Vodafone Group
Q1 FY24 Trading Update
Live Q&A
Transcript

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Welcome

Good morning everyone, and thank you for joining me for our first quarter update. Before discussing our trading, I'd like to highlight some other news from this morning. You may have seen that we have announced the appointment of Luca Mucic as our new CFO. Luca joins us from SAP where he was most recently the COO and CFO. I really look forward to welcoming him in September, and, of course, having him with us for H1 in November.

Trading update

Turning to our Q1 trading update. When I took over, I was clear that Vodafone needed to change to reduce complexity, get back to basics in Consumer, re-engineer our commercial model in Germany, and scale up our Business segment. As we progress our plans to transform Vodafone, I'm pleased to report that we have achieved a better service revenue performance across almost all of our markets in Q1, and we've also reiterated our EBITDAaL and cashflow guidance for the year.

We have delivered organic service revenue growth of 3.7%, or 1.8% excluding Turkey. We are back to service revenue growth in Europe, and our performance in Vodafone Business has been particularly strong with service revenue up 4.5% this quarter, supported by strong digital services growth. In our largest market, Germany, service revenue trends have started to improve, supported by successful price actions in fixed, and we have taken action to drive a better commercial performance in mobile. More broadly across the company, we have taken the first steps of our action plan focused on customers, simplicity, and growth, but of course, with three major markets still in negative territory, we know that we have much more still to do.

Q&A

Andrew Lee (Goldman Sachs): Good morning, Margherita. Just had a question around Germany. So as you mentioned, your service revenue growth trends have improved, still negative but improved, and that's on the back of price take, which I think you've been pretty clear, we should see further benefits from price take through the next couple of quarters. So, my question is around the KPIs, I wonder if you could just articulate where you think German broadband KPIs go from here and your plans for price take versus volume balance from here with a mention on the competitive intensity and how that feeds into things. Thank you.

Margherita Della Valle: Sure. Andrew, let me say on the volume versus value balance, I think it's really important beyond Germany that we keep in mind the overall value accretion beyond the sort of last 10,000 or 20,000 of net adds. Our focus really in the last couple of quarters has been on executing price actions, which was really important considering the inflationary environment we are in. So looking forward, you will see a gradual reacceleration on the net adds front, but the most important point for me was really making sure that we drive the overall top line performance.

Coming on to Germany specifically – we were pleased to see mobile back into positive territory, and importantly all driven by our own brands. So a really good step up there that will continue in the coming quarters and is the result of the commercial model engineering that the team is executing. We, for example, have launched recently in June new family cards in the market. You know that we have a big propositions agenda there.

In broadband then, the numbers of the quarter clearly are impacted by the execution of the segmented price increase on the base, and you will see another quarter coming up in Q2 of similar negative territory. Maybe a quick update on that before we move to the forecasting of net adds in broadband. First of all, we have done a price increase of €5 against a very significant improvement of the quality of our products. And I think this has been now underscored. If you look at the last few weeks, including this morning, by four independent tests in Germany all calling out our leading position in terms of fixed broadband product and networks in the country, which is good to see and supports the price repositioning.

Customers' bills have been impacted by this €5 starting from May, and this will continue all the way to September. We are now 50% through the extraordinary notice period, so 50% of the base we were targeting has completed the notice period. And although you have seen significant negative net adds in the quarters, this is really driven by the churn of these customers, which is very, very low and better than our business case. So definitely value-accretive and we'll continue together with the mobile improvement to support a gradual improvement of our service revenue performance in Germany in the coming quarters.

Moving to net adds then. As I said, Q2 still affected by the extraordinary disconnections and then significant improvement into the second half as we will return also in acquisition to the normal commercial intensity that, as you would expect, you don't have as you execute the price increases. So for that type of step up, you will have to wait for a little bit longer, but overall an accretive trend for our service revenues.

James Ratzer (New Street): Good morning, Margherita. Thank you very much indeed for taking the question. So my question kind of follows on from what you were commenting on there about really kind of value versus volume. You've had a quite a clear strategy over the last 12 to 18 months to move more towards value. You see price increases coming through now across all your markets, but yet service revenue growth in Europe still around just kind of 1% at the moment. So what I'd love to kind of think about and hear from you is how does the story develop from here, because even though we have substantial headline front book price increases coming through, it seems like there's still a little bit of a drag on the back book. So how do you think about your business developing over the next, say, 12-24 months to try to improve the overall blended back book ARPU from here and, you know, can we therefore see a further acceleration in service revenue growth?

Margherita Della Valle: Thank you, James, and I think it's a fair challenge in terms of where we are in European service revenue growth, although I think it's important to call out the fact that our major market is a drag on European service revenue growth for more than 1% at the moment. So clearly this has an influence on the overall results.

If I look to the 12-24 months, I think it's probably a bit early to call out rates for FY25, but I see a number of as usual puts and takes. We will have material one-off negative on service revenue growth starting from Q4, but mainly in FY25, with the housing association transition in Germany, and that's a negative; but at the other end of the spectrum, we have a number of accelerating factors that that will play out.

Vodafone Business, you have seen it reaching 4.5% this quarter driven by digital services, strong demand across the board, we expect continued very good growth there in the coming quarters. From a commercial perspective, the point I was making to Andrew earlier, we expect increasing support from the commercial model changes that we are making in Germany and in Spain, and better net adds performance that over time will also support better revenue growth. And finally, we will continue to have obviously our CPI mechanism in play also in the midterm that will support growth acceleration.

In terms of back book and front book, you know that we are very keen in Vodafone to maintain alignment between those wherever possible, which is why, once again, I was calling out earlier the fact that sometimes there are trade-offs to be made, but they are the right trade-offs and we shouldn't obsess about relatively small KPIs movements which are which are temporary.

Maybe the area where there has been the most significant evolution at the moment, but it's an area that keeps evolving, as you know, so I can't make big prediction is the UK. You know that in the UK we always go out aligned with our front book and back book. We had very strong success in making sure that this was the case in fixed, where the market reaction has been rational last year and also this year. So, that's a good development.

On mobile last year in the UK, there was a sort of unwinding happening on the front book, which is why we are seeing dilution in our UK numbers at the moment. This year was a bit more mixed with also some positive moves on the front books. So we would like to see how this develops in every market during the year. There isn't a standard recipe.

Ottavio Adorisio (Societe Generale): Hi Margherita. Thank you for taking the call. Just a quick question. It's basically just a follow up from the previous two questions to try to understand how the progress will look into revenues or how we should expect for revenues and EBITDA over the next few quarters in Europe and particularly in markets where you've been recording net add losses a bit everywhere in fixed and significant net add loss in the UK, in mobile and in Italy. So, pricing, if I understand well, pricing takes effect immediately while customer losses crystallised over time also because some of your customers are locked into contract. So if you can just tell us how much of the price increase today the impact was on the back book vis-à-vis the front book and how much of the customers had the time to react to these prices, and what will be the outlook for the second part of the year when you believe that a number of these customers will have the ability to look around and see if there are any alternatives.

And secondly, did you see within your tariffs any optimizations from your customers? I see that in the UK, despite a 14.4% increase in prices from the 1st of April, the growth was only a fraction of that. So just wondering if you can just tell us a bit about the bridge, how you go from such staggering increase in price to more modest increase on revenues. Thank you.

Margherita Della Valle: Thank you, Ottavio. I hope I have taken note of all the elements of, I will call it, the multipart question. But if I start on service revenue maybe and EBITDA evolution, and then we'll move to the example of the UK in terms of dynamics of front book and back books.

So if I go back to what do we expect in the coming quarter from service revenue as a result of all these trends, I would say, first, let me reiterate that it was good to see a first step on revenues in the right direction with this broad-based improvement across the group, although, of course, with three major markets in negative more remains to be done. But what certainly I can say is that we now target positive service revenue growth in Europe for the remainder of the year and, of course, good growth for the group overall. As I was mentioning earlier, we expect incremental support through the coming quarters coming from Germany as a result of both the fixed broadband price action and the mobile commercial re-engineering. Against that, of course, we always need to keep in mind that we play in some very challenging markets particularly in southern Europe. But a good outlook ahead on the service revenue performance.

From an EBITDA perspective, clearly as we get into the first half of the year, we will have the big impact of energy price increases because of the timing of our hedging last year, the second half of the year in FY23 was already impacted by energy cost, but not the first half. So almost all of the energy impact this year is going to be in H1 with a negative impact on EBITDA, but we will then rebound in the second half, and I can confirm today that we are tracking to our guidance of broadly stable €13.3 billion of EBITDA for the year.

And then as you look beyond FY24, we've been really clear that this number is, for us, a new base to grow from as we move into FY25 and beyond. I hope that this overview brings together all the elements of your points in terms of what we expect to see coming from the actions we are taking now, and it is a positive outlook.

In terms of more specifically front book and back book, each market has its own dynamics and absolutely our numbers bring in some front book dilution impact. And this is the story, for example, that you are seeing in the UK. In the UK, we have very good growth at 5.7%, which includes double-digit growth, in Consumer. Within this double-digit growth, you have the back book repricing as well as the gradual dilution when back book and front book have not been fully aligned, which is why I was answering to James earlier that it's really important wherever possible to keep those aligned. But even when they are not, as you can see, we get positive results.

Maybe actually one more point, but I think I mentioned this to Andrew earlier. You are wondering what sort of customers think, et cetera, really important for us to have seen the positive accretion of the main price action we have taken this quarter, which has been the fixed broadband segmented repricing in Germany. We have very good results with now 50% of the customer base beyond the extraordinary notice period, very low churn and very good net impacts looking forward for us. So I just wanted to reiterate that. Thank you, Ottavio.

Polo (UBS): Morning and thank you very much for taking the question. I just have a question around the appointment of Luca Mucic as the new CFO. Can you maybe comment on what qualities led you and the board to choose him, and will his appointment lead to a change in the way the company operates?

Margherita Della Valle: Thank you, Polo. I was actually smiling when I was doing my introduction when I was talking about our priorities in growth focused on Germany turnaround and B2B. And as you can see, Luca brings this multi-year experience. He has been CFO for almost ten years in a very large multinational in B2B, and of course with a strong presence in Germany. So I really look forward to him joining the team and bringing all his experience and also his experience of technology. It's not something we talk about in this call for good reasons, but as you can imagine, a lot of focus is happening in Vodafone around AI and I think bringing someone in who has had more direct experience of these developments for us is going to be good. So I look forward to have someone not just next to me in these calls, but also supporting me in driving value creation for Vodafone, with the wealth of experience he is bringing. Maybe I should also add that I've known Luca for many years because we were a customer for SAP, and I also managed at some point in my career to make SAP a customer of Vodafone in Germany. So we have known each other for some time.

Carl Murdock-Smith (Berenberg): Hi. Thank you very much. I just wanted to ask about the strength in Business that you've achieved today. You talked about it being largely driven by digital services. I was wondering if you could provide some commentary by country and also by customer size as well. Are you seeing it more from larger – large customers or smaller customers? And to what extent is the European Recovery Fund assisting that acceleration?

And then also in terms of the 3.3% revenue growth in Business in Q1, can you confirm whether on the back of an envelope, I think that means that the Consumer Business in Europe declined by about 1%? So I was just wondering if you could confirm that maths as well. Thank you.

Margherita Della Valle: Sure. Vodafone Business acceleration is quite broad based. You have seen service revenue growth in Europe at 3.3%, we are growing in all markets with the one exception of Spain. When we report Business, by the way, Carl, we include SoHo in the mix which sometimes can be linked to consumer dynamics, which is why I think, actually, I was reflecting on your last part of your question. Maybe we need – we need to think about how we break it up in the future, but it's really strong growth in the SME plus segment all the way to public sector.

In terms of segments I would really call out public sector as one that is driving really strong acceleration at the moment, and it's both on the digital services front as well as the connectivity front. If I look at the quarter-on-quarter acceleration we have had, digital service has been strong all along. If you look at the numbers, connectivity, particularly fixed connectivity has been a significant step up led by the public sector and in some cases the SME segment, which is the other one where we are particularly strong.

European recovery funds. It's a mixed picture, I need to say “not much” would be the answer. There is still a lot that is stuck in a bottleneck at the moment, so with very limited impact in our results so far. We still hope for an unblocking of these bottlenecks going forward, but it's material only in one country at the moment, in Italy where there are some connectivity vouchers being distributed, and we are getting a good share of that. But not yet materially in Spain or elsewhere in the numbers.

Again, the funding is still there, but we need to see how it develops in the coming quarters. By products then, I would call out the usual suspects. So cloud and IoT are very, very strong with the added benefit, now becoming material in our numbers, of security. We are seeing really good results across the board. I would call out not just in terms of service revenue top line but also in terms of margin which is very important to me. We see good growth in Vodafone Business margin overall. It's clearly different depending on which of these products you call out, but it's a very strong dynamic that we're seeing in Business and we want to build further on it in the coming quarters.

Consumer, sorry, I was thinking to the last part of your question, I don't have the precise data point at hand, but certainly still affected in Spain and Italy by negative results there.

John Karidis (Numis): Good morning, Margherita. Thank you very much for taking my question. I wonder if we can talk a little bit about the change of the German TV law next year. In May, you identified that the revenue at risk is about €800 million. Related to this, I just wondered, first of all, the profitability of that €800 million, and secondly, what is the risk that ,with that basic TV revenue, you also lose the related telecom, I guess predominantly broadband revenue, and what is the quantum of that, please?

Margherita Della Valle: Sure. So starting from the easy bits. The margin is high because there is no real content cost associated to these basic TV products. So we're talking about 80-90% margin on the €800 million which are in play for the MDU transition. And in terms of the broadband aspect, there isn't an immediate read cross in terms of losing a TV customer and losing a broadband customer because we are talking about two completely separate situation. In one case, at the moment, the TV is built, if you want, on the rental cost, so the customer doesn't see directly the relationship to Vodafone. Why is this? Customers have completely separate bills with the relationship to Vodafone in broadband. So there is no direct connection except for the fact that obviously there will be a lot of marketing going on in Germany around these customers. But we see this also as an opportunity for Vodafone to increase its penetration and take advantage of the marketing effort we need to do to manage the transition, and to actually increase our market share on broadband. So you could have some losses and some wins, but dependent on marketing efforts I don't see this as being particularly material.

On then what we see in terms of evolution on this, you may remember that I shared some data from the first two trials we had executed on the transition in Q4 in May. I should remind that the big volumes of housing associations tend to move in January because there are annual contracts made on calendar years, and therefore we will only get big volumes again in January 2024. So between May and now, we couldn't play with big volumes of customer movements. What we have seen is, just as a reminder, we had two trials and one was still open; so there was a small trial in which we had achieved 65% penetration in the transition with plenty of resources dedicated to it. And we had a second trial on a bigger scale which was still running and was at a lower rate of penetration. Since then, the trial has continued and the penetration has increased, but it has not reached the 60-65% of the first trial.

We have then one more piece of news, but it's on relatively small numbers because of what I was just describing. We have been working on refining our techniques in terms of how we communicate with the customers and how we manage the process. And we have then done another, let's call it third small trial, which has delivered with slightly different techniques and over 60% retention levels. What we are going to do going forward between now and January, when the big volumes will move, is to continue to refine these approaches, both from a commercial and technology perspective to make sure that we maximise our opportunities.

John Karidis: Thank you. If I may, Margherita, regarding this particular issue, so the housing associations, it's essentially your revenue to lose if it happens. Therefore, when you talk about broadband and marketing campaigns, it's not clear to me how you can actually gain, given that you have those already, I'm guessing. So, is it at all possible to say what the sort of broadband revenue is attached to this €800 million revenue, please?

Margherita Della Valle: It's actually a very different set of circumstances, John, if I may, because our penetration in the MDUs involved is actually still in the low thirties. So we have our cable network in the low thirties with plenty of opportunity to grow penetration against DSL in the housing association. So as we have to contact our basic TV customers, to help them through the migration, it's a great opportunity for upselling DSL.

Nick Delfas (Redburn): Hi Margherita. Just a quick question on net promoter scores. I don't know if you have any update on how those are tracking across the European business. And then going onto the German price increases, I always find it difficult to know exactly what scale we should be applying. So, is it possible to tell us what percentage of the revenue base the price increases apply to so we can try and estimate what the net effect might be?

Margherita Della Valle: Thanks, Nick. And yes, on the last point, certainly I can add the colour, but two thirds of the base was our targets roughly for this. Now, it's fair to say having seen the results so far, we are also considering an extension now to maybe another 5-10%. But this is still something we are we are looking into and has not been decided yet. And then the price increase is quite uniform with the €5 applied to everyone.

On NPS, yes, we will have the chance to expand more broadly on NPS in H1 and the full year when we will look at our strategic KPIs, but in terms of an update for now, clearly a top priority. As you know for me, and it's good news, we had a first step up in NPS in Europe, in Q4, an early movement. We're very pleased to have seen that we have fully maintained our position in Q1 despite the execution of price increases. We knew seasonally looking also at last year in some market when CPI came into play, that you can have a seasonal drop now in telcos and then you recover. Well, this drop didn't happen. So we have sustained the improvement into Q1, and we're well on track to deliver our plans. You know that my key target to make sure that the full company is mobilised, and I need to say this is what has given me the best progress so far is to reduce our detractors by 30% this year, and I have all markets focused on the goal. We are running in the markets weekly customer experience boards to address customers issues. And it's also good to see how the new governance that we are running has made the markets more agile in pursuing these goals. And of course, as you know, it's something that is also very much now tied into our own incentive plans for all CEOs, all ExCo members. The customer KPIs are almost double in incentive plans what from what they were last year at 40%. So a big mobilisation of the company to give customers the simple experience, seamless experience that they've come to expect. And it's good to see change happening, but I will expand more on this when we show you all the numbers in the first half.

Actually one more point that we see as very important in our main market in Germany is the impact on NPS that we have seen coming from the improvement of the cable network. The quality has stepped up. We have seen it recognised externally as well; couldn't have been more broadly recognised, and we see it coming through in our customer data as well.

Robert Brindle (Deutsche Bank): Hi, Margherita. You mentioned in the video the focus on commercialising shared operations. Where are you at on that initiative, please? I think you mentioned in the video that you've completed the headcount reduction in central functions. What are the next steps?

Margherita Della Valle: I'd say two initiatives here, not necessarily directly connected in the execution. So the first one is really a process change, which is this commercialisation of shared operations. And there we have done in the last couple of months a full blueprint of what we want the commercial model to be for each of the services that we provide within our shared operations. Anything from data centres, finance, operations, you name it. All the teams have been hard at work to establish the framework in terms of SLAs, P-by-Q pricing model, etc. We are doing all this to be ready to lock it in in our next planning process so that from the 1st of April our shared operations relationship with the markets will be on a pure commercial basis. And I already look forward to us running the first planning cycle in the coming months and seeing how this can make us more efficient in creating what I would call a healthy tension around all services between the market demand and the group supply.

In parallel, we have our simplification plans in both the HQ and the markets, which are the basis of the 11,000 job reductions that I called out in May, of those, we have now actioned over a third. As you saw on the video, completing a second tranche now since the beginning of the year in our headquarters. And the other markets which are very active on this front are Italy, where we have closed an agreement with the union on 1,000 job reductions and also Germany, which is still ongoing with the union discussions. So, I would say good progress on achieving the simplification side and good progress also on the shared operations commercial model aspect.

David Wright (Bank of America Merril Lynch): Thank you very much Margherita. My question was around Spain; I understand you have taken or you have cut, is it, around 15% of stores or so I believe is the data point. I wanted to understand, is that very Spain-specific or is there a business model emerging there to maybe more aggressively rationalised stores?

And just any updates on the Spanish business in general? You obviously committed to reviewing the operation back at the full year results. I mean, I guess we probably have to wait for the, the decision on the Spanish merger as that will obviously affect the landscape of Spain. Is that a fair conclusion to make that we just need to see that really before you can sort of take any more significant actions around Spain?

Margherita Della Valle: On your first point, David, yes, we are working on, if you want, gradually shifting distribution to more digital channels. That's true across the board, but this particular initiative and this particular change is really specific to Spain. So let me build on Spain's organic and inorganic; I called out a strategic review of Spain in May, and this means we are running Spain differently - I'll explain how in a minute. And we are also, of course, considering structural changes because they're very much needed in the context of the market.

On running Spain differently, I have asked Mario, the new CEO, and his team to do a complete review and revisit of our commercial strategy in the market. And I need to say they've been very fast in doing so. And you will have seen effectively three main changes happening already in the last quarter for us in Spain. One is the one you are calling out, which is the restructuring of our retail channel. 15% of stores cut but also some dealer networks eliminated in the process, clear with some impact early in the quarter on our net adds performance. The second and third actions were on the commercial front, on high end – improving our position, strengthening our position on the high end of the market with the Vodafone brand with some flex and set contracts associated to it. And at the low end, the Lowi brand, we have been much more active above the line and we have launched a new entry point in convergence.

As a result of all these initiatives, the net adds performance in the quarter has also evolved in Spain. And if I look to June and now July, our net adds performance in in Spain is now broadly stable. And it's one of the elements together with the evolution of Germany that I had in mind when I was calling out the progressive improvement you should expect to see in our commercial performance going forward.

So I would say good progress organically. Let me say that also service revenue you should see, gradually improving in Spain in the coming quarter. But I would say in the context of the market as we know, more needs to be done, which is where the inorganic aspects are also being taken into consideration. And we are considering at the moment a range of options on the inorganic front. Obviously it's too early to comment on those today, we will share the news of the options we decided to pursue when we have more information to share.

David Wright: But are they on the table sort of now or do we have to wait really to understand the decision on Orange-MasMovil?

Margherita Della Valle: David, it depends, is the only answer I can give.

Georgios Ierodiaconou (Citigroup): Good Morning Margherita. I've got a question and a half please. So, my question is more of a follow up around the theme of your operational performance. You've been very clear about the churn drivers and how this will progress over the year, but I believe in May you also highlighted the reinvestment of the price increases commercially. I'm curious whether this has started already or is this back-end loaded? I'm guessing in certain countries like Germany, there's IT preparation before you launch certain things, but curious to hear whether commercially there is a gross add story also coming later in the year?

And then my half question is just a clarification around it's been a lot of news flow around your partner in the German fibre JV, whether you could give us some assurances and some colour on how the deal was structured, and whether this news flow at all could affect you. Thank you.

Margherita Della Valle: Sure. Maybe I'll start with the German JV. We don't see implications from the fraud, and the JV debt is fully funded for the next four years. The JV has completed in March, as you know, when we're ramping up the operations with the view of starting digging in Germany around September, so right after the summer. And it's progressing well.

On the gross add element, let me try to bring together maybe slightly different aspects. First of all, the reinvestment is actually happening already – see it as focused on two main areas. One is customer experience and, again, back to NPS, focused on reducing detractors, giving our customers the service that they expect, and at which telcos more broadly, I would argue not just Vodafone, are not particularly good at. Here, of course, we are already spending and the customer experience boards I was mentioning earlier have allocated budgets for, if you want, eliminating any customers barriers that they find along their ways to ensure we maximise customer satisfaction.

In parallel with that, we are investing more in communication and advertising and being present above the line in our markets, this has also started. I see both elements customer satisfaction and having a louder voice as supportive of the commercial trends we were discussing earlier on.

You mentioned proposition, and yes, a big part of the German turnaround is predicated in us being back in the market with a stronger proposition in terms of product construct. You heard me mentioning in the past that we didn't have competitive family plans appropriately structured. We have now included this in our June drop, but there are many other propositions that we need to develop in Germany. To give you an example/ a sense of one activity that is keeping us busy at the moment for after the simplification of our tariff structure in Germany; we still have multiple tariffs across our customer base, we have simplified our offers successfully in other markets, that hasn't happened yet in Germany. So we now have a list of at least a hundred tariff products to simplify after the summer. So you are right, there are a number of which are IT-dependent and will come into play particularly in Germany over the course of the coming quarters once we will be ready to execute.

Just to say thank you to everyone for being with us today, despite it being the end of July, and I wish you a pleasant summer. Thank you very much.

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