in this space? Thanks very much.

Alex Froment-Curtil: Sure. On your first question, we are indeed cutting the data in thousands of ways to confirm that, as customers engage with us on multiple products, it is driving NPS and vice-versa. When we have happy customers, we approach them to ensure that they will have a stronger relationship across multiple products. So it is a two-way street, if you wish. It is not a one-way street, as you mentioned. We can see, indeed, when we engage customers on a multiple array of services, we are managing to move customers from a neutral to promoter, for example.

I will pass on to Vinod and Erik.

Erik Brenneis: Yes, so, regarding the IoT market, in what you see on page 65, the 16% is the consensus of industry analysts. You are absolutely right, there is the potential to do more.

Let me maybe just give you one example for the tracking of vaccines, actually. Nobody thought two years ago that this would be coming and we have delivered 500,000 SIM cards just for the tracking of vaccines, at the moment, in the world.

Another thing which will probably happen is that, as the hardware cost for tracking solutions goes down significantly, it will be worth, for example, tracking parcels more on an individual basis than just tracking the containers. That also brings many benefits with itself.

It is hard to forecast but we believe there is potential in the numbers becoming even higher.

Vinod Kumar: If I can just add to that, I think you were talking about larger structural issues or supply chain resilience and the need for tracking exactly what is happening is what Erik spoke about. Equally, we are seeing changes in the automotive sector, for example, where Vodafone is already very strong, providing connectivity to cars. However, now it is moving just beyond traditional tracking of the cars to increasing software-isation of the cars. Therefore software upgrades is really the way that every manufacturer is going. We are seeing V2X business picking up and a number of use cases around that.

I will give you an extension of that: it is the EV charging opportunity, which again requires machine-to-machine, or IoT, connectivity. That is another structural shift that is taking place in the automotive industry, which is playing to our favour. Then we spoke about healthcare, where now remote medicine, connected surgery, so on and so forth, are becoming more mainstream. These are areas that Vodafone has been working on for quite some time, not only delivering connectivity, which Erik spoke about. We are also, through some of our subsidiaries that focus only on IoT, we have solutions which have been developed, matured, being deployed in single countries but now we are beginning to scale them across markets. We are really bullish about the environment around us and the structural changes across multiple industries that will need things and devices to always be connected and for exchange of data between different islands that operated separately before.

Sam McHugh: You mentioned V2X there. Is your ability to address the value chain in V2V and V2X in the automotive industry? Can you do that based on what you are already serving to your existing customers? Obviously there is a huge opportunity. Driverless cars, I think, have maybe been pushed back a few years but V2V communication could still be a pretty meaningful thing.

Vinod Kumar: I think complete autonomous cars is technically possible but many other things have to fall into place, including regulations, safety considerations and so on. That will eventually happen but if you talk to the major automotive OEM providers, they have a more phased rollout which are we are experiencing in our personal vehicles as well, with certain features being autonomous. Then there will be fleet, or platooning and then eventually, at some point, there will be truly autonomous cars.

However, the need for V2V communications is already growing. In fact, we have a few trials underway right now in the B2B space which will potentially, even, build us a platform and monetize in the future.

Erik is quite the expert on this, he can add a little bit.

Erik Brenneis: Look, also, V2X, or the communication between cars, is kind of an extension of the communication capabilities that the car has today. We have a lot of cars connected already. Initially it was for emergency call purposes, for breakdown calls. Now the cars are very often already connected to a so-called car cloud. They send messages up and distribute it to other cars. V2X is a natural extension of this, which will come. In combination with the sensors, which actually also make autonomous driving possible, we believe that this will significantly drive the data volume, over the next years, which cars are consuming.

We have actually seen that the average data consumption of a car has actually multiplied significantly in the last three years alone. Five years ago there were no software updates for the car over the air. Now there are a lot of car manufacturers already doing this. Also, multimedia applications are running in the car, over the connection in the car, for passengers and so on. All these things are booming.

Sam McHugh: Interesting. Thank you, guys.

Stan Noel (Bernstein): Hi guys, I have a question for Shameel. Thinking about the potential, or the opportunity, in terms of financial services penetration in your markets, I am referring to the chart on page 48. Clearly, in Kenya, Safaricom has reached a very high level. Probably the market is a bit special in the sense that they have a very large mobile market share, which probably gives them a scale advantage to grow the service to this level.

Do really think that this reaching this level in other markets is realistic, or is Safaricom a bit of an outlier for this?

Shameel Joosub: I think where we are in all our markets is that effectively we have market leadership in every market that we operate in, as Vodacom and of course Vodafone in Egypt as well. I think that puts us into a very, very strong position to be able to grow the financial service penetration. If you take a market like Mozambique, we have a 65% plus market share on mobile money. If you go into Lesotho, we have an 80% market share. If you go to DRC, we have a greater than 50% market share. Every market, the financial services part is taking off.

I think the big question is the maturity of the products. That is why we have created M-Pesa Africa, so that we can build once and replicate. What we were doing before is we had a common platform but we were building a lot of products in each market. Now what we do is we build it from the centre, we launch in Kenya first and then take it to the rest of the markets but also hubs for relationships: an international money transfer hub, lending where we create one lending platform, different relationships, creating the products once. I think that is creating a lot more synergies going forward.

Now we are trying to get all the markets to the same level as Kenya in terms of our products.

Person-to-person payments and money transfers, I would say, are already there. It is now growing the ecosystem of products but at the same time also growing the ecosystem of products in Safaricom. So, for example, we do not do anything in investments. We see that as an opportunity to create investment products, like the other SuperApps around doing around the world. Then that creates new opportunities. So, for example, with Paytm in India you can do flexible ownership of gold. You can invest as little as a rupee in gold.

Now think about the customer base. If we can get people to invest as little as a dollar, banks do not want your dollar, they do not want it if you have $100. If we can get a lot of these nano-investments in, even if 20% of our customers adopt these products, it is material in terms of growth rates.

Stan Noel: Okay, thank you.

Moderator: For our next question, we have a question from the online audience. The question is: 'Africa has seen record M&A and investment in OTT FinTech players in 2021. Can these players use this capital to disrupt the M-Pesa ecosystems, created by heavily discounting fees on withdrawals, payments and P2P transfers?'

Alex Froment-Curtil: Shameel, I do not know if your connection is good. You might not have heard this question if the connection was not good enough. Would you mind repeating it, please?

Moderator: Yes, absolutely, I can repeat the question. The question from the online audience is: 'Africa has seen record M&A and investment in OTT FinTech players in 2021. Can these players use this capital to disrupt the M-Pesa ecosystems, created by heavily discounting fees on withdrawals, payments and P2P transfers?'

Shameel Joosub: My inclination is no, they cannot. Of course they can always try but I think what we have built and what we are continuing to build and evolve gives us a certain level of strength.

Firstly, across our footprint, we have 450,000 outlets, in terms of being able to receive M-Pesa and to make payments. That is very difficult to replicate.

Also, when you are the telco, it is easier. How we created success as well is we do use our telco as an anchor onto some of it by giving offers but also to incentivise behaviours. Do bill payments through us and we will give you some free data. We do that until we have created a behavioural change.

I think we have certain strategic advantages. However, also, I think the big data analytics that we have built up, the merchant play that we are building, the merchant ecosystem that we are growing and the depth of that offering, including invoice financing, payments, all of that, merchant advances and loans, ordering, all of these improve the ecosystem of products. There is therefore attractiveness for the merchant. From a customer perspective, they can pay with M-Pesa anywhere but they can also do all their different services through M-Pesa.

Now, if you bring that into an e-com world and on top of the M-Pesa platform, you put the Alipay capabilities and you are building these marketplaces, that creates a very, very strong part, which is very difficult for new players to come in and replicate. That is why we consider it a 'System of Advantage'.

If I were some of these FinTech players, I would not be looking to challenge us, I would be looking to partner with us. I would be coming onto our marketplaces and bringing my products into it. An example would be, if I am doing student loans, I would do it through the platform, as opposed to trying to disrupt the platform. I think that is where the opportunity lies.

We are also talking to a lot of the OTTs about partnering. You will be surprised. Recently, one of the big financial institutions came to us and gave us a lot of money just to partner with us. What we suddenly realised is actually we have a lot of leverage, given the scale. When you have 64 million customers and you are moving $25 billion a month through your platforms, there are a lot of people who want to talk to you. You can almost charge them for partnering and create some lucrative mutual partnerships.

James Ratzer (New Street Research): Thank you very much for all the materials you have produced today. I have two questions, please. The first one was just regarding Germany. On slide 15, you showed some of the convergence data, which showed Germany is at the lower end of your big four markets and in particular on broadband. I was therefore interested in terms of why you think convergence in Germany remains lower than the other big four markets and specifically, what initiatives you are doing in Germany at the moment to try to increase that.

Then the second question I had was regarding IoT. You make a very compelling case about the success you are having in IoT. I was, however, really interested in, then, the ability to cross-sell your success from IoT into other business products. I think IoT today represents around 9% of your business revenues. Are you seeing examples where you bring on a new customer with IoT and you are able to upsell them to, say, mobile or fixed connectivity that can tend to be bigger contracts?

Thank you.

Alex Froment-Curtil: Thank you James. In Germany, as you know, we have acquired two large cable assets in the last couple of years. Our focus has been to deliver on our M&A case. Our M&A case was very much about consolidating these businesses and delivering the synergies, both opex and capex, for these activities. That has been our focus over the last two years, the integration of those businesses. As we have announced in our latest calls: we are eight months ahead of our plan in terms of delivering those synergies, so we feel proud that we have achieved that and really got the people together, the processes together, the technology platforms together for our customers and of course one single brand.

I think now we have a fantastic asset. So, in the case of Germany, we have 22 million homes passed by a next-generation network. This is the moment, indeed, to leverage this great asset and our mobile assets. Now our focus is really switching and focusing on this opportunity to converge the base.

We still expect that the convergence of the base will not be comparable to the UK, will not be comparable to Italy, will not be comparable to Spain. Each market has its own dynamics. What we are doing in Germany is following our experience from the Vodafone-Ziggo integration in our Dutch model.

This is a convergence that is based not on price reduction and discounting. It is convergence based on bringing two products together and getting a benefit out of it. For example, you bring two products together and it will give you higher speeds. You bring two products together, we will upgrade tariffs in one level up. It is really about ARPU creation, ARPU-accretive activities. I think that is very important because our target is not now to converge for convergence's sake. We want to do it in a way that is really delivering on one of our objectives, which is really to get that ARPA, household ARPA up, to make sure we lower our commission intensity, to make sure that the lifetime value of the customer is increased and the churn goes down. So we want to do it in a very thoughtful way. The approach we have followed in the Netherlands has been working out for us. That is why we are taking that approach and now rolling out in Germany. You will see that coming through in the next quarters.

James Ratzer: So when you do sign a customer up in Germany to convergence, what kind of ARPA uplift are you actually seeing, at the moment, please?

Alex Froment-Curtil: Well, it is very straightforward. I am taking a converged customer from this. I am taking my 'Cable Max' product, which is a €40–50 fixed-line customer and very straightforward, I am bringing on top mobile ARPU to it and not only one, maybe two and three, depending on the customer household.

We really look at it as building from the base one more product and taking that ARPU on. That is really the phenomenon that is happening. It is not necessarily about selling convergence in one go, if you see what I mean? It's very much a step-by-step, one more product approach.

Purposefully I mention this because we are not going down the route of saying, 'If you bring two things together, we will discount by 30%.' That is not the approach we take.

James Ratzer: Got it, thank you.

Vinod Kumar: Hi James, if I can take the first part of the answer on your IoT question? If we look at our IoT historically, those making decisions related to an IoT purchase are quite different from those who are making a mobile purchase within the same organisation. So mobile could be within the CIO's organisation or it could be in HR, or Admin, a very different area of the business from IoT. IoT, typically, you're working with the product organisation, or you're working with the manufacturing organisation, or the Chief Digital Officer, so more embedded in the business of the customer, right?

What that enables, however, is a much deeper relationship with them. You are talking at a strategic level. You are getting involved in their product design. You are getting involved in their strategy, which you do not get through, let us say, a traditional mobile conversation.

The downside of this is, in a way, the two do not come together. However, IoT, quite often, once you have a relationship with those driving the business, then they open doors for us to sell other services. Frankly, what are the more interesting things that open for us are fixed, cloud and other opportunities. We are beginning to see that now.

It is not necessarily the ability to cross-sell IoT and mobile but we see IoT being a door-opener through the strategic tilt the conversation has from day one. Typically IoT relationships are 10–15 year long relationships. Once your SIMs are in a vehicle and you are doing analytics on top of it, you are looking to add more and you do not get swapped out that easily.

So it is a great platform to do other things. Our IoT business, for example, is moving into mobile private networks. I will give you a really good example of pull-through. A mobile private network immediately takes along with it a dedicated edge computing solution, in order for the applications to work effectively, so it takes our cloud business along with it.

Then, if they are connecting two factories, or two ports, or two warehouses, together, then our fixed connectivity will come along with it. That is the progression that we are beginning to see more and more, especially as we get into the solutions area.

Erik can give an example of a real customer where we have seen the revolution happening.

Erik Brenneis: Yes, take the Volkswagen Group, for example and go back five years in time. Back then, Volkswagen actually said, We have three big challenges to face. One is the electric vehicle. We need to develop really good electric vehicles and they need to be better connected than classic vehicles because you need to know where you can actually charge the car and so on. The second one was already preparing for autonomous driving, vehicle-to-vehicle communication and so on. The third one was also the connected cars, so that the car also becomes kind of a smartphone on wheels. They actually understood that they cannot address all these challenges just themselves and they also understood that they cannot address these challenges in the classic way, how they do business, which is you write a request for a quotation, 'We need this component, that component. Please give us the price and we will select.'

So they were looking for strategic development partners and form this strategic development partnership with us. Since then, we have been their development partner for the connectivity part of the cars. That has actually led to many cars being connected. That has also led to us connecting a few factories and also test circles of the Volkswagen Group with mobile private networks. Furthermore, we have also significantly, through this relationship we built with them, managed to expand our share that we have with them in mobile and fixed business.

That is a good example where you use the close relationship you build with IoT in order to sell all kinds of other products.

Vinod Kumar: Where I see more cross-sell, upsell happening is as we are launching our plug-and-play solutions, so end-to-end solutions, into the SME space. There, there is an opportunity to much more easily cross-sell, upsell. When it comes to large organisations, they are very specialised in the way they buy and engage.

James Ratzer: That is great, thank you.

Robert Grindle (Deutsche Bank): I have one question on IoT and another on FinTech, please. On the IoT front, the split of capex was interesting, with more than a third on platform evolution. Is that spend predominantly the upfront capex for the E2E solutions opportunity, where you build once and deploy everywhere, or is it something else? Will platform evolution capex be ongoing?

With regard to FinTech in Africa, how does the relationship with Ant Financial/Alipay work for the SuperApp? Is there a licence payment, revenue share arrangement, etc?

Vinod Kumar: Okay, Robert, I'll take the IoT question. We have called out, if you see on slide 69, end-to-end solutions as a separate item of 17% of the capex that we spend. Platform evolution, essentially, is adding features and capability in order to improve the user experience, provide more analytics and so on. Many of those things are actually paid-for features and enhancement by customers. We are working a lot to add analytics to our IoT solutions and that is actually monetising the data and we provide customers additional insights for an additional fee. There is a correlation there between our spend and revenue streams.

There is also a platform evolution in order to connect our IoT connectivity platform, which we call GDSP, onto other ecosystems, such as the hyperscaler ecosystems, other IoT marketplaces and so on. Those are one-time establishment costs but then they significantly increase our channels to market. Those would be one-time per ecosystem but our goal is to keep expanding those. There again, the paybacks are fairly clear. They are fairly small, frankly, on a unit basis but we have pretty good line of sight into when that will translate to customers and more traffic on our platform.

I would say platform evolution will continue; it is not going to stop but there are very clear business cases with clear line of sight on when paybacks will occur against each of those investments.

Shameel Joosub: On the Alipay platform, effectively it is an IT platform, so they are an IT supplier. We basically pay them a once-off fee and then an annual maintenance fee for the base platform and if we want to add more modules, we pay for that.

What they give you is a container. Basically you build your services on top of that. The IP that sits on top is ours. I think what we have done really, really well is the UX part. The UX and CX parts of how we build the platform are really, really cool. If you have the opportunity and you are on the US store, or you are on the South African store for Android or IOS, the SuperApp is live. It is a below-the-line launch. It will officially launch in October but it is really interesting to play with.

Just to give you an idea, someone like Walmart have taken their South African brands and anchored it onto the platform itself.

In terms of data protection, because that question always comes up, all the data resides locally and is sitting on the AWS platforms, locally, in South Africa. Further to that, if there are any issues around any political parts, or we have to move off the platform, we of course retain the IP but we also have an agreement with them of how we could take the source code.

Robert Grindle: Thank you.

Ottavio Adorisio (Société Générale): I have a quick follow-up question for Shameel and a couple of questions for Alex. The follow-up question is for Shameel. It is specifically on the feedback you gave to an earlier question. You said that Vodacom, in order to tailor offerings to customers, actively collect personal information. I was wondering how the collection and usage of this personal data squared with the privacy laws in the different countries where you operate.

Now to the couple of questions for Alex. I am referring to slide 11 and slide 15. On slide 11, you provide a lot of data that we did not see before and they are pretty useful. Thank you for that. We can see a lot of encouraging trends in terms of the active value brands customers almost doubling over the last three years and churn coming down. However, during that period, revenues in Europe have dropped by more than 5%. The question is: how many of the value brand customers are represented by customers that were migrated from premium brands, including the customers that have been moving to new entrants, such as Iliad, to take advantage of your win-back offers. How much of the present offers helped the reduction in churn?

The second question is on page 15. Convergence is a very key priority and you articulate the benefits of it. However, as you showed, in the market with the highest convergence, Spain, Vodafone has also recorded one of the weakest trends. The problem with convergence is that it is not in a silo. As you are trying to be convergent, also your competitors try to do the same. So what makes you confident that customers will bring their mobile, or broadband, contract to you, rather than the other way around?

I also appreciate that Vodafone is not willing to use pricing. However, in case your competitors will do it, like happened in Spain, what will be the strategy? You will be sitting there and see the customer leaving, or you will use pricing to retain the customer and possibly to force convergence? Thanks.

Shameel Joosub: Let me start off with the personal data part. Firstly, we comply with GDPR. Across the Vodafone Group we implemented, of course, compliance to GDPR, so we are being held to a much higher level on personalised data than is actually mandated in our local markets. We think it is important and so we have essentially adopted GDPR across the markets.

GDPR, to put it into perspective, is more stringent than South Africa's POPI rules, which is the Protection of Personal Information. That is the first part.

Secondly, the customer has to give permission. When you join the SuperApp world, or any one of our apps and so on, we do specifically request customer permission. The data gets used within the platform to enhance your experiences and your journeys. It is very important that we do not sell data and we have no intention of selling data. We think, although you can make money selling data, we don't want to do that because we believe that, firstly, it is a strategic advantage. Secondly, if you go down that route, you will very, very quickly lose the customer trust.

Alex Froment-Curtil: Thank you Ottavio. Let me comment a bit on your multiple questions around the value brands and performance. Why are we having value brands in the first place? It is a recognition that the Vodafone brand, which really stands for quality, trust, premium, sits in our different markets at different price points. But can the brand stretch across the whole range? Not always. In some cases it does but not always. That is why in many markets we have introduced value brands not necessarily to create the market but to follow a specific consumer segment, or follow a competitive dynamic and be present in that part of the market.

Our objective is very straightforward. It is to really have our fair share of dynamic when the market opens up in a lower value segment. We have done this, in the case of Italy, with Ho, in the case of Spain with Lowi and here and there with other second brands across Europe.

When it comes to the lower end of the market, we really want to be competitive but in the sense of following our reference competitors in those markets. The reference competitors do evolve over time in the lower end of those markets. We, extremely regularly, re-review our focus around who should we align to in order to maximise the value? Can we go one euro extra, in the case of Ho in Italy, to be closer to our reference competitors? Do we have to adapt, in the case of Spain, in order to make sure we gain our fair share of gross adds? These are the dynamics we are playing all the time.

I think one interesting example of that, for example, is during summertime in Spain, we have readjusted our positioning with regards to our reference competitors. We have seen, month over month, since April, that we have been regaining share and gross add share in that part of the market. That is a bit how we think about the low end of the market: being present when necessary and competing properly.

If you look at where we put our energy, as a business, we put a lot of our energy, of course, in the premium part of the market. The game for us here is to make sure we can continue differentiating and justifying our positioning.

We do that in many different ways. We do that first by making sure we offer a range of differentiated services. In connectivity, in some markets, it can be higher speeds, it can be more data, bringing unlimited to market in our Vodafone brand, so different connectivity benefits is something we can do.

Very often we bring digital services. This is the case, for example, in Spain, where we have TV as a key anchor point of the Vodafone brand. In the case of Spain, for example, Vodafone TV is an aggregator. It is the home of series and film. We aggregate and distribute over 100 TV channels. We have recently launched HBO and Disney+ and Amazon Prime Video on Vodafone TV, so really the best for families in home and entertainment.

That positioning, if I then even add other digital services, like OneNumber, the ability to share your number on a watch and a smartphone, these are the digital services that we have been talking about in our presentations this morning, that help us capture that customer and keep them really on the Vodafone brand. The natural impact of that, if you wish, is that, in the case of Spain, whilst maybe the lower-value brands are trading at €30, in the case of Vodafone, with our 'Hogar Illimitable' proposition, we are retailing at €100 and we have churn levels that are half of what is happening in the lower end of the market. So our focus is on protecting that premium segment and that is what we do continuously.

What we have seen is, indeed, as you move customers onto fixed, onto one SIM, two SIMs, TVs, etc., etc., the more they are engaged with us, the more loyal they become.

Let me just answer, maybe, one of your last questions, around how do we compete? Are we going to be sitting on the side in our convergence strategy? We are a competitive business. Vodafone has been built out of being a challenger in every market and so we have that in our blood, to compete properly in every market. However, we are also a rational player. That is very much our approach to pricing in the market: rational pricing, smart promotions, value creation. That is very much how we are approaching the market with regards to convergence.

In the case of Spain, the market converged. We have participated in that trend. We have not diluted the value proactively. We have participated in a trend to make sure we were present. In the case of Germany, conversion is very low in the market. We are taking the right steps and I would say the smart commercial steps in order to get the benefits of convergence but not drive into irrationality. That is really our approach here.

Ottavio Adorisio: Thank you Alex. Just a very quick one, this one, if you can share data. Of your value customers, how many are genuinely new customers and how many were existing Vodafone customers in the premium brand?

Alex Froment-Curtil: This is not a specific piece of information we do share but what I can tell you is that this is the key metric when we actually launch a second brand. It is to measure the migration of Vodafone customers to value brands. We have a very strict floor to make sure that does not happen.

Ottavio Adorisio: Thank you.

Carl Murdock-Smith (Berenberg Bank): I am afraid I have some more follow-ups on value brands, so brace yourself. Building on the case study video that you provided us with today and also just building on Ottavio's question, picking up on the data that you provided on slide 11, in terms of the fact that you have almost 6 million customers on value brands, that is about 5% of your European mobile customer base. First, in what market is the proportion of value brand customers the highest? Roughly how high is that today, as a percentage of your overall base? Second, in the longer term, how big do you think that low-end market is? What do you expect is the rough split between the main Vodafone brands and the secondary value brands, from that roughly 5% figure today? Then, third, a lot of the secondary brands are largely targeting the youth demographic. How much do you worry that, by targeting that youth demographic, with the second brands, that as those youth customers get older, they simply will not progress up to the main brands but instead secondary brands and pricing will become more mass market over time? Thanks.

Alex Froment-Curtil: Thank you very much. You are referencing page 11, where we have indeed announced an order of magnitude of 6 million customers on our value brand. This is primarily in our two brands Lowi and Ho, as a majority of these numbers. When you say those value brands represent 5% of our EU base, what I find is really important to understand as well is, if you look at the European value in the market, second brands and value brands may be large numbers but are actually reasonably small in terms of value. That is why I want to really make sure you understand that, for us, the Vodafone brand focus and that churn on the core Vodafone brand, building the ARPU of that brand, is fundamental, the differentiation. The digital services we have been talking about today are really important to anchor the differentiation on the Vodafone brand. These digital services are not available to value brands and are not available in our competitor's value brands. This is very much our commercial strategy: to protect and really grow the loyalty of our Vodafone base. That, we believe, is really where the core value is.

In many cases, indeed, we are seeing that the youth market is particularly attracted by value brands, either because we focus on it, as a brand focus, or because there is a natural attraction.

If I then, again, look at our consumer segments across Europe, in a typical market, I am going to take the UK as an example, the youth segment represents roughly 10–11% of the UK micro-market. The bulk of the customers and their value is definitely in families. That already gives you an indication of, once again, where we want to play and put our focus on not neglecting the youth segment but where the value is today.

As time progresses, those customers will evolve. I understand that but their needs will evolve as well. Our job is, when their needs evolve, for example settling down in a house, for example wanting to have entertainment, maybe internet with security for their kids, that is the time when we need to convince them to move on to a more trusted and reliable environment with Vodafone.

Carl Murdock-Smith: That is great, thank you.

Jakob Bluestone (Credit Suisse): Thank you for the presentations, very interesting. I had a question about the pace of your digitisation. In your annual report, you give the sort of key metrics by which you measure the pace of your digital transformation to show, for example, that the digital channel sales mix has gone from 17% to 26% over the last few years.

Customer contacts have gone from 1.5 to 1.4 contacts per year. Interestingly, actually, your MyVodafone app penetration fell last year. My question is: is your message today that the pace of that digital transformation is going to accelerate? It still seems like you are a fairly long way off some of your targets for, for example, 40% plus digital channel sales mix that, I think, you guided for at your Open Office day two years ago. I think your guidance is for customer contact per annum to go to 0.9. It will take you about five years to get there, so maybe a little longer.

I am interested in hearing: is that the message you are trying to give today, that things are going to speed up from here? Thank you.

Alex Froment-Curtil: The message we are giving out today is that we are definitely focused and on track in terms of our digital execution. Indeed, you have noted that we have closed, last year, with 26% of our sales being on digital. This number is, of course, the group average. It varies quite widely per market. In some of the more mature markets, digitally mature markets, for example the UK, we are above 40% already. So we are very much pacing with the maturity of the different markets, in terms of our evolution and transformation. It also varies, of course, by segment and by product types. We are very much on track and we believe that we continue accelerating both the sales side but you also mentioned the service side, which I think is very important.

On the service side I briefly shared earlier on our vision, which is 100% of our customers will be engaging with TOBi. TOBi is a platform we are building pan-European, one single platform, to be able to have one brain, one intelligence, to serve customers with chat and voice. I think this common capability across Europe is quite fundamental because it really gives us that learning optimisation and speed of learning. TOBi gets better every day because of the volume of contacts we are having. If I give you a sense of it now, in Italy it is 6 million TOBi contacts a month. It is really an operation at scale. We believe that will continue.

In the same way, when we look at the frequency of contacts that you are referring to, we believe that that frequency of contact is dropping very, very fast. We have differentiated between mobile and fixed and of course the infrastructure we own and we do not own. What we see is that in mobile it is dropping very fast. In the fixed infrastructure which we own and control, the frequency of calls is dropping very fast. It is more challenging, to be frank, when we have wholesale agreements where we do not control the end-to-end value chain in terms of the fixed environment.

This is the effort we are putting. We believe that these capabilities, TOBi, our digital marketing platform, are core capabilities to drive these KPIs strong. So we are definitely confirming our ambition, in the mid term, to be at that 45% on acquisition and 65% in terms of retention on digital share.

Jakob Bluestone: Thank you. That is helpful.

Georgios Ierodiaconou (Citigroup): Hi, good afternoon and thank you for taking my questions. I have a couple of questions for Shameel, actually. The first one is earlier you commented about why you would not expect some of the independent apps to be able to disaggregate your product. I was wondering if you can also comment a bit on what some of your other competitors are doing in the markets you operate? Also, when you are talking about the SuperApp, how did you decide on the range of products because too much can be a bad thing sometimes, with SuperApps. It would be interesting just to hear your thoughts on that.

Then my second question is related to the rest of the Vodafone footprint: Ghana and Egypt. I think you commented on Ghana in the past that it is a distant number two and therefore may not fit and be interesting for Vodacom. However, these services improve returns on capital employed for scaled players in the markets. So I was wondering, from your perspective, whether this changes the way you see Egypt, perhaps and it maybe has more potential over time, as you develop these services? Thank you.

Shameel Joosub: Okay. On what our competitors are doing, in terms of product offerings, to be honest I think we have a clear lead in terms of thinking and also scale, being the dominant platform in every country that we operate in. We do have an advantage, then. I think what we are trying to do is to make sure that we develop products and services that always keep us abreast of competition. I think what you do have is, once competition see you are doing a product, then they kind of try and replicate those products and offerings.

I cannot really think of any unique differentiators that any of the competitors have against us in this space.

In terms of the SuperApp, I think what it does is, firstly, if you go through the journeys and you see how simple it is to pay, it also creates and online and offline experience. Basically, you walk into a store and scan a QR code. In China, as an example, when you walk into a store, there are two QR codes: one to pay and one to see what the personalised offer is for you. That can also personalise an offer for you not just on the SuperApp but that same personalised offer could be in a physical retail store. If we know, for instance, that you like two-for-one offers, I could present you with a two-for-one offer merely by scanning the QR code.

One of the things we are looking at is also opportunities around telco, where we can leverage this capability. An example is I walk into a store, I have checked your profile, I know if I upgrade you to a smartphone, I am going to get a much bigger uplift. If you scan the QR code, up pops an offer that is personalised. We have already done the data analytics for you and present you with either a handset finance deal or a subsidised deal, because I know I am going to make it back in a short space of time.

These are the kind of offers that you have the capability to do. The second part is what you range. I think what is extremely important is that it is a marketplace, so you are allowing different parties to bring their products on. However, you also have to arrange it by category. Sometimes you have your own products in a particular category and then non-competitor products you bring on. As an example, we are never going to do car insurance, so we would bring on a third party to do car insurance but we always take our commission on the sales of that.

What we do have is we are very stringent about who we bring on: the quality of the service, the quality of the offering and all that becomes extremely important, especially when you get into things like micro-lending and these type of things. It is very important that you set a very strong governance piece of who comes onboard, what is the quality of the product and what is the quality of the service? We do not want it to reflect badly on us.

However, the product mix is also important because you also want to make sure you are covering electronics, you are covering clothing, you are covering sneakers, so you do need the breadth of the products.

This phase is bringing everybody onto the SuperApp. The next phase, for me, is now going partner by partner and zone in the products, whether it is our lending products and different offerings, the personalisation pieces and so on. This is so that we can predict, when you come onto the app, that the most lucrative thing for you to do is to offer you a pair of sneakers because we know you are in the market for a pair of sneakers.

So that is where we are going and that will be shortly after the launch. Working with each partner, like the Walmart ones as an example and creating different offers, or even pay by instalments, all of those type of things. Again, the quality of the lenders, the quality of what you are doing, has to come together. That is where I think we are being quite deliberate in terms of what we are doing.

Alex Froment-Curtil: Excellent. Thank you very much. I think that was our last question for today. Thank you to all our participating analysts and to those of you who are watching the webcast. If you do have any other questions, please reach out to our Investor Relations team. They will make sure that we cover your follow-up questions. It was a pleasure talking to you and I hope we will meet again soon.

[END OF TRANSCRIPT]