Vantage Towers Q3 FY23 Trading Update Live Q&A

Tuesday, 31st January 2023

Q3 FY23 Trading Update

Vivek Badrinath

Chief Executive Officer, Vantage Towers

Welcome

Good morning everyone and welcome to our analyst call regarding our quarter three results for the financial year 2023. Before we jump into Q&A as we are in the middle of a process, I thought I should share a quick update on where we are at on the voluntary takeover offer.

Voluntary Takeover Offer

There was an initial acceptance period that ran up to 10th January and at the end of that period the takeover offer had been accepted by approximately 7.17% of the share capital. That takes the total tendered percentage to just short of 89%. The additional acceptance period ended last Friday, 27th January and the final number of Vantage Towers shares tendered under the takeover offer will be published tomorrow on 1st February once the confirmation of the final outcome has been established. There are two banking days of counting that need to be taken into account. Hence the result will be issued tomorrow on 1st February. I do not have the number as of today.

To reiterate, our joint reason statement in December both the management board of Vantage Towers and the supervisory board consider that the offer at €32 per share is fair and reasonable. We recommended jointly with the supervisory board that the shareholders should accept the offer. That is on that process.

Q3 FY23 Results

For today we will be covering our Q3 results and I will just give a quick summary of what they entail. First of all to say I am very proud of the team through all this period where there is change in the shareholding. I think the focus of the organisation on delivery has not changed and there has been a lot of consistency in the behaviour and in the delivery of the teams. You can see that in the three themes that we bring forward quite diligently at every quarter in front of you.

The first one is commercialisation, Commercialisation continues. In Q3 we added another 440 net new tenancies and in the first nine months that totals up to 1,150 net new tenancies. We also increased our commercial footprint and further ancillary revenue opportunities as the other theme in our commercial activity. Some coverage solutions, some fixed wireless access and some fibre across our markets. Furthermore, we have sustained our new build momentum. We have added another 260 new macro sites in the quarter. Year-to-date we have added 660 new macro sites, of which 410 were in Germany.

We have been discussing the ramp up of our build-to-suit programme across our footprint and in particular, in Germany. We are really proud of what we have achieved so far. The momentum is strong. The actions that we put in place are yielding results and indeed for me a big source of pride is first of all the arrival and appointment of our new Managing Director for Germany, Kai Uebach, and also the standing up of the regional organisation which is taking accountability very deeply on delivery. That is showing the benefits in our macro build.

Our GLBO programme continues to show strong progress, 1,800 signed contracts and commitments across our footprint since inception. That is pretty much 40% of our GLBO target which was to aim for 10% of the consolidated portfolio of our macro sites. Good interest from landlords, ongoing negotiations and an increase in the number of GLBO sites. This delivers a Q3 revenue increase of 4.8% year-on-year excluding pass-through to €264 million, mainly driven of course by the inflation escalators on one hand and the tenancy growths that we observe. Overall, in nine months we have seen a growth of revenue excluding pass-through of 5.6%.

On the back of this quarter, we are confident towards the upper half of our fiscal 2023 guidance and we remain on track to deliver our medium-term targets. As a reminder our fiscal 2023 guidance is as follows. The group revenue growth between 3% and 5%, adjusted EBITDA after leases of €550-570 million, recurring free cash flow of €405-425 million, and hence what we are stating today is that we are confident towards the upper half of these guidance ranges.

With that said, happy to open the floor to questions and as ever let us try to target a question per person so that everybody can speak. Thank you very much.

Q&A

Robert Grindle (Deutsche Bank): Good morning to you both, hopefully this is not the last time we see you in a format like this. Many thanks for the update on the take private offer. My question beyond that was please could you comment on the supply chain issues that weighed on your deployment last year? Are these firmly in the rear-view mirror or is it still a challenge looking forward? Also you mentioned in the release fibre as part of your ancillary revenues. Please could you expand on that? Is this a very country-by-country opportunistic thing or is there something growing more material versus your expectations at the IPO? Thank you.

Vivek Badrinath: Thanks Robert. On the first point it is a journey, but we have identified all the issues and we are knocking them off one after the other. That is what we have been doing and that shows in the ramp up. Supply of steel, procurement, warehousing in place and ramping up. Now that you have got a warehouse and you bring in material upfront you need to then deploy it on a variety of locations. There is a bit of lag time. Why? Because the new standardised towers can only be put in places where you have applied for the permit that is for those standardised towers. However, that is now flowing through the system. What we are seeing is those measures, even if they have got a lag they are working. They are moving through the numbers. We see that also with the regional organisation. Actually, it is one of the interesting realisations for me is that the soft part is as important as the material part. Once you have got strong people, and we have really staffed well I would say in the German organisation with strong regional leaders with teams fully in place, you see the moment increasing dramatically. That is what we see in terms of ownership of the targets and delivery of the numbers. I would say the plan is working. It is still a ramp up. There are still things to be locked in, etc but the plan was right. That is the realisation I have on this.

On fibre to your question, it is country-by-country. I would not call it opportunistic. The logic behind it is that we look for the most efficient way to enable our customers to have fibre on the sites. Why? Because over time as they move towards 5G when bandwidths go up it is part of the attractiveness of our sites. However, we do not build fibre as a way of deploying capital. We build fibre over the limited distance that is required to reach a fibre rollout that could be nearby or in the vicinity. The purpose is not to sell fibre, the purpose is to ensure that fibre comes to our sites. In many cases these are resale agreements that we sign where we essentially enable our customers to connect to a fibre provider who is present in that region or it could be a little stretch of fibre just to get to a point of presence. That is the approach. Of course, we want to get paid properly for it and essentially recover profit on it but it is not the core focus. The focus is that a site should be fibre-ised.

Robert Grindle: Thank you.

Vivek Badrinath: Thanks Robert.

Maurice Patrick (Barclays Capital): Hi guys, hopefully you can see and hear me in my glory with new glasses as well. A sign of age. Maybe a question from me on the German site build and tenancy growth. You have talked about building 410 sites year-to-date and there is obviously lots of noise in the market about the new entrant building its network. I think 1&1 have had limited progress so far. There is also a big focus on white spots development. I am curious to understand on your site build so far in Germany in the last quarter or so how much is rural versus urban? Where is the tenancy growth coming from? Should we think about an acceleration of total site build in calendar 2023? Thank you.

Vivek Badrinath: We are ramping up and we indeed need to increase the run rate as we go forward to deliver our full build-to-suit commitment. On 1&1 and I am sorry that you have to bear with us on this, we are bound by very tight confidentiality agreements with the United Internet Group and 1&1 in particular in terms of not being in a position to disclose the exact numbers in any way. What is fair to say is that they are very different subjects. White spots is more rural sites that are typically hard to reach, mainly GBTs. 1&1 is more urban and it is essentially colocations on existing sites, typically rooftops and a certain number of ground based. These are two very different questions to address. As Thomas had said in the previous quarters, we have put investment in these two areas and they are both progressing. They are generating a lot of activity for us.

Thomas Reisten (Chief Financial Officer, Vantage Towers: Yes. I think it is absolutely fair to say that this investment that we have been talking about already before we were entering into this fiscal year and have reaffirmed and discussed at the half-year results as well, they actually are helping us to continue to drive this acceleration that we see in Germany as well. Consequently, you see actually revenue increasing in Germany strongly as well on the back of this investment.

Maurice Patrick: Great, thanks.

Sam McHugh (BNP Exane): Morning guys, just a very quick follow-up on Ireland and the National Broadband Ireland deal. What exactly are you doing in fibre for them? Is that a fibre to the site or small parts of FWA for their network? Is this a different fibre agreement in Ireland with NBI? Thanks.

Vivek Badrinath: Okay. I do not know how much detail we have given on that but it is basically working with NBI to ensure that the fibre that they roll out can be supporting fibre to the site on some of our sites. That is the idea.

Sam McHugh: Okay.

Thomas Reisten: Connection of their network.

Vivek Badrinath: Yes, it is their network to ours.

Thomas Reisten: To ours.

Sam McHugh: Yes. Okay. Rather than you building fibre for them it is them providing backhaul for your sites. Got you, super clear. That is all I had. Thank you.

Vivek Badrinath: Thanks Sam.

Jerry Dellis (Jefferies): Good morning everybody, thank you for taking my questions. Just to specify on Germany, I think as I look at Visible alpha consensus looking for 400-500 site build in the fourth quarter now and maybe 1,300 in the next fiscal year, are those numbers tenable as you see things please? Then maybe if we could just delve into the 1,150 tenancy adds in the nine months please, are you able to specify what sort of proportion of those are mobile network operators hosting on your macro sites and what proportion of tenancies are other things, adjacent services or fixed wireless access or something that might have a different economic profile? Thank you.

Thomas Reisten: I think on the tenancies first the overall mix remains actually a very healthy mix between MNO and non-MNO customers. We do get really good additions from an MNO point of view obviously in that context as well which is reflected in our tenancy ratio increase. Obviously, we are now at the 1.45x versus the starting point of 1.39x so we continue to grow towards our target of passing the 1.5x and that remains. Back to your question, they are really a very strong point across the different mix of MNOs on the one hand and non-MNOs as well.

Vivek Badrinath: Visible alpha doing a pretty complex tracking of our KPIs on a quarterly basis. We read point but directionally the German growth is real. It is strong versus last year and we continue to ramp up. We know we have a ramp up to do. The numbers for next year we are still building them out but it is fair to say that the basis is very different from the one we had in the beginning of this year. We know very clearly where we have to take the numbers to deliver the whole plan and we have reconfirmed first of all this year's guidance towards the upper end and secondly our medium-term guidance. That should tell you where we are.

Jerry Dellis: Thank you.

Thomas Reisten: We are in the ramp up period and continue to obviously invest in that as well. That is an important fact to consider in that context. Even when you read obviously our guidance now as being confident to achieve towards the upper half of it, we are not changing the way that we are actually running the business in any shape or form. We continue to invest into the acceleration of the growth which is really important obviously in the context of your question in achieving future growth rates. Consequently, what you actually see coming through on the revenue side is not that we are out of the ordinary, halting on investment or opex spend, pausing on that, that is not the case but we do get benefits from a number of areas. I have been talking about this already at the half-year results as well. Obviously with the growth accelerating you would see the investment for that specific growth coming in earlier than the revenue return. The returns then come in as a consequence of that. That is what you see now pushing strongly through our overall expectations then as well. In that context that is actually what is driving then as well the confidence towards the upper half.

Furthermore, obviously GLBO, Vivek made the point that on the GLBO side this is a strong growth driver for us as well and that context continues to drive bottom line expansion as well.

Jerry Dellis: Thank you and I suppose you have spoken early in the year that the site build growth would be quite heavily skewed towards the back end of the year. Is that still the case or is it now more gradual site build?

Vivek Badrinath: I wish it were but there is always a bit of a rush around the end of the year. This period is very active, let me put it this way. This fourth quarter of the financial year is very active and that is why, our focus as a team is really to make sure that nobody gets distracted and they keep pushing because it is a big quarter.

Jerry Dellis: Thank you.

Usman Ghazi (Berenberg): Hi everyone, good to see you all. I just had one question, one clarification please. The question was regarding the offer document, the offer document referenced the potential for a merger squeeze-out at 90% if commercially viable. Are you able to clarify the complexity here of what commercially viable actually means? That was the first question.

Vivek Badrinath: Obviously it is commercially viable for the buyers. The question is more towards the buyers I think. That is fair. For us the commercially viable question is more to be directed towards the buyers. I guess we should just see where we land when we get the result tomorrow and then take it from there. At this point we have no more to say on that at this point.

Thomas Reisten: What is clear from the offer document is that you have the DPLTA intention obviously.

Vivek Badrinath: Yes, that is about 75%.

Thomas Reisten: It is above 75% already. Then you might or might not have actually a squeeze-out later on then as well depending on the acceptance rate or other conditions related to that.

Usman Ghazi: Just to follow up, from an operational perspective is it that it does not matter if you squeeze out or not. It is not going to hinder your strategy whether from an M&A perspective or anything else. Is it that your preference is, as a management team for there to be a squeeze-out?

Vivek Badrinath: A very relevant question and what we have done is we try to make sure that the corporate work around the VTO, the voluntary takeover, the listing, the procedures that we need to drive to complete the steps of this transaction for what is incumbent on the company, that is done by the part of the team. We try to ensure that that does not interfere with the operations. That is the way we have structured it because there are a number of things that are dependent on decisions made by shareholders at large. Hence we cannot necessarily influence them. Our job is to make sure that the ship continues to go forwards on commercialisation, build, GLBO and delivery of the numbers throughout this period. That is what we have been doing.

Thomas Reisten: Yes, really let me emphasise that point. We have not changed whatsoever the way we run the business from an operational point of view and we will continue to obviously push for growth and the right investment. Nothing has changed in that space.

Vivek Badrinath: Yes, simpler structures are easier to manage within but that is not for us to choose so it is what it is.

Usman Ghazi: Great, thank you. Just one clarification on the 1&1 situation, obviously you have a target to get up to 3,800 sites by 2025. When do you expect to hit the run rate momentum for that contract? Is it next year? Is it the year after?

Thomas Reisten: What we have said and we remain confident to achieve this is that over the first two years of this contract we actually will be ramping up the delivery. Then we will get to higher run rate at that point in time.

Usman Ghazi: Thank you everyone.

Thomas Reisten: Thanks.

Vivek Badrinath: Thanks Usman.

James Ratzer (New Street Research): Good morning Vivek and Thomas. I have questions that are maybe better asked tomorrow but given we are meeting today I will ask them now. I wanted to explore the hypothetical situation you do not reach 95% which I suppose we have to consider as a possibility given what you have just told us about reaching 89% as of 10th January. I had two questions specifically. One is if that is not reached what should we be expecting from an investor relations programme? Will you still be releasing earnings quarterly like this in the same detail that you do today? Secondly, when will we know what the discount rate is that is used to set the ongoing dividend? I think the IDSW1 valuation is already set at €26.90 but when will the discount rate be announced to calculate the ongoing recurring dividend? Thank you.

Vivek Badrinath: What has been said is that there will be a domination agreement. That is the intention that has been stated by the shareholders so once again the big caveat is that these are questions probably more directed to the buyer than directly to us. When there is a DPLTA that is called at an EGM. A fresh IDW S1 will be issued as part of the documentation for the EGM. It will be jointly commissioned by the company and the buyers and that will be the document that will go out to the EGM to allow shareholders to make up their mind on the DPLTA knowing that of course since you need 75% to take it that would progress in that way. That where this will be arrived at. That is the information that goes out at that point in time.

Thomas Reisten: Yes and in terms of investor relations interaction we will obviously do absolutely what is needed and what is appropriate at that point in time if and when this situation of a squeeze-out would not occur and actually there would be an ongoing listing requirement. At this point in time it is probably a bit early to say what the details of the such an arrangement would be but we definitely will obviously be complying to what are the requirements in that context and to what is actually the right level of information at that time as well.

James Ratzer: Okay and what would be the methodology by which the discount rate is set? Is that likely to be a rate higher than your own bond yield?

Thomas Reisten: We will see that actually during that process.

Vivek Badrinath: It will be at that point in time.

Thomas Reisten: At this point in time it is too early to comment on that.

James Ratzer: Okay, thank you.

Vivek Badrinath: It is at the calling of the EGM that that number gets settled.

James Ratzer: Do you have time to allow a question on the fundamentals of the business?

Vivek Badrinath: Yes, sure.

Thomas Reisten: Always, go ahead.

James Ratzer: Okay, great, thanks. I did not want to overextend my questions. I was just intrigued by the timing on when the revenues will come through from the white spot build out because it looks like if you are building 400 macro sites in Germany, I would have expected to see the tenancy ratio in Germany maybe go up a little bit faster than it has. I was just wondering when the revenues from those white spot towers will start to come through.

Vivek Badrinath: You mean the additional tenancies that come in beyond the first build. Is that what you are referring to?

James Ratzer: I think you have talked about the 400 macro sites being built in Germany. Does that mean the revenues on those start to flow already or do those come through only in a few quarters once the operators have put in place all the backhaul?

Thomas Reisten: What you will see is obviously the white spot programme continuing actually its rollout as well and the ramp up. As a consequence you would see that continuously coming through the numbers and ramping up. It is pretty similar to the January ramp up. Now, obviously white spots are white spots for a reason so they are more difficult to deploy but at the same time we continue to make progress in that space as well and will actually be pushing further acceleration with the right investment, as emphasised today a few times, actually going forward and continue to do that. Consequently, you will see it coming through gradually.

Vivek Badrinath: However, revenue accrues indeed shortly after the site is installed and then potentially increases as you add the additional tenancies of the other operators.

Thomas Reisten: Yes, so there is no other significant time lag between the build and the revenue generation compared to the other sites actually either. You do have obviously the three tenancies as we have been pointing out. They will actually come then when you went to deploy that and when the equipment is being activated at that point in time then as well shortly after the build is ready for active installation the revenues will come through. Nevertheless, we continue to invest upfront into this, into the rollout of it, the capex, etc. You have the same effect that we are now seeing for the second half where revenue is coming through stronger on the back of the first half investment as well with white spots. You have investment and cost upfront and revenue comes shortly thereafter.

James Ratzer: Got it. Thank you Thomas, Vivek.

Vivek Badrinath: Thanks. Thank you very much for your attention, your interest in Vantage Towers and for continuing to follow this journey that we have had on our main areas. Once again just as a summary, good progress on the main areas of the business, commercialisation, build and GLBO. No loss of focus of the operations during this transaction that is taking place. High confidence in delivering the guidance on the upper half and on the medium-term guidance. I would say a pretty straightforward quarter to share with you. Thank you very much for your attention and have a very good day.

[END OF TRANSCRIPT]