Vantage Towers FY22 Results
Live Q&A

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Introduction

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Welcome

Good morning, everyone, and welcome to our analyst call this morning following our financial year 2022 preliminary results that we published this morning. As usual, I am joined by our CFO, Thomas Reisten. And before we jump into Q&A, I will just provide a quick summary of our results, and then we can move on maybe to your questions.

Key Highlights

This was a successful first year. This is the first full year as a listed company, and we celebrated our IPO anniversary at that point with an all-time high share price, and we are now in four actively traded equity indexes:

- The MDAX;
- The TecDAX;
- FTSE Global Equities' Mid Cap; and
- STOXX Europe 600.

Financial Year Highlights

So a few words about this financial year. First of all, our commercial team has done a great job throughout the year and the highlight of that, of course, which we commented on previously, has been the landmark agreement we signed with 1&1 in December for 3,800 and up to 5,000 sites.

In addition, in the fourth quarter, we expanded our value proposition, first of all, for 5G upgrades and that is contract with Telefónica for 1,500 sites and also for indoor coverage with the number of distributed antenna systems deals and opportunities that we have seen across our footprint.

So our tenancy ratio is now 1.44x, that is 0.04x higher compared to the previous year and that is 1,680 new tenancies net add. So a full on commercial activity in fiscal 2022. We have also ramped up our new site built in further in Q4. You will recall that we had discussed that in the previous call and we have now taken the total to 510 in fiscal 2022.

I am also pleased to announce that we delivered against our financial targets and achieved our guidance for fiscal 2022, indeed, on revenue at the upper end at €1,011 million in fiscal 2022, up 4.6% and adjusted EBITDAaL at €543 million. That is up 3.6% year-on-year and in the range of the guidance at 54% margin. And the recurring free cash flow once again at the upper end of the range at €415 million, which is an increase of 8% year-on-year.

So we plan to propose a dividend of €0.63 for this year. And that will represent a cost of €319 million. One point we flagged in our statement this morning is that we have also revised the approach to our rollout plan for the built-to-suit programme and the MSA terms in Germany, the 5,500 sites that we will deliver for Vodafone Germany. Some of them, up to 1,200 could be sourced from third party towercos. And we will cover that I suppose in more detail later.

Now looking ahead, we will further invest. We do have costs to facilitate the growth both on the BTS programme, but as well for the preparation of the sites for the 1&1 colocations ahead of the revenue that will come from those programmes. And that leads to the guidance that we are giving for fiscal 2023.

So fiscal 2023 revenue growth of 3% to 5% year-on-year. EBITDAaL between €550 million and €570 million taking into account these costs that we are incurring this year to build up towards the revenue that will come from 1&1 and the BTS programme. And a recurring free cash flow of €405 million to €425 million. That is the guidance for fiscal 2023. And we are also reconfirming our medium-term guidance.

That is, in short, the summary of what you will find in the release we issued this morning and the presentation that we gave.

With that, I will turn it over to your questions with a request that you keep it to one question per analyst, so that everyone gets a chance to ask their questions. Thank you very much.

Q&A

David Wright (Bank of America Merrill Lynch): Maybe just to understand and flush out the new BTS agreements, maybe. And this could be a question for Thomas. Just to walk us through, I guess, the accounting impacts here because it feels like stage one is moving CapEx to OpEx as you potentially lease sites versus build. And then stage two, you are bringing previous pass-through CapEx into actual growth CapEx, which is, obviously, going to be very high margins. I am just trying to understand that. And then could you just confirm that all else in the MSAs is broadly the same? Do you have the same inflation terms, the same access to strategic sites? Do you have the same all-or-nothing clauses in the MSA?

Vivek Badrinath: Yeah. So I will just start maybe just to give a bit of context and then I think Thomas will drill into the puts and takes that come out of this adjustment.

First thing to state, the commitment is for 5,500 new sites for Vodafone Germany. What we have done is adapted it to up to 1,200 that could be sourced from third parties. And that comes from the fact that as you look at the search rings, the places where they need sites, if there is an existing towerco site there, it is both quicker and from a capital efficiency point of view more efficient to install the equipment on said third parties. So less capital-intensive, quicker, derisks our rollout timings. So all good stuff and covers the requirements of our customer going from Germany for their coverage. So that is why we made the adaptation on this aspect.

Also worth mentioning other aspects such as inflation, etc., and inflation, all or nothing renewal. And strategic sites are not impacted by this amendment. It is really focused on this part of the story. And maybe then I turn over to Thomas, who can walk you through the math behind it.

Thomas Reisten: Absolutely. I think, first of all, let me state and reiterate that this overall amendment is NPV neutral. It does not change actually our revenue or EBITDA guidance either. So if you think about our medium-term targets that has reconfirmed even with this amendment.

I mean, just to understand, as you were saying, obviously, the individual effect like the underlying. So first of all, I would say to you there is different effects in this, the first one being the reduction of up to 1,200 BTS, that has, just to help as well a bit with the modelling in that context, the MSA rate for that was around €20,000. So we have disclosed that previously already back in the IPO times.

The margin, you could actually assume since this is obviously an amendment that is in Germany, a bit like the equivalent to the German margin, around 60%. And then the CapEx per site that you need to take for those up to 1,200 BTS that could potentially be changed, I would actually go back to what we have disclosed previously, a €1 billion of overall CapEx investment divided by 7,100 sites. Overall is 140,000. So that is the average.

For this purpose, I would say, this is CapEx above the average that you would actually have to assume. So that is the first effect.

The second then is that this would be replaced with sites that would be collocated actually on other tower companies or other MNOs. So for this, you need to make those sites fit as well for the use. So we will be incurring CapEx for which we then, in turn, get a high-single-digit return on this CapEx investment. So obviously, ultimately then that means that this is actually lease costs for Vantage Towers rather than CapEx originally spent on the BTS plus CapEx that we now spend on making the sites fit.

So margin overall, directionally about half of Vantage Towers Group margin. And CapEx on these sites, about 35,000 is what I would assume. So that is the second step. And so far, obviously, as you were rightly saying, we do need to add one more element to it. So the third one, in order to make it NPV neutral and neutral from a revenue, as well as actually a margin point of view.

So we are changing the pass-through model to now a commercial model on the upgrades for sites. And that means, again, on the CapEx that we would be spending there high-single-digit returns. And since there is almost no OpEx involved, close to a 100% EBITDA after leases margin. And that may be the last element to help you on the modelling there. Actually on spending of CapEx, this is about €50 million per year for this amendment overall on the side of the upgrade CapEx.

So you take all of that into account, you are ending up, as I have been saying to you on the NPV neutral deal, we have actually amendment that helps us as well to continue to reaffirm our medium-term targets. So no impact on revenue and no impact on the EBITDA after leases are earned net cash flow consequently, obviously, given the NPV neutrality.

David Wright: And could we be expect this quite early in the BTS process? Are you actually out there right now negotiating with third-party telcos? Is this something we could bring into full year 2023?

Thomas Reisten: I think you can assume, indeed, that this is across all of the individual years of this rollout. Some of that will actually be affecting the individual years. Obviously, again, there is a phasing attached to that over these years. And I mean, it is probably in line with that previous phasing that we have been talking about acceleration initially, which still is the case, by the way.

Obviously, on the underlying BTS programme, the acceleration over the first two years and reaching a run rate towards the end of this now current fiscal year, so fiscal year 2023.

Emmet Kelly (Morgan Stanley): My question is on the guidance, in particular, for the free cash flow for March 2023. So when I look at your Q4 numbers and your H2 numbers, you clearly finished the year quite strongly. You have got revenue growth of 9% in Q4 and you have got EBITDAaL growth of roughly 6% to 7% in the second half of the year. However, when I look at your free cash flow guidance for March 2023, and if I take the midpoint of the guidance, it basically implies negligible free cash flow growth year-on-year 2023 over 2022. So can you run me through maybe some of the building blocks on the free cash flow guidance for this financial year, maybe referring to top line costs, lease costs, cash taxes, etc.?

Thomas Reisten: Sure.

Vivek Badrinath: I will turn that over to Thomas to run through it.

Thomas Reisten: So, I mean, overall, the revenue growth, I think that turns obviously for the next year. I think the key elements, Emmet, are really around the EBITDA and understanding the EBITDA growth year-on-year in that context. So there, what we have already said at the third quarter results is really that we are overall investing into future growth and continue to invest in the future growth. So that is two elements.

First of all, certainly, the topic on that we have now layered on top, the 1&1 deal. So for the 1&1 deal, our landmark agreement there, the important steps is that we are preparing in fiscal year 2023 for the rollout of these sites. So there is three key elements actually on the cost that you have to include in that, one being basically the EMF readiness, the EMF certification, technical drawings and agreements with landlords, for all of which we are hedging both OpEx and CapEx.

So on the OpEx side, that is an important element that actually affects then our EBITDA after leases. The second point is that we continue to invest into the growth of the business, into the acceleration as well, not only on 1&1 but as well actually for the further acceleration of the BTS programme. So in advance of the revenue coming in later, we continue to accelerate here and have launched a number of programmes that help us to continue the acceleration and from a BTS point of view as well. So we are incurring costs on that note too.

And the last element is we are ramping up and continuing to ramp up our people as well in order to drive both the 1&1 delivery and the acceleration of the BTS programme. So if you take all of that together, the effect on EBITDA is somewhere between €10 million and €15 million, so up to 150 basis points. It was actually affecting our margin for the next fiscal year that we had to take into account, before that then turns into an acceleration of our margin, which we again reconfirm our medium term targets towards the upper end. So high 50s percentage margins is what we are confident to deliver.

So, in fact, what that means is for the acceleration you have seen a bit of a shift of the phasing, but the acceleration itself will support, obviously, delivery of the high 50s percentage margin.

Now that is on the adj. EBITDA after leases element of the guidance. If you then look at the recurring free cash flow, that is actually a direct flow through from the adj. EBITDA, which, obviously, then as well dictates our guidance for recurring free cash flow.

But just to do a bit of year-on-year comparison on that as well. We have said for the fiscal year 2022 guidance when we have upgraded that that we have €15 million benefit from lower interest costs on the one hand, and on the other hand, actually from the cash tax benefits as well. We will retain these, as we have said before.

But one other element to take into account is, and we have declared that in our release as well, is that we had a €10 million one-off cash tax benefit coming from the business carve-out in fiscal year 2022. So that is, obviously, another explanation if you just look at that from a year-on-year perspective in terms of the phasing and the increase actually from the recurring free cash flow point of view. Hope that answers your question.

Andrew Lee (Goldman Sachs): Just had a question. You have helped us out tremendously with thinking about how inflation feeds into your business. And I just wondered if you could give us an update in what you have seen over the past month or two months in terms of your stakeholder behaviour? If you have seen any shift from a customer perspective of yours in their willingness to sign up to inflation-linked contracts. Any change in demand for tower usage or in their strategic plans that you can infer from your conversations with them? And also, from a supplier perspective, have you seen any change in behaviour from your landlords as you look to do ground lease buyouts and obviously to keep down the inflation element of the pricing contracts you have. Just any shift you have seen in response to the macro environment to your stakeholders, be it customers or suppliers.

Vivek Badrinath: I cannot say I have seen massive shifts. For instance, the operators, they are still staying in the course. For many of them, this was the beginning of the 5G rollout, so they are staying in the course because it is really a programmatic view, and they need to get the rollouts done and there is a lead time. So we have not seen any stop and go of any sort so far. I mean, that is very clear.

So I would say staying in the course because the bigger picture is return on the 5G investments that they are making. And for that, time is of the essence. So they are holding the course.

On inflation, we know that many of them are looking at their energy consumption, hedging, etc., because that is where it hits most. And that obviously is an active area of collaboration with them. But that would be normal. From our landlord's point of view, it is a mixed bag. Yes, I mean, they do see headline inflations. In some countries, that gets regulated down. In some countries, it is stabilised at a certain level. So it is a mixed bag across Europe.

Also, inflation hits people in different ways. Do not forget, we have got more than 85% of our contracts which are with single site landlords. So you have a very broad variety of situations. For some people, inflation means we need more cash to take care of our expenses, which means that they are actually open to GLBO conversation, and we have had a pretty good delivery on the GLBO side this year, thanks to that.

And on the other hand, for others, it is a question of inflation, compensation and so on. I cannot point out to an overriding macro trend flowing through our numbers on this basis. And on signing up for inflation clauses, once again, there is two sides to the coin, right? On one hand, it is not having an inflation clause, which seem pretty unnatural in the current context. So it is hard for a customer to have that argument that they do not want inflation clauses, because it is kind of out there. But on the other hand, we have not had that pointed conversation that we will only sign if you take our completion clauses, of course. So that is that.

And then at a more general level, what we are seeing is a healthy rollout of 5G, as expected, more in terms of upgrades. We have signed a very interesting programme with Telefónica. I just thought I would flag that one. 1,500 sites upgrade of the passive infrastructure to support the inclusion of new equipment for 5G for their rollout. And I think that is something to watch out for because the coming two or three years are certainly going to be marked by that activity across Europe. So I would say that is still very much supporting our evolution.

Andrew Lee: That acceleration in 5G deployment. Obviously, we have been waiting a long time to start to see an acceleration there. But is that correct or is that?

Vivek Badrinath: Well, it is steady rollout is the way to put it. They have got their plans and they are executing on them pretty actively. And you see the announcements. I mean you see the operators across Europe, they are showing pretty significant rollout of 5G on existing footprint even compared to previous technology. So I think there is a good clip there.

Simon Coles (Barclays): I just wanted to touch on that Telefónica agreement actually, because when we compare European towers to US towers, it is always perceived that they have a much better pricing structure in the US or maybe argued that they are a little bit more aggressive on pricing. So I was just wondering what are you seeing with the upgrades to 5G. Is it bringing a material uplift to the sort of revenue per tenant that you are going to see on your footprint in Europe? And maybe you can link that into the Telefónica agreement because also it will be interesting to know what changes you have to make for the passive infrastructure to be able to facilitate operators upgrading to 5G as well.

Vivek Badrinath: Well, I will respond on two counts. On one hand, this one, the Telefónica case. On the other hand, the upgrade CapEx to revenue that Thomas explained in a very detailed way earlier, which is the agreement that came out of the MSA revision in Germany, where we basically, I think to a more standard way in a way, or at least a logical way, which is it is for passive infrastructure we invest and we rent out, both for the base and for the upgrades.

So we are not in the same space yet as the Americans, I guess, where I think their commercial price book has been, I would say, evolved over a number of years. But for passive infrastructure, I think we are going to that stage where we are saying, well, we will do the investment that you need or the improvements. Typically, what is it, could be strengthening in certain cases, because the 5G antennas require more weight or more wind load. It could be simply an evolution of the electrical supply and a modernisation of it to support or new battery, extra batteries because the consumption of the site increases.

It is also, and that is important for the future, even though it is nascent today, fiberisation or access to fibre. One example is the 1&1's Versatel agreement that we have signed, which is the first non-Vodafone fibre resale contract that was achieved by which we bring the availability of fibre on those sites. So I would say bit of fibre, bit of weight, bit of space, bit of energy. Indeed, that is work, right. And getting a high single-digit IRR on that in the Vodafone Germany case or, let us say, a service uplift for Telefónica.

I think it is a very relevant direction. And it is kind of legit, right? I mean, we are bidding in work. We are improving the versatility of our sites that enable operators to do more things with our sites, and that creates value on the site. So I think it is very natural evolution.

Simon Coles: Okay. That is great. Maybe I can ask you in a slightly different way then. So say, Telefónica or Vodafone, whoever it is, switches out the 4G antenna and puts a 5G antenna in. Can we have, like a rough rule of thumb that looks a 10% uplift to the revenue per tenant or it is something that is too early to say or it is too many moving parts to give too much colour there?

Vivek Badrinath: Too many variables, I would say, unless Thomas is in a mood to give a point of view.

Thomas Reisten: No.

Vivek Badrinath: But, I mean, it depends. For humongous sites in the current model, if there is no investment to be done and everything fits, then it would be minimal. If it requires more heavy lifting, then there is more capital. So it is still a distribution, right.

Thomas Reisten: Yeah, exactly. And that is variability that you have been talking about obviously.

Georgios Ierodiaconou (Citigroup): I just wanted to ask, we have already heard from INWIT about the arrangements they have with anchor tenants in using additional spectrum. Obviously, there is a lot of developments already in Spain with one of the anchor tenants and perhaps there will be more in the UK. If you could clarify what the statuses of these agreements and whether there could be additional costs that come with having spectrum of the existing arrangements. And if I could ask a clarification as well, and sorry to do this. But in Emmet's question earlier around guidance, he quoted a lot on EBITDA and below. I was wondering if you can also comment on revenue ex pass-through and whether energy and other services are included in the guidance you provided?

Vivek Badrinath: Would you like to take that one first?

Thomas Reisten: Yeah. Sure. So, I mean, in terms of guidance, all of the different lines with the exception of the CapEx pass-through was obviously included in the guidance overall. So you have seen us indeed achieve that. That is probably a good addition now to the question that indeed that Emmet asked. You have seen us having a higher proportion of revenue coming actually from other services, which is energy and other actually now aligned towards the end of the fiscal year.

And that is a revenue that is a bit more stable and not really growing that much. So overall, you need to take that into account when you think as well about the year-on-year revenue guidance there and actually what we have been giving in that context.

Now even underlying, you have seen our growth story. I think there is really, really good growth, in particular as well on the non-Vodafone revenue side. And we continue to accelerate the BTS rollout as well, which then has the respective effect on to the cost side. But that is I think the key elements to take into account when you look at our revenue guidance for fiscal year 2023 indeed.

Vivek Badrinath: Yeah, on additional spectrum. So short answer is, in our current model, it comes in indirectly because it is typically loading charges for bigger antennas if you have antennas or for weight as you go out of the configuration. So it is typically an ad hoc, and material based or bill of quantities type based billing that would come through. So it is not an automatic add spectrum, get this fee type of deal in the current contractual construct that we operate under.

Do I think there is directionally something to think about? I think you are right. I think what INWIT has looked at is right, is that indeed as you look at more spectrum coming in, you could try to average it out to make it simpler to contract with operators. But I would say, our current contractual frameworks do not cover that. They cover it through boxes and equipment multiplied by a number of sites, not through just direct proportionality to spectrum. It makes modelling easier too.

Fernando Cordero (Santander): This is going to be a quick one. Just looking to the performance in the full year 2022 in terms of the tower count, we have seen the 500 new sites into the year with the tower count basically stable. It implies that on top of the commissioning portion or plan into Spain, it means around 300, 200 something around sites that have been in the commission. Should we assume going forward that these number is going to be quite recurrent? What is your views on that going forward?

Thomas Reisten: Exactly. So one thing to take into account is actually the decommissioning programme that we have in Spain. We have the similar or very similar one as well in Portugal I think to take into account. The numbers of you are quoting are too high for a recurring effect as a consequence.

Now is there a recurring effect actually of some decommissioning happening? I mean, when the landlord moves a site or does not want to have a site anymore, yes, but it is significantly lower than what you are actually quoting because you need to take the Portugal impact into account as well.

Fernando Cordero: Okay. Can you quantify how much is the Portuguese impact in there?

Thomas Reisten: I does not think we have explicitly accounted by that. But we can come back to you whether this is possible. If this is possible.

Vivek Badrinath: But let us say, Spain and Portugal is the biggest part of all of it..

Thomas Reisten: Exactly. Spain and Portugal is by far the biggest part of commission.

Akhil Dattani (JP Morgan): I had a question as a follow-up to your announcement today around Germany and the shift in your business model. I just wondered if you have already finalised who the towers are going to be with. So can you give us any colour of the towers, how much is with Deutsche? How much is AMT? I do not know if you are at that point yet in those agreements, whether they are not yet finalised? And then I guess, it is a sort of broader conceptual question linked to that, which is AMT has also announced a relationship with 1&1 now. And Cellnex has outlined that one of the reasons they are interested in buying Deutsche Telekom's Towers is because they see opportunities with 1&1. So I guess I just would be keen to understand how you think about that relationship, the competition for towers there? And is that part of why you are doing what you are doing? Is this a route to try and accelerate your relationship with 1&1 to make so you cement the lion's share of that opportunity?

Vivek Badrinath: Yeah. So, first of all, we do not know. The split is not computed yet.

Thomas Reisten: No. It is basically a tower-by-tower decision that we are taking, right? So it is really about the ideal location that you are identifying when you obviously have a search ring and then you identify the right location actually there. So it could be one player or the other. Obviously, there is a time in advance that you know that because it takes time to deploy this, but if you follow-up on what I said earlier, actually the phasing overall, probably is the same on the BTS and similar on the phasing of then as well now this colocation element of it.

Vivek Badrinath: And then, as regards to 1&1, look, yes, we have contracted 3,800 up to 5,000. They need more than that. And so, they are looking for other sources. What I would say is that our active work with them, we signed early compared to others, and I think that is good because it allows us to have the dialogue on those sites which are, I would say, the most convenient to colocate on, and that is something where obviously we do not want to waste the head start that we got. So that is obviously what we are doing.

So I would say that is our approach to this, which is, let us try to give them sites that we can turn on as fast as possible and as efficiently as possible because that is in our interest and their interest because it gets the rollout done. And so, we are engaged with them on an operational basis, with their suppliers, with their tenants and so on. And I think that is certainly what the card we are playing, which is to be early with the customer, close to them, understanding them well and maximising the throughput of this colocation programme.

Akhil Dattani: And can I just clarify, if you have not finalised the relationships with the tower counterparties in terms of allocating which sites you are using in the agreements, how can you know the economics? Can you maybe just help us understand like how can we get knowledge on economics if you have not done these?

Thomas Reisten: Yeah. So, I mean, the rationale behind that or the reason behind that rather is that these are existing relationships where we very well know the economics of these deals. So the change is actually that we now, instead of this being actually a pass-through, or well, actually, it is a service on behalf of Vodafone, we actually now incur the CapEx that is related to making these sites fit for the incremental tenancy. And we actually have this now as a commercial model rather than the commercial model that actually is biased towards actually our anchor customer. So we very well know and have these relationships and commercial models already. So changing how you treat them. You commercialise them basically.

Luigi Minerva (HSBC): I have, if I may, a follow up and then a question. And also the follow up is going back on this 1,200 sites in Germany, so this change in the business model. I mean, going back to the explanations from Vivek, I suppose you can always make a point that there are existing sites where you can negotiate access in a less capital-extensive way and achieve an NPV-neutral outcome. So I suppose, what we are seeing today is just like a temporary option that you are exploring or temporary change in strategy that you are exploring because of the demand, because of the supply shortage? Or we should expect actually this to become more structurally part of your strategy, and therefore we should expect more of this in the future? And the question, hopefully, is an easy one. Well, INWIT mentioned that as part of the TI Ardian changes, Vantage would have to give its consent on the transfer of shares from the TI to Ardian. I was wondering what are your views about that?

Vivek Badrinath: Okay. So on the first one, you need to go back to the searchering question. At the end it boils down to where do you need coverage. So then, and at this point, Vodafone's looked at its coverage requirements and when we mapped it against what was available, both in terms of land opportunities for us do built-to-suit or existing sites when you had a site in that search ring that actually had the technical characteristics for the coverage, we said, together with Vodafone, "Well, actually makes just as much sense to go on an existing site and duplicating that investment is not very optimal. So let us not do it." So that is how we created this optionality contractually.

So, indeed, as you said. And then the commercial, the NPV neutrality was part of, of course, the boundary conditions of making that into a variant compared to the other way of building build-to-suit, which is in our 5,500 commitment, which remains unaltered, okay. So indeed, as you say, it is kind of a way to do shift that we have implemented.

Will we do more of this? At this point, look, outside Germany, the BTS commitments that we have are of a smaller magnitude, even proportional to the country, because I think the coverage requirements in Germany are significantly higher. So I am not sure that the big read across is necessary on that.

Thomas Reisten: And they do not change. The 7,100 is the 7,100. This is a change in up to 1,200 or how we actually deliver this. I mean, ultimately, I think the alternative to it is, just as you were saying, if you look into a searchering and you would have to build a site next to a site that is already existing, obviously, the economics and the future potential of such a site is actually then limited because you are losing one potential customer who already has that site at a minimum. In some cases, that customer might already have a second tenant.

So the question is then as well, economically, the alternative to it could even have been worse. So I think this is a really good win-win situation, NPV neutral.

Vivek Badrinath: And as far as the TIM-Ardian transaction is concerned, well, first of all, I mean, TIM is a very important customer of INWIT. So I think it is important that they are able to do what they need to do for their success. And we are reviewing the situation there currently just to make sure that it fits with our requirements. But, I mean, it is a transaction that is relevant. We have a lot of respect for both parties, TIM and Ardian. So I think nothing uncomfortable there. It is normal conversation.

It is analysis. Not conversation but more analysis on our side.

Nick Delfas (Redburn): So just a quick one. I do not think I understood exactly what you are intending or what you are expecting the ground leases to increase by in FY2023 in terms of inflation and how that is calculated. So I think you said that it is a wide range of outcomes. But in aggregate, how much do you think the ground lease inflation net of ground lease buyouts, how much do you think that is going to go up?

Thomas Reisten: Thank you, Nick. And, I mean, yes, we have not disclosed that, and we would not disclose that as a specific. But obviously, I mean, within the guidance that we have been disclosing in terms of EBITDA and after leases. This is an important element.

Just to reassure you as well, I mean, the success of the GLBO programme that we have seen in this year already, and remember, we are in the acceleration phase of the GLBO programme, has already very positively contributed to moderating any inflationary pressure actually during this year. So we are confident that for the next year, with this acceleration having happened and continuing to happen into the next year, that there is an even higher proportion of the GLBO programme positively impacting any inflationary pressure. So that is important to note.

I mean, this is really measurable already in our fiscal year 2022 results, albeit, we have not particularly in a detail explained or disclosed actually how much of that, but it is a measurable positive impact. So that then means that overall, taking into account the investment cost that

I have explained earlier to do the acceleration on the 1&1 deal, to continue to accelerate the preparation of the 1&1 deal, and the acceleration on the BTS programme, plus the further FTE, which is up us having been very successful on the maintenance cost to moderate cost increases, and being confident to moderate inflationary pressure from a ground lease point of view as well that we have issued the guidance as you have seen for the fiscal year 2022.

Nick Delfas: And just to be clear, because obviously, you have got a lot of single landlords. Is there a particular date that most of them operate using CPI? Is it always 1st April or is it a variety of dates through the year?

Thomas Reisten: It's a variety. No, absolutely. It is a variety of dates. Could be, I mean, basically calendar year topics. It could be just whenever actually the lease has been starting. It depends a bit on country to country as well, how the distribution of these anniversaries has actually happened or what would be happening forward looking. So it is really a mixed bag.

Usman Ghazi (Berenberg): I have got just one question please, just going back to the revenue growth guidance. And I just wanted to understand here that I mean obviously the guidance is for a range of 3% to 5% top line growth. You just exited FY2022 with 4.6%. FY2021 pro forma was roughly 3.6%. The Q4 run rate has shown a decent acceleration to well north of the guided range. And obviously be any headwinds from the Telefónica network rationalisation that you were seeing in FY2022 are not going to repeat in FY2023. This is in Germany I am talking about. So I mean, what are the headwinds that you expect to be seeing to get you towards the lower end of the 3% to 5% in FY2023. Just wanted to make sure that if it is conservatism on your part, then it would be good to know? Or if there are headwinds that we are not aware of as an analyst?

Vivek Badrinath: Yeah. No, just I think it is worth passing it on to Thomas. Just some of those increases are not quite linear. So that is one of the items. And then you will be lapping some pretty strong quarters in the past. So I would not take the last few trends as a direction. So I think good to smooth things out a bit. But maybe Thomas can give something to that.

Thomas Reisten: Yeah. So, I mean, the first thing to say in that context is you should really look a bit more at the year-on-year, in particular since the quarterly year-on-years are comparing this to the pro forma results last year. Now, overall, indeed, as Vivek is saying, we will be lapping towards the second half of next year of fiscal year 2023, pretty strong growth quarters. There is as well a bit of an effect in the fourth quarter for the last fiscal year, fiscal year 2022, of revenue catch-up in terms of revenue assurance problems, etc., that we are running in order to obviously be really in line with our billing estimates and the billing actually towards the end of the year.

So overall, that is why from a year-on-year perspective, we are confident to achieve between 3% and 5% towards fiscal year 2023 guidance in terms of revenue.

Usman Ghazi: Right. Okay. Maybe can I just follow-up and just to remove any doubt. So Sigfox has been reported to be in some financial difficulty, and I do not know how accurate this is. But in the trade recipe, there have been some comments about the company being in financial difficulty. I know you have signed an extensive IoT agreement with them. I just wanted to make sure that there is no issue there regarding that happen?

Vivek Badrinath: No. There are two things. I mean, we obviously follow this pretty carefully. First thing to note is that Sigfox, in its current model is a technology provider who licenses its technology to network operators per country. And we contract with Sigfox network operators in the countries, and they are not in difficulty. They are fine from what we see today, and we have contracted with the German entity, Greek entity, etc., and they are solvent and moving well.

Moreover, on the Sigfox side, they were under a court-ordered process to restructure themselves. They have found a buyer. The buyer is actually the former distribution arm of Sigfox in Asia Pacific, a company called UniBiz, who know the business very well. They are very engaged, former Sigfox employee as this CEO. So we would expect that that should get the company back on track, which means that the technology stays invested in, which means that the network operators can continue to do their business.

So I think it is all there. And from a money point of view, it is not a huge point.

Thomas Reisten: Exactly. The risk, even if the worst case would occur actually is to not significant enough in order to change any of this guidance.

Jerry Dellis (Jefferies): As I look at visible alpha consensus into FY2024, I think I see a revenue number of about 1,150 and an adjusted EBITDA number about 637. So 1,150 based on the midpoint of your FY2023 guide would be about 9%, 10% revenue growth out in year two. Just wondered if you could let us know if you are comfortable with that sort of number? But then more generally, please, if you could let us know how you expect revenue growth to phase up as the investments that you are making in the year ahead that really drives that risk of revenue crystallisation in tier two?

Thomas Reisten: Okay. So I take that?

Vivek Badrinath: Yeah. I mean, of course, we are investing into BTS programme and 1&1.

Thomas Reisten: So I would not comment on fiscal year 2024 guidance. At this stage, it is quite a little bit early indeed. But what I can tell you is if you take into account, again, the investment for fiscal year 2023 that I have outlined earlier, that this is going to lead since its investment in advance of the revenue growth that this is going to lead to acceleration of revenue growth into the future. So that means as well in fiscal year 2024, further acceleration of revenue growth. And that needs to happen and we are confident it will happen on the back of this investment and all of the other things we are doing in terms of accelerating actually from a commercial point of view, plus continuing to rollout BTS, gaining more tenants, continuing to make progress towards our goal target actually of passing the 1.5x tenancy ratio.

All of these things add up to us being very confident that we can achieve our medium-term targets towards the upper end. Remember, that is what we have changed when the 1&1 deal was announced that we changed to our medium-term targets confident to achieve to achieving actually medium-term targets towards the upper end. And that is indeed what you need to take into account when you think about the revenue growth that over the medium term, we actually have the mid-single-digit CAGR incorporated in that.

Sam McHugh (Exane BNP Paribas): Just a follow up, I guess, on some of the questions. On the €10 million to €15 million step up in OpEx you are talking about this year, how much should we think about carrying through for next year? Is there a bit of a step down into next year, or will you carry through the full €10 million to €15 million into perpetuity? And then I think maybe I heard it right but maybe not about tax, and you are saying that is €10 million below cash tax this year was a one-off and that should normalise next year?

Thomas Reisten: Yeah. So first point on the OpEx. So these are OpEx costs in order to deliver against the 1&1 deal. That is one. So as long as we deliver against the 1&1 deal, we have underlying, obviously, a higher OpEx investment and the higher OpEx costs, obviously, incorporated in that as well.

Now similar as long as you do have an acceleration in the BTS rollout, and remember there we have said towards the end of the fiscal year we will actually now achieve run rate. You actually have these costs before you have the revenue gains. And that is true actually for both 1&1 and as well obviously the BTS acceleration.

But what does that mean? That, obviously, these OpEx costs are significantly overcompensated going forward by their respective revenue coming in. So you have the positive margin gain from next year onwards, which actually then in our expectation to achieve the high 50s percentage margin will as well come in. The second point was?

Vivek Badrinath: The €10 million one-off on RFCF.

Thomas Reisten: Exactly. So that you have understood absolutely correctly. So fiscal year 2022, the €10 million one-off in that numbers is actually resulting from the business carve-out, benefits from a tax point of view related to the business carve-out that we have been able to get. The €15 million overall from the lower interest cost on the one hand and lower cash taxes is a permanent effect that we will retain. So you will see versus our initial guidance that everything is actually up by €15 million in terms of the phasing but the €10 million is a one-off effect.

Robert Grindle (Deutsche Bank): Just a clarification on the 1,200 sites first. Do Vodafone's payments fall fully in line with effectively becoming a third-party rather than anchor tenant on those sites? And away from the 1,200, what are the tangible things you can do to mitigate against the supply chain constraints on the new BTS build? They seem to be more constant now rather than temporary.

Vivek Badrinath: You do the first one and I will do the second part.

Thomas Reisten: Yeah. So I think when you want to consider what are Vodafone's payments on these sites, they consists still of two elements then, right? So one is the recovery obviously of the leases underlying, which is the original third-party that in such a situation if Vodafone would have taken actually a site directly from one of the other players, they would have had to pay anyway, right? So that is the first element.

The second element then is the commercialisation of the CapEx spend that we in the future would be doing and incurring and not passing through but having a commercial model on which we achieve high-single-digit returns. So that gets lay out on top of that lease fee. And we have not confirmed that overall actually how much that is indeed, but you can imagine obviously it gets you closer to obviously an anchor fee or you take the 9% and above, below. It depends a little bit on how much you have on a site-by-site basis and as well.

Vivek Badrinath: And the other part of the question was on?

Robert Grindle: It is the BTS supply chain. What can you do to?

Vivek Badrinath: Yeah. Sorry. I was just trying to put them in the right order in my head. Many things. On one hand, on the supplier side, we have made a pretty significant change in our operating model instead of doing just-in-time, which means basically you decide on a site, you are going to do this tower. You order it custom made for that site. We standardised the towers, and hence that allows us to put in warehousing capabilities. What that has done?

So indeed, you are stocking up a bit more, but it allows you to be less dependent on all the steps of this chain because it requires the permit to be approved, the road to be open, the weather to be okay, the foundation to be dry. So you are able to swap sites and increase your throughput because you can basically send a standardised tower to more locations than when it is purpose designed for one single site. That is one of the big things that we are doing on the supply chain.

Second thing, we are, of course, signing up. The beauty of having a very sizable BTS programme is that we are able to commit volumes over a period to vendors and that is, obviously, in the construction industry is extremely valuable. So that is what we are doing. We are expanding the range of our suppliers and committing with them bigger volumes in exchange for stronger SLAs.

The third thing we are doing is we are regionalising the organisation. That was a step up we needed to do for scaling up. Basically, when we were in, let us say, in the 100 sites a year in Germany, you could run it from a centralised team to across the country. Now we have the volume and the justification for having a more agile regional organisation. So we are getting some head count in for that. But also you are closer to the problems and the guys can go and drive to the site faster to make sure that everything gets ironed out.

So it is a multidimensional, multifaceted programme that we have, which is a transformation programme, which is one of the reasons for these costs, because you are ramping up something towards the industrial scale but good progress on all these steps with the high motivation of the teams to get it done.

Standardisation is the key. Regionalisation is the key. I think that those are the two key words, I think, that we need to keep in mind. That is kind of the magic behind in it.

Thomas Reisten: And then breaking the previous just-in-time delivery with the warehouse and concept, which in turn standardisation is supporting.

Vivek Badrinath: Okay. I think that was the last question for today, right? So I would really like to thank you all for your attention and your time. So you can see just as a word of closing, first full year of listed company; achieved the guidance upper end on revenue; achieved the guidance on adj. EBITDAaL; and the upper end on recurring free cash flow. We disclosed our 2023 guidance. We are making some adjustments to our MSA guidance. We are making some adjustments to our MSA with Vodafone Germany with a view of delivering the 5,500 build-to-suit with up to 1,200 in this third-party model with equivalent economics to what we had before this adaptation. Good progress commercially. 0.04 turns of tenancy achieved in this year.

So what we have been telling you since we started interacting with you and since the IPO is pretty much the road that we are driving in terms of achieving the financials, putting focus on commercial, on technical execution and on the ground lease buyout programme, which as well has achieved good momentum at the end of this year. And that obviously is even more relevant in the current economic context.

So thank you very much for your coverage of our activities and your attention today.

[END OF TRANSCRIPT]