Vodafone Group Q3 FY24 Trading Update Live Q&A

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Welcome

Good Morning everyone and thank you for joining us for our third quarter update. Before discussing our trading I would like to highlight the progress we have made against our priorities, customers, simplicity and growth.

Priorities

When I became CEO last year I said that Vodafone must change and we are. We are changing where we focus our time and effort towards our customers. We are changing how we organise ourselves to be simpler and we are changing where we choose to operate to deliver good and reliable growth.

Customers

In customers; NPS and detractor scores are both moving in the right direction across our markets, with the UK reaching the number one position for NPS in the market for what is probably the first time ever in our history. Following our reprioritisation of investments and focus on excellence across our customer operations we are simplifying our processes, significantly reducing call waiting times and improving the tools available to our care agents across our markets. In Vodafone Business we accelerated our growth to 5% in the quarter with particularly strong growth in digital services and in our market-leading IoT business. In January we also announced a unique strategic partnership with Microsoft. Together we will drive a step up of our growth potential in the SMB segment and with IoT. In Africa a particular highlight is the growth of financial services in Egypt with the number of customers increasing over 55% to 7.5 million, benefitting from Vodacom's capabilities.

Simplicity

As part of being a simpler business we have already completed over a third of our multi-year 11,000 role reductions. In parallel we continue to work on downsizing our portfolio. We are progressing with approvals for our sale of Spain and the UK merger. We have also been actively exploring options for Vodafone Italy for some time. We are continuing to progress on this and, as we have done in Spain and the UK, we will focus on the most value-creating and deliverable outcome for our shareholders. However, as you would expect, given that we are engaging in constructive discussions, I am not going to comment further on this today.

Q3 Trading

Turning to our Q3 trading, I am pleased to report that we have sustained Group service revenue growth into Q3 with 14 out of 17 markets growing and we are reiterating our financial guidance for the year. In our largest market, Germany, service revenue was in line with our expectations. Commercial momentum in both Fixed and Mobile improved and the execution of the Housing Association transition has now started with all processes performing according to plan. With that Luka and I are looking forward to your questions.

Q&A

Emmet Kelly (Morgan Stanley): Good morning everybody and thank you for taking my question. My question please is on the deregulation of the German MDU cable TV market. On the last call you kindly provided us with some numbers for the potential revenue at risk and you gave us a range of retention rates. I know it is very, very early days but could you please say a few words on how we should think about the phasing of the MDU revenue at risk? Is it more front-end loaded or would it be a straight line over a number of years or perhaps a different pattern? Thank you very much.

Margherita Della Valle: Thank you Emmet. I will let Luka maybe say a few words on the revenue profile. In terms of what we are actually seeing in the market, as you know we were expecting volumes to start becoming material in January and it is happening. We are tracking this very closely. As I mentioned earlier we are pleased to see that all our systems, all our processes are performing as expected. Also we are seeing good performance across the full range of our channels from digital online, retail, telesales, door-to-door. Actually Luka, you may want to add a word on door-to-door because Luka has been one of our door-to-door salesmen recently on the ground. This week you will find that we are starting an above the line campaign on TV in Germany because what is starting now is all the marketing actions to nudge our customers to take action. We will come to the phasing in a second but the trends so far are certainly supportive of the range of outcomes that we have seen in the trials. It is only a few weeks, and I think this is really important because only a few weeks into what is, the first wave, means that it takes time for customers to migrate. I think we will give you a much fuller update when we come back in May but Luka on the revenue trends and how it is going to impact our profiles.

Luka Mucic (Group Chief Financial Officer: Yes, first of all on my experience perhaps in door-to-door sales because I think that was for me very insightful. Of course I was only able to visit some 20 customers or so but I would say in an MDU that is quite representative of the customer base that we are tackling with the programme. You typically get to a combination of a good initial sign up and then a range of people who are just trying to get informed and then make their choice. Therefore as we work through the process it will take a few months actually until the summer until we are fully through it. What I could definitely see is that this is not necessarily a customer base that is very OTT heavy in nature. Typically we are talking about more older people and a certain predisposition to staying with the status quo which I would say is quite constructive. Therefore I think we will probably land within the guardrails that we have outlined so far.

In terms of the phasing we are now going to see in Q4 the first significant impact and we expect this to then carry through into the first half-year of FY25. The impact of course regardless of where we end up in the range will be quite sizeable. Still my current expectation is that we will land in Q4 in Germany at roughly flattish service revenue growth because the decline through the MDUs will be counter acted through a positive step up mainly in our Vodafone Business segment in Germany. That will be close to a wash in that respect. As we go into the next year, in the first half-year the MDU impact will mean that we are going to see a return to negative growth. In the second half-year though this will start to be moderated by the pickup of the national roaming agreement with 1&1 which will start to bring us some incremental service revenues. That will then come to full fruition, so in FY26 I fully expect Germany to be back to a very decent growth.

Emmet Kelly: Thank you very much.

Carl Murdock-Smith (Berenberg): I wanted to ask about the outlook for the growth in Vodafone Business please. The strength of Vodafone Business in Q3 was supported by the UK and Italy while Germany saw decline. How sustainable is that growth in the UK and Italy? How much of the growth in the UK is due to the smart metering programme and is that revenue ongoing or one-off project based in nature? In Italy how much do you expect business growth to slow in Q4 now that the voucher programme has concluded? Then in Germany, I think you slightly touched on it there, but can you talk about this quarter's decline and what your growth expectations are there going forward both organically and also with the new Microsoft agreement as well? Thank you.

Margherita Della Valle: I will hand over to Luka to give you all the builds on the detail but let me just mention the headline. What you should expect for Vodafone Business across the board is continued acceleration going forward. It is simple but maybe Luka you can bring a bit more colour.

Luka Mucic: Absolutely. I fully expect this acceleration also to show in Q4 at the aggregate level. As you said, the growth composition will be slightly different. In Vodafone Germany we absolutely expect to bounce back to growth. Germany is in general an IoT heavy market due to a strong focus on manufacturing and automotive industries. Q3 actually was a seasonality impact because last year we had a very strong activation in a particular customer project there. This will actually now turn around. In Q4 we will have a very strong contribution from that part of the business and hence a return to growth in Germany as opposed to that in both the UK and Italy. While I would continue to see very decent growth the growth rate should start to slightly come down also due to phasing impacts from individual projects. However the rest of the business in particular in the other European countries should continue to accelerate. Then going into next year, based on the strength that we have gained through the expanded partnership with Microsoft, the joint investments that we are doing into the go-to-market capabilities I would expect that we are not seeing the end of the growth opportunities but actually a further opportunity for acceleration.

Margherita Della Valle: Yes and if I may do a small build on this, you know that scaling up Vodafone Business was one of the key strategic opportunities that I identified from the beginning. I am very positive on it. It is happening. The demand is very strong. It is really on us to equip ourselves to better serve it which is why you have seen for example that my first big business partnership has been with Microsoft. Precisely because it fits very well with this objective. I am really keen to leverage partnerships to ensure that we build on our strength bringing in also external capabilities to just accelerate our growth.

Carl Murdock-Smith: That is great. Thank you very much.

Robert Grindle (Deutsche Bank): Good morning. My question is around Mobile data traffic growth. It seems to be finding a floor around the high-teens/twentys mark. At least there was not a further slowdown in Europe this quarter. It was not long ago you were at twice, three times this level. How are you thinking about Mobile traffic for capex and network planning purposes please? Are we now in a steady state? Thanks.

Margherita Della Valle: Luka is actually conducting capex allocation reviews as we start our long-range planning process for the coming year. Maybe a view on that?

Luka Mucic: Yes, that view is basically the same as I shared already at the half-year mark. Of course we are looking into those trends as well and as I shared at our half-year earnings already, my conclusion from what I am seeing at the moment is that we are well-served with the current levels of capital intensity. Certainly they do not suggest a need for a step up in investment. Steady state in that respect.

Margherita Della Valle: More broadly one point that is important to me when I look at traffic dynamics is what I call responsible usage. You know we have been engaging in discussions with the over-the-top players on the dynamics of the usage that is pushed through our networks. I think it's really important, not just for us and our capex, but for the planet really more broadly in terms of energy consumption, network buildout, that this traffic is managed responsibly with a common incentive of giving our customers what they need but not pushing through more than what the customers actually want and experience, which has been the case for some time. I think that is also something that we can proactively improve.

Andrew Lee (Goldman Sachs): Good morning Margherita and Luka. I had just a question around the German growth again. Obviously we have already discussed in this call the extra impacts from the cable TV regulation and you have laid out that there was some phasing impacts from B2B in the quarter. However can we just look at the underlying growth because obviously for many investors it is 30bps, whether it is 30bps or 50bps, it is still a relatively low number and I guess semantics to an extent. What people are really trying to understand is the trajectory of underlying growth. I wondered if you would just give us the spot check on how you see that acceleration or trend going. Should we expect a continued acceleration as we look at ex-cable TV headwind disclosure into FY25? Any updates on the commerciality there would be great. Thank you.

Margherita Della Valle: Thank you Andrew and I think this is actually a really important question. We are going from the next quarter, as the TV law impacts are becoming material, to publish underlying, but it is really what we are all were watching. Yes we should expect from now on, starting in Q4 and into FY25 a continued acceleration of the underlying service revenue growth in Germany. The reason why, is fairly simple, if you think about it as of February today, we have finally put behind us the price-driven churn that we were experiencing in fixed broadband. We will have had one month of the final disconnection of the final cohort happening in January but from February onwards that will no longer be the case anymore. If you look at how we are playing in the market, and I think our commercial performance is starting to highlight that, we have a full range now of simple propositions for our customers, from mobile to fixed, convergence, family plans, TV and fixed broadband bundles - you name it we are there. These offers are being supported, as tests continue to demonstrate, by strong performance in our networks, both fixed and mobile. On the back of these trends and the changes that we are seeing in our operations, if you set aside the TV transition that we have talked about earlier, you should expect a continued underlying acceleration starting from the next quarter.

Luka Mucic: Just as a quick build, do not forget about Vodafone Business in Germany. That will definitely add to the growth profile. What you have seen here in Q3 is certainly an anomaly and Business will also next year add positively to growth in Germany. Then last but not least of course in the second half-year you add to that the positive impact from the national roaming agreement with 1&1. Then you can see clearly that FY26 once we have the MDU transition out of the way, in particular, it will be a very pleasing picture for Germany.

Andrew Lee: Thank you.

Jakob Bluestone (Exane): Thanks for taking my question. Just getting back to the B2B revenue growth acceleration that you have talked about I would be interested if you could talk a little bit about the margin mix or margin of the revenue mix from that. Are these similar margin revenue streams to Consumer? Or when you refer in your slides to things like cloud and various other security services, are these lower margin revenue streams? How do we think about that revenue acceleration feeding into EBITDA growth later in the year? Thank you.

Luka Mucic: Perhaps I can take this as well. The answer is it depends because in Vodafone Business we have a broad portfolio. We have the classic connectivity products with very similar margin profiles to Consumer and then we have the beyond connectivity products, in particular the cloud and IoT solutions. There we have a negative margin differential to the connectivity products. It is not huge at the Vodafone Business aggregate level. We are talking about a couple of percentage points, but what is more important is actually that this part of the business has a very low capital intensity requirement and therefore in terms of what it actually yields, in terms of cash flows, which is ultimately what matters most, it is very positive. Of course, the growth profile is of a very different nature as well. In cloud and in IoT we are growing in the 20s and in the connectivity world of course it is rather in the low to maximum mid-single digits. Therefore in terms of the actual returns from a cash perspective this business is super accretive to Vodafone.

Jakob Bluestone: Thank you.

Akhil Dattani (JP Morgan): Hi, morning, thanks for taking my question. I just had a question on shareholder returns. You have spoken in the past around the fact that as the portfolio at Vodafone changes, that can have an impact on how you think about shareholder returns. In the last quarter you have talked about possibilities around both the dividend and buyback. I guess what I was hoping to understand is two things. One is, you are currently in negotiations in Italy and obviously there are limits on what you will say there but that could materially change the portfolio. I wondered if we should expect by May you would be in a position to have enough visibility as to how you might want to reshape your shareholder remuneration policy, given obviously uncertainties around whether Italy is announced by then. Even if it is there is obviously a timeline to get that deal in the UK closed. Then the second bit is just to understand, irrespective of that, could you really update us on the general building blocks in terms of how we should think about shareholder returns? The first is, there are certain debates around the coverage of your dividend, but equally Luka I think you have mentioned buybacks as an option. If you could help us square how we think about these topics. Thanks a lot.

Margherita Della Valle: Thanks Akhil. I will cover the timing and then ask Luka to comment on how we see the building blocks. On the timing front we said back in November that we will review our capital allocation overall once the Spanish deal closes. We continue to target for that half one of this calendar year. We are still going through some approvals, nothing onerous but as always it can take some time. Therefore you should expect us, as you mentioned, to update you on capital allocation within our May results. In the way we think about it, Luka?

Luka Mucic: Yes, I can only reiterate what we already covered at H1 earnings. First of all of course we are very focused on generating capital. That is the whole focus on operational excellence and certainly looking into all of the components of our end-to-end cash conversion chain. I think over time I am sure we will have further opportunities with the customer, simplicity, growth focus to also improve there. Then more importantly in the short term, in terms of the capital allocation, we have covered briefly already on one of the previous questions, the question around capital intensity, so nothing that would suggest any need for any changes in that respect. In terms of the balance sheet I am pleased that I was handed a very solid and strong one, actually with very long-term debt at reasonable interest rates. Also in that respect there is no significant shift that anybody would need to expect. Then in terms of the actual shareholder returns, yes, I am convinced that we have to look at a good mix of different means. On the dividend front it is important to me to make sure that an ongoing dividend is covered by the underlying free cash flow of the firm. Spain is going to change that a bit but we will use all of the visibility that we have by then to then come up with the right call. Nothing is decided and yes also share buybacks could then be part of the mix. In particular, if we have sizeable one-off cash inflows like the one that we are expecting from Spain at the closing of that transaction.

Akhil Dattani: Can I just clarify one thing Margherita on your first answer? Does that mean that Italy in terms of whether it happens or not and the construct of any potential deal does not necessarily impact? I guess it is quite a big asset for you, so I am trying to understand how you can give clarity in May if potentially that deal has not yet materialised by that point.

Margherita Della Valle: Our intention remains to give clarity in May. As you can imagine we will have the €4 billion proceeds from Spain coming in and therefore we do not think we should delay any further, so we will update you in May.

Akhil Dattani: That is clear. Thank you.

Georgios Ierodiaconou (Citigroup): Good morning and thank you for taking my question. It is just a further clarification about Germany. You mentioned B2B being a tailwind from next quarter and that the NRA at some point will contribute positively, but I am trying to understand the impact on the broadband service revenue growth from the losses you accumulated in the last few quarters. I am curious how that will be mitigated. Are there more price actions you can take like last year in order to improve ARPU in broadband or is it a KPI recovery momentum? Then just a clarification also on the NRA because I do not think it has been finalised yet? I am curious as to when we should expect the agreement to be finalised and therefore start to contribute. Thank you.

Margherita Della Valle: Sure. Maybe Luka you take the timing of the contribution of the 1&1 deal. In terms of broadband profile, as we said, from a KPI perspective we will have the losses accumulated so far and one more impact from the month of January to close the effect of the price increases that we have had over 70% of the base. Beyond this the price increases which we have in the back of us, let us say, at this stage will continue to support growth for a part of the year in FY25 because as you know we phased them throughout FY24. As far as pricing is concerned, I would say it is too early to prejudge the moves of FY25. Of course we will have to assess the market dynamics, but I would not prejudge anything in that space. Beyond this, obviously pricing is just one lever of what we see and as I mentioned earlier we have good KPI trends, we have good offers on the market supported by good networks so we see really the overall underlying growth in Germany picking up.

Luka Mucic: Yes, in terms of the 1&1 contract just to be very clear, we have agreed on binding heads of terms already a long time ago. What we are currently working through is the detailed schedules of the long-form agreement and that should not take too long to finalise. It is, as you will appreciate, from a more tech requirements perspective, quite detailed and precise. That is why we are close to finalising it but not yet fully final. However the heads of terms are binding. Then from a go-live perspective, so to say, it is still the same assumption. We are going to see positive impact on the revenue and EBITDA front from the second half-year because we are supposed to start the onboarding basically after the summer period. Then from a cash flow perspective because we have this year to still invest a bit from a capex perspective into the onboarding, we are seeing a positive contribution from a cash flow perspective starting in FY26.

Georgios Ierodiaconou: Very clear, thank you.

James Ratzer (New Street Research): Good morning Margherita and Luka. Thank you for taking the question. You have mentioned a couple of times on the call so far the Microsoft deal and I would like to dig into that in a little bit more detail if we can. Specifically from the cost perspective and the impact it will have on your business. Firstly just from a datacentre perspective I think Vodafone has access to about 800,000 square metres of datacentre space. How much of that is actually owned directly by you? As a result of the Microsoft deal is there an opportunity for you now to sell datacentres and potentially unlock value here? Similarly is there a mix shift that is going to happen between capex and opex as a result of this transaction? Are you moving to a higher lease cost with Microsoft, but potentially lower direct capex? I would just be interested to understand how we should think about the impact of this partnership given it seems so significant. Thank you.

Luka Mucic: Yes. Perhaps I can answer that because your questions were more focused on the financial aspects. I think we are missing out, of course with the focus on datacentres, a big significant positive impact in all of the other pillars of the partnership because the co-investments and the support that we are getting from Microsoft on the B2B go-to-market front, on the IoT of course, is very value accretive for Vodafone as well. However if we are looking at the datacentre front only, first of all our existing datacentres, the vast majority of them are leased and not owned. That is something that you need to take into account. We are nevertheless expecting actually a significant net benefit from moving to Azure indoor datacentres. We have calculated an NPV that is in a triple-digit million range and it comes from essentially significant cost synergies. It will result in a very small capex to opex shift. On the opex front yes of course there will be opex that will be consumed through the utilisation of the Azure platform but it will be countered by other opex savings due to the efficiency that we are generating in operating our systems and applications, cleaning up as well and managing the upgrade cycle in a more efficient way on the Azure platform. Do not think about it as a dramatic shift between capex and opex, we are talking about double-digit millions over the ten-year timeframe and all of those impacts and also the corresponding investment has been fully considered in our long-range plan. It results, essentially, in a shift between internal expenses and taking them to our partnership.

James Ratzer: A triple-digit €million NPV is quite significant. That is coming from, what, getting lower costs with Azure than with your existing datacentre providers?

Luka Mucic: And our own operations. It is really a combination. We are moving 10,000s of servers to Azure and all of them and the legacy apps on top of them actually have quite a significant maintenance burden placed on them. By moving them to a modern public cloud infrastructure we can gain leverage and efficiencies there.

James Ratzer: Great. Thank you very much indeed.

Polo Tang (UBS): Hi, thanks for taking the question. I have one question about Etisalat. Can you clarify when they will take their seat on the Vodafone board? Are there any further steps that need to be taken before this happens? Separately, have they given you any feedback on where they would like to see the dividend and shareholder returns? Thanks.

Margherita Della Valle: On the timelines, we are still going through the process and as Vodafone we are of course supporting the process with whatever information sharing is required by the various authorities. However, it still needs to be completed and therefore we will update you. We look forward to welcoming Hatem to the board and at that point having a fuller conversation around the topics you mentioned. I think it would be really helpful to be able to have these conversations once they join the board.

Maurice Patrick (Barclays): Morning guys, thanks for taking the question. If I could ask a slightly dry one around the central cost function please. You spend about €800 million or so in the central cost function which you allocate to the operating companies. Given the UK deal you announced and Spain, there has been some discussion around the extent to which those charges are above the line and below the line and how much that cost can be flexed going forwards. The question really is, as you do simplify the group's structure, i.e. sell Spain, do something in Italy, to what extent can that central function cost be flexed down with fewer opcos or is it more fixed? Some more colour on that would be very helpful. Thank you.

Margherita Della Valle: In a nutshell, the €800 million you are referring to is actually the capex that is being spent on behalf of the markets in areas such as the common datacentres that Luka was just describing. The capex is held in the centre because that is where it is spent. We have a single datacentre infrastructure but actually we then have the depreciation impacting the markets over time as the capex gets depreciated. These are, I would say, a simple distribution mechanism but more broadly the costs that we spend today for the whole opex of the shared operations are sitting firmly within what you see in terms of market P&Ls. We are transforming how we run our shared operations, precisely because we want to inject more flexibility. You have heard me say I think back in May that we are moving towards a commercial shared operation setup. What do we mean by commercial? It means that with all our markets we are going into an MSA, actually it starts from 1st April so we have spent time preparing but it is starting now. There will be clear MSAs with pricing which will be volume-driven and SLAs exactly as in a commercial relationship between the group and the markets. This will also help us open up the shared operations to our partners within the industry, or beyond, as needed. We sese this as an opportunity going forward but of course wherever needed we will always have our cost programme, our efficiency programmes in play as well.

Luka Mucic: Just as a very small build of course we are paying attention to this as well when we negotiate third party relationships so that we have the flexibility to adjust and potentially transfer if we have major carve-outs from the group.

Margherita Della Valle: There are a number of areas in the shared operations in which we are absolute leaders in our industry if you think about it. We have just started for example what is said to be the largest radio network tender in the world, probably outside China I would say, through our procurement process. This is a case in which for example e& is going to join us so that we have better results for all. I think there are opportunities in the industry beyond Vodafone to commercialise our shared operations. We have also brought in Accenture, as you have seen, in the system to help us accelerate this transformation based on their experience of commercial operations.

Maurice Patrick: Thank you.

Margherita Della Valle: Thank you everyone for your time today. Vodafone is changing and we are seeing the impacts of our focus on our priorities of customers, simplicity and growth. Consumer NPS and detractor scores are moving in the right direction. We are transforming our shared operations to be a simpler business. Vodafone Business growth is accelerating in line with our ambitions as we have discussed. After announcing our transactions in the UK and Spain we are engaged in constructive discussions in Italy. I look forward to updating you on our progress at our full year results in May with Luka. Thank you very much.

Luka Mucic: Thank you.

[END OF TRANSCRIPT]